ANNUAL REPORT 2009

Montepio

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Contents

1. Governing Bodies for 2010-2012

GENERAL MEETING BOARD

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

BOARD OF DIRECTORS

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

INTERNAL AUDIT BOARD

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

GENERAL BOARD

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

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

2. Letter from the Chairman

The year 2009 confirmed fears that the adverse market conditions first seen in the Summer of 2007 would hit the real economy. Despite the slight easing in the crisis of confidence felt in the financial markets, business was strongly impacted by the drop in national productivity which weakened the financial position of companies, families and the State. Many of Portugal's European partners went into recession in 2009, and Gross Domestic Product (GDP) in the Eurozone fell 4%, which had a negative effect on the Portuguese economy, as it is largely exposed to and dependent on the outside world. Portuguese GDP shrank by 2.7%, reflecting the combined effect of the falls in foreign demand, consumption and investment, within a framework of more stringent financing conditions.

The crisis was felt hardest in the Building and Public Works sector and real estate business, where the downturn seen in recent years worsened, especially in the housing market. This led to a worsening in the cash-flow and financial situations of various companies and individuals linked to the sector. These events confirmed our conviction that we need to further the strategy we have been pursuing of diversifying our credit portfolio into markets outside of the real estate market.

One of the main signs of the increasing economic crisis was the sharp increase in the unemployment rate, which recorded an annual average of 9.5%, but had passed 10% at the year-end, making it one of the main causes for concern given its impact on financial institutions operating conditions.

Despite the unfavourable climate, the Montepio Group carried out the established strategy, making the necessary adjustments in light of the adverse conditions. It paid greater attention to improved solvency, liquidity management and risk management, particularly credit default, as well as to cost management and the pursuit of improved efficiency levels, while not neglecting the laying of the foundations for future growth, in order to ensure sustainable development and its main aim of generating value for its Members, now and in the future. In the face of great adversity, Montepio's institutions once again proved their resilience, strength and soundness, based on prudent asset management and strict ethical principles, as they strove to promote the values of the association and mutual movements, which proved to be suited to and capable of responding to society's needs..

Associação Mutualista (MGAM) continued to grow and at the year-end had over 442,000 Members. Profit for the year was 42.5 million euros, a sum 3.5 times greater than the previous year. This was possible due to the improvement in market conditions, as compared to 2008, and the significant improvement in in-house management skills.

In the case of Caixa Económica (CEMG), special mention must be made of its liquidity management capability, based on a policy of diversification of funding sources, in particular customer deposits (which grew 10.6% as compared to the previous year), general administrative cost savings (down 7.6%) and improved efficiency (where the cost-to-income ratio fell from 62.3% to 55.0%), and the strengthening of equity and solvency (where the ratios were 9.51% and 13.25%, respectively), proof of our institution's soundness. Financial profit grew 1.9% to 320.8 million euros, despite the combined pressure of the increase in resource costs and the re-price of credit operations, when compared to the sharp fall in market reference interest rates. Profit for the year rose 31.3% to 44.5 million euros, despite the unfavourable environment that led to a sharp fall in demand, increased selectivity in operations and credit impairment, within a very complex and highly competitive framework.

In 2010 a very moderate economic growth is expected, with ongoing uncertainty as to changes in interest rates and the rate of unemployment. Therefore our priorities continue to focus on the selective credit growth and profit margin management. Our main strategic challenges are to find answers and solutions to meet our Members and Customers needs at all times, and to improve the efficiency of credit non-performance and recovery management.

The Montepio Group's management priorities in all its institutions continue to be a more diversified range of products and services offered by the various units business and closer relationships with our Members and Customers, along with strict management of expenses and costs. Another priority of Montepio's strategy is the widening of the Member and Customer base, together with the strengthening of their loyalty based on the search for a higher level of service quality and an upturn in mutual and banking business, thus increasing their contribution to economic growth, as well as the Group presence in the SME sector.

As for the Montepio Group companies, I would also like to draw your attention to the favourable changes in their respective businesses and the very significant profits they recorded in the current situation that meant they contributed greatly to the Group's improved strength. In this context the year was marked by the purchase of Companhia de Seguros Real and of Mutuamar by Lusitania, which allowed us to double our market share in insurance and develop a size consistent with the aim of increased competitiveness, while retaining the employees who are now part of Montepio Group and share its core values.

In 2010 Montepio will celebrate being in business for 170 years which is a sign of its longevity and its ability to face up to the challenges throughout is history, through thick and thin. Thus I reiterate my confidence in the capabilities and skills of all those who make up our Institution to achieve, with determination and diligence, the established Strategic Guidelines, which were revised and validated this year, not only internally through regular planning, but also externally by the thousands of Members who voted for the programme of the list of candidates I headed and which was elected to govern the destiny of Montepio for the three-year period 2010-2012. The election of the Institution's new Governing Bodies in

December 2009 and the subsequent taking of office in January of this year were very important moments in Montepio's life. The election, which had the largest turnout ever, and the preceding period during which the lists of candidates were presented along with their programmes, was an intense time for a significant number of Members, candidates and supporters, and revealed the institution's undeniable importance on the national financial scene, its vitality and the democratic nature of its governance process, which aims to be increasingly more modern and better suited to the new requirements and best practice.

In my own name and on behalf of the Board of Directors, I publicly salute all those Members who took part in these events, driven by the highest feeling to contribute actively to the joint construction of the future. The members of the new Governing Bodies are now faced with the enormous responsibility and the great challenge of pursuing the task of enhancing the Montepio Group, in line with the Programme approved by a majority of the Members who took part in the elections. To achieve that goal, solidarity is essential, because Montepio belongs to and exists for all.

On behalf of the Board of Directors, I wish to thank the Montepio Group's staff for their dedication and professionalism, since they are the main cause of the performance levels and goals achieved and the promoters of confidence in the institutions. I also wish to thank the regulatory and supervisory authorities, as well as our external auditors, for their valuable support and cooperation. As a final note, special mention must be made of our Members and customers since it is their confidence in us which encourages us to take on and overcome challenges and contribute to Montepio's sustainability and progress.

Chairman of the Board

António Tomás Correia

3. Montepio Group

Montepio Geral – Associação Mutualista «Corporate Centre» – Centre of Group Management and Mutual Activities

Attached

Caixa Económica Montepio Geral – Banking

Strategic Holdings:

Lusitania, SA.	Insurance Company
Lusitania Vida, SA.	Assurance Company
Montepio Gestão de Activos, SGFI, SA.	Investment Fund Manager
Futuro, SGFP, SA.	Pension Funds Manager
Residências Montepio, SA.	Health Services

Consolidation Scope of Caixa Económica Montepio Geral:

Caixa Económica Montepio Geral
Lusitania, Companhia de Seguros, SA.
Lusitania Vida, Companhia de Seguros, SA.
Banco Montepio Geral Cabo Verde, IFI, SA.
HTA Hotéis, Turismo e Animação dos Açores, SA.
Credit Securitisation Vehicles *Pelican Mortgages no.1* and *no. 2*

4. Management Report

4.1. SUMMARY OF MONTEPIO'S BUSINESS

In 2009 Montepio's banking business recorded a Consolidated Net Profit of 44.5 million euros (+31.3% as compared to 2008).

The following factors contributed to the generation of the Profit for the Year:

- Net Assets totalled 17,244.8 million euros, a rise of +2.3%;
- Profit for the Year was 44.5 million euros, up on the previous year by 10.6 million euros (+31.3%), and it benefited from the increase in the Profit on Markets (+321.9%), the rise in Commercial Banking Revenue (+2.6%) and the Operating Costs savings (-3.2%). These effects more than offset the negative impact of the increase in Net Provisions and Impairment (+30.0%);
- Banking Revenue reached 449.0 million euros, up 9.6%;
- The efficiency ratio (Running Costs/Banking Revenue) stood at 50.5% (57.8% in 2008) and the Cost-to-Income ratio (Operating Costs/Banking Revenue) was 55.0%, as compared to 62.3% the previous year, that is to say a 7.3 p.p. improvement. It shows the combined effects of the reduction in Operating Costs (-3.2%) and the growth in Banking Revenue (+9.6%);
- In the light of the current liquidity levels and the strong and stable retail funding base, Montepio did not need to resort to a State guarantee in order to issue external loans, so its business was financed by the deposits and its equity;
- Financial Assets (credit, securities and investments in the interbank markets) recorded an increase of +1.7%, deposits grew 10.6% and equity was up 19.7% on the previous year;
- Customer Credit (gross) shrank by 1.4% but Companies Credit rose by 3.0%;
- The economic crisis which hit families and businesses hard had a significant impact on credit default levels, as credit and interest due grew by 45%. To counteract these effects in an early stage, Montepio put in place a series of internal organisation and customer contact measures, in order to improve debt recovery levels, which increased by of 36%, (less than the sector increase) although this could not prevent the credit overdue over 90 days ratio from reaching 3.4%;
- Montepio's soundness, as measured by solvency indicators, proved to be robust with the Solvency Ratio standing at 13.25% and the Tier 1 Ratio and the Core Capital Ratio both at 9.51%.

As regards its mutual business, Montepio recorded a Net Profit for the Year of 42.5 million euros (+353.0% compared to 2008). The following factors contributed to that result:

- A rise in membership to a total of 442 091, an increase of 10 495 (+2.4%) Members. The majority of them are women (50.8%) and 57.8% of Members are aged under 40, giving the membership an average age of 37;
- Association Revenues totalled 301.6 million euros at the end of the year, which accounts for a year on year change of 6.5 million euros (+2.2%) spread across a wide range of products;
- Benefits and Gains stood at 180.2 million euros, which corresponds to a drop of 43.4 million euros (-19.4%);
- Assets assigned to operations recorded a net return rate of 2.7%, where around 30% corresponded to bank deposits, thus providing suitable levels of return and liquidity;
- Equity reached 403.1 million euros, having recorded a rise of 60.9 million euros (+17.8%). It is made up of Reserves and Profit (62.3%) and the Social Fund (37.7%), and accounts for 15.4% of Net Assets;
- An improvement in the institution's soundness, as reflected in the change in the level of cover for mathematical liabilities (funds, mathematical reserves and provisions/provisions for risks and expenses) to Members, which went from 1.14 in 2008 to 1.16 in 2009.

4.2. GENERAL INDICATORS

(thousand euros)

INDICATORS	2007	2008	2009
1. ASSOCIAÇÃO MUTUALISTA			
1.1. SIZE			
Net Assets	2 266 208	2 600 326	**2 609 777**
Equity (Own Funds, Reserves and Profits)	359 001	342 173	**403 105**
Members (Units)	411 960	431 596	**442 091**
Pensioners (Units)	6 482	6 741	**7 039**
1.2. PROFITABILITY			
Cash Flow for the Year	54 376	31 214	**50 853**
Profit for the Year	50 169	9 390	**42 533**
Profit for the Year / Average Net Assets	2.30%	0.39%	**1.63%**
1.3. LIABILITIES COVER			
Funds, Reserves and Mathematical Provisions / Provisions for Risks and Charges	1.14	1.14	**1.16**
2. CAIXA ECONÓMICA			
2.1. SIZE			
Net Assets	16 898 729	16 851 534	**17 244 767**
Equity (Capital, Reserves and Profits)	835 733	823 669	**986 214**
Employees – Staff in Portugal (Units)	2 989	2 972	**2 986**
Branches and Other Forms of Representation (Units)	306	326	**332**
Branches (Units)	300	320	**326**
Representative Offices (Units)	6	6	**6**
2.2. PROFITABILITY			
Profit for the Year	63 095	33 874	**44 476**
Banking Revenue	401 676	409 635	**449 025**
Banking Revenue / Average Net Assets	2.46%	2.43%	**2.63%**
Profit for the Year / Average Net Assets (ROA)	0.39%	0.20%	**0.26%**
Profit for the Year / Average Equity (ROE)	8.06%	4.12%	**4.72%**
2.3. CREDIT RISK			
Credit Due for over 90 days Ratio	1.91%	2.29%	**3.36%**
Unpaid Credit Ratio	2.32%	2.91%	**3.97%**
Unpaid Credit net of provisions Ratio	1.12%	1.44%	**1.64%**
2.4. PRUDENCE RATIOS			
Solvency Ratio	8.95%	11.44%	**13.25%**
Adequacy of Base Equity Ratio (Tier 1)	6.42%	7.92%	**9.51%**
Net Fixed Assets Ratio (Fixed Assets / Equity)	12.03%	10.63%	**11.75%**
Total Credit Provisions / Credit and Interest Due + 3 months	105.01%	109.58%	**97.20%**
Pension Fund Value / Past Liabilities	80.78%	84.82%	**88.60%**
Pension Fund Value / Minimum Liabilities	100.30%	100.00%	**100.15%**
2.5. RATING (Short-term : Long-term)			
Fitch Ratings	F2 : A-	F2 : A-	**F2 : A-**
Moody's	P-1 : A3	P-1 : A3	**P-2 : Baa1**
2.6. EFFICIENCY			
Operating Costs / Average Net Assets	1.49%	1.51%	**1.45%**
Operating Costs + Depreciation / Banking Revenue (cost to income)	60.79%	62.33%	**55.02%**
Average Total Staff in Portugal / Branches (Units)	9.81	9.16	**9.00**
Staff Costs / Banking Revenue	36.75%	36.93%	**32.82%**

4.3. BUSINESS FRAMEWORK

Regulatory Framework

The regulatory steps taken in 2009 were once again designed to restore confidence in the markets, and sought to prepare the financial system for future adversity. The emphasis was on improving supervisory mechanisms, reinforcing governance and prudential requirements and increasing regulation and scrutiny of securitisation activities, credit derivatives, hedge funds and rating agencies.

Recognition of the importance of prudent supervision in preventing financial crises led to changes in the existing structure which were based on reconciling prudent macro and micro supervision with an increase in punitive powers. At the Community level, the setting up of the European Systemic Risk Board, under the auspices of the European Central Bank, was approved. It will be responsible for preventing systemic risks, issuing alerts and recommendations at the micro level of the European Supervisors System. The aim is to harmonise supervisory rules among Member States and provide a coordinated response to crisis situations. In Portugal, one possible scenario is a shift from the current three party models (Bank of Portugal, Insurance Institute and Stock Exchange Commission) to a dualist or Twin Peaks model, involving two bodies with distinct supervisory duties.

Consumer protection gained importance as a result of new regulations covering behaviour. Measures were taken as regards the provision of information on financial products and services offered by financial institutions to the general public and the guarantee of better pedagogical methods and more transparent practices when granting consumer and housing loans. Government measures calling for an increase in the Deposits Guarantee Fund cover limit and the renegotiation of housing loans if the customer becomes unemployed were also designed to enhance consumer protection.

Governance requirements once again underwent adjustments aimed at ensuring greater transparency and the strengthening of Companies' internal control mechanisms. Law no. 28/2009 requiring the disclosing of pay policy in the annual accounts was passed, and has recently been complemented by two Bank of Portugal (BoP) rules that call for the disclosure of that information in financial institutions and make a number of recommendations, requiring explanations if they are not followed. In 2009 the Stock Exchange Commission («CMVM») also submitted to for public consultation a proposal to amend the Companies Governance Code which would make new recommendations as to Directors' pay, and to the impartiality of external auditors and the independence of non-executive directors (Public Consultation No. 2/2009).

In 2009 changes were made to the method of supervising credit institutions' liquidity levels that called for greater frequency and detail in liquidity indicator reports made to the Bank of Portugal (Instruction No. 13/2009).

In regard to the Financial Institutions' soundness, the Bank of Portugal issued a recommendation that institutions should have a Base Equity (Tier 1) Ratio of not less than 8%.

In the short-term the Basle Committee consultation documents on the strengthening of the financial system are expected to give rise to new capital requirements for businesses that up to now have been less scrutinised (securities portfolios, credit derivatives…) and, in periods of economic gain, greater base capital transparency and the possible introduction of a minimum financial leverage ratio.

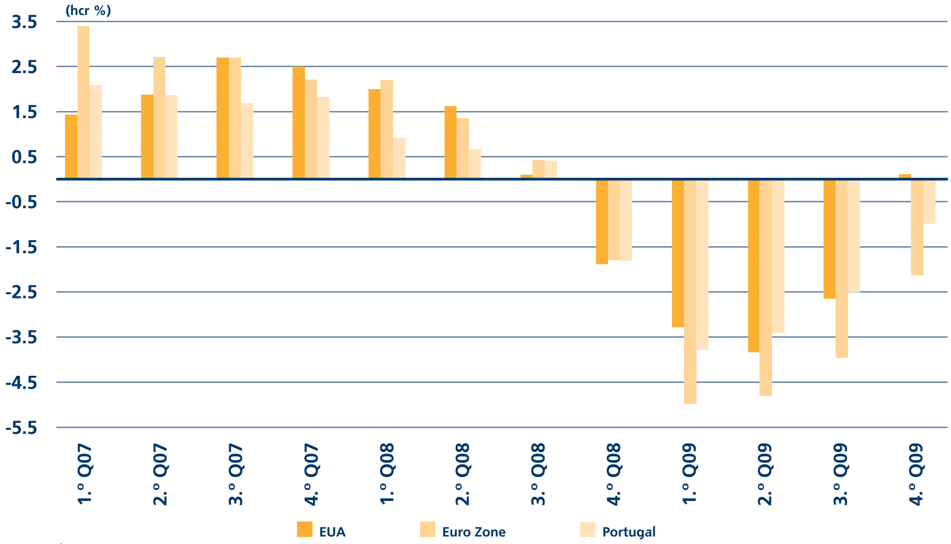
Mention should also be made of the harmonisation and greater flexibility of accounting rules governing Financial Assets that led to the recent introduction of IFRS 9, aimed at clarifying the Financial Assets valuation method.

Macroeconomic Framework

The macroeconomic framework was marked by a contraction in the global economy, accompanied by a decrease in international trade, the more visible effects of which were felt in the final quarter of 2008 and the first quarter of 2009. The increased uncertainty in the financial markets led to a re-evaluation of risk on a global scale and thus to the tightening of credit terms. This financial framework had a significant impact on the real economy, to the extent that economic players' confidence and expectations were altered as consumption and investment decisions were postponed. On the other hand, indebtedness levels were readjusted, so as to bring greater stability to family, corporate and institutional finances. Faced by a recession unprecedented in recent years, the timely adoption of measures providing support and monetary and budgetary stimuli to the financial system, proved to be decisive to reduce economic players aversion to risk. The financial markets stabilised gradually and so contributed to the limiting of the economic contraction, avoiding a spiral of systemic effects on the world economy and creating the conditions for a gradual recovery to begin in the second half of 2009.

In the **USA**, following an annualised quarterly contraction of 5.4% in the 4thQ2008, Gross Domestic Product (GDP), recorded an even greater contraction in the 1stQ2009 (-6.4%), equal to that seen in the 1stQ1982. Therefore the six--month period covering the 4thQ2008 and the 1stQ2009 was the worst since the beginning of 1958. However, from the 2ndQ2009, the rate of economic contraction fell considerably, and recorded an annualised quarterly drop of 0.7%. The beginning of the 2nd half of the year represented a turning point, as GDP grew 2.2%, in annual terms, and continued to accelerate in the final quarter of the year (+5.9%). The recovery was led by the industrial sector, which has expanded every

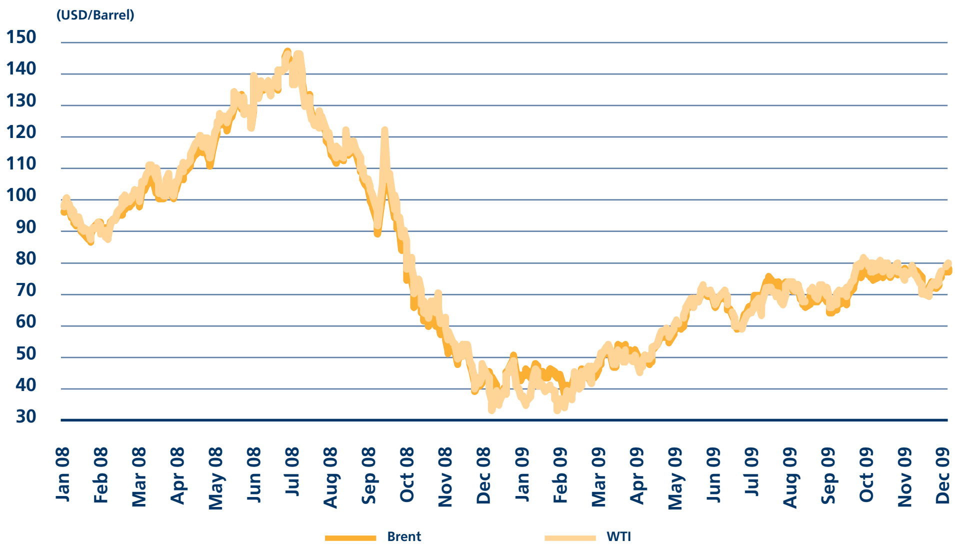
GROWTH IN GROSS DOMESTIC PRODUCT (GDP)



Source: *Thomson Reuters*

month since then. Driven forward by the energy efficient car exchange programme, private consumption grew strongly in the 3rdQ2009 (+2.8%), having contracted in three of the previous four quarters. It expanded again in the 4thQ2009, this time at a rate of 1.7% (even in the absence of the car exchange programme), as consumer confidence gradually improved. Nonetheless, private consumption fell 0.6% in 2009, that is to say, private consumption contracted for two consecutive years (-0.2% in 2008), something unheard of in the post-war era. While investment shrank significantly by around 23.1%. As a result, the economy contracted 2.4% in 2009 as compared to 2008, a year in which it had grown 0.4%. The labour market for its part, and in line with the fall off in business, saw its situation deteriorate over the year, with the unemployment rate rising from 7.4% at the end of 2008 to 10.0% in December 2009, close to the 26-year high reached in October (+10.1%). Over the year, the economy lost around 4.8 million jobs in the non-agricultural sectors, and proved to be the main obstacle to economic recovery. In terms of prices, following year on year inflation of 0.1% recorded in December 2008, the figures became negative in March 2009 and remained so until October. Nonetheless, year on year inflation at the year-end was 2.7% reflecting the change from favourable baseline effects of energy prices to unfavourable ones. In average terms prices fell by 0.4%, the largest year on year contraction since 1949. In fact the previous year, Brent

TREND IN CRUDE PRICES



Source: *Thomson Reuters*

futures contracts reached a record high of 147.50 dollars a barrel on 11th July 2008, but had fallen to 45.59 dollars a barrel at the end of 2008. In 2009, prices again began to rise (+71%), especially from March onwards and at the end of December stood at 77.93 dollars a barrel. The continual rise in oil prices, within a framework of a deteriorating labour market, continues to pose a threat to economic recovery.

In the **Eurozone**, following a fall in GDP in the 4thQ2008 that was larger than the contraction in the USA (-1.9% or -7.5%, in annual terms), the 1stQ2009 saw an acceleration, of this trend and fell 2.5% (-9.6% in annual terms), which was the largest quarterly contraction since at least 1970. The 2ndQ2009 saw much less severe shrinkage as the economy fell by 0.1% as compared to the previous quarter (-0.5%,in annual terms). As in the USA, the second half of the year saw the return of economic growth to the Eurozone, although the growth was slower than in the USA, and showed a tendency to decelerate.

In fact, while in the 3rdQ2009 quarterly growth (in annual terms) was below that of the US economy (+1.7% versus +2.2%), in the final quarter, the difference was sharper (+0.5% as compared to +5.9%). Thus in 2009, the Eurozone saw its economy fall 4.1% more than that of the USA. In line with the sharp drop in business, the unemployment rate rose from 8.2% in December 2008 to 9.9% at the end of 2009, the highest level since November 1998. As for prices, the year on year inflation rate went from 1.6% in December 2008 to 0.9% at the end of 2009, moving into negative territory (an unfamiliar situation since the early seventies, at least) between June and October 2009. It reached its lowest point in July 2009, -0.7%, reflecting essentially the aforesaid baseline effects of commodity prices (in particular energy) seen in 2008.

In **Portugal**, GDP stagnated in 2008, following a very negative year end where the economy fell 1.7% in the 4thQ2008, as compared to the previous quarter. In the 1stQ2009 the rate of contraction in GDP worsened compared to the previous quarter, standing at -1.9%, while the year on year contraction was 3.8% and represented the greatest year on year shrinkage since at least 1977. In the next two quarters the Portuguese economy recorded a growth of 0.6% and 0.5%, respectively. Thus it ceased to be in technical recession, as it had been since the 3rdQ2008 (that is a quarter earlier than the end of the technical recession in the Eurozone). However, according to the National Statistics Institute's final estimate, GDP fell by 0.2% in the final quarter of the year, but the year on year contraction went down from -2.5% in the 3rdQ2009 to -1.0% at the year-end, reflecting in the main the improvement in net foreign demand, as well as the smaller drop in domestic demand. Thus in 2009 GDP was down 2.7%, a lesser drop than that in the Eurozone. In terms of the labour market, there was a sharp rise in the unemployment rate, which according to Eurostat estimates (seasonally adjusted) went from 8.1% in December 2008 to 10.3% at the end of 2009, and was the highest figure since records began to be kept in January 1983. As for the year on year inflation rate, it went from 0.8% at the end of 2008 to a negative figure (-0.1%) in December 2009. As in most other developed countries, it reached a minimum in the second half of the year (in Portugal's case in September when it stood at -1.6%), reflecting essentially the aforesaid baseline effects of energy prices in 2008, as well as the low levels of business. The period of negative inflation in Portugal (from March to December 2009) ran for longer than the average one seen in the Eurozone countries (from June to October 2009).

ECONOMIC FORECASTS FOR PORTUGAL AND THE EUROZONE

(unit: %)

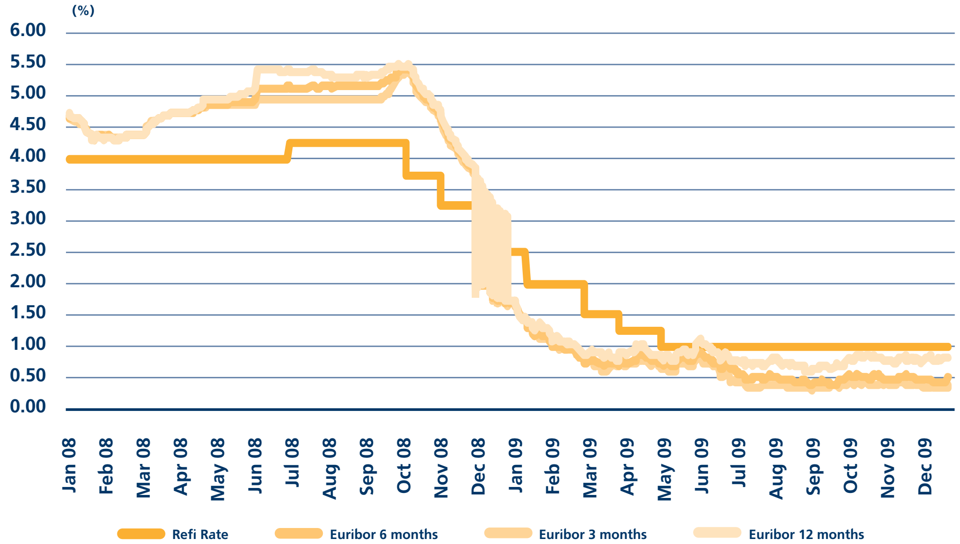
	2009		2010				2011			
	Portugal	Euro Zone	Portugal		Euro Zone		Portugal		Euro Zone	
			BoP	EC	ECB	EC	BoP	EC	ECB	EC
GDP	**-2.7**	**-4.1**	**0.7**	**0.3**	**0.8**	**0.7***	**1.4**	**1.0**	**1.5**	**1.5**
Private Consumption	-0.8	-1.0	1.0	0.6	0.1	0.2	1.6	0.7	1.1	1.0
Public Consumption	3.5	2.2	0.7	0.7	0.6	1.1	1.1	0.7	0.9	1.0
Investment (FBCF)	-11.1	-11.0	-3.4	-4.1	-1.8	-1.9	0.9	1.1	0.9	2.1
Exports	-11.6	-13.2	1.7	0.7	5.4	2.1	3.2	3.3	4.6	3.9
Imports	-9.2	-11.8	0.3	-0.2	3.8	1.1	2.7	2.2	3.6	3.6
Inflation	**-0.8**	**0.3**	**0.7**	**1.3**	**1.2**	**1.1***	**1.6**	**1.4**	**1.5**	**1.5**
Unemployment Rate	**9.5**	**9.4**		**9.0**		**10.7**		**8.9**		**10.9**

Sources: Bank of Portugal (BoP), Boletim Económico de Inverno, 12 January 2010; European Commission (EC), 3 November 2009; European Central Bank (ECB), 3 March 2010.

Notes: (i) The EC figures marked with an asterisk are intermediate forecasts published on 25/02/2010: (ii) the 2009 data are official estimates Published up to 11/03/2010, by INE and by Eurostat.

The Bank of Portugal's (BoP) latest forecasts have been revised upwards in terms of growth in 2010 (although the previous forecasts date from July 2009), from a decline of 0.6% to an expansion of 0.7%, a figure higher than that estimated by the European Commission (+0.3%). The same is true for 2011, where the BoP is more optimistic, predicting growth of 1.4% (+1.0% for the Commission). As for the labour market, while the BoP does not estimated unemployment rates, it does expect a further reduction in employment for this year (-1.3% as against -2.8% in 2009) and expects 0.4% growth the following year. In regard to inflation, following the -0.9% recorded in 2009, the BoP estimate a growth of 0.7% and 1.6% for 2010 and 2011, respectively.

TREND IN EURIBOR INTEREST RATES – EURO ZONE



Source: *Thomson Reuters*

Money Market

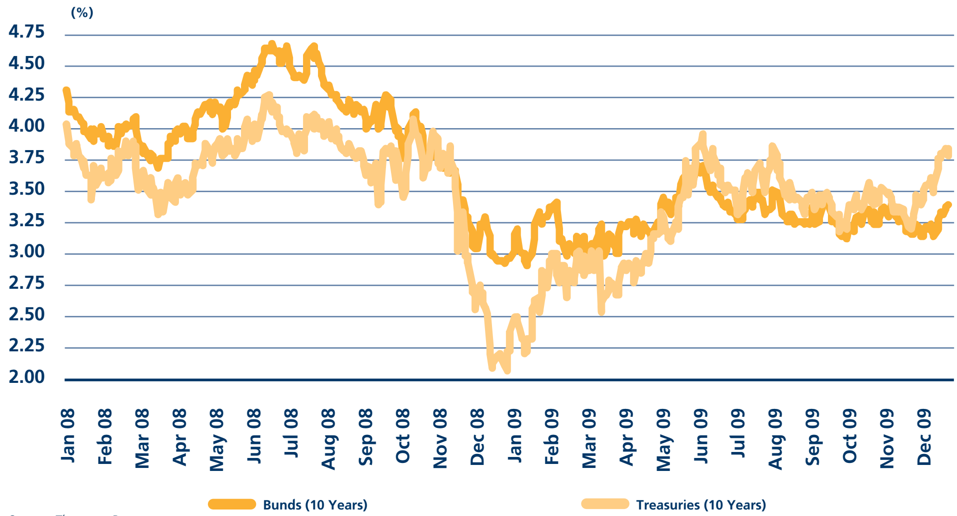
In the USA, in a year in which the Federal Reserve (Fed) kept Fed Fund rates at the minimum level (between 0.00% and 0.25%), the main market rates showed a downward trend, which proved to be particularly monotonous from the middle of March and reflected the reduction in interbank risk. The OIS Spread (i.e., the difference between 3-month interest rates and 3-month swaps, over overnight rates), which is considered to be a measure of risk in the interbank market, fell from 121 basis points (b.p.), at the end of 2008 to 9 b.p. at the end of 2009, thus reaching levels lower than the average before the subprime crisis. Therefore the 3-month USD Libor rate went down from 1.425% to 0.251%, while the 12-month Libor rate slipped from 2.004% to 0.984%. However, in the latter case the fall in the OIS Spread was partially offset by the rise in expectations as to an increase in Fed Funds rates in the second half of 2010. In the Eurozone, the drop in OIS Spreads also contributed strongly to the lowering of money market rates, although here the reduction was not as sharp as in the USA, falling from 114 b.p. at the end of 2008 to 31 b.p. at the end of 2009 and remaining well above pre-crisis figures. The European Central Bank's (ECB) performance was even more important, since during the first half of the year, it cut the Eurozone main interest rate (Refi Rate) by 150 b.p., setting it at 1.0%, the lowest level ever. In addition the rates also reflected the fall in the expected value of the overnight rate which became closer to the Deposit Facility Rate (which ended the year at 0.25%) than to the Refi Rate. There was also an increase in the funds available on the market, since in June the ECB undertook a 12-month lending operation at Refi Rate and then repeated the operation on two occasions. As a result the Euribor rates showed a downward trend, recording historic lows. The 3-month Euribor rate ended the year at 0.700%, some 219 b.p lower than the beginning of the year, while the 6-month and 12-month Euribor rates fell 198 b.p. and 180 b.p., respectively, to 0.994% and 1.248%.

Bond Market

In 2009, the **Public Debt Market** oscillated. In Europe, until the stock markets recovered in March, yields on shorter term instruments fell, as a result of the expansionist policy imposed by the ECB, while longer term instruments showed no particular trend. From March onwards the general trend in yields was upwards, which was consistent with typical bond market behaviour in times of reduced risk aversion, due to the fall in demand for Public Debt as a safe haven.

Another factor was the increased supply as governments sought additional finance for their crisis programmes. However, from the middle of June, both shorter and longer term bonds saw yields slip progressively downwards, as a counter cycle to the stock markets. A contributing factor was fear as to the speed of the economic recovery following the withdrawal of monetary and budgetary stimuli. In the USA, this trend was mainly seen in short-term instruments, where the Fed announced interest rates would remain unchanged "for a considerable period". In the case of long-term instruments, investors remained concerned about the high levels of US Government funding needs, which together with the improved prospects for the world's largest economy and the rise in investors' inflation forecasts supported the yields. It should be noted that at the end of 2008 investors predicted an average inflation of 0% for the next ten years, which implied a depressed macroeconomic scenario, but at the end of 2009 they predicted 2.4%. Thus in 2009, the return on 2-year *Bunds* (German Treasury Bonds) fell 42 b.p. to 1.33%, while that of 10-year *Bunds* rose 44 b.p. to 3.39%. In the USA, the upward trend in yields was stronger in regard to longer term instruments, and the yield on 10-year Treasuries (US Treasury Bonds) increased by 162 b.p. to 3.84%, whereas that of 2-year Treasuries rose 37 b.p. to 1.14%.

TREND IN PUBLIC DEBT SECURITIES PROFITABILITY (BUNDS AND TREASURIES – 10 YEARS)



Source: *Thomson Reuters*

In the **Private Debt Market**, the strong aversion to risk seen in 2008 remained until March, with the result that public debt credit spreads continued to widen, moving even further away from their historic average. Nonetheless, from then on the fall in spreads followed, to a certain extent, the global trend in share prices, brought on by the improvement in macroeconomic indicators and the publishing of better than expected company results. In addition, the increased liquidity in markets generally also led to a drop in liquidity premiums and in credit spreads accordingly. Thus taking as a benchmark the *Itrax* index (5 Years), the Eurozone reference CDS index (Credit Default Swaps), we see it fell from 178 b.p. at the end of 2008 to 76 b.p. at the end of 2009, returning to the low recorded in May 2008.

ITRAXX CDS INDEX – 5 YEARS

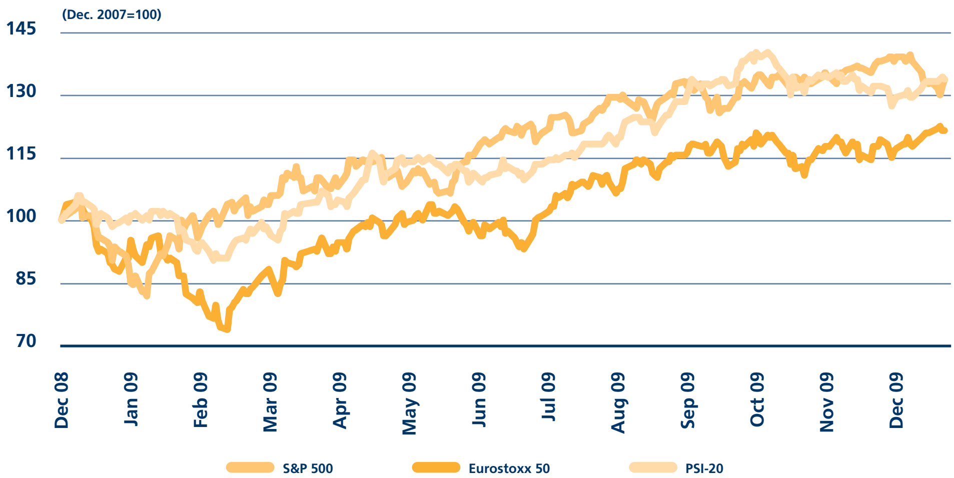
Source: *Thomson Reuters*

There was an increase in debt issues, which allowed companies with access to international debt markets to benefit from the more favourable financing terms, while smaller companies whose finance sources are predominately bank credit, continued to face even stricter credit granting criteria, as these react out of step with wholesale market conditions. Therefore credit continued to grow tentatively in the major developed economies, as a number of markets contracted, in particular consumer credit. For investors the narrowing of spreads was fairly favourable to their portfolios, allowing traditionally low risk investments, such as indexed bond funds, and those with high ratings to generate very interesting annual returns, after the heavy losses of the previous year.

Stock Market

Up to the beginning of March the downward trend in the stock markets continued, first as a result of the economic crisis at the end of 2007, and then of the collapse of Lehman Brothers at the end of 2008. Thus for the first two months of 2009, investors showed increased risk aversion, as a consequence of the wave of negative macroeconomic data and concern for the financial system, which led to falls of over 25% in the major European and American indices since the beginning of year. However, later on the trend was reversed and the markets rose gradually until the end of the year.

TREND IN MAIN STOCK EXCHANGE INDEX



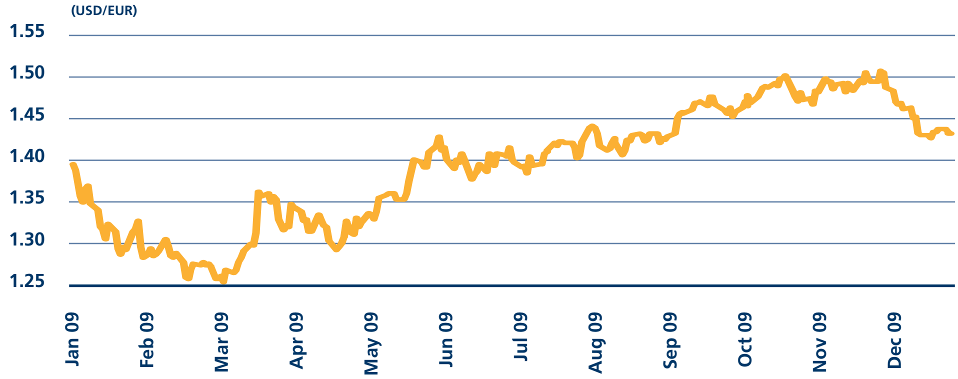
Source: *Thomson Reuters*

A number of factors contributed to this change in feelings, including the signs of stability in the banking system (e.g., the major international players return to profits; results of the US banks stress tests), indications that governments were willing to tackle the crisis (e.g., the G-20 meeting), the better than expected results of most companies, and especially the return to growth in the USA and the Eurozone. Even then – and especially as the year-end approached – investors still had reservations about the speed of the recovery and whether the authorities would continue to pursue highly expansionist policies. The recovery in the stock markets was particularly strong in emerging markets (those most affected by the crisis), due to the strong, and better than expected economic upturn in some countries, such as China, India and Brazil, but also due to historically low interest rates in the USA which allowed carry trading. So in 2009, in the USA, the *Dow Jones* index was up 18.82%, the *S&P 500* rose 23.45% and the *NASDAQ* gained 43.89%. In Europe, the *Eurotoxx 50* rose 21.14%, the *FTSE-100* 22.07%, the *DAX* 23.85%, the *Ibex* 29.84%, the *CAC-40* 22.32% and the *FTSE MIB* 19.47%. In Portugal, the PSI-20 index ended the year with an accumulated gain of 33.47%.

Exchange Market

Throughout 2009 there was a strong correlation between the euro/dollar exchange rate and the stock markets. Therefore until March, the euro lost some ground against the dollar, while the stock markets continued to fall. From the end of the 1stQ2009, the upturn in the stock markets also prompted a devaluation cycle in the US currency. This was the outcome of the carry trading based on the US dollar (due to the historically low interest rates in the USA, while in Europe the ECB stopped the run of rate cuts earlier than the market probably expected).

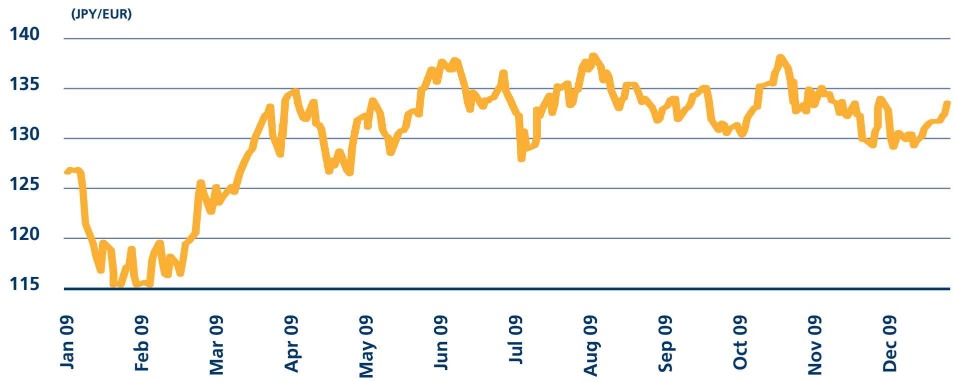
TREND IN EURO vs DOLLAR



Source: *Thomson Reuters*

The correlation broke down slightly in December 2009, with the Dollar recovering ground, while the stock markets continued to rise, in the main as a result of the fact that for practically the first time in the current cycle, positive labour market figures led the markets to expect the Fed to adopt tougher monetary policy sooner than previously foreseen. The fall in the Dollar during the post-March boom also stemmed from the lower investor risk aversion, a fact which naturally removed the need to seek the Dollar as a safe currency haven. Furthermore, the market was faced with statements from the heads of many countries questioning the Dollar's status as the international financial system's anchor currency. Thus at the end of 2009, the Euro stood at 1.433 dollars, accounting for an annual rise of 2.7%.

TREND IN EURO vs YEN



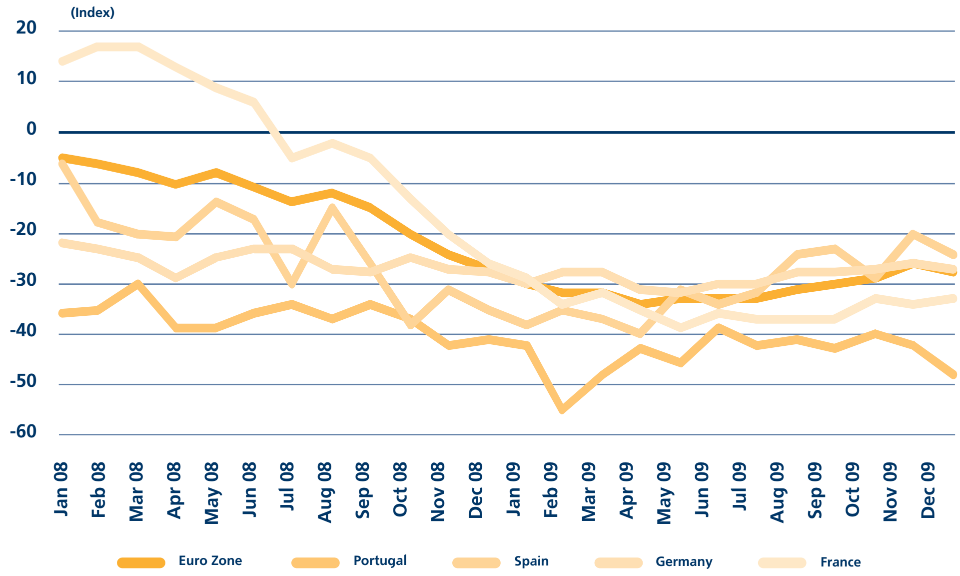
Source: *Thomson Reuters*

As regards to the Japanese currency, the euro recorded a sharp rise in February and March – despite having started the year with a steep fall due to the cutting of the key interest rate by the ECB. This was a result of the very negative figures published on the Japanese economy, culminating in the largest contraction in the economy since 1974. In addition investors, as mentioned, had opted for the US dollar as the safe haven currency, as opposed to the Yen. From March onwards the exchange rate oscillated around 132 yen/euro, as the Japanese currency stabilised due to signs of economic recovery in the country and since it avoided the effects of carry trading from which it had suffered in the past (an investment strategy which, as mentioned above, shifted to the Dollar). In addition the reduced attractiveness of the Japanese market for investors meant the *Nikkei* was one of the world's markets which gained least from the post-March boom and consequently prevented the local currency from rising (something which happened in the case of the Real and the Rupee). Thus at the end of 2009, the Euro stood at 133 Yen/Euro, representing an annual rise of 5.4%.

Real Estate Market

The real estate market saw some signs of stability in 2009, particularly in the housing market (the most affected) and in the economies that had been the hardest hit by the consequences of the crisis, precisely those which had had the greatest valuation excesses in the pre-crisis period (such as the USA, the UK and some Eurozone countries). However, for most countries (the great exception being the USA, where the housing market recovered somewhat, although not enough to equal pre-crisis levels), the few signs of stability were nothing more than that, and the sector did not recover (particularly in the Eurozone and in Portugal), so much as continue to deteriorate.

BUILDING CONFIDENCE INDICATOR – EURO ZONE



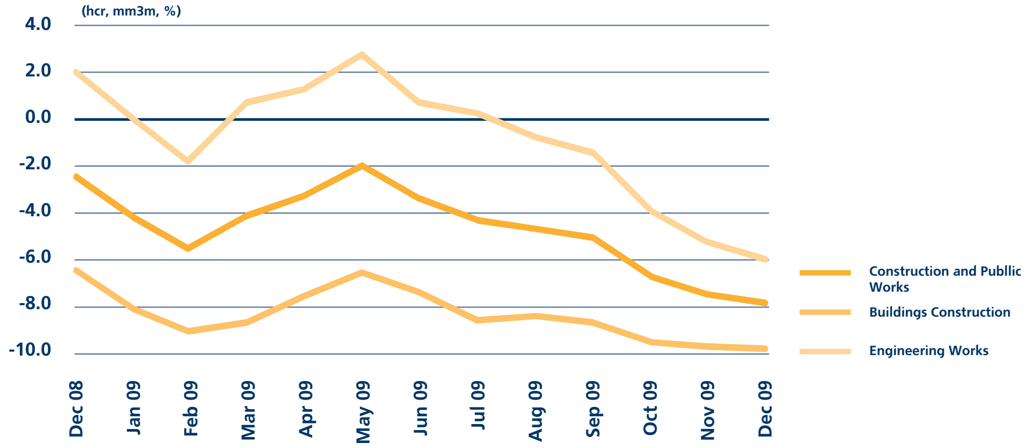
Source: European Commission

In the **USA**, the housing market figures released across 2009 showed that contraction might be coming to an end. In fact from the 2nd half of the year, housing prices in the 20 main metropolitan areas recorded monthly growth, although in December they were still 3.1% lower than a year earlier. In terms of house sales, the used house market saw the strongest recovery, where price correction was greatest, due to the placing on the market of a large stock of homes following foreclosures. At the year-end real estate figures showed high volatility and a certain dependency on government support programmes for first time buyers, which were expected to end in November, but continued until April 2010. Sector confidence fell in the final months of the year perhaps reflecting concern that the sales recovery will not be sustained without the aid of public policy. In the second half of the year, there was an upturn in housing investment, but not sufficient to prevent a drop of 20.4% in 2009, the fourth consecutive annual drop. On the other hand non-housing real estate which began to contract in the 4thQ2008, continued to shrink throughout 2009, falling 19.6%. This was the first contraction in 6 years, and was especially hit by the drop in commercial real state occupancy rates.

In the **Eurozone**, the difficulties the real estate market faced were again clear from building sector confidence indicators (as calculated by the European Commission). Despite recognising some stability in the first half of the year, and even a slight improvement in the second half of the year in some member countries, year-end indicators continued to show that on average Eurozone countries had very low levels of confidence, very similar to those recorded at the end of 2008. In terms of production the building sector continued to suffer from a contraction in business, although following the growth in the Eurozone economy as a whole, the quarterly rate of contraction fell (from -3,7% in the 4thQ2008 to -1.4% in the 4thQ2009). Nonetheless, in average annual terms, business saw the downturn worsen from -4.4% in 2008 to -8.2% in 2009.

As for **Portugal**, the latest available figures on Gross Added Value (GAV) for the building sector revealed a quarterly contraction in business in the 4thQ2009 of -4.2% (-9.2% in year on year terms). In average annual terms the sector underwent a 10.2% contraction, significantly higher than in the previous year (-5.1%), once again recording the lowest level of business since at least 1995. In fact the figures relating to Building and Public Works production, published during the 4thQ2009, were also consistent with a further quarterly contraction in sector business.

TREND IN CONSTRUCTION AND PUBLIC WORKS PRODUCTION



Source: *INE*

The figures for the final quarter proved to be more negative for engineering works, but over the year they were unfavourable for the buildings market (which includes the housing market, under greater pressure from the poor economic and financial situation). The engineering works market is expected to pick up as the major Public Works that have been announced get underway. The sector's prospects for early 2010 proved to be no better, and the business prospects index (for the next three months), published by the National Statistics Institute on a quarterly basis, fell once again in the 4thQ2009, as a consequence of the downward trend in both buildings and public works markets, although the latter had substantially less negative prospects.

4.4. BUSINESS MODEL AND STRATEGY

Montepio Group's main corporate goal is to create wealth for its Members. To that end, each entity of Montepio Group incorporates that goal in its strategic mission. At the same time strategic targets were set to increase profitability, through diversified, prudent and sustained business growth, cost rationalisation and improved efficiency aimed at stronger relationships with Members and Customers, product differentiation and a mutual relationship. The strategy that underlies these targets is the retaining of robust solvency and liquidity levels and the continued pursuit of a conservative management policy, a feature of Montepio when taking on risks, but one which, at the same time, is dynamic, as far as seeking solutions to problems and challenges and developing business and products is concerned.

The practice of coordinated management that Montepio Group has pursued to ensure the meeting of common strategic goals, in order to optimise resource use and rationalise processes, also contributes to the achieving of synergies and improved efficiency. Given the nature of the market in 2009, and the particular impact on banking, this strategy Group proved to be appropriate and effective, since the Group was able to reinforce the institutions' robustness, maintain suitable liquidity levels, earn increasing profits and improve efficiency and profitability indicators.

Bearing in mind the ongoing likelihood of the difficulties and constraints stemming from the crisis and the prospect of further prudence and governance requirements resulting from the recent changes to the regulatory framework, when the three-year Strategic Plans were subjected to an annual review in 2009, the importance of meeting the Strategic Guidelines once again became clear, in particular as regards risk management, stricter cost and efficiency management, credit business and revenue source diversification, and the differentiation of the mutual approach. The complementary nature of the products on offer, the optimisation of all Distribution Channels available to the Group, the progress of the assurfinance project, plus the increased strategic coordination between Group bodies will all act to encourage growth in business, in the context of the distinct manner in which Montepio is viewed in the market.

MONTEPIO GROUP

The Montepio Group *– due to its mutual nature and aims and its values in associative and solidarity, is unique and stands apart from the competition.* ***Montepio Geral – Associação Mutualista*** *is the strategic centre of a group made up of the following strategic entities:*

- ***Caixa Económica****, attached to Associação Mutualista – responsible for the Group's banking business, in particular the private and corporate retail markets;*
- ***Lusitania Companhia de Seguros*** *– an insurance company;*
- ***Lusitania Vida*** *– a life assurance company;*
- ***Montepio Gestão de Activos*** *– an investment fund manager;*
- ***Futuro*** *– a pension fund manager;*
- ***Residências Montepio*** *– management of social facilities and provision of health, well-being and quality of life services.*

ASSOCIAÇÃO MUTUALISTA

In 2009, the strategic measures undertaken focused on increasing membership and the reputation of the mutual movement, as well as strengthening association ties. In these areas positive results were achieved, but they will continue to be core aspects of performance, given their importance to the sustained growth of Associação Mutualista (MGAM).

The adverse climate has shown how important social economy institutions and the so-called Third Sector are in supporting and aiding families and the public in general, so as to smooth away problems and difficulties. Montepio is well aware of this reality and aims, on the one hand, to pursue its mission and develop its business as a mutual body, offering responses to the vagaries of the family cycle, and on the other hand, it sets out to cooperate with those institutions. To that end it acts as their financial partner, adapting its banking and financial products and services to meeting the sector's specific needs.

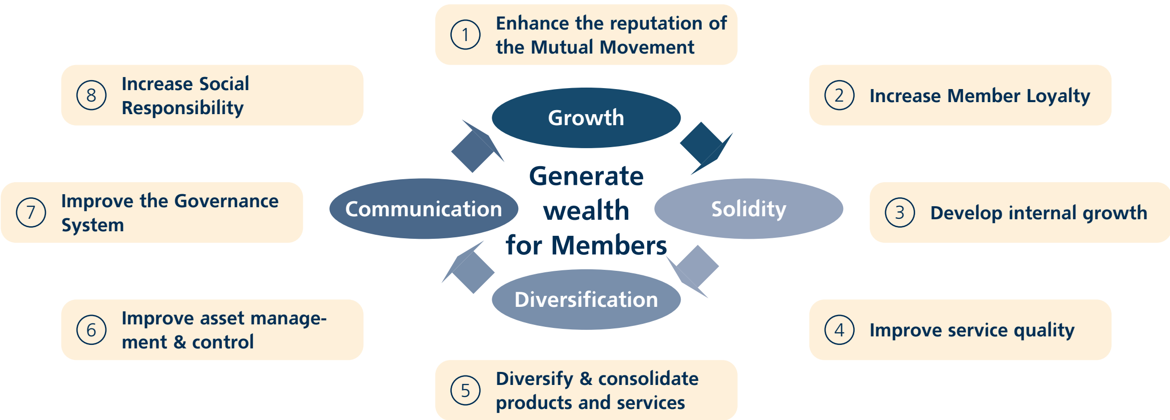
MONTEPIO

The oldest (founded in 1840) and the largest Portuguese Mutual Association with over 442,000 Members, Montepio offers mutual savings, protection and social welfare schemes, for personal or others' benefit. The services it provides in the social facilities, well-being and quality of life fields have increased through the Care Homes project and the signing of agreements with various bodies so as to broaden the range of benefits and services available to its Members.

STRATEGIC GUIDELINES 2009-2011

MGAM's Vision

The largest national association promoting and managing supplementary, individual and collective, social security schemes, social services and facilities, and well-being and quality of life services, through dynamic, prudent and ethical management, while respecting mutual values, solidarity and member participation, high standards of social responsibility and sustainability, and thus contributing to the development and consolidation of the social economy and the Third Sector in Portugal.



The goals and Strategic Guidelines for 2009-2011, which were recently revised and updated, are aimed at a further rise in Membership, increased shares and capital, the spreading of revenue across capitalisation and welfare products, increased efficiency and improved profitability, as well as the keeping of solvency levels.

Along with measures to strengthen ties with Members and increase loyalty, a fundamental strategic axis continues to be the confirmation of the mutual movement as a response to supplementary welfare needs and as a way of investing savings to cover contingencies. These go hand in hand with other distinctive features in the fields of citizenship and member participation. This approach enhances the mutual movement's reputation and develops and spreads the concept within the Group and externally.

Strategic Priorities for 2010

Enhance the reputation of the Mutual Movement	– Carry out measures which publicise and spread the Mutual Movement: products/needs and values – Renew communication means and methods – Cooperate nationally and internationally
Increase Membership and Member Loyalty	– Transform Group company Customers into Members – Increase Association Revenues per capita – Increase the Member retention rate and their ties – Make use of Group channels
Diversify and Consolidate Products and Services	– Favour enrolling in supplementary welfare schemes – Broaden the range of social facilities, well-being and quality of life services – Improve service quality: automation and speeding up of processes and the Information System
Improve Asset Management and Internal Control	– Develop dynamic management of assets – Develop the Internal Control System

At the corporate level, mention should be made of the Strategic Guidelines approved to modernise the Governance System. The Articles of Association are to be amended in order to incorporate changes to the structure and the Institutional Governance model, in response to new regulatory and supervisory requirements and the tighter strategic coordination among Montepio Group companies, while at the same time meeting to the need for greater Member participation in the institution's life.

Bearing in mind its important and growing role in society, plus its duty to contribute actively to sustainable development, Montepio will continue to give great strategic importance to the pursuit of its Social Responsibility policy, not only through support for social, cultural, educational and corporate volunteer projects, but also through the search for comprehensive measures related to economic, financial, environmental and social sustainability.

CAIXA ECONÓMICA

Caixa Económica's (CEMG) business was marked by the economic constraints stemming from the overall drop in business in the domestic economy. Nonetheless the cash flow generated was sufficient to meet the increase in credit risk provisions, a theme which received special attention in terms of strategic priorities management. In the second half of the year several measures were put in place in order to ensure more efficient management of credit default and recovery, as well as cost saving measures.

Particular attention was paid to credit monitoring and vigilance, to preventative management of non-performance and to steps to settle and recover credit overdue through negotiations.

In regard to cost rationalisation and savings, which also received special attention in 2009, CEMG was able to increase the speed at which it met its strategic goals, both in terms of staff costs and general administrative costs, as shown by the improvement in the institution's overall efficiency (cost-to-income).

As for liquidity management, CEMG was able to overcome successfully the challenges it faced in this adverse period, and its management proved to be capable. The measures taken ensured the company retained a comfortable liquidity position. The factors that led to this were the increase in retail resources acquired, management of the securities eligible for European Central Bank (ECB) refinancing, a housing loan securitisation operation and a mortgage bond issue, among others.

Also in regard to solvency, CEMG was able to significantly improve its overall solvency and Tier 1 ratios (in CEMG's case Tier 1 corresponds to its Core Capital), complying with BoP recommended levels, i.e. a minimum of 8% for Tier 1, before September 2009. CEMG has one of the highest levels in the Portuguese banking sector, far exceeding the minimum capital requirements.

CAIXA ECONÓMICA

Operating as a retail banking institution, CEMG provides a wide range of products and services to meet its customers' banking and financial needs. Its main business is retail intermediation, through the acquiring of customer resources, small and medium size savings, and the granting of credit to Individuals, Micro businesses, Small and Medium Size Companies, and Entrepreneurs. Its main aim is to render a quality service and, through its mutual structure, observe the highest ethical standards and social sustainability principles.

Its retail network, at the disposal of the Group companies, is made up of 326 branches across the entire country, complemented by a multichannel distribution structure, and supported by high quality automatic banking and e-banking services. CEMG is also present overseas where its six representative offices serve the Portuguese community living abroad.

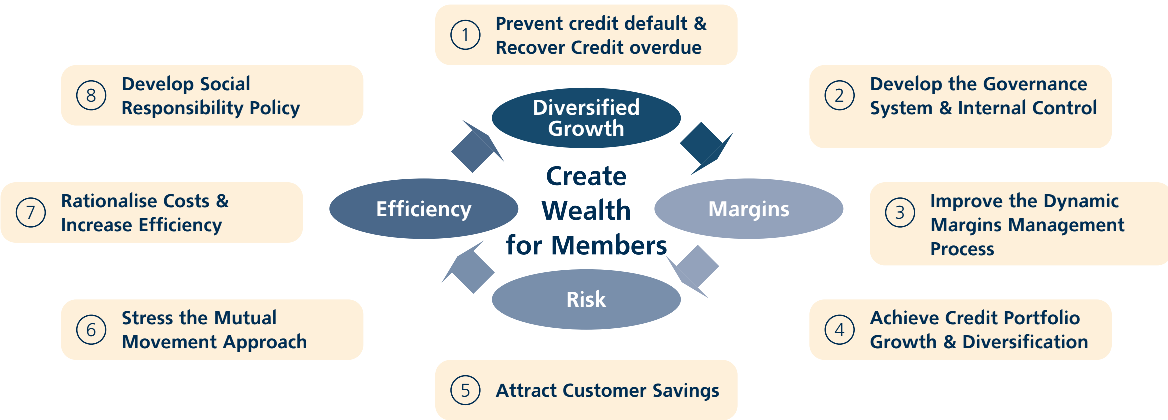
According to the strategic guideline of enhancing the distinctive nature of the mutual movement, where CEMG is the main credit institution in the social economy field that provides universal banking, the aim is to strengthen and develop its links to the Third Sector and to contribute to the latter's growth, by increasing business relations, meeting financial needs and cooperating with the sector's various entities and institutions. To that end CEMG set up the Third Sector Institutional Relations Office.

In order to achieve sustained, medium-term levels of business and profitability, CEMG confirmed its strategic guidelines for consolidating the universal retail banking model, through diversified growth of its credit portfolio outside of the real estate sector, placing special emphasis on small businesses and Small and Medium Size Enterprises. Such growth should preferably be financed by catching increasingly more customer resources, in particular small and medium size stable savings, and CEMG should strongly pursue its role as a Savings Bank, making full use of the potential of its customer portfolio, its branch network and the other Group members Distribution Channels.

STRATEGIC GUIDELINES 2009-2011

CEMG's Vision

A distinct and unique retail bank in the Portuguese banking sector that represents the values of member participation and solidarity, seeks to acquire savings and offer credit to Individuals, Entrepreneurs, Micro businesses, SMEs and Third Sector Institutions, through a comprehensive range of mutual and financial products and banking service and is, recognised for its prudent management, quality service, ethical behaviour and dynamic role in the social economy.



Special attention was paid to the management of asset and liability operations interest rates, set according to customer risk, length of operations and expected rate of return, as well as their matching to commission pricing, in the light of strategic goals.

The optimisation of Human Resources, the rationalisation of processes and more rigorous cost management will continue to be at the top of the agenda, in order to contain costs and improve efficiency levels and the quality of service provision.

Strategic Priorities for 2010

Risk Management & Credit overdue Recovery	– Develop and improve the risk analysis, monitoring and control process, especially Credit Risk – Increase the proactive approach to Credit Overdue recovery
Differentiation of the Mutual Approach	– Turn Customers into Members – Enhance the visibility and marketing of mutual products through the branch network and the remaining distribution channels – Use the mutual movement as a driver to penetrate strategic markets
Credit Portfolio Diversification	– Reinforce the marketing of credit operations in the diversification markets and sectors – Increase the acquiring of customer savings through balance sheet items – Improve the margins management process
Cost Management & Efficiency	– Control costs and achieve savings through operating synergies – Improve efficiency and service quality indicators

Montepio Geral Associação Mutualista (MGAM)

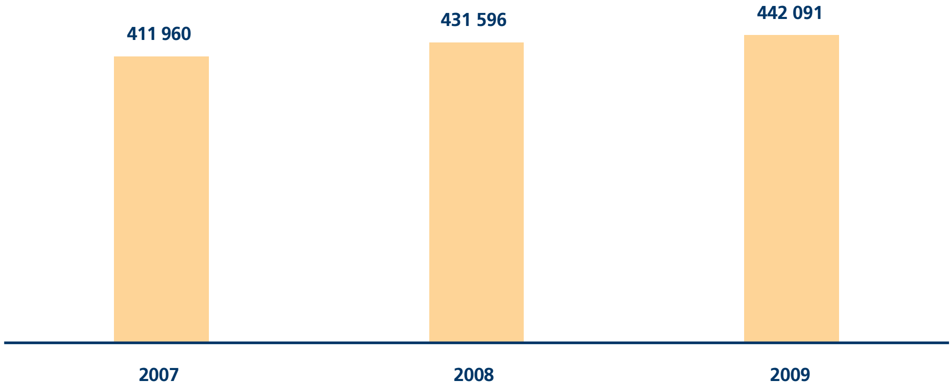
4.5. MONTEPIO GERAL – ASSOCIAÇÃO MUTUALISTA (MGAM)

4.5.1. ASSOCIATION MOVEMENT

Membership

At the end of 2009 MGAM had a total of 442 091 Members, accounting for an annual growth rate of 2.4%, a figure in keeping with the established strategic targets.

NUMBER OF PERMANENT MEMBERS



CEMG's distribution network continued to play an important role in the development of the associative movement and of mutual schemes, by seeking to take advantage of their current potential, as only 37.4% of CEMG's private customers are MGAM Members.

When we look at MGAM's membership we find that 50.8% are female, (50.6% in 2008), and 57.8% of Members are aged under 40 and only 12% are over 60, making an average age of 37.

The number of youngsters, Members aged under 14, belonging to the «Tio Pelicas» Club, kept rising at the same pace as the previous year (2.7%).

Governing Bodies Elections for the period 2010-2012

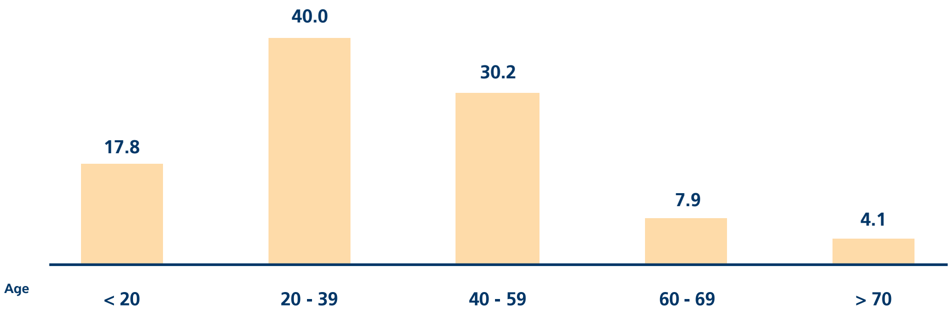
Elections were held on 11th December 2009 for the Governing Bodies of Montepio Geral – Associação Mutualista and the attached company Caixa Económica Montepio Geral. The elected members will govern the institution for three years.

Almost 30,000 Members voted, providing the largest ever turnout and confirming the democratic tradition of an institution that is almost 170 years old. Further proof of its vitality, image and reputation in Portugal.

«TIO PELICAS» CLUB
(Members under 14)

YEAR	2008	2009
MEMBERS	30 855	31 676

MEMBERS BY AGE GROUP IN 2009 (%)



In order to spread mutual values and strengthen ties with younger Members in an educational, recreational and participative manner, MGAM, amongst other activities, continues to publish quarterly the «Tio Pelicas» Club magazine. Since it was set up the Club have had 52,804 members, of which 21,128 have left, 53.6% of them because they reached the age limit for Club members.

Development of Mutual Products and Services

MGAM has sought to meet fully its Members' financial needs and improve their quality of life. To that end, the provision of mutual schemes is a permanent concern, both in terms of products and services, which meet the needs and expectations of Members and their families within the specific regulatory framework of mutual movement.

This is why in recent years the products and services on offer have been reformulated and new schemes devised, taking into account the changes in the Members' age, demographics and context, namely the change in interest rates and market conditions. In this context, campaigns were undertaken to promote actuarial products, which led to a significant increase in the number of enrolments. And there were eleven issues of Fixed Term Retirement Capital (*Montepio Capital Certo*) in 2009, which brought in 97.5 million euros.

The range of health and well-being services increased with the opening of two more Care Homes, one in Gaia and one in Coimbra, bringing the number of care homes in operation to three (in 2008 the first of seven homes was opened in Porto). The Home Support Service and Tele-Assistance are two further services the Montepio Care Homes offer, with the aim of providing a series of services and facilities for specific markets.

Additional Benefits

Montepio bank customers who are also Members benefit from favourable terms, namely the prices of Housing Loans and Personal Loans, premium interest rates on Time Deposits and other savings products, discounts on Credit Cards, exemption from maintenance and management fees on Current Accounts, and discounts on Full and Partial Management of Real Estate, among other services.

In 2009, the value of benefits to customers who are also Members was 12.1 million euros, up 13.6% on 2008.

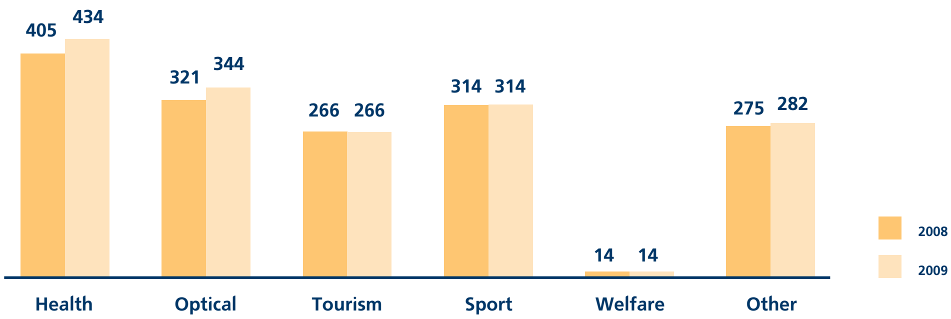
TOTAL BENEFITS GRANTED TO MEMBERS BY CEMG IN 2009

(thousand euros)

CATEGORY	Family Products	Value of Benefit
ASSET PRODUCTS	Housing Credit	7 909
	Personal Credit	578
LIABILITY PRODUCTS	Current Accounts	1 899
	Time Deposits	421
	Structured Deposits	195
	Mixed Products	29
OFF BALANCE SHEET PRODUCTS	Credit Cards	1 091
	R.P. Management	3
TOTAL		**12 125**

With a view to increasing the range of additional benefits available to Members, new agreements were signed in 2009 with entities across the country, in line with the policy of entering into agreements with national and local partners. Thus, at the end of 2009, MGAM had agreements with 580 entities, which provide Members with Access to a total of 1 654 discount points across the country, mainly in the areas of health, optical services, tourism and sport, among others. In addition to these agreements, a strategic partnership was entered into with a fuel distribution network that provides discounts for Montepio Members.

AGREEMENTS – NO DISCOUNT POINTS



Generally speaking the discounts offered to Montepio Members are extended to their families (next of kin in both directions and partners). The discounts range from a minimum of 2% to a maximum of 50% of the normal sales price, but the majority of discounts are between 10% and 20%.

In order to promote and spread the mutual movement, as well as strengthen ties with Members, a number of communication, information training and promotional campaigns were run in 2009, that covered a number of cultural, recreational and educational events, in particular «Walking with History», «the Ideas Competition» and «Members Training» (in micro computing).

4.5.2. ASSOCIATION REVENUES

MGAM continued to pursue a policy based on attracting new Members and gaining the loyalty of existing ones. This led to an increase in the number of subscriptions of mutual products, as show in the annual volume of subscriptions and capital received.

In 2009 there was a 4.6% rise in the number of scheme enrolments. The total number of enrolments at the end of 2009 was 763 032. The average number of enrolments per Member grew, reaching 1.73 (1.69 in 2008).

The rise in enrolments accompanied the growth in Association Revenues, which stood at 301.6 million euros in 2009, representing a rise of 6.5 million euros (+2.2%). The major contributors to the growth in Association Revenues were Capitalisation Schemes (in particular Retirement Capitals and Retirement Savings) and Welfare Schemes, where some schemes predominate (Deferred Welfare Capitals with Option and Expenses Payment Guarantee accounting for 12.9% and 6.8%, respectively).

TREND IN ASSOCIATION REVENUES (Quotations and Capital by Scheme)

(thousand euros)

SCHEMES	2008		2009		Change	
	Value	%	Value	%	Value	%
1. MEMBERSHIP WELFARE BENEFITS	**5 488**	**1.9**	**6 023**	**2.0**	**535**	**9.7**
2. INDIVIDUAL SCHEMES	**287 806**	**97.5**	**293 976**	**97.4**	**6 170**	**2.1**
2.1. Retirement Capitals	***109 813***	***37.2***	***113 069***	***37.5***	***3 256***	***3.0***
2.2. Retirement Savings	***10 377***	***3.5***	***12 166***	***4.0***	***1 789***	***17.2***
2.3. Fixed Term Retirement Capitals	***102 171***	***34.6***	***97 485***	***32.3***	***-4 686***	***- 4.6***
2.4. Other Schemes	***65 445***	***22.2***	***71 256***	***23.6***	***5 811***	***8.9***
Of which:						
Deferred Welfare Capitals with Option	33 836	11.5	39 025	12.9	5 189	15.3
Welfare Capitals for Younger	4 302	1.5	4 800	1.6	498	11.6
Retirement Pensions	5 184	1.8	4 951	1.6	-233	- 4.5
Expenses Payment Guarantee	20 146	6.8	20 469	6.8	323	1.6
3. COLLECTIVE SCHEMES	**657**	**0.2**	**910**	**0.3**	**253**	**38.5**
4. CAPITAL TRANSFERRED TO PENSIONS AND ANNUITIES	**1 192**	**0.4**	**700**	**0.3**	**-492**	**- 41.3**
5. TOTAL (1) + (2) + (3) + (4)	**295 143**	**100.0**	**301 609**	**100.0**	**6 466**	**2.2**

4.5.3. OVERDUE BENEFITS AND REIMBURSEMENTS

Pensions and annuities, capital and allowances, refunds and other costs inherent in the Association Movement totalled 180.2 million euros in 2009, a drop of 43.4 million euros versus the previous year. This outcome is explained by the following changes:

- The fall in Reimbursements, in particular Retirement Capital, reflecting the greater ability to retain Members' savings (-38.8 million euros, down 23.3%);
- The reduction in Other Costs (-6.8 million euros, down 40%), due in the main to the fall in claims under the Expenses Payment Guarantee scheme.

OVERDUE BENEFITS AND REIMBURSEMENTS

(thousand euros)

ITEM	2008		2009		Change	
	Quantity	Value	Quantity	Value	Value	%
PENSIONS AND ANNUITIES	**6 011**	**7 027**	**6 242**	**7 621**	**594**	**8.5**
Subscribed Values	6 011	3 132	6 242	3 613	481	15.4
Grants and Improvements		3 895		4 008	113	2.9
CAPITAL AND ALLOWANCES	**15 248**	**32 960**	**17 818**	**34 611**	**1 651**	**5.0**
Subscribed Values	15 248	29 071	17 818	31 058	1 987	6.8
Grants and Improvements		3 889		3 553	-336	- 8.6
REIMBURSEMENTS	**56 560**	**166 517**	**53 910**	**127 712**	**-38 805**	**- 23.3**
OTHER COSTS	**3 764**	**17 080**	**3 849**	**10 255**	**-6 825**	**- 40.0**
TOTAL	**81 583**	**223 584**	**81 819**	**180 199**	**-43 385**	**- 19.4**

Pursuant to Article 18 of its Articles of Association and Article 53 of the Mutual Associations Code, in 2009 MGAM granted a benefit improvement rate of 1.0% for its Actuary Schemes with a technical rate of 3.0% and 0.5% to those with a technical rate of 4.0%, in line with the volume of the Mathematical Reserves. Under the regulations, those schemes that had negative Fund Available and insufficient Mathematical Reserves were excluded from this improvement. The value of the improvement distributed among Members was 1 million euros in 2009.

Capitalisation Schemes (i.e. Retirement Capitals, Retirement Saving and Collective Schemes) had an annual overall rate of return of 3.804%, made up of the annual guaranteed return (3,304%) plus an annual share in the profits (0.5%). Retirement Capitals enrolments taken out between 1st March 1990 and 31st August 1992 were ensured an annual capital return of 5.5%.

Pursuant to Article 64 (6) of MGAM's Articles of Association, life annuities with a technical rate of 3.0% set up before 31st December 2007 were increased by 1.0%.

4.5.4. FINANCIAL ANALYSIS

4.5.4.1. Investment Policy

In the light of 2009 macroeconomic context, MGAM's investment policy was conservative and sought to maximise Members' financial return, while permanently guaranteeing the various schemes' solvency. At a time when financial markets were volatile, albeit to a lesser extent than in 2008, this policy led to sustained reduced exposure to the stock market (with direct investment and indirect investment, through mutual funds, accounting for 0.1% and 1.7% of Total Assets, respectively) and an increase in debt market exposure.

As for the debt market, it should be noted that investment policy is based on two fundamental principles. On the one hand, in terms of credit risk, MGAM only invested in investment grade instruments (91.4% of the bond portfolio has a rating of BBB- or above). On the other hand, and taking into account the historically low long-term interest rates, preference was given to variable rate and short-term investments (the portfolio has a 2.44 year term).

It should also be stressed that investment policy was subject to a new framework, both in accounting terms following the adoption of the International Financial Reporting Standards (IFRS) for recording Financial Assets, and asset terms, following completion of the process of segregating the various mutual schemes' assets, so as to ensure proper integrated management of the assets and liabilities of each scheme.

4.5.4.2. Trend and Return on Assets

At the end of 2009 MGAM had total assets of 2 609.8 million euros, which accounted for an annual growth of 0.4%. From among the various changes in assets, mention should be made of the fall in Bank Deposits, as a result of the greater diversity of assets managed and the 97.9 million euros increase in the Securities Portfolio, as well as the reinforcing of strategic holdings, so as to create the launch platform for Montepio's future development. The Institutional Investment in CEMG increased by 100 million euro and other financial holdings in companies rose by 30.9 million euro.

TREND IN NET ASSETS

(thousand euros)

ITEMS	2008		2009		Change	
	Value	%	Value	%	Value	%
Real Property	129 186	5.0	134 936	5.2	5 750	4.5
Securities	811 160	31.2	909 056	34.8	97 896	12.1
Institutional Financial Investment	660 000	25.4	760 000	29.1	100 000	15.2
Other Financial Investment	51 094	2.0	81 965	3.1	30 871	60.4
Bank Deposits	896 890	34.5	673 394	25.8	-223 496	-24.9
Derivatives	-1 836	-0.1	-3 403	-0.1	-1 567	85.3
Other	53 832	2.0	53 829	2.1	-3	0.0
TOTAL	**2 600 326**	**100.0**	**2 609 777**	**100.0**	**9 451**	**0.4**

At the year-end average net global return on assets was 2.7%, which, while lower than the figure for 2008, was clearly above the medium-term rates, 3 years on the interbank market (average rate 2.27% in 2009).

NET RETURN ON ASSETS

(thousand euros)

ITEMS	Average Balance		Return.		Average rate of return	
	Value	%	Value	%	2008	2009
Real Property	132 061	5.1	12 169	17.0	8.9	9.2
Securities	860 108	33.0	28 179	39.4	1.7	3.3
Institutional Financial Investment	710 000	27.3	11 147	15.6	4.0	1.6
Other Financial Investment	66 529	2.6	2 427	3.4	6.0	3.6
Bank Deposits	785 142	30.1	18 624	26.1	4.4	2.4
Derivatives	-2 620	-0.1	-1 279	-1.8		
Other	53 830	2.0	230	0.3	0.4	0.4
TOTAL	**2 605 050**	**100.0**	**71 497**	**100.0**	**3.5**	**2.7**

Note: For convenience, the rates of return on financial assets were calculated on the basis of 2 Average Capital Balance readings.

As regards the return on assets in 2009, mention must be made of the very positive contributions of the Securities and Real Property Portfolios, while Bank Deposits, the Institutional Investment in CEMG and the various Financial Holdings lowered the respective rates of return, within an environment of downward interest rates and a major financial crisis.

Real Property Portfolio

In 2009, the real property portfolio had a gross book value of 185.7 million euros, an annual increase of 5%. This change was due in the main to the purchase of premises and building works for CEMG branches, as well as the full integration of the «Residência Assistida do Porto – Breyner», whose construction was completed in 2009. On the other hand, the

Buildings and Other Constructions account was down 7.2%, as a result of accounting changes relating to the Rua do Ouro building in Lisbon.

The net return on real estate was 12.2 million euros in 2009, representing a rise of 8.1% versus the previous year. This stemmed from the legal updating of rents by 2.8% in 2009, from the rents on new investments and from the gains on the sale of properties.

BREAKDOWN OF REAL PROPERTY PORTFOLIO

(thousand euros)

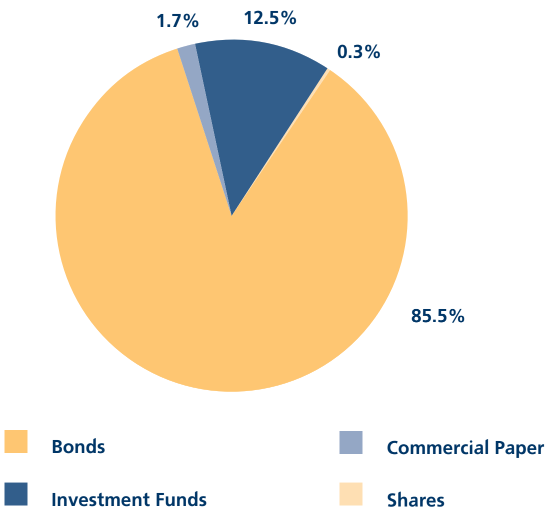
ITEM	2008		2009		Change	
	Value	%	Value	%	Value	%
Real Property for income	154 126	87,1	164 270	88,5	10 144	6,6
Building for Own Premisess	19 022	10,8	17 650	9,5	-1 372	-7,2
Land and Natural Resources	3 729	2,1	3 754	2,0	25	0,7
TOTAL	**176 877**	**100,0**	**185 674**	**100,0**	**8 797**	**5,0**

Note: These figures differ from those set out in the «Trend in Net Assets», because the latter includes depreciation of 47.691 million euros and 50.739 million euros in 2008 and 2009 respectively.

Securities Portfolio

MGAM continued to favour investments in debt instruments, in particular Bonds, which make up the majority of the securities portfolio, which totalled 909.1 million euros at the year-end. Thus, floating rate notes and investment grade senior debt have the heaviest relative weight, so as to minimise interest rate and credit risks.

BREAKDOWN OF INVESTMENTS BY ASSET TYPE (after Impairment)



BREAKDOWN OF BOND PORTFOLIO BY RATING (Moody's)

(thousand euros)

CLASS OF RATING	2009	
	Value	%
AAA	26 613	3.4
A+	31 026	4.0
A	68 675	8.8
A-	357 438	46.0
AA+	2 027	0.3
AA	10 466	1.3
AA-	88 864	11.4
BBB+	81 569	10.5
BBB	35 242	4.5
BBB-	8 350	1.1
<BBB-	5 709	0.7
NR	61 189	7.9
TOTAL	**777 168**	**100.0**

SECURITIES PORTFOLIO STRUCTURE

(thousand euros)

ITEM	2008		2009		Change	
	Value	%	Valuer	%	Value	%
1. Securities and similar items						
Bonds (including Negotiable Instruments)	702 071	84.5	791 875	85.1	89 804	12.8
Commercial Paper	15 000	1.8	15 009	1.6	9	0.1
Shares	6 283	0.8	4 274	0.5	-2 009	-32.0
TOTAL 1	**723 354**	**87.0**	**811 158**	**87.2**	**87 804**	**12.1**
% of Total Assets	**27.7**		**31.1**		**3.4 p.p.**	
2. Other Financial Investments						
Stock Investment Funds	11 812	1.4	15 030	1.6	3 218	27.2
Real Estate Investment Funds	41 099	4.9	39 252	4.2	-1 847	-4.5
Other Investment Funds	55 079	6.6	65 063	7.0	9 984	18.1
TOTAL 2	**107 990**	**13.0**	**119 345**	**12.8**	**11 355**	**10.5**
% of Total Assets	**4.2**		**4.6**		**0.4 p.p**	
TOTAL (1+2)	**831 344**	**100.0**	**930 503**	**100.0**	**99 159**	**11.9**
% of Total Assets	**31.9**		**35.7**		**3.8 p.p.**	
3. Impairment						
Bonds	14 517	71.9	14 707	68.6	190	1.3
Shares	1 357	6.7	1 228	5.7	-129	-9.5
Stock Investment Funds	4 310	21.4	5 512	25.7	1 202	27.9
TOTAL 3	**20 184**	**100.0**	**21 447**	**100.0**	**1 263**	**6.3**
NET TOTAL	**811 160**		**909 056**		**97 896**	**12.1**

At the year-end the Securities Portfolio broke down as follows:

- Available-for-sale Assets (94.6%);
- Assets Held for Trading (3.1%);
- Financial Assets at Fair Value based on Return (2.3%).

The value of Available-for-sale Assets rose to 860 million euro, accounting for a year on year growth of 107.3 million euros (+14.3%). Assets Held for Trading, made up of Treasury Bills sold by CEMG's commercial network, recorded a rise of 3.5 million euros (+13.9%), while Assets at Fair Value based on Return fell by 12.9 million euros (-38.0%).

SECURITIES PORTFOLIO BREAKDOWN

(thousand euros)

ITEM	Portfolio		Impairment		Change	
	2008	2009	2008	2009	Portfolio	Impairment
	Value	Value	Value	Value	Value	Value
Available-for-sale Assets	**772 421**	**880 996**	**20 184**	**21 447**	**108 575**	**1 263**
Treasury Bonds	70 152	76 189			6 037	
Other Bonds	572 996	666 179	14 517	14 707	93 183	190
Commercial Paper	15 000	15 009			9	
Shares	6 283	4 274	1 357	1 228	-2 009	-129
Investment Funds	107 990	119 345	4 310	5 512	11 355	1 202
Assets Classified at Fair Value based on Return	**33 885**	**20 998**			**-12 887**	
Bonds	33 885	20 998			-12 887	
Negotiable Instruments	**25 038**	**28 509**			**3 471**	
Bonds	25 038	28 509			3 471	
TOTAL	**831 344**	**930 503**	**20 184**	**21 447**	**99 159**	**1 263**

Despite the instability of financial markets, it was possible to minimise Impairment losses on the Securities Portfolio. In effect, these losses stood at 1.26 million euros in 2009, essentially as a result of the unfavourable change in the first quarter of the year in Stock Investment Funds (losses of 1.2 million euros).

In 2009, the net return on the Securities Portfolio was 28.2 million euros, that is 135% higher than the previous year. This improvement was brought about by the more favourable market and bond portfolio behaviour, which meant some securities rose in value and had a positive impact on MGAM's profit and loss account.

RETURN ON SECURITIES PORTFOLIO

(thousand euros)

ITEM	2008		2009		Change	
	Value	%	Value	%	Value	%
Bonds	10 440	87.0	51 628	183.2	41 188	394.5
Shares	3 641	30.4	-121	-0.4	-3 762	-103.3
Commercial Paper	7	0.1	421	1.5	414	
Investment Funds	-2 099	-17.5	-23 749	-84.3	-21 650	
TOTAL	**11 989**	**100.0**	**28 179**	**100.0**	**16 190**	**135.0**

Institutional Financial Investment in CEMG

MGAM increased its Institutional Financial Investment in CEMG by 100 million Euro, in line with the proposal approved in General Meeting. Thus its holding went from 660 million euros to 760 million euros. Profits transferred from CEMG in regard to 2007 were 25.8 million euros as compared to 20.4 million euros the previous year, accounting for a rise of 26.5%. 2008 profits transferred to MGAM from CEMG in 2009 were 11.272 million euros.

Other Financial Investments

MGAM's Financial Investments, which accounts for 3.1% of assets and have a total value of 82 million euros, recorded an increase of 60.4% as compared to 2008. Such growth was largely the result of the increase in the share capital of the strategic company Lusitania – Companhia de Seguros, as it prepared to take-over the Real Seguros Company and thus reinforces Montepio Group's position in the insurance market.

In addition to this strategic investment, two further additions were made to the portfolio, due to:

- The paying up of the remaining share capital (1/3) of Residências Montepio;
- The acquiring of 35.5% of the share capital of the Spanish company NEBRA – Energias Renovables, which operates in the renewable energy sector.

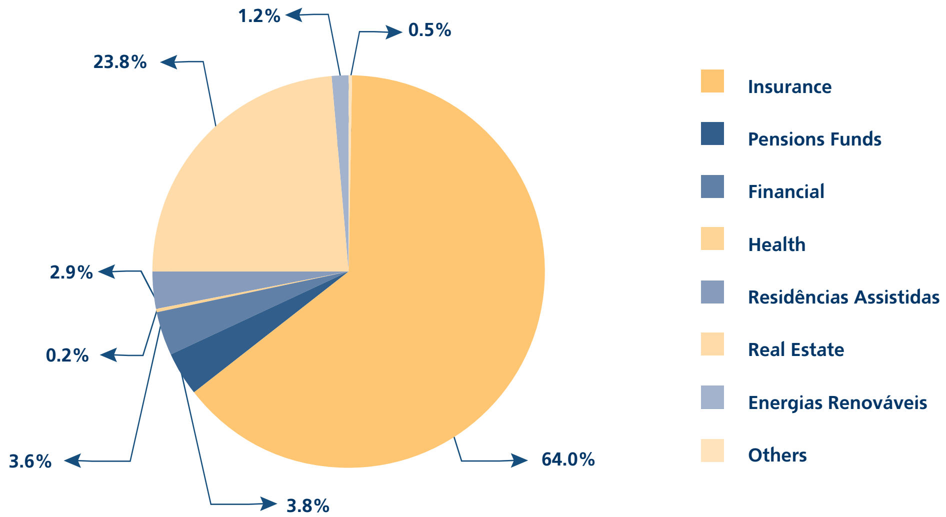
In net terms the return on these holdings was 2.4 million euros.

TREND IN FINANCIAL INVESTMENTS PORTFOLIO AND RETURN

(thousand euros)

ITEMS	2008				2009				Change			
	Investment	%	Income	%	Investment	%	Income	%	Investment	%	Income	%
STRATEGIC HOLDINGS	**37 730**	**73.8**	**2 472**	**91.3**	**38 240**	**73.2**	**2 185**	**90.0**	**510**	**1.4**	**-287**	**-11.6**
MONTEPIO GESTÃO DE ACTIVOS	1 331	2.6	927	34.2	1 331	2.5	505	20.8	0	0.0	-422	-45.5
FUTURO	1 963	3.8	165	6.1	1 963	3.8	160	6.6	0	0.0	-5	-3.0
LUSITANIA – VIDA	9 647	18.9	493	18.2	9 647	18.5	863	35.6	0	0.0	370	75.1
LUSITANIA – COMPANHIA DE SEGUROS	23 769	46.5	887	32.7	23 769	45.5	657	27.1	0	0.0	-230	-25.9
RESIDÊNCIAS MONTEPIO, SA	1 020	2.0			1 530	2.9			510	50.0		
OTHER HOLDINGS	**13 364**	**26.2**	**237**	**8.7**	**13 975**	**26.8**	**242**	**10.0**	**611**	**4.6**	**5**	**2.1**
BOLSIMO	12 370	24.2			12 370	23.7			0	0.0		
LEACOCK	242	0.5			242	0.5			0	0.0		
SILVIP	308	0.6	229	8.5	308	0.6	231	9.5	0	0.0	2	0.9
NEBRA Energias Renovables, SA	0	0.0			611	1.2			611			
OUTRAS	444	0.9	8	0.3	444	0.9	11	0.5	0	0.0	3	37.5
Subtotal	**51 094**	**100.0**	**2 709**	**100.0**	**52 215**	**100.0**	**2 427**	**100.0**	**1 121**	**2.2**	**-282**	**-10.4**
Supplementary Capital												
LUSITANIA – COMPANHIA DE SEGUROS					29 750				29 750			
TOTAL	**51 094**				**81 965**				**30 871**	**60.4**		

MGAM increased the diversity of its financial investments (excluding the supplementary capital in Lusitania – Companhia de Seguros) which now include the renewable energy sector and an increased part in the health sector, although insurance continues to dominate as can be seen in the figure below:



Bank Deposits

A climate of falling interest rates, together with the need to diversify the various Mutual Schemes' assets, explains to a large extent the fall recorded in MGAM Bank Deposits.

TREND IN BANK DEPOSITS

(thousand euros)

ITEM	2008		2009		Change	
	Value	%	Value	%	Value	%
Current Accounts	73 920	8.2	116 894	17.4	42 974	58.1
Time Deposits	822 970	91.8	556 500	82.6	-266 470	-32.4
TOTAL	**896 890**	**100.0**	**673 394**	**100.0**	**-223 496**	**-24.9**

At the end of the year, MGAM´s Bank Deposits stood at 673.4 million euros, a figure 24.9% down on the previous year. Nonetheless, so as to maintain robust liquidity levels, this financial investment continued to represent a considerable slice of MGAM's assets, totalling 25.8% in 2009.

Other Assets

The Other Assets account includes Buildings under Construction and Loans to Members.

In regard to Buildings under Construction, mention must be made of the start up of the Continuous Care Unit project and the implementation of the Care Homes project, that provide health and home support services to the senior market. The accumulated investment at the year-end was 36.6 million euros.

As for Loans to Members some 1 434 new contracts were recorded over the year, an annual increase of 24. The average sum was 2 800 euros (3 000 euros in 2008). The amount of loans granted was 4.1 million euros, which meant the accumulated loan at the year-end was similar to that of 2008 (3.6 million euros in 2009 and 3.5 million euros in 2008), due to the high degree of rotation on this account.

A contributing factor to the maintenance of the accumulated loan level was the increase in loans against capitalisation scheme capital, which currently account for 72% of the total.

LOANS TO MEMBERS

(thousand euros)

ITEM	2008	2009	Change
Number of new contracts	**1 410**	**1 434**	**24**
Against mathematical reserves (1)	822	703	-119
Against capitals	588	731	143
New contracts	**4 165**	**4 082**	**-83**
Against mathematical reserves	1 721	1 135	-586
Against capitals	2 444	2 947	503
Accumulated Value	**3 532**	**3 605**	**73**
Against mathematical reserves	1 345	1 009	-336
Against capitals	2 187	2 596	409
Average sum per new contact	**3.0**	**2.8**	**-0.2**
Against mathematical reserves	2.1	1.6	-0.5
Against capitals	4.2	4.0	-0.2

(1) Includes Loans against Refundable Subscriptions.

4.5.4.3. Equity and Liabilities

In 2009 Risks and Expenses Provisions rose 7.2% (+147.4 million euros), an increase similar to that recorded in 2008 (7.9%).

In terms of its component parts, Mutual Schemes Compulsory Mathematical Provisions saw the greatest increase at 149.6 million euros, higher than the 2008 charge (136.5 million euros). This sum was justified by the increase in capitalisation and new actuarial scheme enrolments (Protection Every 5, Protection Under-25 and Retirement Pensions) and is undoubtedly reflected in MGAM's ability to attract its Members' savings, but also the confidence they continue to show in an institution that is almost 170 years old.

Actuarial Schemes Mathematical Reserves Adequacy Tests

Each year and for reasons of prudence, an adequacy test is conducted on the mathematical reserves of MGAM's actuarial schemes.

This test, which has been undertaken since 2005, covers the schemes and annuities closed to new enrolments. The mathematical reserves of these schemes are recalculated, employing actuarial assumptions better suited to the current situation. In this way it is possible to assess the adequacy of the mathematical reserves and the possible need to re-enforce them by means of an additional charge to reserves.

TREND IN LIABILITIES

(thousand euros)

ITEM	2008		2009		Change	
	Value	%	Value	%	Value	%
RISKS AND EXPENSES PROVISIONS	**2 053 801**	**91.0**	**2 201 184**	**99.8**	**147 383**	**7.2**
MUTUAL SCHEMES MATHEMATICAL PROVISIONS	1 964 413	87.0	2 114 982	95.9	150 569	7.7
Compulsory	1 878 332	83.2	2 027 917	91.9	149 585	8.0
Perpetual Annuities	19 915	0.9	19 272	0.9	-643	- 3.2
Actuarial	66 166	2.9	67 793	3.1	1 627	2.5
BENEFIT IMPROVEMENTS AND GRANTS	89 388	4.0	86 202	3.9	-3 186	- 3.6
OTHER LIABILITIES	**204 352**	**9.0**	**5 488**	**0.2**	**-198 864**	**- 97.3**
TOTAL	**2 258 153**	**100.0**	**2 206 672**	**100.0**	**-51 481**	**- 2.3**

At the end of 2009, MGAM's Equity stood at 403.1 million euros, as compared to 342.2 million euros at the end of 2008. During the year MGAM's Equity recorded a very significant positive change of close to 61 million euros (+17.8%). In this context Own Funds, Technical Surpluses and Reserves recorded changes of 4.6%, 18.9% and 38.6%, respectively. In regard to Reserves, mention should be made of the setting up of a general reserve to stabilise profits, totalling 32.8 million euros, in line with the profit appropriation approved at the Members' General Meeting and the recovery of sums relating to enrolment of Non-Members.

TREND IN EQUITY

(thousand euros)

ITEM	2008		2009		Change	
	Value	%	Value	%	Value	%
SOCIAL FUND	**136 925**	**40.0**	**151 905**	**37.7**	**14 980**	**10.9**
OWN FUNDS	**75 971**	**22.1**	**79 436**	**19.7**	**3 465**	**4.6**
ADMINISTRATION FUND	26	0.0	101	0.0	75	288.5
MEMBERSHIP WELFARE FUND	32 169	9.4	37 733	9.4	5 564	17.3
SCHOLARSHIP FUND	853	0.2	912	0.2	59	6.9
EXPENSE PAYMENT GUARANTEE FUND	42 523	12.4	40 288	10.0	-2 235	- 5.3
SERV. CLÍNICOS – MONTEPIO EGITANIENSE FUND	400	0.1	402	0.1	2	0.5
TECHNICAL SURPLUSES	60 954	17.8	72 469	18.0	11 515	18.9
RESERVES	**150 585**	**44.1**	**208 667**	**51.7**	**58 082**	**38.6**
REVALUATION RESERVES	**-20 862**	**- 6.1**	**5 616**	**1.4**	**26 478**	**126.9**
LEGAL RESERVES	**169 866**	**49.7**	**168 471**	**41.7**	**-1 395**	**- 0.8**
OTHER RESERVES	**1 581**	**0.5**	**34 580**	**8.6**	**32 999**	**2 087.2**
PROFIT	**54 663**	**15.9**	**42 533**	**10.6**	**-12 130**	**- 22.2**
RETAINED EARNINGS	**45 273**	**13.2**	**0**	**0.0**	**-45 273**	**–**
NET PROFIT	**9 390**	**2.7**	**42 533**	**10.6**	**33 143**	**353.0**
TOTAL	**342 173**	**100.0**	**403 105**	**100.0**	**60 932**	**17.8**

In the light of these changes, it can be concluded that MGAM's financial soundness increased, allowing it to pursue balanced and sustained growth over the medium and long-terms, which is reflected in the following indicators:

- The relationship between Equity and Net Assets went from 13.2% to 15.4%;
- The extent to which MGAM's liabilities are covered, as represented by the Total Funds, Reserves and Mathematical Provisions / Total Risks and Expenses Provisions ratio, improved from 1.14 in 2008 to 1.16 in 2009.

4.5.5. PROFIT FOR THE YEAR

Despite the adverse conditions faced in 2009, MGAM managed to generate a Net Profit of 42.5 million euros, a sum which compares very favourably with that of 2008 (9.4 million euros).

The positive behaviour of the Association Movement contributed to Net Profit, in that Association Revenues and Other Revenue increased 5.9 million euros. At the same time there was a considerable reduction in Costs Relating to Members, in particular the savings in Retirement Capital Refunds and Other Costs, resulting from the reduction in Expenses Payment Guarantee Scheme claims.

The main contributing factors to Net Profit were:

- the reduction in Capitalisation Scheme minimum guaranteed rates payments;
- the drop in the Actuarial Scheme mathematical provisions charge, following the liabilities adequacy test (1.6 million euros vs. 17.2 million euros in 2008);
- the fall in financial investments provisions (-13.6 million euros), especially the reduced impairment losses on securities.

MGAM STATEMENT OF INCOME

(thousand euros)

ITEM	2008	2009	Change	
	Value	Value	Value	%
1. REVENUE AND GAINS				
Memberships Revenue	515 600	486 051	-29 549	- 5.7
Reduction in Mathematical Provisions (1)	217 263	181 854	-35 409	- 16.3
Membership and Other Revenues (2)	298 337	304 197	5 860	2.0
Supplementary Revenue	6	8	2	33.3
Operating Subsidies and Grants	25 632	11 147	-14 485	- 56.5
Financial Revenue and Gains	89 771	78 225	-11 546	- 12.9
Extraordinary Revenue and Gains	7 328	5 488	-1 840	- 25.1
TOTAL	**638 337**	**580 919**	**-57 418**	**- 9.0**
2. COSTS AND LOSSES				
Memberships Costs	582 246	504 581	-77 665	- 13.3
Increase in Mathematical Provisions (2)	355 924	321 658	-34 266	- 9.6
Benefits Earned Refunds and Other Costs (1)	226 322	182 923	-43 399	- 19.2
Supplies and Services	2 413	2 681	268	11.1
Staff Costs	6 976	6 904	-72	- 1.0
Other Operating Costs	749	718	-31	- 4.1
Financial Costs and Losses	11 897	10 943	-954	- 8.0
Extraordinary Costs and Losses	2 842	4 240	1 398	49.2
TOTAL	**607 123**	**530 066**	**-77 057**	**- 12.7**
3. CASH FLOW	**31 214**	**50 853**	**19 639**	**62.9**
4. FIXED ASSET DEPRECIATION	**2 944**	**3 074**	**130**	**4.4**
5. FINANCIAL INVESTMENTS' DEPRECIATION AND PROVISIONS	**18 880**	**5 246**	**-13 634**	**- 72.2**
6. NET PROFIT FOR THE YEAR (3-4-5)	**9 390**	**42 533**	**33 143**	**353.0**

(1) Benefits Earned are offset on the Revenue side by the Reduction in Mathematical Provisions.

(2) Memberships Revenues are offset on the Costs side by the Increase in Mathematical Provisions.

4.5.6. PROPOSALS

4.5.6.1. Proposed Use of Technical Surpluses and General Reserve Fund to Top Up Available Funds

Whereas some mutual schemes have an Available Fund negative balance, and taking into account that under the Articles of Association (Article 59), «*whenever the balance on an available fund is negative it shall be covered by surpluses*, *if any*, *on the respective Permanent Fund or Own Fund and*, *if necessary*, *by the General Reserve Fund*», the following adjustments are proposed:

- To cover the negative balance on the Available Funds of some mutual schemes by means of the Technical Surpluses to the sum of 4 795 004.35 euros;
- To cover the negative balance on the Available Funds of some mutual schemes by means of the General Reserve Fund, whenever the Technical Surpluses of the respective mutual schemes do not exist or are insufficient, to the sum of 570 015.35 euros.

Permanent Fund of the Respective Scheme

	(Euros)
– Technical Surplus	
(The sum available in the respective Technical Surplus to cover the overall annual negative balance of the Available Fund for the Scheme)	
Perpetual Annuities – (Technical Rate – 4%)	193 155.70
Retirement Pensions – Disability Benefits (Technical Rate – 6%)	8 099.46
Retirement Pensions – (Technical Rate – 4% TV 88/90)	121 125.83
Retirement Capitals Pensions – (Technical Rate – 4%)	90 137.44
Expenses Payment Guarantee – 1983	70.54
(The sum available in the respective Technical Surplus to cover the overall annual negative balance of the Available Fund for the Scheme)	
Retirement Pensions – (Technical Rate – 6%)	3 816 873.89
Retirement Pensions – (Technical Rate – 4%)	565 541.49
Subtotal	**4 795 004.35**

General Reserve Fund:

		(Euros)
(The remaining sum to provide complete cover of annual negative balance on the respective Available Fund)		
Retirement Pensions – (Technical Rate – 4%)	194 059.78	
Retirement Pensions – (Technical Rate – 4%)	375 955.57	
Subtotal		**570 015.35**
TOTAL		**5 365 019.70**

4.5.6.2. Proposed Appropriation of Profit for the Year

Taking into account:

- The transfer of 4 795 004.35 euros from Technical Surpluses to cover Available Funds;
- The transfer of 570 015.35 euros from the General Reserve Fund to cover Available Funds;
- MGAM's Net Profit for the Year, consisting of the sum of the Mutual Scheme Available Fund Balances, Other Funds and the return on the General Reserve Fund, to the sum of 42 532 737.74 euros.

The sum of 47 897 757.44 euro is available for appropriation, and the following is proposed:

To the General Reserve Fund: (Euros)

– Fund Income, pursuant to Article 56, 2, a) of the Articles of Association:		1 642 231.33	
– Allocation pursuant to Article 60, 1, a) of the Articles of Association (58% of the annual balances of the Available Funds of the respective schemes):			
Expenses Payment Guarantee Funds (1988 articles of association)	5 634 743.69		
Expenses Payment Guarantee Funds I	1 419 100.92		
Expenses Payment Guarantee Funds II	12 048.51	7 065 893.12	
– Allocation pursuant to Article 60, 1, a) of the Articles of Association (58% of the annual balances of the Available Funds of the respective schemes):			
Individual Schemes			
Survival Pensions and Dowries	3 636.80		
Welfare Capitals – 4%	9 532.31		
Welfare Capitals – 3%	588.47		
Deferred Welfare Capitals with Option – 4%	29 691.29		
Deferred Welfare Capitals with Option – 3%	16 759.48		
Forward Welfare Capitals	491.66		
Welfare Capitals for Specified Persons	11.11		
Welfare Capitals for Younger persons – 4%	9 958.18		
Welfare Capitals for Younger persons – 3%	1 039.98		
Temporary Welfare Capitals in case of Disability or Death	60.97		
Temporary Disability Capital – 4%	1 463.03		
Temporary Disability Capital – 3%	14.26		
Deferred Capitals With Additional Cover	86.88		
Welfare Capitals for Study	1 703.53		
Death Grant	1 241.73		
Death Grant – Lutuosa Nacional	7.57		
Retirement Pensions – 3%	338.28		
Disability Pensions	150.25		
Retirement Pensions – Contribution Refund – 6%	8 573.15		
Retirement Pensions – Contribution Refund – 4%	5 859.91		
Retirement Pensions – Contribution Refund – 4% (TV 88/90)	2 538.85		
Retirement Pensions – Contribution Refund – 3%	135.96		
Retirement Pensions – Disability Benefits – 4%	48.23		
Retirement Pensions – Disability Benefits – 4% (TV 88/90)	41.30		
Retirement Capital Pensions – 6%	238.89		
Retirement Capital Pensions – 3%	2 188.23		
Retirement Capitals	1 188 508.32		
Guarantee Capitals	4 234.50		
Retirement Savings	64 198.89		
Fixed Term Retirement Capitals	57 478.15		
Fixed Annuities of Collective Schemes – 3%	1.42		
Disability Quotes – Collective Schemes	38.36		
Perpetual Annuities for Specified Persons	287.10		
Survival Annuities	691.59		
Collective Schemes			
Collective Capital	8 961.47		
Perpetual Annuities – 6%	7 190.34		
Perpetual Annuities – 3%	1 277.38		
Other Funds			
Scholarship Fund	774.39		
Montepio Egitaniense Clinical Services Fund	570.02	1 430 612.23	10 138 736.68

To the Permanent Funds of the Respective Schemes:

(Euros)

– (Allocation pursuant to Article 60, 1, *c*) of the Articles of Association)		
– Technical Surpluses:		
Survival Pensions and Dowries	69 099.18	
Welfare Capitals – 4%	181 113.93	
Welfare Capitals – 3%	11 180.98	
Deferred Welfare Capitals with Option – 4%	564 134.49	
Deferred Welfare Capitals with Option – 3%	318 430.03	
Forward Welfare Capitals	9 341.50	
Welfare Capitals for Specified Persons	211.08	
Welfare Capitals for Young Persons – 4%	189 205.52	
Welfare Capitals for Young Persons – 3%	19 759.53	
Temporary Welfare Capitals in case of Disability or Death	1 158.49	
Temporary Disability Capital – 4%	27 797.53	
Temporary Disability Capital – 3%	270.86	
Deferred Capitals with Additional Cover	1 650.79	
Welfare Capitals for Study	32 367.08	
Death Grant	23 592.92	
Death Grant – Lutuosa Nacional	143.90	
Retirement Pensions – 3%	6 427.31	
Disability Pensions	2 854.68	
Retirement Pensions – Contribution Refund – 6%	162 889.84	
Retirement Pensions – Contribution Refund – 4%	111 338.38	
Retirement Pensions – Contribution Refund – 4% (TV 88/90)	48 238.06	
Retirement Pensions – Contribution Refund – 3%	2 583.21	
Retirement Pensions – Disability benefits – 4%	916.32	
Retirement Pensions – Disability benefits – 4% (TV 88/90)	784.63	
Retirement Capital Pensions – 3%	41 576.43	
Retirement Capital Pensions – 6%	4 538.85	
Specified Annuities of Collective Schemes – 3%	26.99	
Perpetual Annuities for Specified Persons	5 454.83	
Survival Annuities	13 140.13	
Perpetual Annuities – 6%	136 616.46	
Perpetual Annuities – 3%	24 270.16	2 011 114.09

To Own Funds of the Respective Schemes and Other Funds:

(Euros)

(Allocation pursuant to Article 60, 1, *c*) of the Articles of Association)			
– Capitalisation Schemes			
Individual Schemes			
Retirement Capital	22 581 657.99		
Guarantee Capital	80 455.46		
Retirement Savings	1 219 778.98		
Fixed Term Retirement Capital	1 092 084.67		
Disability Contribution – Collective Schemes	728.79		
Collective Capital			
Collective Schemes	170 267.84	25 144 973.73	
– Membership Welfare Fund		5 429 455.91	
– Administration Fund		31 251.92	
– Montepio Egitaniense Clinical Services Fund		10 830.42	
– Scholarship Fund		14 713.46	
– Expenses Payment Guarantee Funds I (1988 Articles of Association)		4 080 331.63	
– Expenses Payment Guarantee Funds I		1 027 624.81	
– Expenses Payment Guarantee Funds II		8 724.79	35 747 906.67
TOTAL			**47 897 757.44**

4.5.6.3. Proposed Refund of General Reserve Fund and Technical Surpluses

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

(Euros)

Perpetual Annuities – 6%	20 061.67		
Retirement Capital Pensions – 6%	1 149.18		
		21 210.85	
TOTAL			**21 210,85**

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

In the light of this it is proposed that the following restoration be made:

(Euros)

– To the General Reserve Fund			
Perpetual Annuities – 6%	116 554.79		
		116 554.79	
– To Technical Surpluses			
Retirement Capital Pensions – 6%	3 389.67		
Forward Welfare Capital	521.50		
Survival Pensions and Dowries	15 947.29		
Perpetual Annuities for Specified Persons	5 020.73		
		24 879.19	
TOTAL			**141 433.98**

4.5.6.4. Proposed Allocation of Benefit Improvements

It is proposed that Benefit Improvements (on Mathematical Reserves relating to benefits in formation and in progress as at 31 December 2009) be allocated to the following schemes:

– Schemes with a Technical Rate of 6%	0.00%
– Schemes with a Technical Rate of 4%	
· Retirement Capital Pensios	0.00%
· Retirement Pensions and Disability Benefit	0.00%
· Survivor's Pensions and Dowries	0.25%
· Other Schemes	0.50%
– Schemes with a Technical Rate of 3%	1.00%

(Euros)

(Allocation pursuant to Article 18 of the Articles of Association and Article 53 of The Mutualism Code)		
– Schemes with a Technical Rate of 4%		
Survival Pensions and Dowries	53 151.89	
Welfare Capitals	180 027.88	
Deferred Welfare Capitals with Option	557 918.34	
Forward Welfare Capitals	7 538.91	
Welfare Capital for Specified Persons	87.33	
Welfare Capital for Younger	180 643.29	
Temporary Welfare Capitals in case of Disability or Death	2.58	
Temporary Disability Capital	200.47	
Deferred Capital with Additional Cover	264.60	
Welfare Capital for Study	28 669.37	
Death Grant	8 192.29	
Death Grant – Lutuosa Nacional	85.32	
Disability Pensions	2 322.38	
Perpetual Annuities for Specified Persons	325.43	
Survival Annuities	2 968.46	
– Schemes with a Technical Rate of 3%		
Welfare Capitals	145.61	
Deferred Welfare Capital with Option	113 134.68	
Welfare Capitals for Younger	19 434.78	
Retirement Pensions	3 750.96	
Retirement Capitals Pensions	31 410.73	
Temporary Disability Capitals	5.04	
TOTAL		**1 190 280.34**

Benefit improvements were not allocated to Additional Disability Scheme (technical rate 4% and 6%) since their anchor product (Retirement Pensions) had a negative Available Fund. The other schemes that had a negative Available Fund or required the restoring of values in the Reserve Fund (see 4.5.6.1 and 4.5.6.3) were also not granted benefit improvements.

4.5.6.5. Proposed Appropriation of Technical Surpluses on Perpetual Annuities

Given the volume of Technical Surpluses existing in the 3% Life Annuities Fund and pursuant to Article 64 (6) of MGAM's Articles of Association, it is proposed that annuities set up before 31 December 2008 shall be revised at a rate of 1,0% (22 497.62 euros).

4.5.6.6. Proposed Allocation of Additional Benefit Profits to Capitalisation Schemes

Taking into account:

- the annual income generated by Retirement Capitals, Retirement Savings and Collective Schemes, after covering the guaranteed rates and the allocation to the Administration Fund;
- the allocations to the General Reserve Fund.

It is proposed that the allocation of the complement of profits be made in a differentiated manner to ensure that each scheme possesses an overall rate of 2.75%:

– Retirement Savings	2.073%
– Retirement Capitals	from 0.5% to 2.073%
– Collective Capital	2.073%

In regard to Retirement Capitals scheme the following complement of profits allocation is proposed:

Subscription Date	Position at 31st December 2009	Minimum Guaranteed Rate in 2009	Complementary Profits Rate
1st March 1990 to 31st August 1992	Guaranteed Rate 0f 5.5% from 01/Jan/2009 to 28/Feb/2009 Guaranteed Rate Refi -0.6% from 01/Mar/2009 to 31/Dec/2009	1.314%	1.436%
1st September 1992 to 31st October 2003	Guaranteed Rate 80% of Refi from 01/Jan/2009 to 28/Feb/2009 Guaranteed Rate Refi -0.6% from 01/Mar/2009 to 31/Dec/2009	0.705%	2.045%
1st November 2003 to 28th February 2007	Guaranteed Rate of 75% of Technical Rate of 3% (2.25%) from 1/1/2009 until subscription five years old Guaranteed Rate Refi -0.6% from the date subscription is five years old to 31/Dec/2009	from 0.789% to 2.25%	from 0.5% to 1.961%
	Subscription less than five years old on 31/12/2009 shall have a minimum guaranteed rate of 75% of the Technical Rate of 3% (2.25%)	2.25%	0.50%
Since 1st March 2007	Guaranteed Rate Refi -0.6% from 01/Jan/2009 to 31/Dec/2009	0.677%	2.073%

4.5.6.7. Proposed Transfer to General Reserve Fund of Technical Surpluses on Discontinued Schemes

Since the *Expenses Payment Guarantee 1983* was discontinued in 2009, the sums accruing in the respective Technical Surpluses shall be transferred to the General Reserve Fund.

Therefore, the following adjustment is proposed:

(Euros)

– To the General Reserve Fund		
Expenses Payment Guarantee – 1983	27 562.54	
TOTAL		**27 562.54**

4.5.6.8. Proposed Refund of General Reserve Fund from Technical Surpluses on Schemes in debt

Given the volume of the Technical Surpluses accruing on some mutual schemes and the need to restore to the General Reserve Fund the sums used in previous years, it is proposed that the following sums be transferred from the following Schemes in debt:

(Euros)

– -To the General Reserve Fund			
Retirement Pensions – 4% (TV88/90)	173 328.44		
Perpetual Annuities – 4%	289 684.41		
Perpetual Annuities – 6%	104 415.79		
Retirement Capitals Pensions – 4%	66 225.05		
Retirement Capitals Pensions – 6%	5 037.02		
		638 690.71	
TOTAL			**638 690.71**

4.5.6.9. Proposed Contribution to Administration Fund

Whereas at the last General Meeting of Members (22nd December 2009), an indication of the contribution of the various mutual schemes to the Administration Fund was approved, it is now proposed that the sums charged during 2009 be approved:

SCHEMES	Values	
	Budgeted	Actual
Retirement Capitals	0.50%	0.40%
Retirement Savings	0.50%	0.40%
Collective Schemes	0.50%	0.40%
Fixed Term Retirement Capital	0.25%	0.25%
Expenses Payment Guarantee 1988, I and II	1.00%	1.00%
Other Schemes and Perpetual Annuities	0.25%	0.30%

4.5.6.10. Proposed Appropriation of Sum Transferred from CEMG

Given the sum to be transferred from CEMG, it is proposed that, pursuant to Article 62 of the Articles of Association, it be appropriated as follows:

(Euros)

To Membership Welfare Fund	467 000.0
To Scholarship Fund	8 000.0
To Available Funds, Administration Fund and General Reserves	19 825 000.0
TOTAL	**20 300 000.0**

4.5.6.11. Proposed Increase in Institutional Financial Investment in CEMG

Whereas it remains essential to reinforce the Institutional Capital of CEMG so as to strengthen its solvency levels and guarantee conditions that ensure Montepio Group's sustained development by pursuing a strategy that creates value for Members, and given that MGAM has the funds available, the Board of Directors, after hearing the General Board, proposes:

- To transfer to CEMG a sum of 40 million euros to increase its Institutional Capital.

4.5.6.12. Proposed Allocation to Fundação Montepio Geral

In order to allow the Fundação Montepio Geral, founded by MGAM, to achieve its object of fulfilling its Social Responsibility mission, which has been pursued actively and valued in recent years, receiving full strategic attention, the Board of Directors proposes to the General Meeting a donation of 800 000 euros to be transferred from the Membership Welfare Fund.

Caixa Económica Montepio Geral (CEMG)

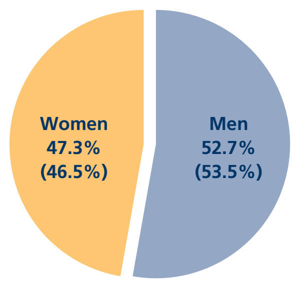
4.6. CAIXA ECONÓMICA MONTEPIO GERAL (CEMG)

4.6.1. HUMAN RESOURCES

At 31st December 2009 CEMG employed 2 986 persons (52.7% male and 47.3% female). During the year the ongoing restructuring and reorganising of central services led to a reduction in their respective staff, setting off the increase in commercial areas.

STAFF BREAKDOWN	2008	2009	Change	
	No.	No.	No.	%
Total Staff	**2 972**	**2 986**	**14**	**0,5**
Men	1 589	1 575	-14	-0,9
Women	1 383	1 411	28	2,0
No. Branches	320	326	6	1,9
Total Staff / No. Branches	9,2	9,0		

STAFF BY GENDER (2008)

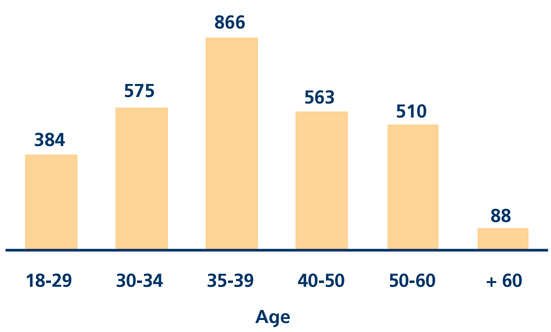


Montepio has pursued a human resources management policy that favours the recruitment of young graduates starting out on a career.

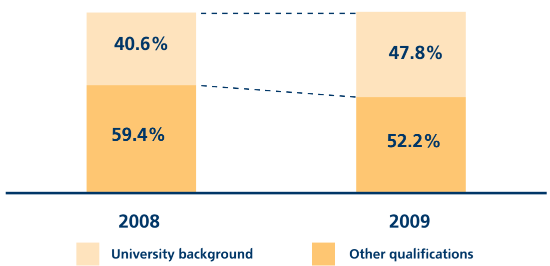
Of the 128 new employee's admitted, 71 are men and 57 are women, although overall there was a slight increase in the number of female employees.

Around 90% of new employees have a university degree, giving rise to a significant increase in the percentage of employees with a Higher Education, as the trend continued to rise in 2009.

STAFF BY AGE GROUP



STAFF QUALIFICATIONS



The re-qualifying of staff via a policy that continues to favour motivation and empowerment, increased employees' commitment to Montepio's Mission, which is crucial to ensuring the institution's sustainability. This policy sets out to enhance each employee's potential by analysing training needs, allowing greater interaction and the creation of inter-team synergies, thus aligning Human Resources policy with employee expectations and the Institution's strategic goals.

At a time when the business scenario was adverse, a major challenge was set for 2009, in particular to promote change through the provision of staff training, so they would be better prepared for the new cycle. To that end 172 605 hours of training were provided to a total of 2 706 participants. Compared to the previous year, the average number of hours per employees rose from 36 to 57 hours.

A new method for measuring the impact of training was devised that gauges more accurately the transfer of knowledge to working practices.

Taking into account the important part first work practice plays in the employability and careers of young professionals, Montepio also provided training placements in the private customers and corporate departments of 93 of its branches in mainland Portugal and on the islands.

The company continued to pursue a policy of career development and recognises that the Performance Management System guides employee conduct, thereby strengthening employees' degree of commitment to the Institution. So, in 2009 this management instrument was improved as well as the assessment of goals.

Career progress was also one of the strategic guidelines of Human Resources management. Montepio has sought to build a more youthful management team, on the basis of in-house skills, backed by a Coaching programme.

In the field of HSE, covered by the Contingency Plan, measures were taken to increase the prevention, monitoring and control of external threats to employees' well-being and health, thereby ensuring business goes on.

Bearing in mind that the balance between professional and private life is becoming an increasingly more important factor in motivation, over the year Montepio organised a number of recreational and cultural events that involved employees and their families.

Bearing in mind the importance of internal communication, a new intranet was launched that offers Montepio's employees new possibilities and a simpler and speedier use of its contents, as well as better use of audiovisual aids in communications and training activities. A specific Intranet area was designed which brings together information on Montepio Group strategy and goals. It also gathers economic and financial research aimed at providing Montepio's employees with information required to make the business more objective and clear.

4.6.2. BUSINESS MANAGEMENT VARIABLES

4.6.2.1. Products and Services and Customer Management

In 2009 a number of steps were taken to adapt the products and services on offer, in particular the risk adjusted pricing terms, on the basis of Customer segment and commercial relations management.

Private Customers Segments

During the year there was a 1.4% increase in the number of private customers, as a result of the distribution networks' specialist treatment of the strategic segments.

Taking as a starting point the classification of private customers into three major groups: the Mass Market segment, the segment with potentially greater involvement (Mass-Affluent) and that with the highest earning potential (Affluent), the range of products for the Affluent and Mass-Affluent segments continued to increase, through the launching of exclusive products, in particular financial investments.

Campaigns promoting short and medium-term time deposits were undertaken for the Mass Market and Affluent segments. The acceptance of deposits exclusive to the distance channels also increased. In this field price management was a particular concern, as was the adjustment of time deposit and savings portfolio interest rates, bearing in mind the change in market conditions.

Special mention must be made of the savings campaign aimed at children, through the issuing of the commemorative «*Mealheiro Montepio*». This campaign is aimed at increasing Montepio's presence in this age group, so as to revitalise Montepio's customer base and strengthen its competitive position, in order to fulfil Montepio's long-standing tradition of encouraging savings and financial literacy among the general public from an early age.

As regards Mutual Funds, «*Fundo Montepio Monetário Plus*» was launched. This is a Special Open-end Mutual Fund, designed to meet the management needs of customer cash flows.

In the insurance field, mention should be made of the launch of two new insurances, in partnership with the Group Company Seguradora Lusitania: «*Seguro Montepio Voluntariado*» (aimed at all institutions who have voluntary staff) and «*Seguro Montepio Caçador*» (aimed at hunters).

The new credit solutions offered show Montepio's concern for sustained development and the increasing of awareness among the general public of the need to protect the environment and diversify energy resources. Mention should be made of the Agreement entered into between Montepio and the Ministry of Finance and Central Government and the Ministry of Economy

MEALHEIRO MONTEPIO

In line with Montepio's role as a financial educator over the years, a campaign called «Mealheiro Montepio – Tão importante para o seu filho como para si.» *was launched in mid-June aimed at the less than 18 strategic segment. A return to its roots via a campaign which conveys Montepio's values: a sound, safe bank with history, where you can be confident your savings will be well managed.*

and Innovation in the field of renewable energy, under which the State co-finances the purchase of solar panels for housing. To that end a credit line was set up to encourage the purchase of solar panels, so as to promote micro-generating of energy, close to families.

As for bank cards, a loyalty programme was devised for the Mega card, known as *Super Vantagens* (Super Advantages). A co-branded card was developed with the Portuguese Hunting Federation (Fencaça), aimed at hunters.

For holders of Premier and Classic cards, an additional Montepio Health Card was launched which provides solutions for health care and home care services.

Corporate Segment

In accordance with the credit diversification guideline, Montepio sought to increase its market share among Micro businesses and SMEs within those sectors eligible under the Strategic Plan, and special emphasis was placed on obtaining new customers. As a result the number of corporate customers grew by 9.7%, compared to the previous year.

In terms of the products and services marketed, special mention should be made of the work carried out in the following fields:

- The development of corporate credit through specific measures to diversify lines of specialist credit, such as the EIB Protocol that supports SME projects and the SME Invest lines of credit;
- Increased acquiring of resources, in particular the launch of two time deposit categories, «*Montepio Negócios*» and «*Montepio Negócios TOP*»;
- Launch of the Business Gold card and promotion of the existing Business and Business Trade cards, which are means of payment tailored specifically for corporate payments and cash flow management.

Third Sector

Montepio also acts as a financial partner to Charities, and given its origins it understands and supports their goals.

In 2009, greater importance was given to the development of specific products and channels for this segment. Thus, the Montepio «*Conta-Dupla*» was set up to meet the needs of Charities and other organisations, such as Unions, Federations and Confederations that act as umbrella bodies for Charities.

Well aware of the importance of voluntary work to corporate Social Responsibility and in line with the needs reported by the National Council for the Promotion of Voluntary Work, Montepio, along with Lusitania, launched a specific type of protection insurance in this field: the Montepio *Voluntariado* insurance.

Among the lines of credit underwritten by public bodies, mention should be made of the Renewable Energy Credit for Charities and Sports Associations. This line of credit is intended to support the purchase, installation, maintenance and warranty of solar thermal energy equipment fitted to buildings used by Charities, Sports Clubs and Sports Associations.

Quality and Satisfaction

Once again Montepio took part in the European Consumer Satisfaction Index (carried out by *Instituto Português Qualidade* and *Universidade Nova de Lisboa*), and was awarded second place in the satisfaction category, well above the average for the banking sector.

Information regarding service quality at each branch was also made available to the commercial network, by means of the in-house publication of a barometer, which contributed to improve customer service and management.

Since the quality of services provided to customers is a constant concern for Montepio, a number of e-learning training courses were run, covering products and management relationship techniques, in order to increase the commercial network awareness of the business approach best suited to customers' needs and expectations.

4.6.2.2. Distribution Channels

Distribution channels

At the end of 2009, Montepio's distribution channels consisted of a physical network of 326 Branches (located in mainland Portugal and the islands), a network of complementary electronic channels, and 6 representative offices serving Portuguese communities living abroad.

Branch Network

In 2009, 6 Branches were opened, as part of Montepio’s domestic network expansion programme. The new Branches catchment areas were carefully selected using methods that identify locations with high demographic density; law market shares; strong market potential, especially retail business; high Micro businesses and SME business potential; and places with high purchasing power. For each new Branch a business plan is drawn up, adapted to the local reality, that provides for a short payback period.

Physical Distribution Network in Dec 2008		320
Branches opened in 2009		**6**
Évora	Montemor o Novo	Jan-09
Lisboa	Amadora – Vila Chã	Apr-09
Braga	Prado	Apr-09
Santarém	Ourém	Jun-09
Porto	Póvoa do Varzim	Jun-09
Porto	Srª da Hora	Oct-09
Distribution Network in Dec 2009		**326**

Representative Offices	6
Germany	Frankfurt
Switzerland	Genève
UK	London
USA	Newark
France	Paris
Canada	Toronto

In 2009 specialist personal service increased as the number of Premium Customer Managers (affluent segment managers) grew by 47% and the number of Business Managers (managers working with the Micro businesses segment) doubled.

The year was also marked by the setting up of a unit to assist Third Sector institutions.

Electronic and distance channels

In 2009 the number of users of Complementary Channels for Private Individuals (*Net24*, *Phone24*, *Netmóvel24* and *SMS24*) grew by 8% as compared to the previous year, totalling 526 000. The number of users of the corporate channels (*Net24 Empresas*, *Phone24 Empresas*, *Netmóvel24 Empresas* and *SMS24 Empresas*) was up 27% on 2008.

As regards self-service banking and electronic payments Montepio’s market share of ATM’s in the *Multibanco* network stood at 6%, totalling 821 machines. The Group’s own network, *Chave24*, consisted of 348 machines at the end of 2009.

As regards Automatic Payment Terminals the market share of Montepio Automatic Payment Terminals (APTs) installed in the Portuguese SIBS (Sociedade Interbancária de Serviços) network was 5.5%.

The telephone, internet, mobile banking and self-service channels continued to be critical to distribution efficiency and customer service. Some 71% of total number of operations handled has migrated to the complementary channels.

Other distribution methods that Montepio has been developing include agreements, both new and amended with third parties with which Montepio has a sound relationship.

Of particular note is the start-up of the Montepio-Lusitania «*assurfinance*» project, which already has an impressive number of agents. Since the beginning of the project, the number of opportunities that have come Montepio’s way has risen, and a significant increase is expected for 2010, as the range of products available via this distribution channel grows.

The Montepio website has continued to record a considerable increase in hits and use, with a monthly average of 1.8 million visitors and 24.6 million page views.

4.6.3. TREND IN BUSINESS

In 2009 Montepio confirmed its status as a Savings Bank and recorded a growth rate in Customer Resources of 5.67%, which includes an increase of 253 million euros in Private Individual and Small Business deposits.

TREND IN MAIN CUSTOMER BUSINESS INDICATORS

(thousand euros)

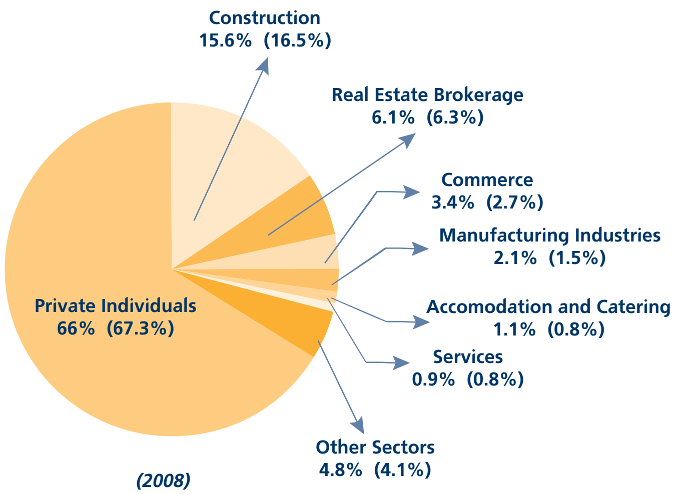
BUSINESS VARIABLES	2008		2009		Change	
	Value	%	Value	%	Value	%
Credit Granted	**15 329 602**		**15 143 916**		**-185 686**	**-1.2**
of which:						
Mortgage Credit	11 057 029	72.1	10 642 338	70.3	-414 691	-3.8
Total customer resources	**9 568 661**		**10 103 894**		**535 233**	**5.6**
of which:						
Private Individual and Small Business Deposits	7 102 030	74.2	7 354 980	72.8	252 950	3.6

Customer Credit

In 2009, in line with the strategic goal of diversifying business and optimising risk management, special mention should be made of the increase in the relative weight of diversification segments credit (from 9.9% in 2008 to 12.3% in 2009), which contrasts with the fall in the relative weight of private individuals (that went from 67.3% to 66.0% in the same period).

In 2009 Montepio also succeeded in increasing market penetration in strategic segments such as Commerce, Industry, Transports and Services.

CREDIT BREAKDOWN BY SECTOR IN 2009



Private and Small Business Banking

The credit diversification policy, combined with the economic recession, gave rise to a reduction in Housing Loan exposure, which accounted for an annual change of -1.9%.

CREDIT GRANTED TO PRIVATE INDIVIDUALS AND SMALL BUSINESSES

(thousand euros)

ITEM	2008	2009	Change	
	Value	Value	Value	%
Private and Small Businesses				
Total Credit Granted	**10 573 655**	**10 255 559**	**-318 096**	**-3.0**
Private	**10 323 582**	**9 987 967**	**-335 615**	**-3.3**
of which:				
Housing	8 810 174	8 642 963	-167 211	-1.9
Individual	374 945	414 539	39 594	10.6
Small Businesses	**250 073**	**267 592**	**17 519**	**7.0**
For memory:				
Guarantees	20 428	18 820	-1 608	-7.9

Housing loans totalled 8 643 million euros in 2009, contributing to total Private Individual's credit of 10 255.6 million euros.

Personal Loans performed very favourably, with a growth of 10.6%, going from 375 million euros at the end of 2008 to 415 million euros at the end of 2009.

Montepio's decision to increase the number of Business Managers in 2009 led to growth in the Small Business credit which rose 7.0% to 267.6 million euros at the end of 2009.

Private and Small Business Banking provided for an increase in the sale of payment means, in particular a 7.4% growth in credit cards.

Corporate Banking

In 2009, Montepio continued to favour the Corporate Segment, specifically SMEs.

CREDIT GRANTED TO CORPORATE BANKING

(thousand euros)

ITEM	2008	2009	Change	
	Value	Value	Value	%
Corporate Banking				
Total Credit Granted	**4 692 674**	**4 833 187**	**140 513**	**3.0**
of which:				
Construction	2 154 768	1 909 569	-245 199	-11.4
Investment	1 245 279	1 591 459	346 180	27.8
CID ratio	3.2%	5.3%	2.1 b.p.	
For Memory:				
Guarantees	383 993	360 185	-23 808	-6.2

Corporate Credit portfolio grew 3.0% as compared to December 2008, totalling 4 833 million euros. This change was brought about by the growth achieved in the strategic segments, in particular among investment products (associated with credit line agreements) which rose 27.8% against the previous year. The diversification achieved among leasing and factoring products was also important to corporate segment growth.

Construction Credit portfolio stood at 1 909.6 million euros, accounting for a 245.2 million euros reduction compared to the end of the previous year (-11.4%).

Specialist Credit

The specialist credit portfolio (Renting, Personal and Real Property Leasing, Ok Invoice – Factoring), aimed at Micro businesses and SMEs recorded a growth of 43.0% as compared to 2008, rising to 325.2 million euros. This business field continues to record sustained growth, thanks to Montepio's decision to support these business segments.

(thousand euros)

ITEM	2008	2009	Change	
	Value	Value	Value	%
Leasing	**171 181**	**247 958**	**76 777**	**44.9**
Auto	24 093	35 193	11 100	46.1
Equipment	48 845	72 852	24 007	49.1
Real Property	98 243	139 913	41 670	42.4
Ok Invoice – Factoring	**54 242**	**73 857**	**19 615**	**36.2**
Renting	**1 988**	**3 339**	**1 351**	**68.0**
TOTAL	**227 411**	**325 154**	**97 743**	**43.0**

Among the major products geared for these segments, the performance of Equipment Leasing is worthy of note, as it recorded 49.1% annual growth totalling 72.9 million euros at year-end.

Customer Intermediation Resources

Customer resources rose 5.6% to 10 103.9 million euros, as compared to 9 568.7 million euros in 2008, due to the acquisition of small savings and penetration in corporate segments.

(thousand euros)

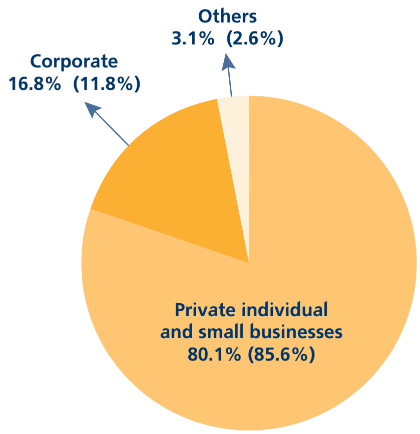
ITEM	2008	2009	Change	
	Value	Value	Value	%
Private and Small Business Deposits	**7 102 030**	**7 354 980**	**252 950**	**3.6**
Private Individuals	5 931 896	6 387 056	455 160	7.7
Traders and Liberal Professionals	52 828	50 915	-1 913	-3.6
Not-for-profit institutions	1 117 306	917 009	-200 297	-17.9
Corporate Deposits	**975 620**	**1 535 898**	**560 278**	**57.4**
Other Segment Deposits	**218 668**	**285 063**	**66 395**	**30.4**
Instruments placed with Customers	**1 272 343**	**927 953**	**-344 390**	**-27.1**
TOTAL	**9 568 661**	**10 103 894**	**535 233**	**5.6**

The change in Customer Resources was driven by the rise in Private Individual deposits which totalled 6 387.1 million euros, an increase of 7.7%, against the end of 2008. In addition resources coming from corporate segments recorded very considerable growth (+57.4%).

In 2009, the main resource products on offer were low risk financial investments, in particular medium-term (3 years) time deposits. For example, a number of savings certificates «*Aforro 2009*» and «*Aforro Prémio 2009*» were marketed in 2009.

Specific products were devised to acquire new resources, such as «*Super Poupança*», «*Montepio 5 Vantagens*», «*Mega Poupança*» and «*Montepio Depósito Especial*». Distance channel users were encouraged to use them as products exclusive to these channels were permanently available, namely «*Conta Montepio 24*», «*Super Depósito Net*» and «*Super Depósito Net Plus*».

BREAKDOWN OF DEPOSITS STRUCTURE



(2008)

Investment Funds

At the end of 2009, the value of customers' assets under management was 960.7 million euros, which constituted an increase of 149.3 million Euros, or 18.4% vs. 2008. This growth was due to the maintaining of a diversified portfolio that met to customers' requirements.

(thousand euros)

ITEM	2008		2009		Change	
	Value	%	Value	%	Value	%
Stock Investment Funds	**318 552**	**39.3**	**479 087**	**49.9**	**160 535**	**50.4**
Treasury Funds	184 856	22.8	318 701	33.2	133 845	72.4
Bond Funds	5 746	0.7	6 707	0.7	961	16.7
Share Funds	60 180	7.4	78 396	8.2	18 216	30.3
Funds of Funds	67 770	8.4	75 283	7.8	7 513	11.1
Real Estate Investment Funds	**299 675**	**36.9**	**271 607**	**28.2**	**-28 068**	**-9.4**
Open-end Pension Funds	**193 188**	**23.8**	**209 972**	**21.9**	**16 784**	**8.7**
TOTAL	**811 415**	**100.0**	**960 666**	**100.0**	**149 251**	**18.4**

Among Stock Investment Funds, note should be made of Treasury Funds, which totalled 318.7 million euros at the end of 2009, that is, an increase of 72.4%, as compared to 2008. The launch of the «*Montepio Monetário Plus*» Fund played an important part in the growth in Treasury Funds.

Sociedade Gestora Montepio Gestão de Activos shone in the bond market in 2009. The «*Montepio Obrigações*» Fund was one of the few funds in the indexed rate market that performed positively in the last five years.

Pension Funds are handled by Futuro, SA, the Montepio Group's pension fund manager. At the end of 2009, Futuro managed assets worth 210 million euros. In comparison with the previous year there was an 8.7% increase in funds under management that stems in the main from the rise in periodical subscriptions and the catching of new customers.

The programmed saving over the long-term in supplementary pensions has become increasingly important. On the other hand, Montepio's products have helped to stimulate Retirement Savings Plan (RSP) subscription: in the final quarter of the year, when products that bring tax benefits are traditionally marketed, a mixed product was available for the third year running – «*Montepio Mais Futuro*» – combining a short-term deposit (with an attractive rate of return) with a long-term investment in a Futuro RSP, to be chosen by the Customers according to their risk profile.

Mutual Schemes and Capitalisation Insurance

Customer off balance sheet savings products grew 8.2%, in particular mutual capitalisation schemes which stood at 1 747.9 million Euros, representing an increase of 8.0% compared to 2008. Capitalisation Insurance subscriptions were up 9.3%

(thousand euros)

ITEM	2008		2009		Change	
	Value	%	Value	%	Value	%
Mutual Capitalisation Schemes	1 618 355	88.7	1 747 868	88.6	129 513	8.0
Capitalisation Insurance	206 102	11.3	225 367	11.4	19 265	9.3
TOTAL	**1 824 457**	**100.0**	**1 973 235**	**100.0**	**148 778**	**8.2**

Insurance Premiums

Montepio markets the insurance and assurance products of the Group's insurers, Lusitania Vida and Lusitania Companhia de Seguros, throughout its branch network.

Montepio insurance portfolio is made up of twenty types of protection insurance from a wide range of fields, from credit protection to health and savings. In 2009, the promotion of insurance products by the Montepio distribution network continued, and an annual growth rate of 8.0% was achieved, in line with the established strategic goals.

(thousand euros)

INSURANCE	2008		2009		Change	
	Value	%	Value	%	Value	%
Life	45 472	71.4	48 931	71.1	3 459	7.6
Non-Life	18 219	28.6	19 862	28.9	1 643	9.0
TOTAL	**63 691**	**100.0**	**68 793**	**100.0**	**5 102**	**8.0**

4.6.4. RISK MANAGEMENT

Organisation and Developments

A number of measures were taken to control and manage credit risk, including:

- Introduction of new scoring models for the small business segment;
- Strengthening of change in credit risk reporting and monitoring of use of internal rating and scoring systems;
- Implementation of new private credit workflow and Corporate credit limit management systems;
- Extension of risk adjusted credit pricing methodology to corporate credit portfolio, thus ensuring the methodology is applied in the major segments;
- Integration of counterpart risk control.

On the regulatory front, in 2009 the reports required under Pillar II – Capital Adequacy, and Pillar III – Market Discipline of Basel II Accords were prepared. Pursuant to Pillar II the Bank of Portugal was supplied with the Internal Capital Adequacy Assessment Process (ICAAP) and the Strength Tests reports. The results of the reports show that capital levels are robust compared to the more material risks, and the potential adverse change in the main macroeconomic indicators.

Pursuant to Pillar III, the Market Discipline report was made public. It gives details of the types and levels of risk incurred, as well as of the risk management processes, structure and organisation.

Credit Risk

The risk control techniques and models are designed according to econometric modelling, based on the institution's experience in granting different types of credit and, whenever possible, on the recovery level. Thus, the credit operations decision-making is determined by a series of policies based on scoring models for Private Individuals and rating models for Corporate segments.

The reactive scoring models for housing loans and personal loans use a scale that includes 10 classes, covering both customers and non-customers. The reactive scoring for credit cards classifies credit proposals into 4 risk classes.

In addition to the reactive scoring models, behavioural scoring is also used to classify the risk for each customer in a distinct manner, according to their relationship with the institution. These are dynamic models that use permanently updated variables only and so allow for continual monitoring of changes in customer credit risk. Given the portfolio's diversity it is divided into segments according to the products held by the customers, with a model for each of the three most important segments (housing loans, consumer credit and cards/uncovered).

The in-house rating models classify companies into 7 classes of performing risk and an additional one that classifies non--performance.

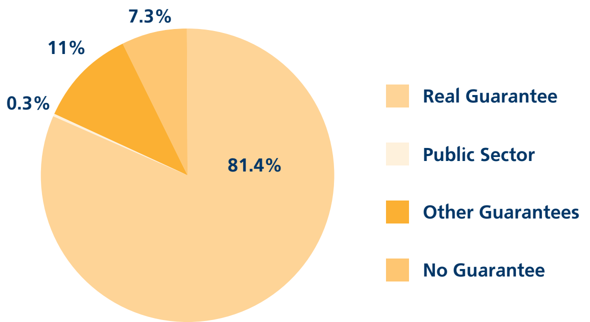
The models, based on long-term in-house data, provide a quantitative assessment (in the corporate segment, they are backed-up by the qualitative assessment of the Credit Analysts) of the probability of non-performance for the risk class assigned to the customer/operation. This in-house risk classification, together with an evaluation of mitigating risk factors (in the form of Personal or Real Guarantees), is a determining factor in operations decision-making process and pricing.

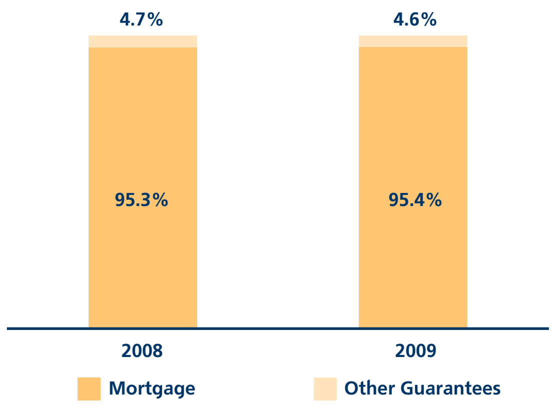
The pricing of active operations reflects the cost of external financing and equity, as well as the administrative costs and the respective expected loss. So pricing represents the marginal probability of non-performance over the term of the operation (associated to the risk classes) and the severity of the loss in the case of non-performance; such loss is quantified by market estimates, taking into account the types of credit and collateral. Pricing also reflects the commercial relationship with the customer.

The mitigating of risk through the provision of collateral is also considered, both through the severity of the loss (for example, in the case of real collateral), and through a reduction in the amount exposed, in the case of financial collateral (when the market risk of the assets concerned is known). The call for collateral depends on the size of the expected loss, and is common in the case of large scale operations, especially construction financing and house purchases.

Pricing decision categories are defined in terms of risk adjusted Return on Equity (ROE), but assuming that top management is qualified to approve operations with lower risk adjusted ROE.

Credit refusals are determined by credit events in the financial system, noncompliance with credit rules (for example, effort rate in the case of personal loans) and whenever the incorporation of risk in pricing significantly worsens the adverse selection risk. In addition, risk classes are defined that require senior approval.





Despite credit and interest overdue totalling 581.6 million euros in 2009, the risk was still low, as a result of the type of guarantees provided, since credit backed by a real guarantee accounted for 81.4% of the total.

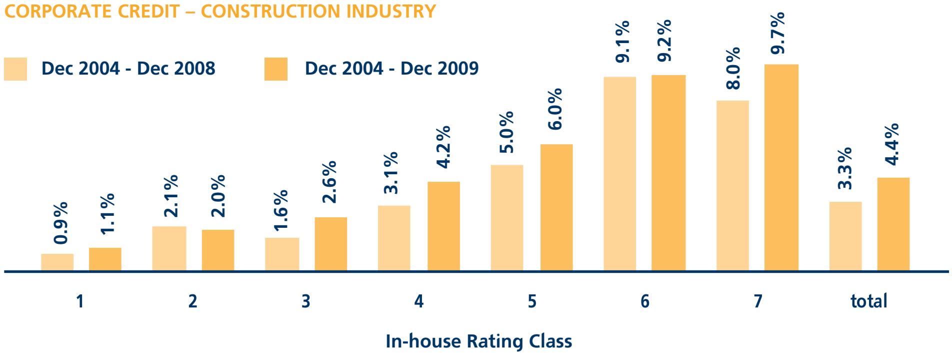
In the year in question, Montepio undertook a series of monitoring and control measures in order to oversee the changes in credit risk and, at the same time, identify and propose solutions suited to each customer's situation. This monitoring proved to be even more important in an economic climate in which economic players had difficulty in meeting their commitments on time.

In terms of debt recovery, ways of solving the problem without resorting to the courts were identified so as to minimise the time taken to settle each situation to the mutual benefit of both parties.

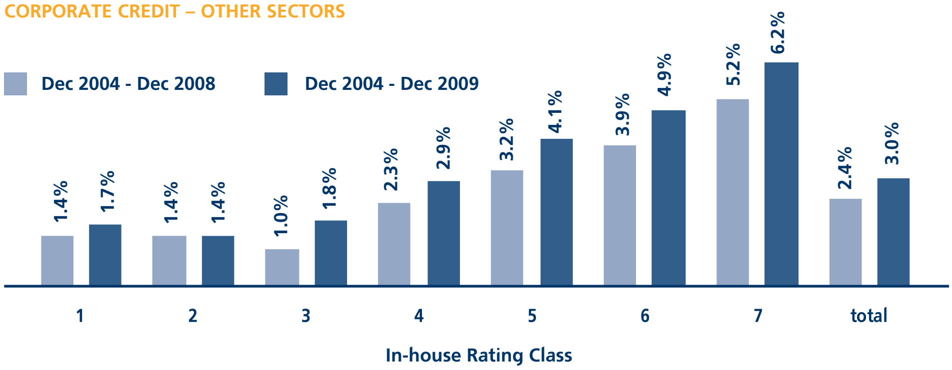
Credit and interest overdue in the banking sector rose 52.2%, according to the Monetary and Financial Statistics published by the Bank of Portugal. In Montepio this increase was 36.1%, a figure below the sector average that reflects the permanent customer follow-up as regards debt recovery.

The frequency of corporate credit non-performance was up in 2009, in both the Construction Industry and the other sectors. The Construction Industry continued to record the highest levels of non-performance.

FREQUENCY OF NON-PERFORMANCE AFTER 1 YEAR
CORPORATE CREDIT – CONSTRUCTION INDUSTRY



FREQUENCY OF NON-PERFORMANCE AFTER 1 YEAR
CORPORATE CREDIT – OTHER SECTORS



In the Private Individuals segment, the average frequency of non-performance for Housing Loans and Personal Loans is regularly monitored. Non-performance levels after 1 year among new Customers were higher than among older Customers. In the Housing Loans segment the average non-performance levels were comparable to those of the previous year, while in the Personal Loans segment they worsened slightly.

The breakdown of operations by risk class (reactive scoring) in 2009, was similar to that of the previous year and concentrated in the low and medium risk classes.

The economic context had an impact on business that led to an increase in credit and interest due over 3 months, which stood at 508.1 million euros, a ratio of 3.4%, at the year-end.

CHANGE IN MAIN INDICATORS OF CREDIT AND INTEREST OVERDUE

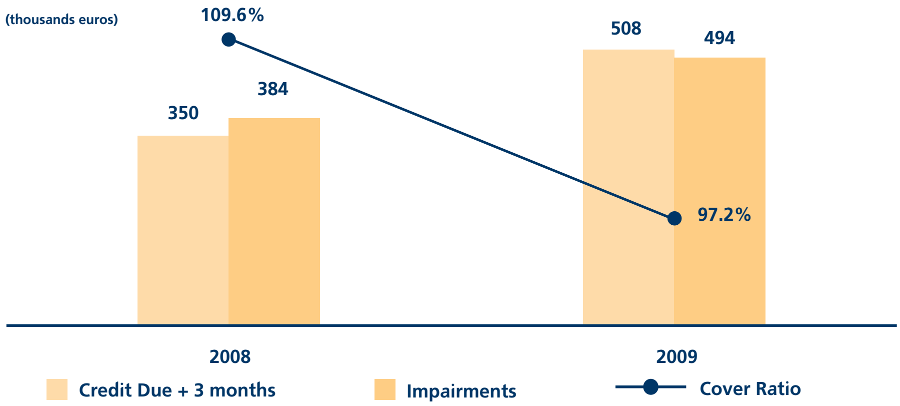
(thousand euros)

INDICATORS	2008	2009	Change	
			Value	%
Customer Credit	**15 329 602**	**15 143 916**	**-185 686**	**-1.2**
Credit and Interest Overdue	**427 336**	**581 587**	**154 251**	**36.1**
Credit Overdue over 3 months	350 341	508 118	157 777	45.0
Credit Overdue over 12 months	286 536	439 201	152 665	53.3
Imparity for Credit Risk	**383 921**	**493 913**	**109 992**	**28.6**
Credit Overdue Ratios as % of Total Credit				
Credit and Interest Due over 3 months Ratio	2.3	3.4	1.1 b.p.	
Credit and Interest Due over 12 months Ratio	1.9	2.9	1.0 b.p.	
Non-performance Credit Ratio (a)	2.9	4.0	1.1 b.p.	
Non-performance Credit net of provisions Ratio (a)	1.4	1.6	0.2 b.p.	
Credit Overdue Covered by Imparity (%)				
Credit Due over 3 months	109.6	97.2	-12.4 b.p.	
Credit Due over 12months	134.0	112.5	-21.5 b.p.	

(a) Pursuant to Bank of Portugal Instruction no. 16/2004.

Credit provisions rose to 493.9 million euros, representing a growth of 28.6 (110 million euros). The credit and interest due over 3 months ratio slipped to 97.2%, as compared to 109.6 in 2008. Credit and interest overdue over 12 months was covered to the tune of 112.5%.

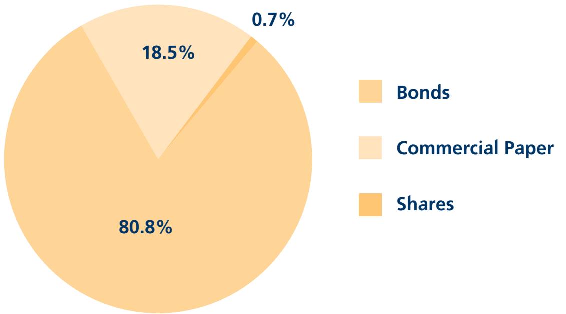
COVER FOR IMPAIRMENT OF CREDIT AND INTEREST DUE FOR OVER 3 MONTHS



Financial Assets Risk

Of the assets available for sale, bonds, mainly variable rate bonds, accounted for 80.8% of the total portfolio. Commercial paper had a relative weight of 18.5%, while securities carried very little weight (0.6%). Credit risk was fairly reduced as the bonds component was concentrated in Investment Grade bonds which accounted for 99.3% of the total.

AVAILABLE FOR SALE ASSETS PORTFOLIO STRUCTURE BY ASSET TYPE



BOND PORTFOLIO STRUCTURE BY RATING CLASS

(thousand euros)

RATING CLASS	2009	
	Value	%
AAA	212 406	23.9
AA+	39 641	4.5
AA	84 847	9.6
AA-	86 396	9.7
A+	137 428	15.5
A	108 966	12.3
A-	137 132	15.5
BBB+	41 790	4.7
BBB	20 257	2.3
BBB-	11 678	1.3
NR	6 677	0.7
TOTAL	**887 218**	**100.0**

Balance Sheet Structural Risks

Liquidity and interest rate risks, together with credit risk, were the main Balance Sheet risks, while exchange rate exposure was fairly insignificant. Over the year efforts continued to be made to identify more accurately the risks faced, quantify potential underlying losses and adopt measures to mitigate risk.

In regard to liquidity risk, the practices adopted by Montepio have been chosen to ensure a balance sheet financing structure suited to the maturity of its assets, obtain various financing sources and retain a mix of assets that offers high liquidity and so allows the institution to apply for liquidity support from the European Central Bank (ECB).

In 2009, the main aspects of liquidity management policy were:

- the housing loan securitisation operation conducted in March to the sum of one thousand million euros;
- the signing of a mortgage bond programme which resulted in the first bond issue in July to the sum of one thousand million euros;
- 14 senior debt issues placed by private subscription, totalling 126.4 million euros;
- the 60 million euros long-term loan from the European Investment Bank (EIB), to be used to finance SMEs.

In December 2009 Montepio had a dynamic liquidity gap, accumulated over the next 12 months, of 1 535 million euros.

DYNAMIC GAPS IN LIQUIDITY POSITION AS AT 31 DECEMBER 2009

(million euros)

Position at reference date + Forecast Value	Time Periods				
	At Sight and up to 1 week	Over 1 week and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 12 months
Accumulated Mismatches	1 410	1 419	2 300	2 247	1 535

Operating Risk

Operating risk consists of the risk of losses resulting from defects or failures in in-house procedures, human resources and systems or external factors. The operating risk management system is based on the identification, assessment, monitoring, measuring, mitigating and reporting of this type of risk.

In 2009 the following activities were carried out:

- revising of the business, risks and respective controls mapping, in particular identifying the units that were reorganised and focusing on the most significant risks;
- Risk and Control Self-assessment based on the frequency, average impact and efficacy of the controls.

Monitoring and control of operating risk included:

- identification of loss events resulting from operating risks, taking into accounts near-misses;
- re-enforcing the means of attracting and increasing the involvement of players;
- development of general Key Risk Indicators (KRI) by business type, namely at the service quality level;
- drawing up of regular reports on the Institution's operating risk profile, appropriate to the different players.

A project is underway to implement the Integrated Business Continuity Plan that will mitigate problems and allow operations to continue when an event occurs that interrupts business. At the present time the following stages of this project have been completed:

- Assessment including the identification of critical business activities, maximum permissible recovering time objective (RTO) and critical business impact analyses (BIA);
- Design including the identification of systems and installations recovery options;
- Implementation of Business Recovery Plans, Crisis Management Plan, adequacy of Prevention and Emergency Plans to business continuity and devising of installation layouts for recovery sites;
- Monitoring by means of Business Recovery Plan simulations.

4.6.5. FINANCIAL ANALYSIS

Summary

The adverse conditions experienced in the financial markets and the increasing deceleration in the economy, coupled with the general worsening in sovereign debt risk premiums and had a negative impact on banking system intermediation business, particularly in regard to the acquiring of financial resources and the granting of credit to companies and private individuals. In the light of this situation, Montepio retained a prudent management policy, seeking to minimise risks associated with the macroeconomic adversities and ensure suitable levels of solvency and liquidity, as shown below:

(thousand euros)

INDICATORS	2008	2009	Change	
	Value	Value	Value	%
Net Assets	16 851 534	17 244 767	393 233	2.3
Customer Credit (gross)	15 393 813	15 176 295	-217 518	-1.4
Securities and Investments in Credit Institutions	1 211 706	1 814 035	602 329	49.7
Deposits	8 296 318	9 175 941	879 623	10.6
Debt Represented by Securities and Equivalent	5 984 785	5 859 653	-125 132	-2.1
Equity	823 669	986 214	162 545	19.7
Banking Revenue	409 635	449 025	39 390	9.6
Profit for the Year	33 874	44 476	10 602	31.3
Credit Ratio/Deposits (deposit transformation level)	185.55%	165.39%		
Return on Equity (ROE)	4.12%	4.72%		
Overall Solvency Ratio	11.44%	13.25%		
Tier 1 Solvency Ratio	7.92%	9.51%		
Minimum Liabilities Cover – Pension Funds	100.00%	100.15%		
Efficiency Ratio (Cost to Income)	62.33%	55.02%		

When pursuing its business, Montepio chose to favour liquidity and risk levels and risk adjusted returns. Therefore' assets with these characteristics, such as the Securities Portfolio and Investments in Credit Institutions recorded a combined growth of 602.3 million euros (+49.7%). Deposits increased by 879.6 million euros (+10.6%) and the Equity base grew by 162.5 million euros (+19.7%).

This approach had a positive effect on the transformation ratio which went from 185.55% to 165.39% (-20.16 b.p. as compared to 2008).

Trend and Structure of Assets

In 2009, Net Assets grew by 2.3%, which compared favourably with the annual change recorded in 2008 (-0.3%), to total 17 244.8 million euros. This increase was sustained by the growth in Investments in Credit Institutions (+122.4%) and in the Securities Portfolio (+39.1%), which together accounted for 10.4% of total assets (7.0% in 2008).

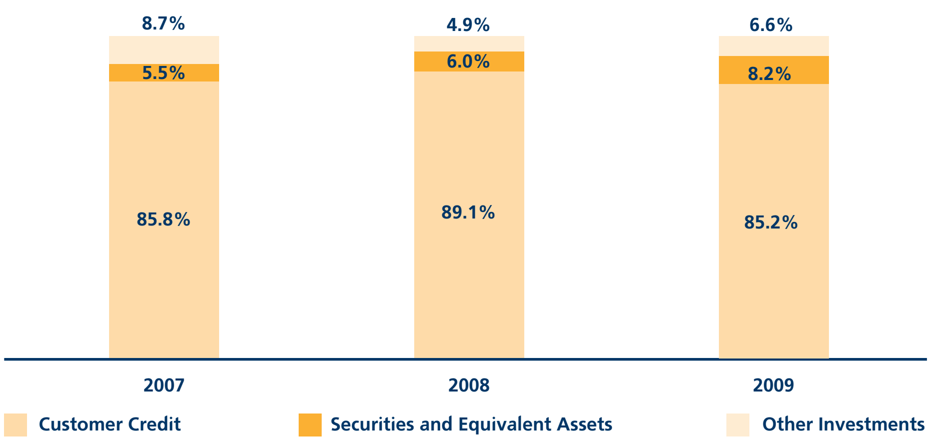
(thousand euros)

ITEM	2008		2009		Change	
	Value	%	Value	%	Value	%
Financial Investments	**16 572 828**	**98.4**	**16 854 423**	**97.7**	**281 595**	**1.7**
Liquid Assets	369 244	2.2	374 888	2.2	5 644	1.5
Credit Institution Investments	166 781	1.0	370 938	2.2	204 157	122.4
Securities and Equivalent Assets (a)	1 019 866	6.1	1 418 371	8.2	398 505	39.1
Customer Credit (Net)	15 009 892	89.1	14 682 382	85.1	-327 510	-2.2
Hedging Derivatives	7 045	0.0	7 844	0.0	799	11.3
Other Investments	**278 706**	**1.6**	**390 344**	**2.3**	**111 638**	**40.1**
Investments in Subsidiaries	16 813	0.1	16 151	0.1	-662	-3.9
Real Property for trading	109 774	0.6	157 658	0.9	47 884	43.6
Other Investments	152 119	0.9	216 535	1.3	64 416	42.3
TOTAL LIQUID ASSETS	**16 851 534**	**100.0**	**17 244 767**	**100.0**	**393 233**	**2.3**

(a) Includes interest charged

Over the year, the gradual return to normal of financial market operating conditions allowed for greater exposure to counterparts in the financial sector, which explains the change in Investments in Credit Institutions.

TREND IN ASSETS STRUCTURE



Securities Portfolio

Securities Portfolio management favoured the liquidity/risk binominal, so investments focused predominantly on short--term securities issued by investment grade entities from economic sectors less exposed to the effects of the economic crisis and eligible for liquidity support.

(thousand euros)

ITEM	2008		2009		Change	
	Value	%	Value	%	Value	%
1. Securities Portfolio						
Financial Assets held for trading	57 361	5.5	98 239	6.8	40 878	71.3
Other financial assets at fair value	4 031	0.4	4 192	0.3	161	4.0
Available-for-sale Financial Assets	943 549	90.3	1 306 076	90.6	362 527	38.4
Held-to-maturity Investment	39 912	3.8	33 523	2.3	-6 389	-16.0
TOTAL 1	**1 044 853**	**100.0**	**1 442 030**	**100.0**	**397 177**	**38.0**
% of Assets	**6.2**		**8.4**		**2.2 b.p.**	
2. Impairment	24 987		23 659		-1 328	-5.3
TOTAL (1-2)	**1 019 866**		**1 418 371**		**398 505**	**39.1**

Thus at the year-end the Securities Portfolio that amounted to 1 442 million euros and accounted for 8.4% of Total Net Assets (against to 6.2% in 2008), recorded a change of 397.2 million euros (+38.0%), brought about by the increase in Available for Sale Financial Assets (+38.4%).

Securities impairment fell by 1.3 million euros (-5.3%), reflecting the positive trend in markets after the second quarter, as well as an appropriate management that took advantage of financial gains opportunities.

Together Available-for-Sale Securities and Held-to-Maturity Securities made up the majority of the Bonds (98.6%) and of these 2.5% related to Public Bodies (Portuguese Government) and 97.5% to Companies and Other Issuers.

Exposure to shares was 5.2 million euros and represented only 0.4% of the total portfolio.

AVAILABLE-FOR-SALE SECURITIES AND HELD-TO-MATURITY SECURITIES

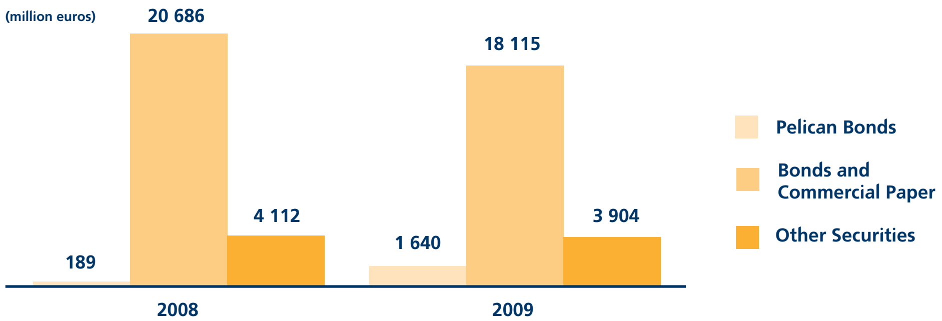
(thousand euros)

ITEM (a)	Portfolio		Impairment		Change	
	2008	2009	2008	2009	Portfolio	Impairment
	Value	Value	Value	Value	%	%
Available-for-sale Securities	**935 416**	**1 298 786**	**24 987**	**23 659**	**38.8**	**-5.3**
Treasury Bonds	4	0			-100.0	
Pelican Bonds	32 725	60 225	189	1 640	84.0	767.7
Companies and Other Issuers' Bonds and Commercial Paper	884 157	1 219 449	20 686	18 115	37.9	-12.4
Investment Fund Units	10 973	11 484	3 211	2 837	4.7	-11.6
Shares and similar stock	5 279	5 223	853	1 019	-1.1	19.5
Share Holdings	2 278	2 405	48	48	5.6	0.0
Held-to-maturity Securities	**39 191**	**32 913**	**0**	**0**	**-16.0**	
Treasury Bonds	39 191	32 913			-16.0	
TOTAL	**974 607**	**1 331 699**	**24 987**	**23 659**	**36.6**	**-5.3**

(a) Interest not included.

The higher levels of impairment are associated with Companies and Other Issuers' Bonds and Commercial Paper, Investment Fund Units and Pelican Bonds.

TREND IN SECURITIES IMPAIRMENT



Customer Credit

The overall change in Customer Credit which is reviewed in detail in points 4.6.3 and 4.6.4 above reflected, in part, the worsening in risk levels and the increased cost of resources, and led to changes in the credit policy, in terms of pricing and risk assessment, as well as a fall in demand for loans among private individuals. In this context the overall value of the portfolio, in gross book and consolidated terms, fell by 1.4%, despite corporate credit, especially among SMEs, having grown by 3.0%, in line with the goal of supporting businesses.

This change meant that the relative weight of Customer Credit in Total Assets went from 89.1% (2008) to 85.1% (2009).

Qualified Financial Holdings

The overall increase in Qualified Financial Holdings (where the holding is not less than 5%) was 24.0 million euros (138.2%), reflecting in the main the gains in Lusitania Vida (+8.7 million euros) and Lusitania Companhia de Seguros (+15.8 million euros).

CHANGE IN QUALIFIED FINANCIAL HOLDINGS

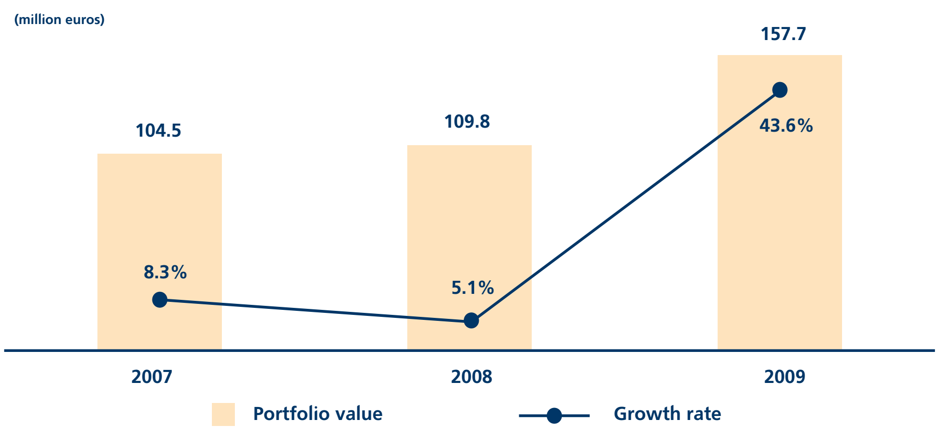
(thousand euros)

COMPANIES	2008	2009	Change	
	Value	Value	Value	%
Financial Holdings				
Futuro S G Fundos Pensões	419	419		
Lusitania Vida Companhia de Seguros	7 091	15 791	8 700	122.7
Lusitania Companhia de Seguros	6 668	9 716	3 048	45.7
Moçambique C.ª Seguros	190	190		
HTA Hotéis Turismo e Animação dos Açores	1 372	1 318	-54	-3.9
NORFIN – Soc. Gest. Fundos Inv. Imob.	454	50	-404	-89.0
Subtotal	**16 194**	**27 484**	**11 290**	**69.7**
Supplementary Capital Payments				
Lusitania Companhia de Seguros		12 750	12 750	
HTA Hotéis Turismo e Animação dos Açores	1 200	1 200		
TOTAL	**17 394**	**41 434**	**24 040**	**138.2**

Real Property for Trading

The macroeconomic climate has placed special pressure on the real estate market, with a knock-on effect on Real Property for Trading.

TREND IN REAL PROPERTY FOR TRADING



During the year the sale of these assets increased substantially (+23.5%), as a result of the more dynamic management and the holding of auctions. However the number of properties sold was not sufficient to offset the properties received to repay credit (+200%), so over the year the portfolio grew by 43.6% to 157.7 million euros.

(million euros)

ITEM	2008	2009	Change	
	Value	Value	Value	%
Opening balance	104	110	6	5.8
+ Additions to portfolio	23	69	46	200.0
- Reductions in portfolio (sales)	17	21	4	23.5
Closing balance	**110**	**158**	**48**	**43.6**

Trend in Liabilities and Equity

The adverse economic conditions which persisted throughout the year, continued to make it difficult to acquire resources. The trend was to greater competition for domestic funding and a consequent pressure on the price paid for deposits.

This led national banks to resort to a State guarantee to undertake senior debt issues on the international market. In Montepio's case the existing liquidity and stability levels and the soundness of its retail funding base meant there was no need to resort to this method and business was funded through Equity, customer deposits and ECB refinancing and long--term loans from the EIB to finance SME support.

Therefore, Total Liabilities and Equity rose 393.2 million euros (+2.3%), on the back of a 162.4 million euros (+19.7%) increase in Equity and Provisions and a 535.2 million euros (+5.6%) rise in Customer Resources, mainly due to the 879.6 million euros (+10.6%) increase in Deposits. On the other hand, Complementary Resources, which consist almost entirely of foreign funding sources, fell by 304.4 million euros (-4.7%).

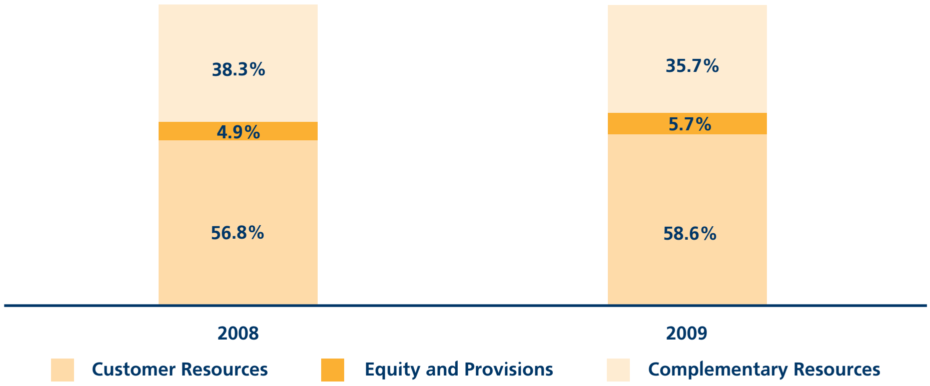
TREND IN LIABILITIES AND EQUITY

(thousand euros)

ITEM	2008		2009		Change	
	Value	%	Value	%	Value	%
1 – Customer Resources	**9 568 661**	**56.8**	**10 103 894**	**58.6**	**535 233**	**5.6**
Customer and Credit Institution Deposits	8 296 318	49.2	9 175 941	53.2	879 623	10.6
Instruments placed with Customers (Cash Bonds)	1 272 343	7.6	927 953	5.4	-344 390	-27.1
2 – Complementary Resources	**6 457 536**	**38.3**	**6 153 168**	**35.7**	**-304 368**	**-4.7**
Credit Institution and Central Bank Resources	1 010 892	6.0	694 745	4.0	-316 147	-31.3
Subord., Non-subord., and Syndicated Loans and Debt Certificates	4 712 442	28.0	4 931 700	28.6	219 258	4.7
Financial Liabilities associated with Transferred Assets	485 186	2.9	428 147	2.5	-57 039	-11.8
Other Liabilities	249 016	1.4	98 576	0.6	-150 440	-60.4
3 – Equity and Provisions	**825 337**	**4.9**	**987 705**	**5.7**	**162 368**	**19.7**
TOTAL LIABILITIES AND EQUITY	**16 851 534**	**100.0**	**17 244 767**	**100.0**	**393 233**	**2.3**

The adoption of a funding policy based on the domestic market and Equity allowed the relative weight of Customer Resources to go from 56.8% in 2008 to 58.6% in 2009, and Equity to increase from 4.9% to 5.7% over the same period, while Complementary Resources saw their weight fall from 38.3% to 35.7%.

TREND IN LIABILITIES AND EQUITY



The changes seen in Customer Resources are directly associated with the growth in deposits resulting from a policy that favoured the redesigning of the products on offer, the creating of new medium-term products (3 years) and the adjusting of the spreads system, together with specific marketing campaigns aimed at strengthening commercial relationships and customer loyalty, while retaining the incentive to use distance distribution channels to attract additional savings.

Complementary Balance Sheet Resources

In addition to attracting financial resources through its commercial network, Montepio undertook a series of operations focused on longer terms and greater stability, which grew by 725.3 million euros (+12.2%), as compared to the 160.0 million euros (+49.3%) increase in very short-term.

In addition to acquiring retail funding, and bearing in mind the need to continue to diversify its financing sources and to guarantee the acquiring of longer term resources to set against the scheduled repayment of the existing debt at the beginning of the year, Montepio undertook a series of new operations that explain the change recorded in the main components of Complementary Resources.

TREND IN STABLE AND VERY SHORT-TERM COMPLEMENTARY BALANCE SHEET RESOURCES

(thousand euros)

ITEM	2008		2009		Change	
	Value	%	Value	%	Value	%
1 – Stable Resources						
Subordinated bonds	50 000	0.8	50 000	0.8		
Non-subordinated bonds	4 123 422	66.1	4 436 608	73.4	313 186	7.6
Syndicated loans	225 000	3.6	225 000	3.7		
Debt certificates	314 020	5.0	220 092	3.6	-93 928	-29.9
International Financial Bodies	41 413	0.7	101 413	1.7	60 000	144.9
Securitisation liabilities	481 926	7.7	427 775	7.1	-54 151	-11.2
Central Bank resources	850 000	13.6	500 000	8.3	-350 000	-41.2
TOTAL 1	**6 085 781**	**97.5**	**5 960 888**	**98.6**	**-124 893**	**-2.1**
% of Liabilities	**38.0**		**36.7**		**-1.3 b.p.**	
2 – Very Short-Term						
Credit institution time deposits	19 786	0.3	24 276	0.4	4 490	22.7
Other resources	136 447	2.2	62 391	1.0	-74 056	-54.3
TOTAL 2	**156 233**	**2.5**	**86 667**	**1.4**	**-69 566**	**-44.5**
% of Liabilities	**1.0**		**0.5**		**-0.5 b.p.**	
TOTAL (1+2)	**6 242 014**	**100.0**	**6 047 555**	**100.0**	**-194 459**	**-3.1**
% of Liabilities	**38.9**		**37.2**		**-1.7 b.p.**	

Given the favourable change in retail funding, Complementary Resources maturing in 2009 were not fully refinanced, although a policy focused on the reinforcing of medium/long-term liabilities was adopted.

Despite the fact that over the year there was an overall fall in Complementary Resources of 194.5 million euros (-3.1%), mainly due to the reduction in Central Bank Resources which were down 350 million euros (-41.2%), it should be noted that Non-subordinated Bonds increased by 313.2 million euros (+7.6%) and International Financial Bodies loans (EIB) rose by 60 million euros (+144.9%).

Of the operations conducted in 2009 with the aforesaid goals, the following are worthy of mention:

- the housing loan securitisation operation, Pelican 5, to the sum of 1 000 million euros, fully retained in the balance sheet as a strategic liquidity reserve;
- the first Mortgage Bond issue at 3 years, to the sum of 1 000 million euros, followed by a second, privately subscribed issue at 7 years, to the amount of 150 million euros, taking advantage of the favourable market conditions in the third quarter of the year;
- use the remaining 60% of the 100 million euros EIB credit line.

CHANGE IN COMPLEMENTARY RESOURCE IN 2009

(million euros)

In 2009 no issues were made under the Euro Medium Term Notes (EMTN) Programme (for which the total authorised amount is 6 000 million euros) due to Montepio's favourable liquidity position, which meant it did not need to resort to a State Guarantee to obtain senior financing in the international capital markets.

To assess Montepio's liquidity management capacity outside of the domestic market, the following should be taken into account:

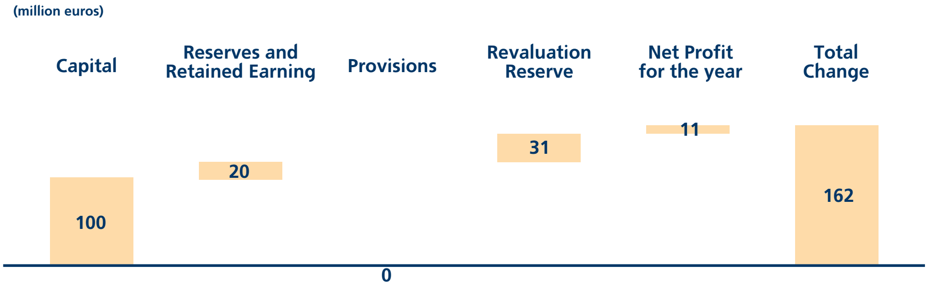
- under the Euro Medium Term Notes (EMTN) Programme, for which the total authorised amount is 6 000 million, only 3 005 million euros have been used, so 2 995 million euros are still available;
- under the Mortgage Bond Programme for which the total authorised amount is 5 000 million, only 1 150 million euros have been used and 3 850 million euros are still available;
- total eligible assets available for refinancing by the ECB or other International Financial Bodies stood at 1 626 million euros;
- a new Global Loan from the EIB, to the sum of 100 million euros, is under negotiation;
- the overall value of potential funds is therefore 8 571 million euros, which compares with the sumo f 886.7 million euros of scheduled repayment (domestic and external issues) in 2010.

Equity and General Provisions

MGAM has increased CEMG's Institutional Financial Investment sufficiently in order to re-enforce its financial soundness and support its development, even in times of adversity. Thus, in 2009, the increase in Institutional Financial Investment contributed 100 million euros to the total rise in Equity of 162 million euros. Reserves and Retained Earnings grew 62 million euros (38.3% of the total increase), where the 31 million euros rise in Revaluation Reserves is of particular note and was due to the progress in market conditions.

General Provisions, which consists almost entirely of General Credit Risk Provisions, remained constant.

CHANGE IN EQUITY AND PROVISIONS



Profits

CEMG recorded a Net Consolidated Profit of 44.5 million euros, representing a rise of 31.3% which compares with the sharp fall of -46.3% witnessed in 2008. This was the result of the improvement in Commercial Banking Revenue (+2.6%), Commissions/Fees (+5.8%), Market Profit (+321.9%) and Operating Costs (-3.2%).

INCOME STATEMENT

(thousand euros)

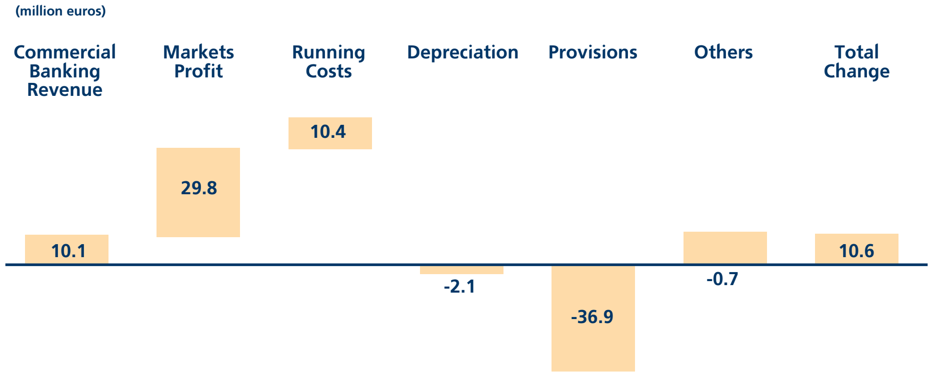
BUSINESS	2008		2009		Change	
	Value	%	Value	%	Value	%
Net Interest Income (a)	314 857	76.9	320 808	71.4	5 951	1.9
Net commissions from services provided to Customers	70 984	17.3	75 115	16.7	4 131	5.8
Commercial Banking Revenue	**385 841**	**94.2**	**395 923**	**88.2**	**10 082**	**2.6**
Markets Profit (b)	9 271	2.3	39 115	8.7	29 844	321.9
Return on Financial Holdings	881	0.2	811	0.2	-70	-7.9
Profit on Sale of Assets for Debt Recovery	583	0.1	417	0.1	-166	-28.5
Other Profits	13 059	3.2	12 759	2.8	-300	-2.3
Banking Revenue	**409 635**	**100.0**	**449 025**	**100.0**	**39 390**	**9.6**
Staff Costs	151 260	36.9	147 352	32.8	-3 908	-2.6
Administrative Overheads	85 696	20.9	79 204	17.7	-6 492	-7.6
Depreciation	18 370	4.5	20 507	4.6	2 137	11.6
Operating Costs	**255 326**	**62.3**	**247 063**	**55.0**	**-8 263**	**-3.2**
Gross Profit	**154 309**	**37.7**	**201 962**	**45.0**	**47 653**	**30.9**
Net Provisions and Impairment	**123 058**	**30.0**	**159 989**	**35.7**	**36 931**	**30.0**
Credit	97 857		147 774		49 917	51.0
Securities	20 248		2 132		-18 116	-89.5
Other	4 953		10 083		5 130	103.6
Membership and Joint Ventures Proceeds (net worth)	**2 623**		**2 503**		**-120**	**-4.6**
= Net Profit for the Year	**33 874**	**8.3**	**44 476**	**9.9**	**10 602**	**31.3**

(a) Includes financial profit on interest rate swaps. In 2008 these sums were included in Markets Profits, so the respective adjustment was made for comparative purposes.

(b) Includes return on shares and other variable return instruments, except financial holdings.

The more significant negative impacts on Profits came from Net Provisions and Impairment (+36.9 million Euros) and Depreciation (+2.1 million Euros), a consequence of the adverse economic climate which affected companies and families, and investment in technology, respectively.

BREAKDOWN OF TOTAL CHANGE IN PROFIT



Net Profit for the Year in the Consolidated Accounts, referred to above, exceeds Net Profit for the Year in the Individual Accounts by 6.7 million euros, due to the positive contributions of the subsidiary companies and credit impairment.

DIFFERENCE BETWEEN PROFIT IN INDIVIDUAL AND CONSOLIDATED ACCOUNTS

(thousand euros)

ITEM	Net Profit	Equity
1 – CEMG – Individual Accounts 31.Dec.2009	**37 778**	**995 234**
2 – Impact of Consolidation Financial Holdings	**1 641**	**5 454**
2.1. – Full Consolidation	**227**	**975**
MG Cabo Verde	227	975
2.2. – Net Worth	**1 414**	**4 479**
Lusitania – Seguros	1 004	-1 100
Lusitania – Vida	464	6 261
HTA Hotéis Turismo e Animação dos Açores	-54	-682
3 – Other Consolidation Adjustments	**5 057**	**-14 474**
Credit Impairment	6 794	15 216
Pension Fund	-946	-29 311
Swaps associated with securitisation operations	-791	-379
4 – CEMG – Consolidated Accounts 31.Dec.2009 (1+2+3)	**44 476**	**986 214**

Banking Revenue

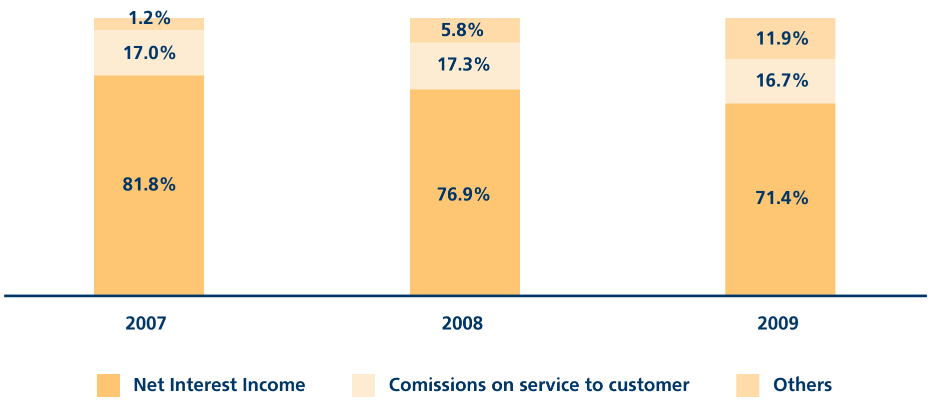
Banking Revenue totalled 449.0 million euros, up on the previous year's figure by 39.4 million euros (+9.6%). This change was due essentially to Markets Profit up 29.8 million euros (+321.9%) and Net Commission up 4.1 million euros (+5.8%), which together provided for 86.2% of the total rise.

Commercial Banking Revenue, which includes Net Interest Income and Net Commissions, both stemming from customer business and financial asset and liability management, recorded a growth of +2.6% and accounted for 88.2% (94.2% in 2008) of Banking Revenue.

In order to reduce the concentration in Banking Revenue, Net Interest Income, the largest component (71.4% in 2009, as compared to 76.9% in 2008), has continued to lose relative weight, due to the efforts to diversify business generating revenue not relating to interest.

Unlike the trend in Net Interest Income, Markets Profit went from a relative weight of 2.3% of Banking Revenue in 2008 to 8.7% in 2009. Although Net Commission on Services to Customers grew faster than Net Interest Income, the rise was lower than that of Banking Revenue, so its relative weight, which had enjoyed an upward trend until 2008, fell 0.6 b.p. to 16.7% at the end of 2009.

BANKING REVENUE

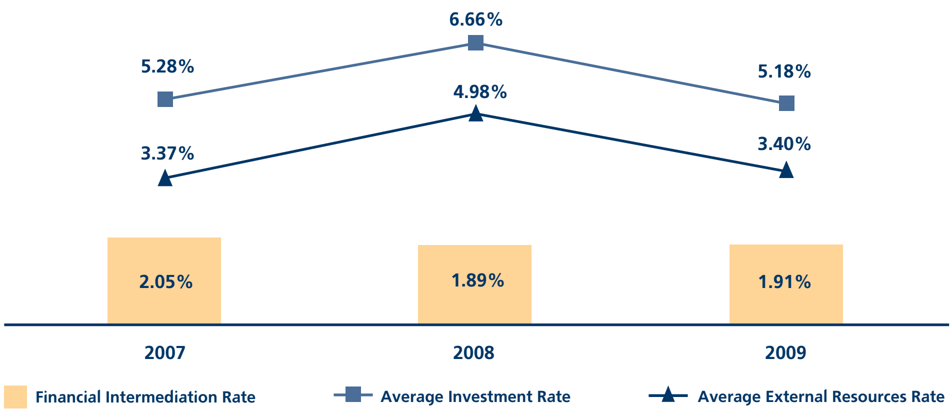


Net Interest Income

Net Interest Income was up 1.9%, as compared to the previous year, finishing the year at 320.8 million euros. The change in turnover was decisive for this rise, given the relative stability of the change in interest rates.

Thus, the increase in Net Interest Income (5.9 million euros) contributed favourably to the rise of 7.2% in average Financial Assets and the almost neutral impact of the Financial Intermediation Rate whose annual average was identical to 2008, that is 1.9%.

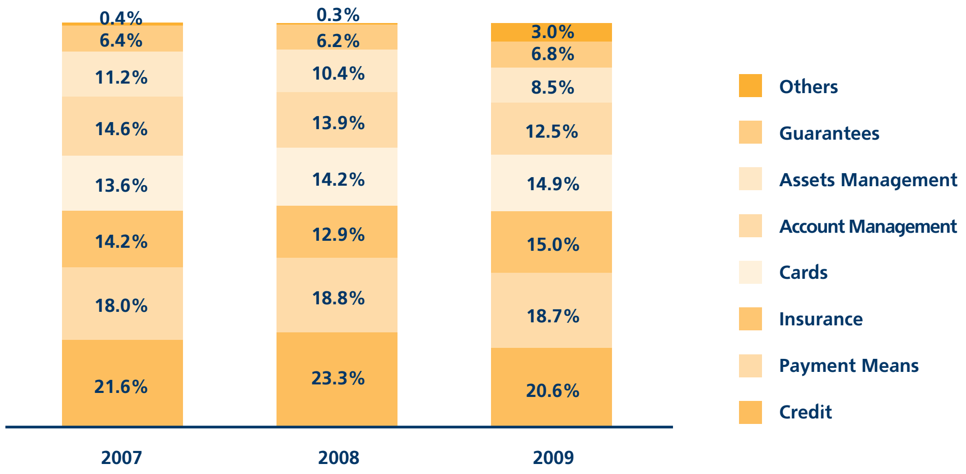
FINANCIAL INTERMEDIATION RATE



Profit on Services to Customers

Profit on Services to Customers was up 4.1 million Euros (+5.8%), revealing the efforts of the distribution networks in developing commission generating business, and accounted for 10.5% of the total change in Banking Revenue.

BREAKDOWN OF PROFIT ON SERVICES TO CUSTOMERS



Customer business that most contributed to Banking Revenue was: insurance (+21.8%), guarantees (+15.3%) and cards (+9.3%).

TREND IN PROFIT ON SERVICES PROVIDED TO CUSTOMERS

(thousand euros)

ITEM	2008	2009	Change	
	Value	Value	Value	%
Account management fee	11 688	10 993	-695	-5.9
Cards	11 950	13 057	1 107	9.3
Credit fee	19 599	18 126	-1 473	-7.5
Guarantees	5 172	5 964	792	15.3
Insurance	10 809	13 168	2 359	21.8
Asset management	8 777	7 436	-1 341	-15.3
Payment means management	15 785	16 452	667	4.2
Other services	262	2 678	2 416	922.1
TOTAL	**84 042**	**87 874**	**3 832**	**4.6**

The fall in Credit Fee was related to the slowdown in Customer Credit and the reduction in Asset Management Fee reflects the drop in the average value of assets under management.

Market Profits

In 2009, market behaviour favoured management, resulting from a prudent, disciplined and relatively conservative approach, and profit totalled 39.1 million Euros (+321.9%), benefitting from positive change in most of its components.

PROFIT ON MARKET OPERATIONS

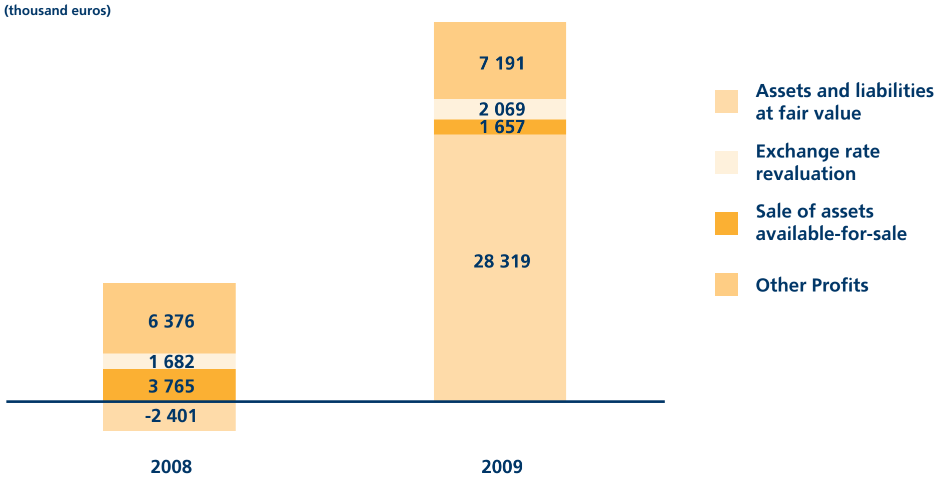
(thousand euros)

ITEM	2008	2009	Change	
	Value	Value	Value	%
Profit on Assets and Liabilities recorded at Fair Value through Profits	**-2 401**	**28 319**	**30 720**	**1 279,5**
Financial assets and liabilities held for trading	-2 267	27 438	29 705	1 310,3
Financial assets and liabilities at fair value through profits	135	160	25	18,5
Hedging derivatives	3 608	-2 408	-6 016	-166,7
Other financial operations	-3 877	3 129	7 006	180,7
Profit on Sale of Available-for-sale Assets	**3 765**	**1 657**	**-2 108**	**-56,0**
Profit on Exchange Rate Revaluation	**1 681**	**2 069**	**388**	**23,1**
Profit on Sale of Bonds	**-151**	**-135**	**16**	**10,6**
Other Profits	**6 377**	**7 191**	**814**	**12,8**
Return on shares	**0**	**14**	**14**	**–**
TOTAL	**9 271**	**39 115**	**29 844**	**321,9**

Performance was positive in terms of Assets and Liabilities Recorded at Fair Value through Profits, reflecting the favourable trends in interest rates and credit spreads.

PROFIT ON MARKET OPERATIONS

(thousand euros)



Other Profits

CEMG, the cornerstone of the Montepio Group, has a series of strategic and instrumental holdings which produced total dividends of 0.8 million euros.

Notwithstanding the significant increase in Assets for Trading turnover resulting from debt recovery, the net capital gain from these sales was down 28.5% as compared to last year, reflecting the real estate market conditions.

PROFIT ON SALE OF REAL PROPERTY HELD FOR TRADING

(thousand euros)

ITEM	2008	2009	Change	
	Value	Value	Value	%
Profit on sale of real property	2 129	2 200	71	3.3
Loss on sale of real property	1 546	1 783	237	15.3
NET PROFIT	**583**	**417**	**-166**	**-28.5**

Breakdown of Banking Revenue Distribution

The stated Banking Revenue was distributed as follows:

(thousand euros)

ITEM	2008		2009		Change	
	Value	%	Value	%	Value	%
Staff Costs	151 260	36.9	147 352	32.8	-3 908	-2.6
Administrative Overheads	85 696	20.9	79 204	17.6	-6 492	-7.6
Depreciation	18 370	4.5	20 507	4.6	2 137	11.6
Operating Costs	**255 326**	**62.3**	**247 063**	**55.0**	**-8 263**	**-3.2**
Provisions and Impairment	123 058	30.0	159 989	35.6	36 931	30.0
Net Profit for the Year	33 874	8.3	44 476	9.9	10 602	31.3
Membership and Joint Venture Proceeds	2 623	0.6	2 503	0.5	-120	-4.6
Banking Revenue	**409 635**	**100.0**	**449 025**	**100.0**	**39 390**	**9.6**

Staff Costs lost relative weight, going from 36.9% in 2008 to 32.8% in 2009, and ceased to be the largest component of Banking Revenue. At the same time the relative weight of Administrative Overheads fell by 3.3 b.p. to 17.6% at the end of 2009, showing the impact of the cost compression policy, aimed at increasing internal efficiency and profitability.

Provisions became the largest component, accounting for 35.6% of Banking Revenue distribution in 2009. Nonetheless, the generation of Banking Revenue was able to offset this effect, resulting from structural pressures, without affecting profit, since the relative weight of Net Profit for the Year increased in comparison with the previous year (+1.6 b.p.), finishing the year at 9.9%.

Operating Costs

During the year Operating Costs management policy continued to pursue the improvement goals set for internal efficiency. To this end Operating Costs went down 8.3 million euros (-3.2%), as a result of the reductions in Administrative Overheads (-7.6%) and Staff Costs (-2.6%).

(thousand euros)

ITEM	2008		2009		Change	
	Value	%	Value	%	Value	%
Staff Costs	151 260	59.2	147 352	59.7	-3 908	-2.6
Administrative Overheads	85 696	33.6	79 204	32.0	-6 492	-7.6
Running Costs	236 956	92.8	226 556	91.7	-10 400	-4.4
Depreciation	18 370	7.2	20 507	8.3	2 137	11.6
Operating Costs	**255 326**	**100.0**	**247 063**	**100.0**	**-8 263**	**-3.2**

Staff Costs

In line with the Human Resources policy that has been in place in recent years, there was an overall reduction in Staff Costs of 3.9 million euros (-2.6%), due in the main to the drop in Mandatory Social Security Payments, brought about by the lower total contribution to the Pension Fund (-28.3%), following the drop in early retirement expenses and the higher return on the Pension Fund.

(thousand euros)

ITEM	2008		2009		Change	
	Value	%	Value	%	Value	%
Staff Costs						
Governing Bodies Remuneration	1 302	0.9	989	0.7	-313	-24.0
Employees Remuneration	97 170	64.2	104 645	71.0	7 475	7.7
Mandatory Social Security Payments	50 158	33.2	38 346	26.0	-11 812	-23.5
Other Staff Costs	2 630	1.7	3 372	2.3	742	28.2
TOTAL	**151 260**	**100.0**	**147 352**	**100.0**	**-3 908**	**-2.6**

Administrative Overheads

Thanks to the cost savings policy, it was possible to achieve a positive contribution to the increase in profitability from the 6.5 million euros (-7.6%) drop in Administrative Overheads, especially Advertising (-65.6%) and Consultancy (-34.9%).

(thousand euros)

ITEM	2008		2009		Change	
	Value	%	Value	%	Value	%
Administrative Overheads						
Premises	21 817	25.4	22 571	28.5	754	3.5
Advertising	10 687	12.4	3 677	4.6	-7 010	-65.6
Communication	9 945	11.6	9 929	12.5	-16	-0.2
Information technology	9 447	11.0	10 523	13.3	1 076	11.4
Travel	1 589	1.9	1 384	1.7	-205	-12.9
Consumables	2 042	2.4	2 029	2.6	-13	-0.6
External Consultancy	9 783	11.4	6 366	8.0	-3 417	-34.9
Outsourcing	2 710	3.2	2 819	3.6	109	4.0
Training	761	0.9	718	0.9	-43	-5.7
Payment means management	7 268	8.5	7 640	9.7	372	5.1
Transport and fuel	6 433	7.5	6 392	8.1	-41	-0.6
Others Supplies and Services	3 214	3.8	5 156	6.5	1 942	60.4
TOTAL	**85 696**	**100.0**	**79 204**	**100.0**	**-6 492**	**-7.6**

Depreciation

Depreciation for the year was up 2.1 million euros (11.6%), essentially as a result of technological investments that impacted on ICT equipment.

(thousand euros)

ITEM	2008	2009	Change	
	Value	Value	Value	%
Depreciation				
Intangible Fixed Assets	**8 152**	**8 338**	**186**	**2.3**
Software	8 152	8 338	186	2.3
Tangíble Assets	**10 218**	**12 169**	**1 951**	**19.1**
Buildings	3 306	3 269	-37	-1.1
Equipment	6 679	8 421	1 742	26.1
Assets under Operating Lease	233	479	246	105.6
TOTAL	**18 370**	**20 507**	**2 137**	**11.6**

Productivity and Efficiency

Pursuit of the guidelines based on average growth in business, plus a policy of running costs rationalization, led to productivity gains, as revealed by all the indicators, in particular in employee productivity where Average Net Assets per Employee rose 10.6%, while the number of Staff per Branch improved by 1.8%.

INDICATORS	2008	2009	Change	
Operating Costs/Average Net Assets (%)	1.51	1.45	-0.06 b.p.	
Average Net Assets/ Average No. of Employees (thousand €)	5 728	5 816	88	1.5%
Banking Renevue/ Average No. of Employees (thousand €)	139	153	14	10.1%
Number of Employees / Branch (Quantity)	9.16	9.00	-0.16	-1.8%

The improvement in the financial productivity indicators, together with the rise in Profit, due to the increased business and the success of cost saving programmes, had a positive impact on efficiency levels.

The efficiency ratio, in the strict sense, i.e. the ratio of Running Costs to Banking Revenue improved considerably, recording an improvement of 7.3 b.p. to end the year at 50.5%.

(thousand euros)

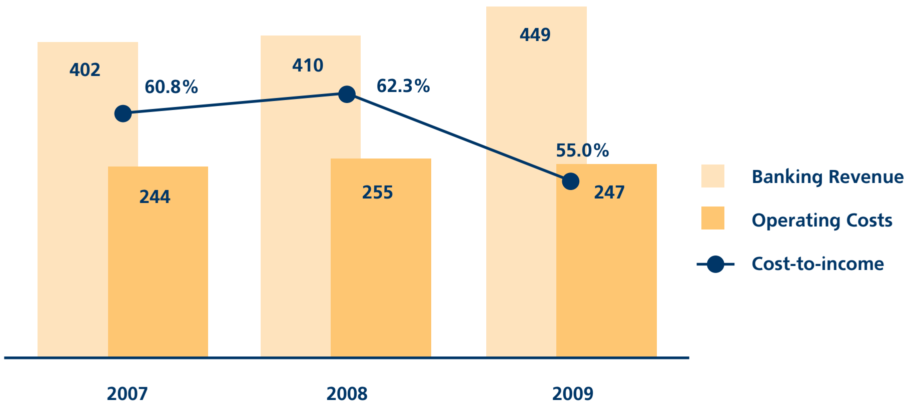
ITEM	2008		2009		Change	
	Value	%	Value	%	Value	%
Staff Costs	151 260	59.2	147 352	59.7	-3 908	-2.6
Administrative Overheads	85 696	33.6	79 204	32.0	-6 492	-7.6
Running Costs	**236 956**	**92.8**	**226 556**	**91.7**	**-10 400**	**-4.4**
Depreciation	18 370	7.2	20 507	8.3	2 137	11.6
Operating Costs	**255 326**	**100.0**	**247 063**	**100.0**	**-8 263**	**-3.2**
Banking Revenue	**409 635**		**449 025**		**39 390**	**9.6**
RATIOS						
Staff Costs / Banking Revenue	36.9%		32.8%		-4.1 b.p.	
Administrative Overheads / Banking Revenue	20.9%		17.6%		-3.3 b.p.	
Depreciation / Banking Revenue	4.5%		4.6%		0.1 b.p.	
Cost-to-Income (Operating Costs / Banking Revenue)	**62.3%**		**55.0%**		**-7.3 b.p.**	
Efficiency Costs (Operating Costs / Banking Revenue)	57.8%		50.5%		-7.3 b.p.	

The broader efficiency ratio, that is the Cost-to-Income ratio (ratio of Operating Costs to Banking Revenue) also showed very considerable improvement (7.3 b.p.), ending the year at 55.0%.

A major contributor to the improvement seen in the efficiency ratios was the change in Staff Costs, which accounted for 32.8% of Banking Revenue, as compared to the previous year's figure of 36.9%. Thus the 4.1 b.p. rise in this indicator easily explains the overall improvement of 7.3 b.p. in the Cost-to-Income ratio.

TREND IN COST-TO-INCOME RATIO

(million euros)



Provisions and Impairment

Over the course of 2009 improvements were made to the analytical processes and the debt recovery structures, coupled with developments in the information and control fields, in order to counteract the rising non-performance levels, brought on by the adverse economic climate which hit economic players hard.

In this light, Total Provisions and Impairment grew by 30%, which was more than offset by Banking Revenue's positive performance.

BREAKDOWN OF PROVISIONS AND IMPAIRMENT

(thousand euros)

PROVISIONS AND IMPAIRMENT TYPE	2008		2009		Change	
	Value	%	Value	%	Value	%
Net Provisions and Impairments of Credit	**97 857**	**79.5**	**147 774**	**92.4**	**49 917**	**51.0**
Setting up	425 567		527 206		101 639	23.9
Recovery	327 710		379 432		51 722	15.8
Net Impairment of securities	**20 248**	**16.5**	**2 132**	**1.3**	**-18 116**	**-89.5**
Setting up	20 321		2 398		-17 923	-88.2
Recovery	73		266		193	264.4
Net Impairment of Others Assets	**4 953**	**4.0**	**10 083**	**6.3**	**5 130**	**103.6**
Setting up	6 073		10 665		4 592	75.6
Recovery	1 120		582		-538	-48.0
Total Net Provisions and Impairment	**123 058**	**100.0**	**159 989**	**100.0**	**36 931**	**30.0**
Setting up	451 961		540 269		88 308	19.5
Recovery	328 903		380 280		51 377	15.6

The overall change recorded in Total Provisions and Impairment was strongly affected by the change in Credit Provisions and Impairment, that was up 49.9 million Euros (+51%) and which represented 92.4% of the total rise, since Securities Impairment fell by 89.5%.

Net Impairment on Other Assets grew by 103.6%, due in the main to prudence measures that provided 100% cover for Assets for Trading that have been held for over 8 years.

Rates of Return

The Rates of Return achieved in 2009 were above those of the previous year. Return on Assets (ROA) stood at 0.26% (0.20% in 2008), Return on Equity (ROE) rose to 4.72% (4.12% in 2008) and the relative weight of Banking Revenue in Average Net Assets was 2.63% (2.43% in 2008).

PROFITABILITY

	2008	2009	Change	
	Value	Value	Value	%
Profitability ratios				
Return on Assets (ROA)	0.20%	0.26%	0.06 b.p.	
Return on Equity (ROE)	4.12%	4.72%	0.60 b.p.	
Banking Revenue/Average Net Assets	2.43%	2.63%	0.20 b.p.	
Cash-Flow Total (thousand euros)	**175 301**	**224 971**	**49 670**	**28.3**
Depreciation	10.5%	9.1%	-1.4 b.p.	
Net Provisions and Impairment	70.2%	71.1%	0.9 b.p.	
Net Profit for the Year	19.3%	19.8%	0.5 b.p.	

Total cash flow was 225 million euros which represented a growth of 49.7 million euros (28.3%).

Pension Fund

When calculating Pension Fund liabilities, Montepio took into account the following assumptions:

- discount rate of 5.5%;
- salary growth rate of 3.0%;
- pension growth rate of 2.0%;
- continued use of TV 88/90 mortality table for men and women.

TREND IN MONTEPIO PENSION FUNDS

(thousand euros)

	2008	2009	Change	
	Value	Value	Value	%
1. Total liabilities				
Current staff	297 529	321 838	24 309	8.2
Retired staff	216 683	247 984	31 301	14.4
TOTAL 1	**514 212**	**569 822**	**55 610**	**10.8**
2. Non-demanded or deferred liabilities				
Exempt from financing	12 580	14 650	2 070	16.5
Application of IAS	35 127	27 094	-8 033	-22.9
Impact of Mortality Table	30 509	23 971	-6 538	-21.4
TOTAL 2	**78 216**	**65 715**	**-12 501**	**-16.0**
3. Cover of Minimum Liabilities (1-2)	**435 996**	**504 107**	**68 111**	**15.6**
4. Value of the Fund	**436 148**	**504 883**	**68 735**	**15.8**
5. Cover:				
Minimum Liabilities (4/3)	100.0%	100.2%		0.2 b.p.
Total Liabilities (4/1)	84.8%	88.6%		3.8 b.p.
6. Adjustments to the Fund:				
6.1. Contributions accepted (+)	36 648	45 553	8 905	24.3
6.2. Efective return on assets (+)	-29 217	39 971	69 188	236.8
6.3. Charges (-)	114	125	11	9.6
6.4. Pensions paid (-)	14 069	16 664	2 595	18.4
6.5 TOTAL 6 (6.1+6.2-6.3-6.4)	**-6 752**	**68 735**	**75 487**	**1118.0**

Total liabilities stood at 569.8 million Euros and recorded a growth of 10.8%, due to the greater increase in retired staff liabilities which rose 14.4%. On the other hand non-demanded liabilities or deferred funding (IAS, 8 to 10 years and mortality table, 24 years) totalled 65.7 million euros, which when deducted from total liabilities results in minimum mandatory liabilities to be financed of 504.1 million euros. These are totally covered and partially exceeded by fund assets (504.9 million euros). This represents a 68.7 million euros (+15.8%) increase in the value of fund assets, brought about by the effective return on such assets, at a rate of 9.58%, as compared to the previous year's loss (-1.5%).

The degree of cover for minimum liabilities required by the Supervisory Authorities was 100.2% (100.0% in 2008), above the minimum requirement. The degree of cover for total liabilities was 88.6% (84.8% in 2008), a rise of 3.8 b.p. over the previous year.

Solvency

Montepio reinforced its Base Equity by 128.8 million euros (+15.58%) in order to achieve higher levels of financial soundness and sustainability, and be prepared for an environment of higher risk levels. Of particular note is the 100 million euros increase in Institutional Financial Investment, provided by MGAM.

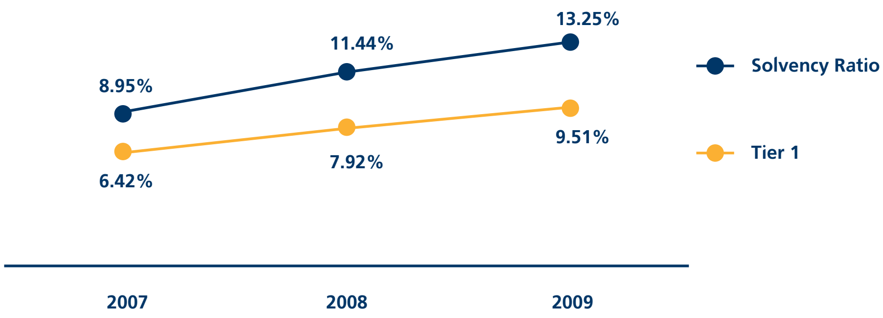
EQUITY AND SOLVENCY AND FIXED ASSET RATIOS

(thousand euros)

ITEM	2008	2009	Change	
	Value	Value	Value	%
1. Eligible Own Funds	**1 202 349**	**1 329 030**	**126 681**	**10.5**
(+) Institutional Capital	*660 000*	*760 000*	*100 000*	*15.2*
(+) Reserves and Profits	*238 922*	*271 327*	*32 405*	*13.6*
(–) Regulatory Deductions	*66 606*	*76 619*	*10 013*	*15.0*
1.1 (=) Base Equity	**832 316**	**954 708**	**122 392**	**14.7**
(+) Supplementary Equity	379 540	383 400	3 860	1.0
(–) Otther deductions	9 507	9 078	-428	-4.5
2. Minimum Required Own Funds	**840 469**	**802 705**	**-37 764**	**-4.5**
3. Assets and similar items weighted for risk (2x12.5)	**10 505 862**	**10 033 813**	**-472 049**	**-4.5**
4. Ratios				
Solvency (1/3)	11.44%	13.25%	1.81 b.p.	
Tier 1 (1.1/3)	7.92%	9.51%	1.59 b.p.	
Core Capital (1.1/3)	7.92%	9.51%	1.59 b.p.	
Fixed Assets (BoP limit: 100%)	10.63%	11.73%	1.10 b.p.	

As a result the Solvency Ratio was 13.25% (11.44% in 2008) and the Tier 1 ratio (which in the case of CEMG is equal to its Core Capital) was 9.51% (7,92% in 2008), greater than the minimum limit recommended by the Bank of Portugal (8%). On the other hand, the Fixed Asset ratio was 11.73% (10.63% in 2008), when the maximum limit is 100%.

TREND IN SOLVENCY RATIO



4.6.6. Ratings

CEMG has been rated by two of the most renowned international rating agencies, Fitch Ratings and Moody's. Their ratings for CEMG are as follows.

RATING AGENCY	Short-Term	Long-Term	Outlook
Fitch Ratings	F2	A-	Stable
Moody's	P-2	Baa1	Negative

4.6.7. Proposed Appropriation of Profits – Individual Accounts

Pursuant to Article 23, 1, (b) of the Articles of Association of Caixa Económica Montepio Geral, the Board of Directors proposes to the General Meeting the following application of year-end results amounting 37.778 million euros:

(thousand euros)

ITEM	Value
To Legal Reserve	7 556
To Special Reserve	1 889
Transfer to Retained Earnings (BoP Regulation 12/2001)	8 033
To be transferred to Montepio Geral – Associação Mutualista	20 300
PROFIT FOR THE YEAR	**37 778**

The sum to be transferred to Retained Earnings corresponds to the offsetting of the impact of the IAS/IFRS transition and of the Pension Fund liabilities, in accordance with Bank of Portugal Notices No. 12/2001 (no. 13-A), as amended by Notices No. 4/2005 and No. 7/2008.

4.7. MONTEPIO GROUP COMPANIES

LUSITANIA
Grupo Montepio

LUSITANIA – COMPANHIA DE SEGUROS, SA.

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

The year was marked by a significant increase in the Montepio Group's presence in the insurance sector, following the purchase of Real Seguros and Mutuamar companies at the end of the year. Thus Montepio ensured a greater share in a sector that plays an important role in protecting society and which, at the same time, generates value for Members by taking advantage of and furthering the important synergies with the banking business.

Summary of Business

In 2009, the performance of the non-life insurance sector in Portugal was negatively impacted by the persistent economic recession that hit Portuguese companies and families, and so hit Accidents at Work and Motor insurance lines. According to provisional figures published by the Portuguese Insurance Institute the volume of premiums in the Portuguese market decreased for the second year running, slipping to 4 137 million euros at the end of 2009, down 4.2% on 2008. A major factor in this drop was the large reduction in premiums in the sector's two main segments, Accidents at Work and Motor insurance, down 9.1% and 7.6%, respectively.

Bearing in mind this economic slowdown and the need for insurance companies to adapt to a new supervision model that requires major investments in risk models, consultancy, technology and training, the company's size becomes particularly important. The take-over of Real Seguros and Mutuamar by Lusitania should lead in the short-term to an improvement in the Company's competitiveness, due to a better use of the cost structure.

On a consolidated basis the volume of premiums issued by Lusitania grew by around 69% in 2009, from 137 to 232 million euros. Market share in the non-life insurance sector increased to 5.6% (3.2% in 2008): 8.4% (4.7%) for Accidents at Work insurance and 5.3% (2.7%) for Motor insurance. Taking into account that the non-life insurance market is very fragmented and dominated by companies in the Caixa Geral de Depósitos Group, Lusitania is currently ranked 6th nationally and has a market share relatively close to that of its main rivals.

The strengthening of the relationship between Lusitania and Montepio, especially in terms of the potential of their distribution networks and the complementary nature of their products, was also high in the agenda in 2009. Accordingly there was a rise of around 8% in the volume of premiums placed through the banking channel. In addition the *Assurfinance* project, aimed at Private Individuals and Companies, was launched and by the year-end it had 63 agents.

Financial Indicators

In December 2009, Lusitania's financial statements reflect the merger operations resulting from the incorporation of Real Seguros and Mutuamar insurance companies on the final day of the year.

Net Assets doubled to stand at 578 million euros. To meet the cost of the take-over, the net position was significantly reinforced, going from 25 to 82 million euros between 2008 and 2009. Thanks to this increase in equity, Lusitania achieved a comfortable level of solvency margin cover as required by the Portuguese Insurance Institute, rising from 1.1 in 2008 to 1.6 in 2009.

In the Profit and Loss Account for 2009, Lusitania only included the direct costs and benefits of the take-over operations, that is, the difference between the sum paid and the companies' worth. The positive impact of these operations was the main driver of the considerable growth in Net Profit for the Year which went from 2.4 million euros in 2008 to 4.3 million euros in 2009, a rise of 73%.

FINANCIAL INDICATORS

(thousand euros)

ITEM	2008	2009	Change	
			Absolute	Relative (%)
Gross Premiums Issued	**139 368**	**132 337**	-7 031	-5.0
Claims rate	65.4%	65.9%	0.5 b.p.	
Expense ratio	27.6%	27.8%	0.2 b.p.	
Net Profit for the Year	2 392	4 292	1 900	79.4
Return on Assets	0.86%	0.74%	-0.12 b.p.	
Return on Equity	9.42%	5.22%	-4.20 b.p.	
Net Assets	279 763	578 265	298 502	106.7
Equity	25 403	82 154	56 751	223.4
Solvency Margin	106.7%	155.4%	48.7 b.p.	
No. of employees at 31 December	360	673	313	86.9

Prospects

Lusitania's top priority for 2010 is the consolidation of the merger. So it will undertake a number operational and development projects. Some of them are intended to improve the cost management process, the automation and monitoring of operational circuits and the enhancement of quality in services provided to intermediaries and insured persons. In terms of business development, 2010 will see the re-launch of the autonomous business areas of Transportes e Engenharia – Lusitana Mar. The distribution networks will also be a priority, in particular the enlarged intermediary network. New products will be provided in 2010 via the Banking-insurance channel, such as «*Montepio Saúde*», «*Montepio Estomatologia*» and a new insurance package for Business Gold card holders.

LUSITANIAVIDA

Grupo Montepio

LUSITANIA VIDA – COMPANHIA DE SEGUROS, S.A.

Lusitania Vida is the Montepio Group's life assurance company and it completes the Group's insurance business by providing life assurance and investment products through the banking channel and the intermediaries. Lusitania Vida's business complements the Group's mutual and banking aims through its welfare and savings solutions, as well as Lusitania's business through the sale of mixed life and non-life packages.

Summary of Business

In 2009, savers showed an increased risk aversion. As a result, overall life assurance business fell 5.9%, due to the sharp drop in capitalisation operations and insurance linked to Mutual Funds, which was not offset by the rise in sales of products with guaranteed earnings and capital.

Taking advantage of the growth in this type of investment products, the volume of premiums issued by Lusitania Vida rose significantly by 47.3%, going from 0.075 million euros to 0.110 million euros. Also of special note in 2009 was the success of the steps taken to enhance the intermediary channel, which accounted for around 27% of turnover at the end of the year.

Financial Indicators

In 2009, insurance companies' investment portfolios suffered from the particularly unfavourable economic climate. Lusitania Vida was no exception and in 2009 its Net Profit fell by 32.3%, due to losses on the devaluation of assets.

Despite the economic restraints, the company performed positively in general terms, as seen from the considerable increase in output and significant savings in the main cost accounts, with Cost of Claims and Inherent Costs falling 20.1% and 10.8%, respectively.

Furthermore, there was a 123% increase in Equity to 40.137 million euros, which represented an important increase in the company's Solvency Margin, from 1.5 in 2008 to 2.7 in 2009. This change was brought about by the recovery in the market value of the Financial Assets allocated to the technical provisions.

FINANCIAL INDICATORS

(thousand euros)

ITEM	2008	2009	Change	
			Absolute	Relative (%)
Output:	**74 606**	**109 916**	**35 310**	**47.3**
Life Assurance	***32 767***	***35 387***	***2 620***	**8.0**
Investment Contracts	***41 839***	***74 529***	***32 690***	**78.1**
Net cost of claims	34 559	27 612	-6 947	-20.1
Inherent costs	3 976	3 547	-429	-10.8
Net Profit for the Year	4 845	3 279	-1 566	-32.3
Return on Assets	1.15%	0.66%	-0.49 b.p.	
Return on Equity	26.88%	8.17%	-18.71 b.p.	
Net Assets	422 310	496 693	74 383	17.6
Equity	18 023	40 137	22 114	122.7
Solvency Margin	153.4%	266.2%	112.8 b.p.	
No. of employees at 31 December	29	30	1	3.4

Prospects

In 2010 Lusitania Vida will continue to pay special attention to the development of the intermediaries' channel, making use of Lusitania's enlarged network, following the take-over of Real Seguros and Mutuamar business.

The banking channel will continue to benefit from the strong synergy between MGAM and Lusitania Seguros, especially as regards life-risk products. As a result, Lusitania Vida's business will continue to be an important source of revenue for the Group.

Montepio Gestão de Activos

MONTEPIO GESTÃO DE ACTIVOS – SGFI, SA.

Montepio Gestão de Activos is the Montepio Group Company that specialises in the management of financial assets, with special emphasis on Mutual Fund management and discretionary portfolio management.

Summary of Business

The year was marked by a return to growth in the Mutual Funds, with assets under management totalling 17 223.1 million euros at the end of the year, which represented an annual growth of 20.1%. However, this sum was still lower than the assets under management at the end of 2007, which amounted to 25 763.1 million euros. (Source: *Associação Portuguesa de Fundos de Investimento*, *Pensões e Patrimónios*). The market growth was partly due to the increase in net subscriptions, around 2 286.3 million euros, showing investors' renewed confidence in this type of asset and to the valuation of investments in Mutual Funds, following the recovery in the financial markets.

At the end of 2009, the value of the assets managed by Montepio Gestão de Activos was 479.1 million euros. This represented a growth of 50.4% over the year, clearly above the market average for the same period. This growth led to an increase in market share from 2.2% at the end of 2008 to 2.8% at the end of 2009.

In recent years, Montepio Gestão de Activos has diversified its Funds so as to broaden their offers to different risk profiles. To this end a new more conservative fund, «*Montepio Monetário Plus – FEI*», was launched in July 2009. At the same time, discretionary portfolio management performed well in 2009, with assets managed by Montepio Gestão de Activos recording an increase of 20.1% over the year to 1 015 million euros, thus exceeding the market growth rate of 11.5%.

Financial Indicators

In 2009, management fees earned by Montepio Gestão de Activos fell by 11.3%, in line with the 2008-2009 drop in the average value of the assets under Mutual Fund management.

However the fall in Mutual Fund revenue was partially offset by the 35.9% increase in discretionary portfolio management fees. Of particular note is the positive contribution of variable fees, that is earnings accruing to the management company for performance above the benchmark for the portfolios under discretionary management.

Also of note was the company's success in retaining strict control over overheads in 2009, which fell by 1.8%, as compared to 2008, to 1.5 million euros.

Net Profit for the Year slipped 4%, as compared to 2008, to 0.5 million euros in 2009.

FINANCIAL INDICATORS

(thousand euros)

ITEM	2008	2009	Change	
			Absolute	Relative (%)
Assets under Mangement	**1 163 752**	**1 494 106**	**330 354**	**28.4**
Investment Funds	***318 541***	***479 058***	***160 517***	***50.4***
Asset Management	***845 211***	***1 015 048***	***169 837***	***20.1***
Management Fees	**5 323**	**4 723**	**-600**	**-11.3**
Administrative costs	1 523	1 495	-28	-1.8
Net Profit for the Year	562	539	-23	-4.1
Return on Assets	17.90%	16.23%	-1.67 b.p.	
Return on Equity	21.77%	20.53%	-1.24 b.p.	
Net Assets	3 139	3 321	182	5.8
Equity	2 581	2 626	45	1.7
No. of employees at 31 December	13	13	0	

Prospects

In 2010, the volatility of the financial markets that has marked the current economic climate will continue. In this context the company's priorities will be to maintain its strict control over overheads and to develop the range of its Mutual Funds, whenever market opportunities are identified.

FUTURO
Grupo Montepio

EMPRESA CERTIFICADA apcer ISO 9001

FUTURO – SGFP, SA.

Futuro is the Montepio Group Company that specialises in the management of Pension Funds aimed at companies and private individuals. It was legally incorporated on 14th January 1988.

Summary of Business

At the end of 2009, the value of Pension Funds under management in Portugal was 21,395.9 million euros which accounted for an increase of 7.9% as compared to the end of 2008. (Source: *Associação Portuguesa de Fundos de Investimento*, *Pensões e Patrimónios*). The value of the assets of Pension Funds managed by Futuro was almost identical to that at the end of 2008, and stood at 1,119.6 million euros in December 2009. This was brought about by Closed- and Open-end Funds moving in opposite directions. The assets under management of the former fell by 3.3%, as a result of the drop in the number of funds managed over the year (from 9 to 8), while the value of assets managed of the latter rose by 8.9% in 2009. At the end of the year, the Futuro's portfolio of funds represented 5.2% of the Portuguese market.

In line with Montepio Group' development goals established for the corporate segment, a new fund called «*Futuro XXI*» was launched in the middle of the year, with the aim of broadening the products on offer in this segment. In 2009 the RSP «*5 Estrelas*» – the market's largest and oldest Pension Fund – also celebrated its 20th anniversary.

In 2009, the Montepio Pension Fund had a very positive performance, with its annual return reaching 9.6%. This figure compares very favourably with the average return on closed-end pension funds in Portugal in 2009, which according to the figures released by the international consultant, Mercer, was 8.8%.

Financial Indicators

In 2009, revenue from Futuro pension fund management showed a slight drop of 2.9%, as a result of the decrease in the average value of the assets under open-end fund management between 2008 and the year under review. For its part the closed-end funds segment contributed strongly in terms of management fees, showing a performance above that of the market.

Mention should be made of the 3.0% cut in overheads, the result of the company's efforts to keep overheads low and under control.

Net Profit for the Year was 0.3 million euro, a growth rate of 6.2%.

FINANCIAL INDICATORS

(thousand euros)

ITEM	2008	2009	Change	
			Absolute	Relative (%)
Assets under Management	**1 121 799**	**1 119 555**	**-2 244**	**-0.2**
Open Funds	***287 201***	***312 764***	***25 563***	***8.9***
Closed Funds	***834 598***	***806 791***	***-27 807***	***-3.3***
Management Fees	**6 527**	**6 339**	**-188**	**-2.9**
Administrative costs *	2 278	2 209	-69	-3.0
Net Profit for the Year	273	290	17	6.2
Return on Assets	3.79%	3.81%	0.02 b.p.	
Return on Equity	5.53%	5.83%	0.30 b.p.	
Net Assets	7 197	7 609	412	5.7
Equity	4 944	4 975	31	0.6
No. of employees at 31 December	31	32	1	3.2

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

Prospects

In 2010 Futuro will keep the current business model, and its main goal will be to increase its share of the Small and Medium Size Companies market through Montepio's distribution network, in particular the internet Portal.

In addition to the regular promotion of RSP Fund subscriptions to the private individuals segment, a new Fund, «*FUTURO XXI*», aimed at the corporate segment will be launched.

Montepio RESIDÊNCIAS

RESIDÊNCIAS MONTEPIO – SERVIÇOS DE SAÚDE, SA.

Residências Montepio, Serviços de Saúde S.A. was incorporated at the end of 2005 in order to strengthen the Montepio Group's presence in the social protection and improved quality of life fields, especially the seniors segment. Its business focuses on the management of Retirement Homes and the provision of home support services, by the sale of Vitalidade cards through the Montepio commercial network.

Summary of Business

In 2009, Residências Montepio opened two new residential homes and so ended the year with three homes running in Porto, Gaia and Coimbra. With the exception of the Coimbra home that was opened in the last month of the year with an occupancy rate of around 50%, the remaining homes had occupancy rates of over 70% at the end of the year.

The provision of home support services and tele-assistance, as a complement to the residential homes, has been promoted by the sale of Vitalidade + and Tele-Vitalidade cards by the Montepio Branch Network. The number of service subscribers went up by 34% in 2009.

Prospects

Two more residential homes are expected to be opened in 2010, which along with the three that were already in business in 2009 should generate very significant increase in revenue. At the same time home support business should feel the impact, given the synergy between the two areas of business and the increase in the number of homes.

Residências Montepio's main business goals for the next year will be to increase occupancy rates, maintain the high quality of service at an affordable price, and intensify the advertising of the services available with the aid of the Montepio distribution network.

Also of note is the Group's contribution to job creation, through Residências Montepio, which plans to create 150 new jobs in 2010, taking its total staff to around 300.

4.8. ACKNOWLEDGEMENT

The year was one of serious economic and social crisis that hit most countries, and, unfortunately, Portugal was no exception. In effect the Portuguese economy's underlying problems, of a structural nature, will continue beyond 2009 and the financial business is not immune to them.

Despite this adverse climate, Montepio continued – and continues – to confirm the robustness, transparency and safety of the brand, actively meeting the expectations of all those who make up our society.

For almost 170 years we have turned fragilities into strengths and adversities into successes and the crisis must be seen as one more challenge in the Group's history.

In spite of the difficulties, 2009 was a year of major challenges and opportunities. A year in which the ability to adapt, change and develop proved to be decisive, at the start of a new decade for which we are preparing our Institution.

But it would not have been possible to overcome these challenges without the professionalism and dedication of all those who work for Montepio, nor without the support of our Members and Customers.

We also wish to express our appreciation for the various Government, Monetary and Financial Regulatory Bodies for the cooperation, support and confidence shown.

In addition to these bodies we wish to show our gratitude to the members of the General Meeting Board, Internal Audit Board and General Board for their confidence and support.

And as the Board ends this Report, it proposes that the General Meeting seconds our votes of thanks and appreciation to the above persons and entities, and the expression of our deepest sympathy in memory of all those Members and Employees who passed away during the year.

THE BOARD OF DIRECTORS

António Tomás Correia – Chairman

José de Almeida Serra

Rui Manuel Silva Gomes do Amaral

Eduardo José da Silva Farinha

Álvaro Cordeiro Dâmaso

4.9. COMPLIANCE STATEMENT

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

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

This Board of Directors took office on 11th January 2010 but we state that to the best of our knowledge we believe that all the individual and consolidated financial information contained in the annual accounts, as at 31st December 2009, was prepared in accordance with the applicable accounting rules and provides a true and fair view of the assets, liabilities, financial position and profits pertaining to the Institution and the companies falling within the consolidation scope.

Furthermore, we state that the annual report accurately describes the evolution of the business, the performance and position of the Institution and the companies falling within the consolidation scope, pursuant to the applicable rules.

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

5. Financial Statements, Notes, Statutory Audit Opinion and Auditors Reports

5.1. MONTEPIO GERAL – ASSOCIAÇÃO MUTUALISTA

BALANCE SHEET AS AT 31 DECEMBER, 2009 AND 2008

(thousand euros)

ASSETS	NOTES	2009 TOTAL ASSETS	2009 DEPRECIATION AND PROVISIONS	2009 NET ASSETS	2008 NET ASSETS
TANGIBLE ASSETS		**58 732**	**6 616**	**52 116**	**46 987**
Land and natural resources	7	3 754		3 754	3 729
Buildings and other constructions	7	17 650	6 616	11 034	12 758
Other tangible assets	7	90		90	89
Work in progress	7	37 238		37 238	30 411
INVESTMENTS		**1 911 835**	**65 569**	**1 846 266**	**1 613 448**
Institutional financial investment	9	760 000		760 000	660 000
Other financial investments	9	81 965		81 965	51 094
Shares	8	4 274	1 228	3 046	4 926
Bonds and other fixed income securities	8	687 177	14 707	672 470	592 363
Financing loans		3 606		3 606	3 533
Investment property	7	164 270	44 122	120 148	112 699
Other securities	8	210 543	5 512	205 031	188 833
DEBTORS		**2 419**	**544**	**1 875**	**7 588**
Members		495		495	568
State and other public entities	17	1 334		1 334	1 526
Other debtors		590	544	46	5 494
TRADING SECURITIES		**25 106**		**25 106**	**23 202**
Bonds and others Fixed Income Securities	8	28 509		28 509	25 038
Derivates at negative fair value	8	(3 403)		(3 403)	(1 836)
CASH AND BANK DEPOSITS		**673 394**		**673 394**	**896 890**
Bank deposits	35	673 394		673 394	896 890
ACCRUALS AND DEFERRALS		**11 020**		**11 020**	**12 211**
Accrued revenue	32	11 020		11 020	12 029
Deferred costs	32				182
TOTAL DEPRECIATION			**50 738**		
TOTAL PROVISIONS			**21 991**		
TOTAL ASSETS		**2 682 506**	**72 729**	**2 609 777**	**2 600 326**

THE CHIEF ACCOUNTANT
Armindo Marques Matias

See accompanying notes to the financial statements

(thousand euros)

EQUITY AND LIABILITIES	NOTES	2009	2008
EQUITY			
Social fund			
Own funds	23	79 436	75 971
Technical surpluses	20 and 23	72 469	60 954
Revaluation reserves	10 and 23	5 616	(20 862)
Legal reserves	23	168 471	169 866
Other reserves	23	34 580	1 581
Retained earnings	23		45 273
Net profit for the year		42 533	9 390
TOTAL EQUITY		**403 105**	**342 173**
LIABILITIES			
PROVISIONS FOR RISKS AND EXPENSES		**2 201 184**	**2 053 801**
Mathematical provisions for expenses relating to association schemes	20 and 23	2 114 982	1 964 413
Grants and Benefit Improvements	20 and 23	86 202	89 388
CREDITORS		**4 744**	**203 551**
Beneficiaries		2 362	2 244
Amounts owed to credit institutions	33		200 000
State and other public entities	17	803	702
Suppliers		189	77
Other creditors		1 390	528
ACCRUALS AND DEFERRED INCOME		**744**	**801**
Accrued costs	32	744	801
TOTAL LIABILITIES		**2 206 672**	**2 258 153**
TOTAL EQUITY AND LIABILITIES		**2 609 777**	**2 600 326**
OBLIGATIONS AND FUTURE COMMITMENTS			
Foundations' funds management	18	961	2 329
Commitments from third parties	18	31 595	37 489
Commitments to third parties	18	15 945	36 636
Other obligations and future commitments	18	10 988	6 894

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

STATEMENT OF INCOME AS AT 31 DECEMBER, 2009 AND 2008

(thousand euros)

DEBIT		NOTES	2009	2008
COSTS AND LOSSES				
MEMBERSHIPS COSTS			**504 581**	**582 246**
Increase on mathematical provisions			321 658	355 924
Other membership scheme costs				
Instalments			3 613	3 132
Overdue capitals		36	158 770	195 588
Grants and benefit improvements			7 561	7 784
Perpetual annuities			2 724	2 738
Other membership costs			10 255	17 080
EXTERNAL SUPPLIES AND SERVICES			**2 681**	**2 413**
STAFF COSTS		26	**6 904**	**6 976**
DEPRECIATION		7	**353**	**380**
PROVISIONS			**314**	**127**
OTHER OPERATING COSTS AND LOSSES			**718**	**749**
DEPRECIATION AND PROVISIONS FOR FINANCIAL INVESTMENTS		27	**7 652**	**21 317**
INTEREST AND SIMILAR COSTS		27	**10 943**	**11 897**
	(A)		**534 146**	**626 105**
EXTRAORDINARY COSTS AND LOSSES			**4 240**	**2 842**
Donations		29	144	58
Losses arising from fixed assets		29	3 971	2 678
Losses attributable to previous years		29	111	102
Other extraordinary losses		29	14	4
TOTAL COSTS	**(C)**		**538 386**	**628 947**
PROFIT FOR THE YEAR			**42 533**	**9 390**
TOTAL DEBIT			**580 919**	**638 337**

THE CHIEF ACCOUNTANT
Armindo Marques Matias

See accompanying notes to the financial statements

(thousand euros)

CREDIT	NOTES	2009	2008
REVENUE AND GAINS			
MEMBERSHIPS REVENUE		**486 051**	**515 600**
Reduction on mathematical provisions		181 854	217 263
Other membership schemes profits			
Fees		285	387
Quotizations		77 280	70 933
Capital received		224 330	224 210
Perpetual annuities		777	891
Other membership revenue		1 525	1 916
SUPLEMENTARY REVENUE		**8**	**6**
OPERATING SUBSIDIES AND GRANTS		**11 147**	**25 632**
Allocation from Caixa Económica Montepio Geral	23	11 147	25 632
FINANCIAL REVENUE AND GAINS		**78 225**	**89 771**
Interest income	27	43 830	65 593
Investment property income	27 and 28	17 499	16 218
Profits arising from investments	27	2 694	3 104
Other financial revenue and gains	27	12 657	3 027
Cover operations revenue	27	1 545	1 829
(B)		**575 431**	**631 009**
EXTRAORDINARY REVENUE AND GAINS		**5 488**	**7 328**
Gains arising from fixed assets	29	1 461	6 968
Depreciation and provisions decrease	29	3 782	
Other gains attributable to previous years	29	221	353
Other extraordinary revenue and gains	29	24	7
(D)		**580 919**	**638 337**
SUMMARY:			
CURRENT PROFIT	(B)-(A)	41 285	4 904
NET PROFIT	(D)-(C)	42 533	9 390

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

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER, 2009 AND 2008

(thousand euros)

	2009	2008
CASH FLOW ARISING FROM OPERATING ACTIVITIES		
Increase / (Decrease) in suppliers	825	(283)
Debtors and creditors	5 104	(5 638)
Membership costs	(182 923)	(226 322)
Membership profits	304 196	298 337
Members and beneficiaries	207	(86)
Other operating profits	45	48
Other operating costs	(10 160)	(9 365)
Own funds	(830)	(829)
Technical surpluses		(2 957)
Extraordinary losses and costs	(143)	35
Taxes	292	124
	116 613	**53 064**
CASH FLOW ARISING FROM INVESTMENT ACTIVITIES		
Proceeds from sale of other investments	(28 483)	(7 506)
Disposal/(acquisition) of investment property	15 129	9 194
Disposal/(acquisition) of investment securities	(36 235)	(228 904)
Disposal/(acquisition) of trading securities	(2 156)	27 062
Deposits with fixed maturity date	283 497	(39 566)
Commercial paper	414	(15 000)
Interest income from deposits repayable on demand	1 013	4 210
Acquisition of tangible assets	(19 336)	(16 381)
Acquisition of intangible assets		(68)
	213 843	**(266 959)**
CASH FLOW ARISING FROM FINANCING ACTIVITIES		
Institutional financial investment	(100 000)	(25 000)
Profits transferred from CEMG	11 272	25 757
Financing loans	1 440	(656)
Loans from credit institutions	(200 194)	200 000
	(287 482)	**200 101**
Net changes in cash and equivalents	42 974	(13 794)
Cash and equivalents at the beginning of the period	73 920	87 714
Cash and equivalents at the end of the period	116 894	73 920

See accompanying notes to the financial statements

NOTES TO THE FINANCIAL STATEMENTS AT 31 DECEMBER, 2009 AND 2008

Introduction

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

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

3. Accounting policies

3.1. BASIS OF PRESENTATION

Montepio Geral – Associação Mutualista is a private mutual benefit institution established in Portugal in 1840. The Association has commenced its operations in 4 October, 1840, and the Financial Statements presented reflect the results of the operations for the years ended 31 December, 2009 and 2008.

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

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

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

The financial statements now presented for the years ended 31 December, 2009 and 2008 have been prepared in accordance with the recognition and measurement criteria established by International Financial Reporting Standards as adopted in the European Union until 31 December, 2009.

The accounting policies applied by the Association in the preparation of its financial statements as at 31 December 2009 are consistent with the ones used in the preparation of the financial statements as at and for the year ended 31 December 2008.

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

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

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

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

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

3.2. TANGIBLE ASSETS

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

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

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

	Number of years
Interior facilities	10
Buildings and other constructions	50

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

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

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

3.3. INVESTMENT PROPERTY

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

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

	Number of years
Investment property	50

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

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

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

3.4. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

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

The financial investments are classified as follows:

Subsidiaries

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

Associates

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

3.5. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

Embedded derivatives

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

3.6. FINANCIAL ASSETS AND OTHER FINANCIAL INVESTMENTS

Classification

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

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

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

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

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

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

- *Available-for-sale investments*

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

Initial recognition, measurement and derecognition

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

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

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

Subsequent measurement

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

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

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

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

Reclassifications between categories

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

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

Impairment

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

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

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

3.7. FOREIGN CURRENCY TRANSACTIONS

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

3.8. CASH AND BANK DEPOSITS

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

3.9. PROVISIONS FOR DOUBTFUL DEBTS

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

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

3.10. RECOGNITION OF INCOME AND EXPENSES

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

Interest income and expense

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

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

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

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

Dividends received

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

3.11. MATHEMATICAL PROVISIONS

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

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

3.12. PROVISIONS

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

3.13. EXPENSES RELATED TO CAIXA ECONÓMICA MONTEPIO GERAL

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

3.14. PROFITS RELATED TO CAIXA ECONÓMICA MONTEPIO GERAL

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

3.15. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS IN APPLYING ACCOUNTING POLICIES

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

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

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

a) Impairment of available-for-sale equity investments

The Association determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost or when it has identified an event with impact on the estimated future cash flows of the assets. This determination requires judgement, based on all available relevant information, including the normal volatility of the financial instruments prices. Considering the high volatility and the reduced markets liquidity felt throughout 2009, the Association has considered the following parameters when assessing the existence of impairment losses:

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

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

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

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

b) Fair value of derivatives

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

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

c) Technical Provisions

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

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

6. Number of associates

As at 31 December, 2009, the Association had 442 091 (2008: 431 596) effective associates responsible for 763 032 subscriptions (2008: 729 228). As at 31 December, 2009 and 2008, the number of associates subscribing the different membership schemes, are analysed as follows:

	2009	2008
Individual schemes:		
Retirement capitals	234 667	232 433
Care payment guarantee	143 301	144 476
Deferred welfare capitals with option	135 243	126 646
Retirement saving	21 150	18 378
Welfare capitals for younger	11 347	9 258
Welfare capitals	7 481	6 911
Retirement capitals with fixed term	29 356	18 414
Retirement pensions	6 162	5 879
Survival pensions and dowries	1 725	1 779
Others	2 742	2 816
	593 174	566 990
Additional coverage schemes:		
Retirement pensions – quotes restitution	6 072	5 810
Disability temporary capitals	292	307
Retirement pensions – additional disability	246	272
Warrant capitals quotes	30	31
	6 640	6 420

7. Tangible assets and investment property

This balance is analysed as follows:

	2009 Euros '000	2008 Euros '000
Tangible assets:		
Land and natural resources	3 754	3 729
Buildings and other constructions	17 650	19 022
Other tangible assets	90	89
Work in progress	37 238	30 411
	58 732	53 251
Investments:		
Investment property	164 270	154 126
	223 002	207 377
Accumulated depreciation:		
Charge for the year	(3 073)	(2 944)
Accumulated charge for the previous years	(47 665)	(44 747)
	(50 738)	(47 691)
	172 264	159 686

As at 31 December, 2009, the balance Work in progress includes an amount of Euros 36 698 000 (2008: Euros 29 872 000) related to costs incurred with the construction of several assisted living residences.

The movements occurred in the balance Tangible assets and investment property during the year 2009 are analysed as follows:

	Balance as at 1 January Euros '000	Dotations/ Acquisitions Euros '000	Transfers Euros '000	Write-off Euros '000	Balance as at 31 December Euros '000
Cost:					
Tangible assets:					
Lands and natural resources	3 729	25	–	–	3 754
Buildings and other constructions	19 022	340	3	(1 715)	17 650
Other tangible assets	89	1	–	–	90
Work in progress	30 411	17 349	(10 477)	(45)	37 238
	53 251	17 715	(10 474)	(1 760)	58 732
Investments:					
Investment property	154 126	2 392	10 474	(2 722)	164 270
	207 377	20 107	–	(4 482)	223 002
Accumulated depreciation:					
Tangible assets:					
Buildings and other constructions	6 264	352	–	–	6 616
Investments:					
Investment property	41 427	2 720	–	(25)	44 122
	47 691	3 072	–	(25)	50 738

8. Securities portfolio

As mentioned in note 3.6, the other financial assets were classified in each of IAS39 categories and measured atfairvalue, with therespective gainsand losses beingincluded in income statement or in equity, according to the underlying accounting policy.

As at 31 December 2009 and 2008, available-for-sale financial assets are analysed as follows:

	Euros '000				
	Amortised Cost	Revatuation reserve Positive	Revatuation reserve Negative	Impairment	Book Value
Shares	6 808	70	(595)	(1 357)	4 926
Bonds and other fixed income securities	595 767	3 650	(26 422)	(14 517)	558 478
Other securities	190 708	4 260	(1 825)	(4 310)	188 833
31 December, 2008	**793 283**	**7 980**	**(28 842)**	**(20 184)**	**752 237**
Shares	4 253	111	(90)	(1 228)	3 046
Bonds and other fixed income securities	676 679	8 217	(18 717)	(14 707)	651 472
Other securities	194 448	17 494	(1 399)	(5 512)	205 031
31 December, 20099	**875 380**	**25 822**	**(20 206)**	**(21 447)**	**859 549**

As at 31 December 2009 and 2008, the financial assets that are designated at fair value through profit or loss at inceptionare analysed as follows:

	2009 Euros '000	2008 Euros '000
Book Value – Bonds	20 998	33 885
Acquisition cost	*24 788*	*41 675*

As at 31 December 2009 and 2008, the financial assets held for trading are analysed as follows:

	2009 Euros '000	2008 Euros '000
Book Value – Bonds	28 509	25 038
Acquisition cost	*28 169*	*24 821*

The securities portfolio with reference to 31 December, 2009, is presented in the Appendix I.

As at 31 December 2009 and 2008, derivative financial instruments are analysed as follows:

	2009 Euros '000		2008 Euros '000	
	Nocional	**Fair value**	**Nocional**	**Fair value**
Credit contracts				
Credit Default Swaps	10 500	(21)	30 000	(1 000)
Interest-rate contracts				
Interest Rate Swaps	25 000	(3 463)	25 000	(930)
Exchange Rates contracts				
Call Options	104	81	104	66
Put Options	–	–	36	28
		(3 403)		(1 836)

The provision for shares, bonds and other securities refers to the impairment determined according to the criteria established by IAS 39 – Financial Instruments. The movements occurred in this balance during the year 2009 are analysed as follows:

	Euros '000			
	Balance as at 1 January	**Charge for the year**	**Reversals**	**Balance as at 31 December**
Shares, bonds and other securities	20 184	4 932	(3 669)	21 447

9. Investments in subsidiaries and associates

This balance is analysed as follows:

	2009 Euros '000	2008 Euros '000
Institutional financial investment	760 000	660 000
Other investments	81 965	51 094
	841 965	711 094

During 2009, Caixa Económica Montepio Geral increased its share capital in the amount of Euros 100 000 000. The Association fully subscribed this capital increase.

Also during 2009, the Association proceeded to the acquisition of 35.5% of the share capital of NEBRA, Energias Renovables, SL in the amount of Euros 611 000.

Also during the year 2009, the Association proceeded to the realisation of previously subscribed capital of Residências Montepio – Serviços de Saúde. S.A. in the amount of Euros 510 000.

During the year 2009, the Association delivered the amount of Euros 29 750 000 to Lusitânia, Companhias de Seguros, S.A. as an ancillary capital contribution.

Investments in subsidiaries and associates can be analysed as follows:

	2009					
	Share capital	Number of shares	Percentage held	Acquisition Cost Euros '000	Shareholders Equity (*) Euros '000	Book Value Euros '000
Subsidiaries and associates						
Caixa Económica Montepio Geral	760 000	–	100,00%	760 000	995 234	760 000
Lusitania, Companhia de Seguros, S.A.	25 581	3 285 475	64,22%	53 519	54 967	53 519
Lusitania Vida, Companhia de Seguros, S.A.	20 000	328 893	41,11%	9 647	16 501	9 647
Nova Câmbios, S.A.	750	4 500	30,00%	227	354	227
Silvip, S.A.	750	3 960	26,40%	308	677	308
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	2 567	52 822	61,74%	1 963	3 071	1 963
MG Gestão de Activos Financeiros – S.G.F.I.M., S.A.	1 200	239 655	99,86%	1 331	2 622	1 331
MG Investimentos Imobiliários, S.A.	50	10 000	100,00%	50	26	50
Bolsimo – Gestão de Activos, S.A.	13 500	123 700	91,63%	12 370	11 336	12 370
Residências Montepio, Serviços de Saúde, S.A.	3 000	1 529 700	50,99%	1 530	188	1 530
Sagies, S.A.	500	27 000	27,00%	97	222	97
Leacock (Seguros), Lda.	300	a)	81,00%	242	1 886	242
Germont – Empreendimentos Imobiliários, S.A.	100	700	70,00%	70	67	70
NEBRA, Energias Renovables, SL	10	3 550	35,50%	611	n a	611
						841 965

a) Represented by quotas

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

The institutional financial investment corresponds to the institutional capital (100%) in Caixa Económica Montepio Geral. The balance sheet of Caixa, for the years ended 31 December, 2009 and 2008, can be presented as follows:

	2009 Euros '000	2008 Euros '000
Assets		
Cash and deposits at central banks	305 018	254 742
Loans and advances to credit institutions repayble on demand	51 745	92 125
Other loans and advances to credit institutions	370 884	166 781
Loans and advances to customers	14 448 162	14 724 822
Financial assets held for trading	103 195	58 655
Financial assets at fair value through profit and loss	4 192	4 031
Available-for-sale financial assets	3 164 510	1 886 107
Hedging derivatives	5 109	7 727
Held to maturity investments	33 523	39 912
Investments in associates	43 297	30 626
Non-current assets held for sale	128 599	92 312
Other tangible assets	91 173	85 847
Tangible assets	16 151	14 776
Other assets	130 226	100 916
Total Assets	18 895 784	17 559 379
Liabilities		
Amounts owed to central banks	502 353	852 803
Amounts owed to credit institutions	945 400	1 073 122
Amounts owed to customers	8 881 046	8 009 242
Debt securities	4 583 307	4 670 942
Other financial liabilities	41 345	37 643
Hedging derivatives	598	1 234
Provisions	102 800	102 908
Other subordinated debts	381 043	386 872
Other liabilities	2 462 658	1 567 317
Total Liabilities	17 900 550	16 702 083
Shareholders' Equity		
Share capital	760 000	660 000
Fair value reserves	(28 600)	(48 064)
Retained earnings and other reserves	226 056	210 049
Net income for the year	37 778	35 311
Total Shareholders' Equity	995 234	857 296
	18 895 784	17 559 379

10. Financial assets revaluation criteria

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

11. Revaluation

The revaluation is analysed as follows:

	Amortised cost * Euros '000	Revaluation reserve Euros '000	Book value Euros '000
Shares	3 025	21	3 046
Bonds and other fixed income securities	661 972	(10 500)	651 472
Other securities			
Government bonds	74 804	1 385	76 189
Investment funds	99 132	14 701	113 833
Commercial paper	15 000	9	15 009
	853 933	5 616	859 549

* The amortised cost is deducted of impairment losses.

17. State and other public entities

This balance is analysed as follows:

	2009 Euros '000	2008 Euros '000
Assets:		
Recoverable VAT	432	324
VAT – reimbursements claimed	902	1 202
	1 334	1 526
Liabilities:		
Income tax with-held at source	96	82
VAT settlement	706	618
Other taxes	1	2
	803	702

18. Obligations and future commitments

This account is analysed as follows:

	2009 Euros '000	2008 Euros '000
Commitments to third parties	15 945	36 636
Amounts received for deposit and management	961	2 329
Commitments from third parties	31 595	37 489
Other obligations and future commitments	10 988	6 894

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

The balance «Commitments to third parties» includes the amount of Euros 10 500 000 (2008: Euros 23 000 000) regarding derivatives contracted with Caixa Económica Montepio Geral, as well as the amount of Euros 5 445 000 (2008: Euros 13 636 000) related to adjudicated contract jobs.

The balance «Commitments from third parties» includes the amount of Euros 25 104 000 (2008: Euros 32 140 000) referring to derivatives contracted with Caixa Económica Montepio Geral and the amount of Euros 6 491 000 (2008: Euros 5 349 000) related to bank guarantees.

20. Permanent Funds

As at 31 December, 2009 and 2008, the balance Permanent funds of the associated schemes, can be analysed as follows:

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

	2008 Euros '000			
	Mathematical provisions	Surplus for subsidies and additional benefits	Technical surpluses	Total
Retirement capitals	1 387 018	–	2 957	1 389 975
Retirement capitals with fixed term	177 684	–	–	177 684
Retirement saving	58 110	–	–	58 110
Welfare capitals	10 520	25 011	11 898	47 429
Deferred welfare capitals with option	111 708	9 084	24 406	145 198
Retirement pensions	124 440	25 845	2 077	152 362
Welfare capitals for younger	33 656	5 502	9 818	48 976
Survival pensions and dowries	6 889	21 550	3 448	31 887
Others	28 193	2 396	6 344	36 933
	1 938 218	89 388	60 948	2 088 554
Perpetual annuities	26 195	–	6	26 201
	1 964 413	89 388	60 954	2 114 755

As at 31 December, 2009, the level of coverage of the net assets by the mathematical provisions corresponds to 116% (2008: 114%). The mathematical provisions include the amount of Euros 67 793 000 (2008: Euros 66 166 000), related to the schemes liabilities increase due to the application of the liability adequacy test, as referred in note 3.11. The discount interest rate considered in the liability adequacy test performed as at 31 December, 2009 was 3.75% (2008: 3.75%).

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

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

	Balance as at 1 January Euros '000	Dividends paid From Association Euros '000	Dividends paid From Caixa Euros '000	Retained earnings distribution	Net changes on mathematical provisions Euros '000	Transfers and charges Euros '000	Others Euros '000	Balance as at 31 December Euros '000
Own and permanent funds:								
Own funds	75 971	7 740	125	1 472	–	(5 872)	–	79 436
Technical surpluses	60 954	4 308	–	10 914	–	(2 662)	(1 045)	72 469
	136 925	12 048	125	12 386	–	(8 534)	(1 045)	151 905
Reserves and retained earnings:								
Revaluation Reserves	(20 862)	–	–	–	–	–	26 478	5 616
Legal Reserves	169 866	4 465	–	7 099	–	(12 959)	–	168 471
Retained earnings	45 273	–	–	(45 273)	–	–	–	–
Other reserves	1 581	2 308	–	25 788	–	4 903		34 580
	195 858	6 773	–	(12 386)	–	(8 056)	26 478	208 667
Provisions for liabilities and charges:								
Mathematical provisions	1 964 413	11 943	–		144 019	(5 410)	17	2 114 982
Surplus for subsidies and additional benefits	89 388	–	–		(4 214)	–	1 028	86 202
	2 053 801	11 943	–	–	139 805	(5 410)	1 045	2 201 184
	2 386 584	30 764	125	–	139 805	(22 000)	26 478	2 561 756

As at 31 December, 2009, the amount referred on «Others» regarding «Technical surpluses» includes the annual benefits attribution to actuarial schemes and the cost with annuities actualization.

During the years 2009 and 2008, the Association dividends received from Caixa (note 35), were accounted for in the following balances:

	2009 Euros '000	2008 Euros '000
Contributions and operating subsidies	11 147	25 632
Own funds	125	125
	11 272	25 757

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

a) Mathematical provisions – These provisions are recorded at the balance Provisions for liabilities and charges and its purpose is to cover the future liabilities with membership schemes. These provisions were calculated according to the actuarial technical basis approved by Ministério do Trabalho e da Solidariedade Social. Additionally, as at 31 December, 2009 and 2008, these provisions were subjected to a liability adequacy test, as described in note 3.11.

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

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

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

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

26. Personnel expense

The Association supports not only the costs with the employees allocated to the *Gabinete de Desenvolvimento da Oferta Mutualista*, the *Gabinete de Comunicações e Relações Associativas* and the *Gabinete de Desenvolvimento da Associação Mutualista*, but also the costs with the *Órgãos de Gestão e Fiscalização* and employees of the *Direcção Imobiliária e de Instalações*. The amount supported corresponds to the compensation due by the Association regarding the assistance rendered by Caixa in several areas in which the Association does not have in place any organisational structure and for the selling of mutualism schemes by the commercial network. As at 31 December, 2009, the personnel expense supported by Association amounts to Euros 6 904 000 (2008: Euros 6 976 000).

27. Statement of financial results

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

	2009 Euros '000	2008 Euros '000
Revenue:		
Interest income	43 830	65 593
Investment property income	17 499	16 218
Profits arising from investments	2 694	3 104
Other financial profits and gains	12 657	3 027
Hedging operations	1 545	1 829
	78 225	89 771
Expenses:		
Interest expenses	166	28
Buildings improvement	2 653	1 602
Other financial differences	6 940	8 915
Hedging operations	1 184	1 352
Interest and similar expenses	10 943	11 897
Depreciation for investment property	2 720	2 564
Provisions for financial investments	4 932	18 753
Depreciation and provisions for financial investments	7 652	21 317
	18 595	33 214
Net financial income	59 630	56 557

28. Investment property income

The amount of this account is analysed as follows:

	Euros' 000		
	Book value	Repairs and maintenance	Investment property income
Buildings	185 674	2 653	17 499

29. Statement of extraordinary results

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

	2009 Euros '000	2008 Euros '000
Revenue:		
Gains arising from fixed assets	1 461	6 968
Depreciation and provisions decrease	3 782	–
Other gains attributable to previous years	221	353
Other extraordinary gains	24	7
	5 488	7 328
Expenses:		
Donations	144	58
Losses arising from fixed assets	3 971	2 678
Losses attributable to previous years	111	102
Other extraordinary losses	14	4
	4 240	2 842
Extraordinary income	1 248	4 486

32. Prepayments and accrued income

This balance is analysed as follows:

	2009 Euros '000	2008 Euros '000
Accrued income:		
Interest receivable		
Securities	7 685	9 443
Deposits	3 324	2 575
Other accrued income		
Others	11	11
	11 020	12 029
Deferred costs	–	182
Accrued expense	744	801

As at 31 December, 2009, the balance Accrued expense includes the amount of Euros 600 000 (2008: Euros 774 000), related to obligations with the holiday pay (including subsidies).

33. Amounts owed to credit institutions

As at 31 December, 2008, the Association entered into a sale with repurchase agreement of fixed-income securities with Caixa Económica – Montepio Geral, in the amount of Euros 200 000 000.

It should be remarked that the assets sold were not derecognised, since the Association holds the risks and benefits underlying to the mentioned securities.

In the beginning of 2009, the contract referred above reached its term.

34. Income tax

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

35. Transactions with Caixa Económica Montepio Geral

The balances and main transactions between the Association and Caixa during the years ended 31 December, 2009 and 2008, were the following:

	2009 Euros '000	2008 Euros '000
Deposits repayable on demand	116 894	73 920
Deposits with fixed maturity date	556 500	822 970
Amounts owed to credit institutions (note 33)	–	200 000
Income received from investment property	11 729	11 219
Dividends received (note 23)	11 272	25 757
Caixa institutional share capital increase (note 9)	100 000	25 000

36. Overdue capitals

This balance is analysed as follows:

	2009 Euros '000	2008 Euros '000
Retirement capitals	117 620	164 336
Deferred welfare capitals with option	26 382	24 973
Retirement capitals with fixed maturity	6 898	–
Welfare capitals for younger	3 882	3 445
Others	3 988	2 834
	158 770	195 588

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

SECURITIES PORTFOLIO
AT AS 31 DECEMBER, 2009

TYPE OF SECURITIES	Nominal Value Euros '000	Acquisition Cost		Amortised Cost		Impairment	Book Value	
		Unit Value	Total Euros '000	Unit Value	Total Euros '000	Euros '000	Unit Value	Total Euros '000
AVAILABLE-FOR-SALE FINANCIAL ASSETS			**873 479**		**875 380**	**(21 447)**		**859 549**
SHARES			***4 253***		***4 253***	***(1 228)***		***3 046***
EDP RENOVÁVEIS		6,83	786	6,83	786	(120)	6,63	762
NEBRA		172,63	164	172,63	164	–	172,11	164
ETFS SHORT DAX		102,04	1 000	102,04	1 000	(356)	65,60	643
ETFS SHORT DJ Eurostoxx 50		57,77	840	57,77	840	(317)	34,57	503
MOÇAMBIQUE – Companhia de Seguros		6,38	379	6,38	379	(159)	3,72	221
CLÍNICA SANTA MARIA DE BELÉM		7,44	493	7,44	493	–	6,49	430
E.I.A.		4,99	349	4,99	349	(236)	1,62	113
HOSPITAL DO CORAÇÃO		40,00	2	40,00	2	–	49,88	2
ESOFICATRA		24,00	36	24,00	36	–	20,10	30
BANCO COMERCIAL PORTUGUÊS		1,28	77	1,28	77	(40)	0,85	51
BANCO BPI		2,12	127	2,12	127	–	2,12	127
BONDS			***674 716***		***676 679***	***(14 707)***		***651 472***
CRPC Outubro 2008/2013	37 000	1,00	37 000	1,00	37 000	–	1,02	37 670
CEMG Jun08-2018	28 000	1,00	28 000	1,00	28 000	–	0,97	27 295
CEMG Inflação 2008-2016	5 000	1,00	5 000	1,00	5 000	–	0,97	4 866
CRPC Fevereiro 2009/2014	15 000	1,00	15 000	1,00	15 000	–	0,98	14 729
CRPC Março 2009/2014 – 2S	19 000	1,00	18 993	1,00	18 994	–	0,98	18 683
CRPC SETEMBRO 2009/2014 – 7S	10 000	1,00	10 000	1,00	10 000	–	1,00	10 001
CRPC SETEMBRO 2009/2017 – 1S	5 000	1,00	5 000	1,00	5 000	–	0,99	4 967
CRPC SETEMBRO 2007/2012 – 2S	29 000	1,00	29 000	1,00	29 000	–	1,01	29 205
CRPC SETEMBRO 2008/13 – 2.ª EMISSÃO	2 000	1,00	2 000	1,00	2 000	–	1,01	2 017
CRPC 2009/2014 – 8 SERIE	5 000	1,00	5 000	1,00	5 000	–	1,00	5 008
OB CX TX VAR CEMG 2009/12	24 000	1,00	24 000	1,00	24 000	–	1,00	24 030
OB CX TX VAR CEMG 2009/13	1 700	1,00	1 700	1,00	1 700	–	1,00	1 703
CRPC 2009/2014 – 9 SERIE	7 000	1,00	7 000	1,00	7 000	–	0,99	6 955
CRPC 2009/2014 – 10 SERIE	5 000	1,00	5 000	1,00	5 000	–	1,00	4 976
CRPC Setembro 2008/2013	31 500	1,00	31 500	1,00	31 500	–	1,04	32 675
BELGACOM SA DROIT PUB	400	1,00	399	1,00	399	–	1,04	415
FORTIS BANK SA/NV	2 000	1,00	1 999	1,00	2 000	–	1,00	2 004
DEUTSCHE POSRBANK	2 000	1,00	1 994	1,00	1 996	–	0,90	1 790
LRP LB RHEINLAND – PFALZ	1 000	0,99	987	1,00	998	–	1,01	1 007
HYPOVERREINSBANK LUX	1 000	1,03	1 032	1,01	1 010	–	1,01	1 008
PORCHE INTL FINANCE	4 000	1,00	4 000	1,00	4 000	–	0,98	3 925
METRO AG	500	1,00	500	1,00	500	–	1,00	499
COMMERZBANK AG	4 000	0,99	3 967	0,99	3 977	–	0,90	3 610
DRESDNER BANK AG	1 500	1,00	1 499	1,00	1 500	–	1,00	1 504
LB BADEN – WUERTTEMBERG	1 000	1,00	998	1,00	999	–	1	1 052
BILBAO BIZKAIA KUTXA	2 000	1,00	1 996	1,00	1 997	–	0,87	1 731
CAJA ZARAGOZA ARAGON & R	2 000	1,00	2 000	1,00	2 000	–	0,78	1 560
CAJA SEVILLA MONPIS	5 000	1,00	5 000	1,00	5 000	–	0,51	2 550
AYT DEUDA SUBORDINADA	1 500	1,00	1 500	1,00	1 500	–	0,95	1 420
BANKINTER SA	1 000	1,00	999	1,00	1 000	–	0,99	986
BANCO DE VALENCIA SA	2 000	1,00	1 998	1,00	1 999	–	0,91	1 815
CAJA DE AHORROS GALICIA	3 500	1,00	3 497	1,00	3 499	–	0,98	3 442
CAIXA ESTALVIS TERRASSA	1 000	1,00	999	1,00	1 000	–	0,96	963
CAJA CANTABRIA	2 000	1,00	2 000	1,00	2 000	–	0,99	1 974
ABS BANCO POPULAR	100	1,00	100	1,00	100	–	0,94	94

See accompanying notes to the financial statements

TYPE OF SECURITIES	Nominal Value Euros '000	Acquisition Cost Unit Value	Acquisition Cost Total Euros '000	Amortised Cost Unit Value	Amortised Cost Total Euros '000	Impairment Euros '000	Book Value Unit Value	Book Value Total Euros '000
PYME BANCO POPULAR (POPY 2006-1 B)	1 500	1,00	1 500	1,00	1 500	–	0,40	596
CEMG Abr/2012	6 000	1,00	6 000	1,00	6 000	–	1,05	6 293
VEOLIA ENVIRONNEMENT 2013	3 000	1,03	3 083	1,01	3 043	–	1,06	3 179
COMPAGNIE DE ST GOBAIN	2 000	1,00	2 000	1,00	2 000	–	1,03	2 057
VEOLIA ENVIRONNEMENT	1 000	0,99	990	0,99	993	–	1,01	1 009
COFIDIS	2 000	1,00	1 998	1,00	1 999	–	0,99	1 982
CIE FINANCIERE DU CRED	1 000	1,00	999	1,00	999	–	0,89	890
NATIXIS	1 750	1,00	1 749	1,00	1 749	–	0,87	1 514
BANQUES POPULAIRES CB	1 700	1,00	1 696	1,00	1 697	–	1,05	1 786
CAISSE REFINANCE L´HABIT	1 000	0,99	994	1,00	997	–	1,03	1 028
VIVENDI 5Y	100	1,00	100	1,00	100	–	1,15	115
CREDICO FUNDING SRL	1 000	1,00	1 000	1,00	1 000	–	0,98	980
SOMEC/94	150	0,99	149	0,99	149	(149)	0,00	–
BCPPL 0 05/09/14	2 000	1,00	1 998	1,00	1 998	–	0,96	1 916
BCP FLOAT 28-MAY-2010	2 000	0,99	1 980	0,99	1 981	–	1,00	2 002
BESPL 0 05/08/13	2 000	1,00	1 997	1,00	1 999	–	0,97	1 945
BANCO ESPIRITO SANTO 2008-2010	2 000	0,97	1 944	0,99	1 988	–	1,00	2 004
BESPL Float 02/13	1 200	1,00	1 198	1,00	1 198	–	1,00	1 200
BOLSIMO – Gestão de Activos	25 000	1,00	25 000	1,00	25 000	–	1,00	24 997
BRISA AUTO ESTRADAS PORTUGAL	1 300	0,97	1 258	0,97	1 262	–	1,00	1 297
BANCO SANTANDER TOTTA SA	1 000	1,00	997	1,00	999	–	1,04	1 037
CAIPL 0 08/30/11	5 000	1,00	5 000	1,00	5 000	–	1,02	5 103
CAIXA GERAL DE DEPÓSITOS 5y (Fev/2014)	1 500	1,00	1 496	1,00	1 496	–	1,06	1 588
CAIXA GERAL DE DEPÓSITOS	1 000	0,99	989	0,99	993	–	1,00	998
CGD COVERED	1 000	1,00	998	1,00	998	–	1,02	1 016
CAIXA GERAL DE DEPÓSITOS 2010	6 000	0,99	5 946	1,00	5 984	–	1,00	6 014
CEMG 2013	9 200	0,75	6 900	0,82	7 505	–	0,98	8 981
MONTPI 0 02/28/18	20 456	0,99	20 328	0,99	20 351	–	0,98	19 955
MONTPI 0 07/23/18	17 070	0,99	16 921	0,99	16 943	–	0,98	16 658
LUSITANIA VIDA/2007	5 000	1,00	5 000	1,00	5 000	–	0,97	4 853
PTIPL 0 03/29/10	5 000	1,00	5 000	1,00	5 000	–	1,00	4 998
PTIPL 0 10/27/12	4 500	1,00	4 500	1,00	4 500	–	1,00	4 501
REN Redes Energéticas	1 100	1,00	1 096	1,00	1 097	–	1,10	1 214
BEI/96-16	379	1,00	381	1,00	380	–	1,26	479
SUN LIFE CANADÁ FUNDING	750	1,00	749	1,00	750	–	1,02	764
BESPL 6.25 05/11	1 000	1,04	1 043	1,04	1 037	–	1,04	1 040
DT 7,125 07/11/11	1 000	1,08	1 077	1,08	1 076	–	1,07	1 072
BNP PARIBAS	500	1,00	500	1,00	500	–	0,94	470
VOLKSWAGEN FIN SERV AG	500	1,03	517	1,02	508	–	1,06	528
TELECOM ITALIA SPA	500	1,06	531	1,03	513	–	1,07	534
EADS FINANCE B. V.	1 000	1,01	1 008	1,00	1 000	–	1,00	1 003
REPSOL INTL FINANCE	1 000	1,03	1 035	1,02	1 019	–	1,06	1 056
CEMG PELICAN MORTAGES 2A	1 692	0,85	1 438	0,86	1 449	–	0,87	1 473
BRISA FINANCE BV/2003	2 000	0,99	1 988	1,00	1 996	–	1,04	2 072
NOSTRUM MORTGAGES PLC	3 130	0,98	3 079	0,98	3 081	–	0,88	2 740
THYSSENKRUPP AG	2 000	1,03	2 055	1,01	2 015	–	1,03	2 052
CIMPL 4.5 05/11	653	1,01	662	1,01	661	–	1,02	663
AUTOSTRADE SPA	2 500	1,01	2 515	1,00	2 505	–	1,00	2 500
ROYAL BK OF SCOTLAND PLC	1 000	1,03	1 030	1,03	1 029	–	0,61	610
CITIGROUP GLOBAL MARKETS	1 000	0,68	678	0,72	718	–	0,82	825
F VAN LANSCHOT BANKIERS	1 500	1,00	1 505	1,00	1 501	–	0,99	1 486
PARPUBLICA	5 750	0,99	5 705	1,00	5 729	–	1,06	6 080
DNB NORBANK	2 000	1,00	2 004	1,00	2 003	–	0,95	1 899
BES FINANCE LTD	1 000	0,98	983	0,98	984	–	0,87	870

Ctd.

Cont.

TYPE OF SECURITIES	Nominal Value Euros '000	Acquisition Cost		Amortised Cost		Impairment	Book Value	
		Unit Value	Total Euros '000	Unit Value	Total Euros '000	Euros '000	Unit Value	Total Euros '000
LANDSBANKI ISLANDS	500	0,99	494	0,99	494	(494)	0,00	–
MONTPI var 02/15	9 000	0,92	8 324	0,93	8 398	–	1,03	9 257
PORTUGAL TELECOM 2012	7 500	0,92	6 934	0,97	7 250	–	1,02	7 656
RCI BANQUE SA	1 500	1,00	1 498	1,00	1 500	–	0,99	1 492
CEMG 2012	4 600	1,00	4 580	1,00	4 588	–	0,99	4 538
CAIXA GERAL DEPO PARIS	3 000	0,96	2 873	0,97	2 907	–	0,93	2 804
FINANTIA	2 500	1,00	2 500	1,00	2 500	–	0,98	2 460
BCP FINANCE BANK	1 000	0,95	955	0,97	967	–	0,91	910
ABN AMRO BANK NV	2 000	0,96	1 917	0,97	1 936	–	0,80	1 601
FORTIS BANK	3 000	1,00	3 005	1,00	3 004	–	0,91	2 731
ST GEORGE BANK LTD	1 000	1,00	1 001	1,00	1 000	–	1,00	998
BANCO ITAU EUROPA, AS	2 000	0,98	1 950	0,99	1 990	–	0,99	1 985
MAGEL 3 A	2 529	0,91	2 289	0,91	2 290	–	0,83	2 089
HSBC FINANCE CORP	1 000	1,00	1 003	1,00	1 000	–	0,98	980
ALPHA CREDIT GROUP PLC	1 000	1,00	1 000	1,00	1 000	–	0,97	968
DEUTSCHE BANK AG	1 000	0,96	956	0,97	966	–	0,94	940
SEB 0 09/28/17	1 000	1,00	999	1,00	1 000	–	0,87	871
CAIXA ECONÓMICA MONTEPIO GERAL 2010	8 000	0,98	7 801	0,99	7 947	–	0,99	7 948
ING VERZEKERINGEN NV	1 000	1,00	999	1,00	1 000	–	0,99	986
PREPS 2005-2 B1	3 000	0,99	2 963	0,99	2 963	(2 826)	0,05	137
TELECOM ITALIA SPA	500	1,00	500	1,00	500	–	0,99	493
FORTIS BANQUE LUXEMBOURG	2 000	0,94	1 881	0,95	1 907	–	0,85	1 705
BANCHE POPOLARI UNITE 2015	2 000	1,00	1 998	1,00	1 999	–	0,93	1 860
KBC IFIMA NV	1 000	1,00	999	1,00	1 000	–	0,64	636
BK TOKYO – MITSUBISHI UFJ	1 000	0,97	968	0,98	979	–	1,00	997
ITAUEU 0 12/22/15	2 000	1,00	2 000	1,00	2 000	–	0,71	1 412
CEMG Jan/2011	6 950	0,94	6 543	0,98	6 780	–	0,99	6 880
TELEFONICA EMISIONES SAL	1 000	0,98	980	0,99	995	–	1,02	1 022
GOLDMAN SACHS GROUP INC	1 000	1,00	999	1,00	1 000	–	0,96	958
CITIGROUP INC	1 000	1,00	999	1,00	999	–	0,89	888
BANCHE POPOLARI UNITE 2011	2 000	1,00	1 997	1,00	1 999	–	0,98	1 968
GE CAPITAL EURO FUNDING	1 500	1,00	1 497	1,00	1 498	–	0,93	1 391
SANTANDER ISSUANCES	500	0,99	497	1,00	498	–	0,95	476
MORGAN STANLEY	1 000	1,00	1 001	1,00	1 000	–	0,93	933
CITIGROUP	1 000	0,94	942	0,98	977	–	1,01	1 013
HSBC FINANCE CORP	2 000	1,00	1 995	1,00	1 997	–	0,95	1 895
BANCO BPI SA, CAYMAN	2 000	1,00	1 998	1,00	2 000	–	1,00	1 996
CEMG 2016 (CALLABLE)	6 000	1,00	6 002	1,00	6 001	–	0,91	5 473
SEDNA FINANCE	2 500	1,00	2 500	1,00	2 500	(2 500)	0,00	0
LEHMAN BROTHERS HOLDINGS	1 000	1,00	998	1,00	998	(898)	0,10	100
ABB INTL FINANCE LTD	1 000	1,01	1 012	1,01	1 006	–	1,05	1 051
TELECOM ITALIA SPA	500	0,99	495	0,99	497	–	1,04	521
SLM CORP	2 000	1,00	1 994	1,00	1 997	–	0,74	1 471
FRANCE TELECOM	1 000	1,00	1 002	1,00	1 000	–	1,00	999
EDP FINANCE	2 000	1,01	2 015	1,00	2 007	–	1,04	2 086
LEHMAN BROTHERS HOLDINGS	2 500	1,00	2 491	1,00	2 491	(2 241)	0,10	250
IBERDROLA FINANZAS	1 000	1,00	1 000	1,00	1 000	–	1,00	998
BANCA ITALEASE	2 000	1,00	1 995	1,00	1 997	–	0,80	1 604
ERSTE BANK	2 000	1,00	1 999	1,00	1 999	–	0,81	1 620
PREPS LIMITED PARTNERSHIP	1 200	1,00	1 200	1,00	1 200	(1 142)	0,05	58
SELLA HOLDING BANCA SPA	1 000	1,00	999	1,00	1 000	–	0,97	969
TELEFONICA EMISIONES SAL	500	1,00	500	1,00	500	–	1,00	500
MERRILL LYNCH & CO	1 000	1,00	999	1,00	999	–	0,93	930
BBVA SENIOR FINANCE	3 000	1,00	2 999	1,00	3 000	–	1,00	3 000

See accompanying notes to the financial statements

TYPE OF SECURITIES	Nominal Value Euros '000	Acquisition Cost		Amortised Cost		Impairment	Book Value	
		Unit Value	Total Euros '000	Unit Value	Total Euros '000	Euros '000	Unit Value	Total Euros '000
VODAFONE GROUP PLC	2 000	1,00	1 999	1,00	2 000	–	0,99	1 989
ALLIED IRISH BANKS PLC	1 000	1,00	999	1,00	1 000	–	0,93	934
BANK OF AMERICA CORP	2 000	1,00	1 995	1,00	1 998	–	0,93	1 869
ING VERZEKERINGEN NV	2 000	1,00	1 997	1,00	1 998	–	0,91	1 811
UNICREDITO ITALIANO	1 000	1,00	999	1,00	999	–	0,91	910
ROTHSHILDS CONT FIN PLC	1 000	1,00	999	1,00	1 000	–	0,94	937
CAIXA ECONÓMICA MONTEPIO GERAL 2011	9 000	0,98	8 864	0,99	8 942	–	0,99	8 911
DOURO 2 A1 (SAGRES)	24	1,00	24	1,00	24	–	0,94	23
MEDIOBANCA	2 000	1,00	1 998	1,00	1 998	–	0,95	1 900
CASSA RISPARMIO FIRENZE	1 000	1,00	997	1,00	998	–	0,99	987
BBVA SUB CAPITAL UNIPERS	1 500	1,00	1 500	1,00	1 500	–	0,96	1 440
NOMURA EUROPE FINANCE	1 000	1,00	999	1,00	1 000	–	0,97	966
LUSITANO SME OLC	1 525	1,00	1 525	1,00	1 525	–	0,95	1 444
DEUTSCHE TELEKOM INT FIN	1 000	1,00	999	1,00	999	–	1,05	1 052
COMMONWEALTH	1 500	1,00	1 497	1,00	1 499	–	0,99	1 492
BANIF FINANCE LTD	4 357	0,98	4 277	0,99	4 321	–	0,97	4 208
OTP BANK PLC	1 000	1,00	1 002	1,00	1 001	–	0,64	640
BANCA SELLA LT2	1 500	1,00	1 499	1,00	1 500	–	0,70	1 051
BANCA ITALEASE	1 000	1,00	999	1,00	1 000	–	0,97	971
DNB NOR BANK ASA	3 000	1,00	2 999	1,00	2 999	–	1,00	2 987
CARNIVAL PLC	1 000	1,00	995	1,00	997	–	1,01	1 006
EBS BUILDING SOCIETY	3 000	1,00	2 993	1,00	2 995	–	0,98	2 943
STANDARD CHARTERES BANK	1 000	1,00	997	1,00	998	–	0,90	899
PROMS XXS6-1 C	1 046	1,00	1 046	1,00	1 046	(269)	0,74	777
BANCA LOMBARDA	1 500	1,00	1 498	1,00	1 499	–	0,92	1 380
BCP FINANCE BANK 2016	1 000	0,92	918	0,93	934	–	0,89	890
STADSHYPOTEK AB	1 000	0,98	976	0,98	984	–	1,03	1 029
BANIF FINANCE LTD	1 000	1,00	1 000	1,00	1 000	–	1,00	999
MUFG CAPITAL FIN 4 LTD	750	1,00	750	1,00	750	–	0,78	585
RCI BANQUE SA	1 500	1,00	1 499	1,00	1 500	–	0,95	1 418
ANGLO IRISH BANK CORP	2 000	1,00	1 999	1,00	1 999	–	0,88	1 766
BANCO POPOLARE DI MILANO	2 000	1,00	1 994	1,00	1 996	–	0,97	1 948
BANCA ITALEASE 2010	2 000	1,00	1 997	1,00	2 000	–	0,99	1 983
BCP FINANCE BANK LTD	3 000	0,99	2 968	1,00	2 987	–	0,98	2 952
LEASEPLAN CORPORATION NV	1 500	1,00	1 499	1,00	1 500	–	1,00	1 496
HEAT MEZZANINE (Classe AAA)	475	1,00	475	1,00	475	–	0,76	359
MERRIL LYNCH & co Inc.	2 500	1,00	2 498	1,00	2 499	–	0,96	2 411
REPSOL INTL FINANCE	4 000	0,99	3 962	1,00	3 984	–	0,99	3 973
NOMURA EUROPE FINANCE NV	3 000	1,00	2 998	1,00	3 000	–	1,00	2 992
CLO PREPS	1 805	1,00	1 805	1,00	1 805	(949)	0,47	856
EATON VANCE CDO LTD	984	1,00	984	1,00	984	–	0,87	851
INTESA SANPAOLO SPA	2 000	1,00	1 998	1,00	1 999	–	0,98	1 967
BBVA SUB CAPITAL UNIPERS	2 000	1,00	1 997	1,00	1 998	–	0,95	1 891
BENDIGO BANK LTD	1 000	1,00	999	1,00	1 000	–	1,00	995
DEUTSCHE TELEKOM INT FIN	2 000	1,00	2 000	1,00	2 000	–	0,99	1 990
CEMG PELICAN MORTAGES 3A	2 314	0,88	2 048	0,90	2 084	–	1,00	2 314
LHB INTERNATIONAL HANDEL	250	1,00	250	1,00	250	–	0,98	245
UBS AG JERSEY BRANCH	500	0,97	486	0,98	492	–	0,98	491
GSCP 2007-5X A2 (CDO)	967	1,00	967	1,00	967	(127)	0,87	841
BANIF FINANCE LTD	2 000	1,00	1 995	1,00	1 997	–	0,95	1 901
BBVA BANCOMER AS	2 000	1,00	2 000	1,00	2 000	–	0,90	1 800
ULSTER BANK IRELAND LTD	2 000	1,00	1 999	1,00	2 000	–	0,99	1 982
BANCA DELLE MARCHE 2017	1 500	1,00	1 499	1,00	1 499	–	0,84	1 261
MERRILL LYNCH 2014	1 500	1,00	1 495	1,00	1 497	–	0,92	1 384

Ctd.

Cont.

TYPE OF SECURITIES	Nominal Value Euros '000	Acquisition Cost Unit Value	Acquisition Cost Total Euros '000	Amortised Cost Unit Value	Amortised Cost Total Euros '000	Impairment Euros '000	Book Value Unit Value	Book Value Total Euros '000
ESFG INTERNATIONAL LTD	500	1,00	500	1,00	500	–	0,81	405
SOCIETÉ GENERALE 2017	1 500	1,00	1 499	1,00	1 499	–	0,95	1 418
CAJA DE AHORROS DEL MEDITERRANEO	1 750	1,00	1 748	1,00	1 749	–	0,82	1 431
BOIRO FINANCE BV	4 000	1,00	4 000	1,00	4 000	(2 340)	0,42	1 660
ENEL – SOCIETA PER AZIONI	500	1,00	499	1,00	499	–	0,99	495
NOMURA EUROPE FINANCE NV	2 000	1,00	1 999	1,00	2 000	–	0,95	1 901
UBI BANCA SPCA	1 000	1,00	998	1,00	999	–	0,97	970
ELECTRICITE DE FRANCE SA	500	0,99	497	0,99	497	–	1,07	534
NATIONAL AUSTRALIA BANK	500	1,00	500	1,00	500	–	1,03	517
ING BANK NV 2013	1 000	1,00	998	1,00	999	–	1,05	1 048
MALACHITE SENIOR MEZZANINE	840	1,00	840	1,00	840	(773)	0,08	67
ING GROEP NV FIXED RATE	1 000	0,99	990	0,99	990	–	0,90	896
UBS CAPITAL SECS LTD	500	1,00	500	1,00	500	–	0,97	485
CREDIT SUISSE LONDON	1 000	1,00	999	1,00	1 000	–	1,00	1 002
BANK OF NOVA SCOTIA	1 000	1,00	997	1,00	999	–	1,04	1 042
FORTIS FINANCE NV	500	1,00	500	1,00	500	–	0,96	481
NATIXIS 2010	1 000	1,00	1 002	1,00	1 000	–	1,00	1 002
BANQUE FED CRED MUTUEL	1 000	1,00	999	1,00	1 000	–	1,00	1 002
BANK OF MONTREAL	1 000	1,00	1 000	1,00	1 000	–	1,00	1 003
NORDEA BANK AB	1 250	1,00	1 249	1,00	1 250	–	1,00	1 252
XSTRATA CANADA FIN CORP	500	1,00	498	1,00	499	–	1,05	524
UNICREDITO SPA	2 000	1,00	1 999	1,00	2 000	–	1,00	2 002
INTESA SANPAOLO SPA	2 000	1,00	1 997	1,00	1 999	–	1,00	2 003
SNS BANK NEDERLAND	1 500	1,00	1 499	1,00	1 500	–	1,00	1 502
BANK OF IRELAND	1 000	1,00	999	1,00	1 000	–	1,00	998
E. ON INTL FINANCE BV	1 000	0,99	994	1,00	996	–	1,09	1 088
SPAREBANKEN VEST	1 000	1,00	1 000	1,00	1 000	–	1,00	997
SANTANDER INTL DEBT SA	1 000	1,00	999	1,00	999	–	1,07	1 069
BANK OF SCOTLAND PLC	1 000	1,00	998	1,00	999	–	1,00	997
CREDIT AGRICOLE	1 000	1,00	999	1,00	1 000	–	1,01	1 005
IBERDROLA FINAZAS SAL	200	1,00	200	1,00	200	–	1,08	216
ELECTRICIDADE DE FRANCE	200	1,00	199	1,00	199	–	1,09	217
VOLKSWAGEN FIN SERV AG	200	1,00	199	1,00	199	–	1,13	226
BMW US CAPITAL LLC	250	1,00	249	1,00	250	–	1,08	271
NATIONAL GRID PLC	150	0,99	149	1,00	149	–	1,11	166
SAINT GOBAIN 5,5 Y	125	1,00	125	1,00	125	–	1,17	146
TELEFONICA 5Y	400	1,00	400	1,00	400	–	1,07	429
EON 5Y	250	1,00	250	1,00	250	–	1,07	268
SIEMENS FINACIERINGSMAT 4Y	125	1,00	125	1,00	125	–	1,04	130
TELEFONICA 7Y 2009-16	250	1,00	250	1,00	250	–	1,08	269
CREDIT SUISSE LONDON – 2012	1 000	1,00	1 000	1,00	1 000	–	1,06	1 058
SAMPO OYJ	500	1,00	500	1,00	500	–	1,07	534
AEGON N.V.	125	1,00	125	1,00	125	–	1,08	135
PORTUGAL TELECOM 2013	150	1,00	150	1,00	150	–	1,08	162
VOLKSWAGEN INTL FIN NV	500	1,00	500	1,00	500	–	1,02	508
BANQUE PSA FINANCE	250	1,00	250	1,00	250	–	1,03	258
RENAUL 5 875 11/30/10	1 000	1,03	1 030	1,02	1 024	–	1,03	1 027
BMW 1,875 08-13-10	2 000	1,00	1 998	1,00	1 998	–	1,00	1 992
VLVY Float 09-10	1 000	1,00	1 000	1,00	1 000	–	1,01	1 014
BKIR Float 09/25/10	1 000	1,00	1 000	1,00	1 000	–	1,00	1 002
OTHER INVESTMENT SECURITIES			***194 510***		***194 448***	***(5 512)***		***205 031***
Government bonds			74 867		74 805	–		76 189
BELGIUM KINGDOM / Mar-2018	1 000	0,98	980	0,98	984	–	1,03	1 034

See accompanying notes to the financial statements

TYPE OF SECURITIES	Nominal Value Euros '000	Acquisition Cost Unit Value	Acquisition Cost Total Euros '000	Amortised Cost Unit Value	Amortised Cost Total Euros '000	Impairment Euros '000	Book Value Unit Value	Book Value Total Euros '000
BONO Y OBLIG DEL ESTADO / Jan-2016	1 000	0,94	940	0,95	954	–	0,99	994
FINNISH GOVERNMENT / Set-20017	1 000	0,99	991	0,99	993	–	1,04	1 039
HELLENIC REPUBLIC 5 YR	2 000	0,99	1 987	0,99	1 989	–	1,01	2 025
HELLENIC REPUBLIC / Jul-2015	3 000	0,98	2 933	0,98	2 952	–	0,93	2 786
BUONI POLIENNALI DEL TES / Jan-2010	1 000	0,99	991	1,00	1 000	–	1,00	1 000
BUONI POLIENNALI DEL TES / Ago-2015	4 000	0,98	3 934	0,99	3 951	–	1,03	4 138
BUONI POLIENNALI DEL TES	1 000	0,98	980	0,99	986	–	1,03	1 030
BUONI POLIENNALI DEL TES / Mar-2011	1 000	0,99	987	1,00	996	–	1,03	1 027
NETHERLANDS GOVERNMENT / Jul-2015	2 000	0,97	1 937	0,98	1 953	–	1,03	2 050
NETHERLANDS GOVERNMENT / Jul-2014	2 000	1,00	1 993	1,00	1 995	–	1,05	2 109
CONSOLIDADO 1942	279	0,94	262	0,95	263	–	0,63	177
CONSOLIDADO-CENTENÁRIOS 1940	410	1,00	409	1,00	409	–	0,85	350
OBRIGAÇÕES DO TESOURO / Out-2015	3 000	0,95	2 860	0,96	2 895	–	1,00	3 002
OBRIGAÇÕES DO TESOURO / Abr-2011	1 000	0,99	987	0,99	995	–	1,02	1 022
O. T´s SETEMBRO 98/2013	11 700	1,04	12 164	1,02	11 916	–	1,09	12 798
O. T´s JUNHO 2001/2011	12 000	1,00	11 958	1,00	11 989	–	1,05	12 595
PGB 4,35 10/16/17	2 500	1,04	2 609	1,04	2 609	–	1,04	2 590
OT 3,600% 15-OCT-2014	5 000	1,00	4 995	1,00	4 996	–	1,02	5 107
O. T´s ABRIL 2005/2021	20 000	1,00	19 969	1,00	19 979	–	0,97	19 316
Investment funds			104 643		104 643	(5 512)		113 833
FUNDO ROTSCHILD SAINT		163,61	749	163,61	749	(23)	166,37	762
FUNDO ARIS DEFENSIVE		141,70	105	141,73	105	–	126,31	94
GLOBAL HIGH YIELD BOND FUND		11,70	1.755	11,70	1.755	(728)	10,35	1.552
FUNDO NOVENERGIA II		52 656,56	22 850	52 656,56	22 850	–	65 601,21	28 467
FUNDO ONGOING INTERNATIONAL STRATEGIC INVESTMENTS		1 000,00	30 000	1 000,00	30 000	–	1 203,87	36 116
FUNDO VISION ESCRITÓRIOS		4,76	4 759	4,76	4 759	–	4,52	4 520
FUNDO LOGISTICA DISTRIBUIÇÃO		6,12	2 447	6,12	2 447	–	6,15	2 462
FUNDO IBÉRIA		5,24	524	5,24	524	–	3,70	370
FUNDO VIP		9,28	31 219	9,28	31 219	–	9,49	31 901
MG-ACÇÕES EUROPA		48,58	1 966	48,58	1 966	(1.000)	35,67	1 443
MG MULTI GESTÃO DINÂMICA		46,27	1 388	46,27	1 388	(727)	29,56	887
MONTEPIO FINANCE SERVICE		50,00	2 000	50,00	2 000	(1.479)	23,64	946
MONTEPIO EURO ENERGY		50,00	2 150	50,00	2 150	(840)	42,38	1 822
MONTEPIO HEALTHCARE		50,00	2 250	50,00	2 250	(715)	44,70	2 011
FUNDO CAPITAL PVCI		1,00	480	1,00	480	–	1,00	480
Commercial paper	15 000		15 000		15 000	–		15 000
BOLSIMO			15 000		15 000	–		15 000
FINANCIAL ASSETS THAT ARE DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS AT INCEPTION			**24 788**		**24 788**	**–**		**20 998**
BONDS			***24 788***		***24 788***	***–***		***20 998***
GOLDEN 2 SERIES	2 500	1,00	2 500	1,00	2 500	–	0,96	2 410
NIB CAPITAL	1 500	1,00	1 498	1,00	1 498	–	1,00	1 505
ATLANTEO 2019	1 000	1,00	1 000	1,00	1 000	–	1,13	1 130
KBC IFIMA	750	1,00	749	1,00	749	–	0,73	547
PYRAMID 2005 (Cid Finance)	4 000	1,00	4 000	1,00	4 000	–	0,84	3 372
LB BADEN-WUERTTEMBERG	1 000	0,98	981	0,98	981	–	0,84	842
UBS FLOAT	1 000	0,99	990	0,99	990	–	0,85	845
ZELA FINANCE CORPORATION	1 000	1,00	1 000	1,00	1 000	–	0,00	0
CLARIS LIMITED	1 000	1,00	1 000	1,00	1 000	–	0,00	0
SOCIETE GENERALE	1 450	1,00	1 450	1,00	1 450	–	0,95	1 375

Ctd.

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TYPE OF SECURITIES	Nominal Value Euros '000	Acquisition Cost		Amortised Cost		Impairment	Book Value	
		Unit Value	Total Euros '000	Unit Value	Total Euros '000	Euros '000	Unit Value	Total Euros '000
BOIRO FINANCE BV	3 000	1,00	3 000	1,00	3 000	–	1,00	2 997
DRESDNER BANK AG	1 000	0,99	985	0,99	985	–	0,88	883
STARLING FINANCE	1 000	1,00	1 000	1,00	1 000	–	0,73	733
IVORY	1 000	1,00	1 000	1,00	1 000	–	0,86	860
MALACHITE JUNIOR MEZZANINE	160	1,00	160	1,00	160	–	0,00	0
NOMURA Var 09/19	2 000	1,00	1 990	1,00	1 990	–	1,00	1 994
NOMURA Var 10/14	1 500	0,99	1 485	0,99	1 485	–	1,00	1 505
FINANCIAL ASSETS HELD FOR TRADING			**28 169**		**28 169**	**–**		**28 509**
BONDS			***28 169***		***28 169***	**–**		***28 509***
MG ESPECIAL POUPANÇA	1 136	1,03	1 171	1,03	1 171	–	1,03	1 171
MG VALOR GARANTIDO	193	1,02	196	1,02	196	–	1,02	196
MG AFORRO 2006 (5 Anos) – 1.ª Série	22	1,04	23	1,04	23	–	1,04	23
MG AFORRO 2006 (5 Anos) – 2.ª Série	647	0,98	637	0,98	637	–	1,04	675
MG AFORRO 2006 (5 Anos) – 3.ª Série	96	1,03	99	1,03	99	–	1,04	99
AFORRO MONTEPIO 2006 (5 Anos) – 4.ª Série	157	0,97	153	0,97	153	–	1,03	162
AFORRO MONTEPIO 2007 (3 Anos) – 1.ª Série	277	1,01	280	1,01	280	–	1,00	277
AFORRO MONTEPIO ASSOCIADOS 2007 (3 ANOS) – 1.ª Série	645	1,01	651	1,01	651	–	1,00	646
AFORRO MONTEPIO ASSOCIADOS 2007 (5 ANOS) – 1.ª Série	140	0,97	137	0,97	137	–	1,03	145
AFORRO MONTEPIO ASSOCIADOS 2007 (3 ANOS) – 2.ª Série	656	1,01	663	1,01	663	–	1,00	659
AFORRO MONTEPIO ASSOCIADOS 2007 (3 ANOS) – 3.ª Série	848	1,01	858	1,01	858	–	1,01	855
AFORRO MONTEPIO 2007 (3 ANOS) – 3.ª Série	455	1,02	462	1,02	462	–	1,01	458
AFORRO MONTEPIO 2007 (3 ANOS) – 4.ª Série	385	1,02	392	1,02	392	–	1,01	390
AFORRO MONTEPIO ASSOCIADOS 2006 (5 ANOS) – 1.ª Série	9	1,03	9	1,03	9	–	1,03	9
AFORRO MONTEPIO 2007 (3 ANOS) – 2.ª Série	416	1,01	422	1,01	422	–	1,00	418
AFORRO MONTEPIO ASSOCIADOS 2007 (3 ANOS) – 5.ª Série	726	1,01	736	1,01	736	–	1,01	737
AFORRO MONTEPIO 2007 (3 ANOS) – 5.ª Série	365	1,02	371	1,02	371	–	1,01	370
AFORRO MONTEPIO 2007 (3 ANOS) – 6.ª Série	227	1,03	233	1,03	233	–	1,02	231
AFORRO MONTEPIO ASSOCIADOS 2007 (3 ANOS) – 4.ª Série	424	1,01	429	1,01	429	–	1,01	430
AFORRO MONTEPIO ASSOCIADOS 2007 (3 ANOS) – 6.ª Série	486	1,02	498	1,02	498	–	1,02	496
AFORRO MONTEPIO 2007 (3 ANOS) – 7.ª Série	113	1,03	116	1,03	116	–	1,02	115
AFORRO MONTEPIO ASSOCIADOS 2007 (3 ANOS) – 7.ª Série	407	1,03	418	1,03	418	–	1,02	416
MONTEPIO ENERGIA RENOVÁVEIS JUL 2007/10	925	0,97	900	0,97	900	–	1,00	924
AFORRO MONTEPIO 2007 (3 ANOS) – 8.ª Série	234	1,03	240	1,03	240	–	1,02	239
AFORRO MONTEPIO ASSOCIADOS 2007/2010 – 8.ª Série	784	1,03	809	1,03	809	–	1,03	804
MONTEPIO PLANETA TERRA 2007/10	399	0,97	386	0,97	386	–	0,99	397
AFORRO MONTEPIO 2007 (3 ANOS) – 9.ª Série	396	1,03	407	1,03	407	–	1,02	405
AFORRO MONTEPIO ASSOCIADOS 2007/2010 – 9.ª Série	256	1,03	264	1,03	264	–	1,03	263
AFORRO MONTEPIO 2007 (3 ANOS) – 10.ª Série	175	1,03	181	1,03	181	–	1,03	180
AFORRO MONTEPIO 2007 (3 ANOS) – 11.ª Série	264	1,04	273	1,04	273	–	1,03	272
MONTEPIO EURO AFORRO 2007 (3 Anos) – 1.ª Série	3 385	0,99	3 337	0,99	3 337	–	1,00	3 380

See accompanying notes to the financial statements

TYPE OF SECURITIES	Nominal Value Euros '000	Acquisition Cost		Amortised Cost		Impairment	Book Value	
		Unit Value	Total Euros '000	Unit Value	Total Euros '000	Euros '000	Unit Value	Total Euros '000
MONTEPIO ENERGIA RENOVÁVEIS JUN 2007/10	481	0,97	468	0,97	468	–	1,00	478
MONTEPIO EURO AFORRO 2007 (3 Anos) – 2.ª Série	1 726	0,99	1 700	0,99	1 700	–	1,00	1 723
MONTEPIO EURO AFORRO 2007 (3 Anos) – 3.ª Série	1 223	0,98	1 199	0,98	1 199	–	1,00	1 221
MONTEPIO EURO AFORRO 2007 (3 Anos) – 4.ª Série	1 001	0,98	984	0,98	984	–	1,00	999
MONTEPIO EURO AFORRO 2007/10 – 5.ª Série	1 186	0,98	1 160	0,98	1 160	–	1,00	1 183
AFORRO MONTEPIO 2008/11 – 1.ª Série	541	1,00	542	1,00	542	–	1,03	556
MONTEPIO CABAZ COMMODITIES AGRICOLA 2008/2011	706	0,98	690	0,98	690	–	1,00	705
MONTEPIO EURO AFORRO 2008 – 1.ª SÉRIE	1 783	0,97	1 732	0,97	1 732	–	0,99	1 769
MONTEPIO EURO AFORRO 2008/11 – 2.ª SÉRIE	1 578	0,97	1 529	0,97	1 529	–	0,99	1 564
MONTEPIO EURO AFORRO 2008/11 – 3.ª SÉRIE	1 184	0,97	1 147	0,97	1 147	–	0,99	1 172
MONTEPIO EURO AFORRO 2008/11 – 4.ª SÉRIE	1 309	0,97	1 267	0,97	1 267	–	0,99	1 295
TOTAL			**926 436**		**928 337**	**(21 447)**		**909 056**

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

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

Introduction

1. We have audited the financial statements of Montepio Geral – Associação Mutualista ("Association"), which comprise the balance sheet as at 31 December, 2009 (showing total assets of Euro 2,609,777 thousand and total equity of Euro 403,105 thousand, including a net profit of Euro 42,533 thousand), the income statement and the cash flows statement for the year then ended and the corresponding notes.

Responsibilities

2. The Board of Directors is responsible for the preparation of financial statements, which present fairly, in all material respects, the financial position of the Association, the results of its operations and its cash flows, as well as for the adoption of adequate accounting policies and criteria and the maintenance of an appropriate internal control system.

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

Scope

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

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

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

- the assessment of the applicability of the going concern basis of accounting; and

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

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

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

Opinion

7. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montepio Geral – Associação Mutualista, as at 31 December, 2009, the results of its operations and its cash flows for the year then ended, in accordance with the accounting principles referred in Note 3.

Emphasis of matter

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

Lisbon, 8 March, 2010

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

5.2. CAIXA ECONÓMICA MONTEPIO GERAL (CEMG) – CONSOLIDATED ACCOUNTS

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2009 AND 2008

(thousand euros)

	2009			2008
	GROSS ASSETS	IMPAIRMENT AND DEPRECIATION	NET ASSETS	NET ASSETS
ASSETS				
Cash and deposits at Central Banks	305 018		305 018	254 742
Loans and Advances to Credit Institutions repayable on demand	69 870		69 870	114 502
Financial Assets held for trading	98 239		98 239	57 361
Other Financial Assets at fair value based on profit or loss	4 192		4 192	4 031
Available-for-sale Financial Assets	1 306 076	23 659	1 282 417	918 562
Other loans and advances to Credit Institutions	371 005	67	370 938	166 781
Loans and advances to customers	15 176 295	493 913	14 682 382	15 009 892
Held-to-maturity Investments	33 523		33 523	39 912
Hedging Derivatives	7 844		7 844	7 045
Non-current assets held for sale	157 935	29 336	128 599	92 312
Other Tangible Assets	201 031	109 756	91 275	85 950
Intangible Assets	57 032	40 881	16 151	14 776
Investments in associated companies and others	40 775		40 775	16 813
Other Assets	117 018	3 474	113 544	68 855
TOTAL ASSETS	**17 945 853**	**701 086**	**17 244 767**	**16 851 534**
LIABILITIES				
Deposits from Central Banks			502 353	852 803
Financial Liabilities held for trading			36 767	35 936
Deposits from other Credit Institutions			637 770	744 456
Deposits from Customers and other Loans			9 180 858	8 330 340
Debts securities issued			4 914 915	5 061 487
Financial liabilities associated with transferred assets			428 147	485 186
Hedging Derivatives			5 008	1 801
Provisions			1 490	1 668
Other Subordinated Liabilities			381 043	386 872
Other Liabilities			170 202	127 316
TOTAL LIABILITIES			**16 258 553**	**16 027 865**
EQUITY				
Equity			760 000	660 000
Revaluation Reserves			- 14 486	- 46 069
Other Reserves and Retained Earnings			196 224	175 864
Profit for the year			44 476	33 874
TOTAL EQUITY			**986 214**	**823 669**
TOTAL LIABILITIES AND EQUITY			**17 244 767**	**16 851 534**

THE CHIEF ACCOUNTANT
Armindo Marques Matias

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

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2009 AND 2008

(thousand euros)

	2009	2008
Interest and similar revenues	871 401	1 111 452
Interest and similar costs	550 593	796 595
NET INTEREST INCOME	**320 808**	**314 857**
Returns on equity instruments	703	882
Returns on services and fees	88 719	84 544
Charges of services and fees	13 605	13 560
Profit on assets and liabities at fair value based on profit or loss	28 319	- 2 401
Profit on available-for-sale financial assets	1 657	3 765
Proft on currency revaluations	2 070	1 681
Profit on sale of other assets	389	498
Other operating profits	19 965	19 369
BANKING REVENUE	**449 025**	**409 635**
Staff Costs	147 352	151 260
General Administrative Costs	79 204	85 696
Depreciation	20 507	18 370
Provisions net of adjustments	154	185
Impairment on credit net of reversals and recoveries	147 798	97 855
Impairment on other financial assets net of reversals and recoveries	2 132	20 248
Impairment on other assets net of reversals and recoveries	9 905	4 770
Profit from associated companies and joint ventures (net worth)	2 503	2 623
PROFIT	**44 476**	**33 874**

THE CHIEF ACCOUNTANT
Armindo Marques Matias

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CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEARS ENDED AT 31 DECEMBER 2009 AND 2008

(thousand euros)

	2009	2008
Cash flows arising from operating activities		
Interest income received	893 081	971 850
Commission income received	88 661	84 633
Interest expense paid	(598 748)	(614 973)
Commission expense paid	(15 050)	(11 516)
Payments to employees and suppliers	(245 084)	(242 238)
Recovered from charged-off loans	3 308	4 324
Other payments and receivables	92 456	(16 140)
	218 624	**175 940**
(Increase) / decrease in operating assets		
Loans and advances to credit institutions and customers	(110 698)	(188 610)
Other assets	(72 683)	(9 009)
	(183 381)	**(197 619)**
(Increase) / decrease in operating liabilities		
Deposits from central banks	880 451	(51 791)
Deposits from clients	(953 494)	86 780
Deposits from credit institutions	500 000	850 000
	426 957	884 989
	462 200	**863 310**
Cash flows arising from investing activities		
Dividends received	703	882
(Acquisition) / sale of trading financial assets	(33 355)	(17 955)
(Acquisition) / sale of other financial assets at fair value through profit or loss	(161)	(135)
(Acquisition) / sale of available for sale financial assets	(346 526)	(75 797)
(Acquisition) / sale of hedging derivatives	2 408	(3 608)
(Acquisition) / sale of held to maturity investments	6 278	(638)
(Acquisition) / sale of shares in associated companies	(11 690)	909
Deposits owned with the purpose of monetary control	(41 048)	17 560
Proceeds from sale of fixed assets	156	107
Acquisition of fixed assets	(27 350)	(24 834)
	(450 585)	**(103 509)**
Cash flows arising from financing activities		
Dividends paid	(11 271)	(25 758)
Proceeds from issuance of share capital	100 000	25 000
Proceeds from issuance of bonds and subordinated debt	1 108 775	242 922
Reimbursement of bonds and subordinated debt	(1 248 555)	(953 427)
Increase / (decrease) in other (sundry) liabilities	4 032	(21 765)
	(47 019)	**(733 028)**
Net changes in cash and equivalents	(35 404)	26 773
Cash and equivalents balance at the beginning of the year	204 402	177 629
Cash (note 17)	89 900	86 799
Loans and advances to credit institutions repayable on demand (note 18)	114 502	90 830
Cash and equivalents balance at the end of the year	**168 998**	**204 402**

See accompanying notes to the consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEARS ENDED AT 31 DECEMBER 2009 AND 2008

(thousand euros)

	Total equity	Share capital	General and special reserves	Other reserves	Fair value reserves	Retained earnings
Balance on 1 January, 2008	**835 733**	**635 000**	**200 825**	**5 506**	**(7 973)**	**2 375**
Other movements recognized directly in Equity:						
Changes in fair value (Note 40)	(40 091)	–	–	–	(40 091)	–
Dividends paid (Note 42)	(25 758)	–	–	–	–	(25 758)
Equity method	(5 089)	–	–	(3 511)	–	(1 578)
Profit for the period	33 874	–	–	–	–	33 874
Total gains and losses recognized in the year	798 669	635 000	200 825	1 995	(48 064)	8 913
Increase in share capital (Note 38)	25 000	25 000	–	–	–	–
Reserves constitution						
General reserve	–	–	12 949	–	–	(12 949)
Special reserve	–	–	3 211	–	–	(3 211)
Balance on 31 December, 2008	**823 669**	**660 000**	**216 985**	**1 995**	**(48 064)**	**(7 247)**
Other movements recognized directly in Equity:						
Changes in fair value (Note 40)	19 464	–	–	–	19 464	–
Dividends paid (Note 42)	(11 271)	–	–	–	–	(11 271)
– Equity method	9 876	–	–	12 120	–	(2 244)
Profit for the period	44 476	–	–	–	–	44 476
Total gains and losses recognized in the year	886 214	660 000	216 985	14 115	(28 600)	23 714
Increase in share capital (Note 38)	100 000	100 000	–	–	–	–
Reserves constitution						
General reserve	–	–	7 125	–	–	(7 125)
Special reserve	–	–	1 766	–	–	(1 766)
Balance on 31 December, 2009	**986 214**	**760 000**	**225 876**	**14 115**	**(28 600)**	**14 823**

COMPREHENSIVE INCOME STATEMENT FOR THE YEARS ENDED AT 31 DECEMBER 2009 AND 2008

(thousands euros)

	Note	2009	2008
Fair Value Reserve			
Available for sale financial instruments	40	(28 600)	(48 064)
Net profit of the year		44 476	33 874
Total Comprehensive Income Statement		15 876	(14 190)

See accompanying notes to the consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 DECEMBER 2009

1. Accounting policies

1.1. BASIS OF PRESENTATION

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

In accordance with Regulation (EC) no. 1606/2002 from the European Parliament and the Counsel, of 19 July, 2002, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of 17 February and Regulation no. 1/2005 from the Bank of Portugal, CEMG's consolidated financial statements are required to be prepared in accordance with International Financial Reporting Standards («IFRS») as endorsed by the European Union («EU»).

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

These consolidated financial statements for the year ended 31 December 2009, were prepared in accordance with the IFRS effective and adopted for use in the European Union until 31 December 2009. The accounting policies used by CEMG in the preparation of its consolidated financial statements as at 31 December 2009 are consistent with the ones used in the preparation of the consolidated financial statements as at 31 December 2008.

However as described in note 49, in the preparation of the financial statements as at 31 December 2009, CEMG adopted the accounting standards issued by the IASB and the interpretations issued by the IFRIC effective since 1 January 2009. The accounting principles used by CEMG in the preparation of these financial statements, described in this note, were modified accordingly. The adoption of these new standards and interpretations by CEMG in 2009 had impact mainly in new disclosures for which comparative figures are presented.

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

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

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

These consolidated financial statements were approved in the Board of Directors meeting held on 4 March, 2010.

1.2. BASIS OF CONSOLIDATION

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

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

Investments in subsidiaries

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

When the accumulated losses of a subsidiary attributable to the minority interest exceed the equity of the subsidiary attributable to the minority interest, the excess is attributed to CEMG and charged to the income statement as it occurs. Profits subsequently reported by the subsidiary are recognised as profits of CEMG until the prior losses attributable to minority interest previously recognised by CEMG have been recovered.

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 managerial personnel;

– provision of essential technical information.

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

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 relation 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 made based on the criteria established by SIC 12 – Consolidation of Special Purpose Entities, which can be summarised as follows:

– In substance, the activities of the SPE are being conducted in accordance with the specific needs of the business, so that CEMG obtains the benefits from these activities

– In substance CEMG has the decision-making powers to obtain the majority of the benefits from the activities of the SPE;

– In substance, CEMG has rights to obtain the majority of the benefits of the SPE, and therefore may be exposed to the inherent risks of its activities;

– In substance, CEMG retains the majority of residual or ownership risks related to the SPE so as to obtain the benefits from its activities

Transactions eliminated on consolidation

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

Unrealised gains on transactions between CEMG and its associates are eliminated to the extent of 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 with equity instruments classified as available-for-sale, in which case are accounted for against reserves.

1.4. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Classification

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

All other derivatives are classified as trading derivatives.

Recognition and measurement

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

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

Hedge accounting

i) Classification criteria

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

- At the inception of the hedge, the hedge relationship is identified and documented, including the identification of the hedged item and of the hedging instrument and the evaluation of the effectiveness of the hedge;
- The hedge is expected to be highly effective, both at the inception of the hedge and on an ongoing basis;
- The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis;
- The hedge is valuable in a continuous basis and highly effective throughout the reporting period; and
- For cash flows hedges, the cash flows are highly probable of occurring.

ii) Fair value hedge

In a fair value hedge, the book value of the hedged asset or liability, determined in accordance with the respective 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 each hedge relationship in order to be classified as such according to IAS 39, effectiveness has to be demonstrated. As such, the Group performs prospective tests at the beginning date of the initial hedge, if applicable and retrospective tests in order to demonstrate at each reporting period the effectiveness, showing that the changes in the fair value of the hedging instrument are hedged by the changes in the hedged item for the risk being covered. Any ineffectiveness is recognized immediately in profit and loss when incurred.

iv) Embedded derivatives

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

1.5. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers include loans and advances originated by CEMG, which are not intended to be sold in the short term and are recognised when cash is advanced to borrowers.

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

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

Impairment

The CEMG's policy consists in a regular assessment of the existence of objective evidence of impairment in the loan portfolios. Impairment losses identified are charged against income and subsequently the charge is reversed, if there is a reduction of the estimated impairment loss, in a subsequent period.

After initial recognition, a loan or a loan portfolio, defined as a group of loans with similar credit risk characteristics, may be classified as impaired when there is objective evidence of impairment as a result of one or more events and when the loss event has an impact on the estimated future cash flows of the loan or of the loan portfolio that can be reliably estimated.

According to IAS 39, there are two basic methods of calculating impairment losses: (i) individually assessed loans; and (ii) collective assessment.

i) Individually assessed loans

Impairment losses on individually assessed loans are determined by an evaluation of the exposures on a case-by-case basis. For each loan considered individually significant, CEMG assesses, at each balance sheet date, the existence of any objective evidence of impairment. In determining such impairment losses on individually assessed loans, the following factors are considered:

- CEMG aggregate exposure to the customer and the existence of overdue loans;
- the viability of the customers' business and capability to generate sufficient cash flow to service their debt obligations in the future;
- the existence, nature and estimated value of the collaterals;
- a significant downgrading in the clients rating;
- the assets available on liquidation or bankruptcy;
- the ranking of all creditor claims;
- the amount and timing of expected receipts and recoveries.

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

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

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

ii) Collective assessment

Impairment losses are calculated on a collective basis in two different scenarios:

– for homogeneous groups of loans that are not considered individually significant; or

– in respect of losses which have been incurred but have not yet been identified («IBNR») on loans subject to individual assessment for impairment (see previous section (i)).

The collective impairment loss is determined considering the following factors:

– historical loss experience in portfolios of similar risk characteristics;

– knowledge of the current economic and credit conditions and its influence in historical losses level;

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

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

Loans that have been individually assessed and no evidence of impairment has been identified, are grouped together based on similar credit risk characteristics for calculating a collective impairment loss. This loss covers loans that are impaired at the balance sheet date but which will not be individually identified as such until sometime in the future.

In accordance with «Carta-Circular» no. 15/2009 of the Bank of Portugal, loans and advances to customers are charged-off when there no realistic expectation, from an economic perspective, of recovering the loan amount. For collateralised loans, the charge-off occurs for the unrecoverable amount when the funds arising from the execution of the respective collaterals for the part of the loans which is collateralised is effectively received. This charge-off is carried out only for loans that are considered not to be recoverable and fully provided.

1.6. OTHER FINANCIAL ASSETS

i) Classification

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

Financial assets at fair value trough profit or loss

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

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

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

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

– Such financial assets contain an embedded derivative.

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

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

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

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

ii) Initial recognition, measurement and derecognising

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

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

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

iii) Subsequent measurement

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

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

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

Any reclassification or sale of financial assets included in this category that does not occur close to the maturity of the assets will require that CEMG reclassify the entire portfolio as Financial assets available for sale and CEMG will not be allowed to classify any assets under this category for the following two years.

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

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

iv) Reclassifications between categories

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

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

In October 2008, 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 years of 2009 and 2008, there were no reclassifications between categories.

v) Impairment

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

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

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

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

1.7. ASSETS SOLD WITH A REPURCHASE AGREEMENT

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

Securities lent under lending agreements are not derecognised of the balance sheet, being classified and measured in accordance with the accounting policy described in note 1.5.

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 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. ASSETS ARISING OUT OF RECOVERED LOANS

Assets arising out of recovered loans include buildings, loans seize and securities arising from the settlement of loan contracts. These assets are reported under Other assets and are initially recognised at the recovered loan value.

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

Subsequent measurement is at the lower of its carrying amount and its corresponding fair value. No depreciation is provided in respect of those assets. Any subsequent write-down of the acquired asset to fair value is recorded as an impairment loss and included in the income statement.

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 straightline 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 1.11.

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.

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 RECOGNITION

Interest income and expense are recognised in the income statement under interest and similar income and interest and similar expense for all non-derivative financial instruments measured at amortised cost and for the available-for-sale financial assets, using the effective interest method. Interest income arising from non-derivative financial assets and liabilities at fair value through profit or loss is also included under interest and similar income or interest expense and similar charges, respectively.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is calculated at inception and it is not subsequently revised.

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

In case of financial assets or groups of similar financial assets for which an impairment loss was recognised, interest income is calculated using the interest rate used to measure the impairment loss.

Specifically regarding the 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 (i) those classified as hedging instruments of interest rate risk and (ii) those used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss, the interest component of the changes in their fair value is not separated out and is classified under net (losses)/gains from financial assets at fair value through profit or loss. The interest component of the changes in the fair value of hedging derivatives of interest rate risk and of derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss, in order to eliminate an accounting mismatch, is recognised under interest and similar income or interest and similar expense.

1.18. FEE AND COMMISSION INCOME

Fee and commission are recognised as follows:

– Fee and commission that are earned on the execution of a significant act, as loan syndication fees, are recognised as income when the significant act has been completed;

– Fee and commission earned over the period in which the services are provided are recognised as income in the period the services are provided;

– Fee and commission that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest method.

1.19. DIVIDENDS FROM EQUITY INSTRUMENTS

Dividends from equity instruments are recognised when the right to receive payment is established.

1.20. SEGMENTAL REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

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.

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 of the markets, 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 (Note 1.2).

The determination of the SPE that needs to be consolidated by CEMG requires the use of estimates and assumptions in determining the respective expected residual gains and losses and which party retains the majority of such residual gains and losses. Different estimates and assumptions could lead CEMG to a different scope of consolidation with a direct impact in net income.

Pension and other employees' benefits

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

Changes in these assumptions could materially affect these values.

CONSOLIDATED INCOME STATEMENT FOR THE YEARS ENDED AT 31 DECEMBER 2009 AND 2008

(thousand euros)

	NOTES	2009	2008
Interest and similar income	3	871 401	1 111 452
Interest and similar expense	3	550 593	796 595
NET INTEREST INCOME		**320 808**	**314 857**
Dividends from equity instruments	4	703	882
Fee and comission income	5	88 719	84 544
Fee and comission expense	5	(13 605)	(13 560)
Net losses arising from assets and liabilities at fair value through profit or loss	6	28 319	(2 401)
Net gains/(losses) arising from available-for-sale financial assets	7	1 657	3 765
Net gains arising from foreign exchange differences	8	2 070	1 681
Net gains from sale of other financial assets		389	498
Other operating income	9	16 657	15 044
TOTAL OPERATING INCOME		**445 717**	**405 310**
Staff costs	10	147 352	151 260
General and administrative expenses	11	79 204	85 696
Depreciation and amortisation	12	20 507	18 370
TOTAL OPERATING COSTS		**247 063**	**255 326**
Loans impairment	13	144 490	93 530
Other assets impairment	14	12 037	25 018
Other provisions	15	154	185
OPERATING PROFIT		**41 973**	**31 251**
Share of profit of associates under the equity method	16	2 503	2 623
PROFIT FOR THE PERIOD		**44 476**	**33 874**

See accompanying notes to the consolidated financial statements

CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2009 AND 2008

(thousand euros)

	NOTES	2009	2008
ASSETS			
Cash and deposits at central banks	17	305 018	254 742
Loans and advances to credit institutions repayable on demand	18	69 870	114 502
Other loans and advances to credit institutions	19	370 938	166 781
Loans and advances to customers	20	14 682 382	15 009 892
Financial assets held for trading	21	103 195	59 118
Other financial assets at fair value through profit or loss	22	4 192	4 031
Financial assets available-for-sale	23	1 282 417	918 562
Hedging derivatives	24	5 109	7 727
Held-to-maturity investments	25	33 523	39 912
Investments in associated companies and others	26	40 775	16 813
Non-current assets held for sale	27	128 599	92 312
Property and equipment	28	91 275	85 950
Intangible assets	29	16 151	14 776
Other assets	30	111 323	66 416
TOTAL ASSETS		**17 244 767**	**16 851 534**
LIABILITIES			
Deposits from central banks	31	502 353	852 803
Deposits from other credit institutions	32	637 770	744 456
Deposits from customers	33	9 180 858	8 330 340
Debt securities issued	34	4 914 915	5 061 487
Financial liabilities held for trading	21	41 724	37 692
Hedging derivatives	24	598	1 234
Provisions	35	1 490	1 668
Other subordinated debt	36	381 043	386 872
Other liabilities	37	597 802	611 313
TOTAL LIABILITIES		**16 258 553**	**16 027 865**
EQUITY			
Share capital	38	760 000	660 000
Fair value reserves	40	(28 600)	(48 064)
Other reserves and retained earnings	39 and 40	210 338	177 859
Profit for the period		44 476	33 874
TOTAL EQUITY		**986 214**	**823 669**
TOTAL		**17 244 767**	**16 851 534**

See accompanying notes to the consolidated financial statements

2. Net interest income and net gains arising from trading, hedging and available-for-sale activities

IFRS requires separate disclosure of net interest income and net gains arising trading, hedging activities and available-for-sale activities, as presented in Notes 3, 6 and 7. A particular business activity can generate impact in net interest income and net gains arising from trading, hedging and AFS activities. This required disclosure, however, does not take into account that net gains arising from assets and liabilities at fair value through profit or loss, available-for-sale financial assets and interest and similar income activities are generated by a range of different business activities. In many cases, a particular business activity can generate both net interest and trading income.

These balances are analysed as follows:

	2009 Euro '000	2008 Euro '000
Net interest income	320 808	314 857
Net gains arising from trading, hedging and available-for-sale activities	29 976	1 364
	350 784	316 221

3. Net interest income

This balance is analysed as follows:

	2009			2008		
	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	557 893	–	557 893	839 959	–	839 959
Interest from other assets	1 729	–	1 729	17 900	–	17 900
Interest from deposits with banks	1 953	–	1 953	6 179	–	6 179
Interest from available-for-sale financial assets	60 088	–	60 088	89 872	–	89 872
Interest from held-to-maturity financial assets	1 420	–	1 420	1 647	–	1 647
Interest from hedging derivatives	5 713	–	5 713	7 172	–	7 172
Interest from available for trading financial assets	–	234 226	234 226	–	140 836	140 836
Other interest and similar income	8 379	–	8 379	7 887	–	7 887
	637 175	234 226	871 401	970 616	140 836	1 111 452
Interest and similar expense:						
Interest from deposits	184 711	–	184 711	285 314	–	285 314
Interest from securities issued	126 517	–	126 517	253 658	–	253 658
Interest from loans	7 368	–	7 368	14 793	–	14 793
Interest from other funding	22 634	–	22 634	41 655	–	41 655
Interest from hedging derivatives	3 615	–	3 615	7 966	–	7 966
Interest from available for trading financial assets	–	189 929	189 929	–	160 029	160 029
Other interest and similar expense	15 819	–	15 819	33 180	–	33 180
	360 664	189 929	550 593	636 566	160 029	796 595
Net interest income	276 511	44 297	320 808	334 050	(19 193)	314 857

4. Dividends from equity instruments

This caption in the amount of Euro 703 000 (2008: Euro 882 000) is related to dividends from available-for-sale financial assets.

5. Net fee and commission income

The amount of this account is comprised of:

	2009 Euro '000	2008 Euro '000
Fee and commission income:		
From banking services	60 489	58 985
From transactions with third parties	9 195	9 685
From commitments to third parties	6 535	5 527
Other fee and commission income	12 500	10 347
	88 719	84 544
Fee and commission expense:		
From banking services rendered by third parties	12 661	12 389
From transactions with securities	484	412
Other fee and commission expense	460	759
	13 605	13 560
Net fee and commission income	75 114	70 984

6. Net gains arising from financial assets

This balance is analysed as follows:

	2009			2008		
	Gains Euro '000	**Losses Euro '000**	**Total Euro '000**	**Gains Euro '000**	**Losses Euro '000**	**Total Euro '000**
Assets and liabilities held for trading						
Bonds and other fixed income securities						
Issued by public entities	49	17	32	77	56	21
Issued by other entities	1 002	66	936	117	46	71
Shares	660	17	643	154	1 183	(1 029)
	1 711	100	1 611	348	1 285	(937)
Derivative financial instruments						
Exchange rate contracts	112 842	109 941	2 901	3 793	5 313	(1 520)
Interest rate contracts	352 804	345 979	6 825	202 581	165 941	36 640
Credit default contracts	6 541	6 014	527	8 595	8 152	443
Others	58 081	42 507	15 574	71 926	108 818	(36 892)
	530 268	504 441	25 827	286 895	288 224	(1 329)
	531 979	504 541	27 438	287 243	289 509	(2 266)
Other financial assets at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by other entities	160	–	160	224	89	135
Hedging derivatives						
Financial liabilities						
Other loans and advances to credit institutions	1 237	760	477	2 025	3 535	(1 510)
Deposits from customers	521	795	(274)	1 588	3 159	(1 571)
Debt securities issued	4 946	2 020	2 926	3 090	3 886	(796)
Other Subordinated debt	35 515	37 923	(2 408)	47 781	44 174	3 607
	42 219	41 498	721	54 484	54 754	(270)
	574 358	546 039	28 319	341 951	344 352	(2 401)

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

The amount of this account is comprised of:

	2009			2008		
	Gains Euro '000	Losses Euro '000	Total Euro '000	Gains Euro '000	Losses Euro '000	Total Euro '000
Bonds and other fixed income securities						
Issued by public entities	1 005	2	1 003	173	15	158
Issued by other entities	851	413	438	56	317	(261)
Shares	218	49	169	2 676	101	2 575
Other variable income securities	413	366	47	1 613	320	1 293
	2 487	830	1 657	4 518	753	3 765

8. Net gains from foreign exchange differences

The amount of this account is comprised of:

	2009			2008		
	Gains Euro '000	Losses Euro '000	Total Euro '000	Gains Euro '000	Losses Euro '000	Total Euro '000
Foreign exchange differences	30 469	28 399	2 070	91 239	89 558	1 681

This account is comprised of the results from foreign exchange differences of monetary assets and liabilities in foreign currency in accordance with the accounting policy presented in Note 1.3.

9. Other operating income

The amount of this account is comprised of:

	2009 Euro '000	2008 Euro '000
Other operating income:		
Income from services	4 578	4 206
Reimbursement of expenses	1 541	1 606
Profits arising from deposits on demand management	7 574	8 699
Other operating income	7 191	6 376
Others	2 809	1 710
	23 693	22 597
Other operating expense:		
Indirect taxes	131	265
Donations and quotizations	423	425
Contributions to the Deposit Guarantee Fund	1 748	1 885
Other operating expenses	4 734	4 978
	7 036	7 553
Other net operating income	16 657	15 044

10. Staff costs

The amount of this account is comprised of:

	2009 Euro '000	2008 Euro '000
Remunerations	105 633	98 471
Health-care benefits – SAMS	6 349	6 328
Mandatory social security charges	7 924	7 848
Pension costs	24 073	35 983
Other staff costs	3 373	2 630
	147 352	151 260

The health-care benefits – SAMS include the amount of Euro 705 000 (2008: Euro 572 000) related to the health-care net periodic benefit cost, which was determined based on the actuarial valuation performed (see note 44)

The balance Mandatory social security charges includes, for 2009, the amount of Euro 20 460 000 (2008: Euro 26 189 000) related to the pension cost for the year. The referred amount also includes, for 2009, the amount of Euro 4 800 000 (2008: Euro 9 801 000) related to early retirements during the year.

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

	Boards of Directors Euro '000	Other key management Euro '000	Total Euro '000
Salaries and other short-term benefits	843	3 876	4 719
Pension costs and health-care benefits (SAMS)	6	164	170
Bonus	144	496	640
	993	4 536	5 529

The costs with salaries and other benefits attributed to CEMG key management personnel, during 2008, are presented as follows:

	Boards of Directors Euro '000	Other key management Euro '000	Total Euro '000
Salaries and other short-term benefits	1 119	4 446	5 565
Pension costs and health-care benefits (SAMS)	1 320	1 125	2 445
Bonus	322	595	917
	2 761	6 166	8 927

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

As at 31 December 2009 and 2008, the loans granted by CEMG to its key management personnel, amounted to Euro 4 685 000 and Euro 5 338 000, respectively.

The average number of employees by professional category at service in CEMG during 2009 and 2008 is analysed as follows:

	2009	2008
Management	125	128
Managerial staff	512	569
Technical staff	662	520
Specific categories	144	162
Administrative	1 418	1 472
Staff	74	80
	2 935	2 931

11. General and administrative expenses

The amount of this account is comprised of:

	2009 Euro '000	2008 Euro '000
Rents	24 613	23 779
Specialised services		
Information technology services	3 748	3 529
Outsourcing	3 659	3 331
Other specialised services	13 471	16 453
Advertising	3 578	10 588
Communications	8 229	8 436
Water, electricity and fuel	3 706	4 077
Maintenance and related services	4 754	3 187
Transportation	3 501	3 186
Insurance	2 881	2 359
Travel, hotel and representation costs	1 187	1 434
Consumables	1 756	1 868
Training costs	718	761
Other supplies and services	3 403	2 708
	79 204	85 696

The balance Rents includes the amount of Euros 15 764 000 (2008: Euros 15 482 000) related to rents paid regarding buildings used by the Group as leaser.

12. Depreciation and amortisation

The amount of this account is comprised of:

	2009 Euro '000	2008 Euro '000
Intangible assets:		
Software	8 338	8 152
Other tangible assets:		
Land and buildings	3 269	3 306
Equipment:		
Furniture	614	612
Office equipment	92	106
Computer equipment	5 737	3 922
Interior installations	1 741	1 880
Motor vehicles	9	15
Security equipment	229	144
Operational lease – Renting	478	233
	12 169	10 218
	20 507	18 370

13. Loans impairment

The amount of this account is comprised of:

	2009 Euro '000	2008 Euro '000
Overdue loans and advances to customers:		
Charge for the year	527 206	425 567
Write-back for the year	(379 432)	(327 710)
Recovery of loans and interest charged-off	(3 308)	(4 324)
	144 466	93 533
Other loans and advances to credit institutions:		
Charge for the year	162	503
Write-back for the year	(138)	(506)
	24	(3)
	144 490	93 530

14. Other assets impairment

The amount of this account is comprised of:

	2009 Euro '000	2008 Euro '000
Impairment for investments arising from recovered loans:		
Charge for the year	10 088	5 322
Write-back for the year	(183)	(552)
	9 905	4 770
Impairment for securities:		
Charge for the year	2 398	20 321
Write-back for the year	(266)	(73)
	2 132	20 248
	12 037	25 018

15. Other provisions

The amount of this account is comprised of:

	2009 Euro '000	2008 Euro '000
Provision for liabilities and charges:		
Charge for the year	416	248
Write-back for the year	(262)	(63)
	154	185

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:

	2009 Euro '000	2008 Euro '000
Lusitania, Companhia de Seguros, S.A.	1 267	628
Lusitania Vida, Companhia de Seguros, S.A.	1 290	1 906
Norfin – Soc. Gestora de Fundos Invest. Imob., S.A.	–	191
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	(54)	(102)
	2 503	2 623

17. Cash and deposits at central banks

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Cash	99 128	89 900
Bank of Portugal	205 890	164 842
	305 018	254 742

The balance Bank of Portugal includes mandatory deposits intended to satisfy legal minimum cash requirements. According to the European Central Bank Regulation (CE) no. 2818/98, of 1 December 1998, minimum cash requirements kept as deposits with the Bank of Portugal earn interest, and correspond to 2% of deposits and debt certificates maturing in less than 2 years, excluding deposits and debt certificates of institutions subject to the European System of Central Banks' minimum reserves requirements.

As at 31 December 2009, these deposits have earned interest at an average rate of 1.35% (2008: 4.14%).

18. Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Credit institutions in Portugal	18 260	22 451
Credit institutions abroad	9 433	48 875
Amounts due for collection	42 177	43 176
	69 870	114 502

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:

	2009 Euro '000	2008 Euro '000
Loans and advances to credit institutions in Portugal		
Deposits	245	590
Short term deposits	–	14 372
Other loans and advances	50 014	26 385
	50 259	41 347
Loans and advances to credit institutions abroad		
Deposits	159	110
Short term deposits	280 000	120 337
Other loans and advances	40 586	5 029
	320 745	125 476
	371 004	166 823
Impairment for credit risks over credit institutions	(66)	(42)
	370 938	166 781

The main loans and advances to credit institutions in Portugal, as at 31 December 2009, bear interest at an average annual interest rate of 1% (2008: 2.99%). 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:

	2009 Euro '000	2008 Euro '000
Due within 3 months	285 686	155 539
3 months to 6 months	50 014	9 394
6 months to 1 year	34 900	1 190
Over 5 years	299	590
Undetermined	105	110
	371 004	166 823

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

	2009 Euro '000	2008 Euro '000
Impairment for credit risks over credit institutions:		
Balance on 1 January	42	45
Charge for the year	162	503
Write-back for the year	(138)	(506)
Balance on 31 December	66	42

20. Loans and advances to customers

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Domestic loans:		
Corporate		
Loans	1 249 077	1 053 448
Commercial lines of credits	2 309 633	2 617 830
Finance leases	203 803	144 270
Discounted bills	121 695	139 958
Factoring	76 807	54 169
Overdrafts	5 274	6 907
Other loans	681 904	814 634
Retail		
Mortgage loans	9 106 948	9 320 901
Finance leases	36 411	27 283
Consumer and other loans	803 137	786 963
	14 594 689	14 966 363
Foreign loans:		
Corporate		
Overdrafts	18	114
	14 594 707	14 966 477
Overdue loans and interest:		
Less than 90 days	73 470	76 995
More than 90 days	508 118	350 341
	581 588	427 336
	15 176 295	15 393 813
Impairment for credit risks	(493 913)	(383 921)
	14 682 382	15 009 892

As at 31 December 2009, the balance Loans and advances to customers (net of impairments losses) includes the amount of Euro 318 961 000 (2008: Euro 375 280 000) 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 31 December 2009, this balance includes Euro 1 298 998 000 regarding mortgage loans that collateralise the issue of covered bonds issued by CEMG (see note 34).

As referred in the previous paragraph, CEMG performed in July 2009 the first issue of covered bonds in the amount of Euro 1 000 000 000 and maturity of three years. This issue was performed under the CEMG Covered Bonds Programme. The interest rate is 3.25%.

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 (2008: Euro 6 298 000) 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.

During December 2008, the Board of Directors of CEMG resolve to sell to Bolsimo – Gestão de Activos S.A. («Bolsimo») a portfolio of overdue loans.

This sale involves the transfer of all the risks and benefits from the referred portfolio, including the entitlement of the assets that backed up the loans.

Considering the nature of the transaction, the Board of Directors analysed the operation and the accounting framework, mainly the derecognition of a financial asset expressed in the paragraph AG 36 and next paragraphs of IAS 39 – Financial instruments: Recognition and Measurement. This analysis has the main objective to verify the follows:

– The integral transfer from the future cash-flows of the asset;

– The existence or not of a contingency price;

– The existence or not of the right of recover the loans;

– To verify the independence of the Transferee (autopilot); and

– The existence of control or influence by CEMG on Bolsimo;

As a result of this sale, it was celebrated a contract between CEMG and Bolsimo, and which characteristics enable the Board of Directors to conclude that, by the sale of credits, CEMG eliminated its exposure to variability resulting from the amount and timing of cash flows associated with this portfolio. On that basis, it was decided that were transferred the risks and benefits associated with the portfolio of credit granted, and it was derecognised from balance sheet the credits in the amount of Euro 138 607 000. For provisions relating specifically to this portfolio, in the amount of Euro 58 636 000, CEMG relocate to other credit risk provisions in the amount of Euro 39,700,000 and recorded in the income statement as a write-back of provisions the amount of Euro 18 936 000.

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	656	239	48 900	254	50 049
Foreign	18	–	–	–	18
Finance leases	232	91 175	148 807	10 025	250 239
	1 382 463	2 670 355	10 541 889	581 588	15 176 295

As at 31 December 2009, the balance Other guarantee loans included the amount of Euro 428 147 000 (2008: Euro 485 187 000) approximately, related with credits that were securitized and in accordance with the accounting policy described in the note 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 2008, 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	711 496	2 529 886	10 028 463	363 590	13 633 435
Other guarantee loans	627 711	77 820	128 858	18 782	853 171
Unsecured loans	305 976	118 244	209 682	42 528	676 430
Public sector	25	454	56 195	342	57 016
Foreign	114	–	–	–	114
Finance leases	51	66 306	105 196	2 094	173 647
	1 645 373	2 792 710	10 528 394	427 336	15 393 813

The balance Finance leases, by the period to maturity as at 31 December 2009, is analysed as follows:

	Finance leases			
	Due within 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Total Euro '000
Outstanding rents	49 580	116 482	93 464	259 526
Outstanding interest	(820)	(18 631)	(21 886)	(41 337)
Residual values	817	9 973	11 235	22 025
	49 577	107 824	82 813	240 214

The balance Finance leases, by the period to maturity as at 31 December 2008, 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	35 673	87 604	95 332	218 609
Outstanding interest	(8 586)	(24 105)	(27 942)	(60 633)
Residual values	532	8 244	4 801	13 577
	27 619	71 743	72 191	171 553

Regarding the Operational Leasing, CEMG does not present significant contracts as leaser. In accordance with note 11, the balance Rents, includes as at 31 December 2009, the amount of Euro 15 764 000 (2008: Euro 15 482 000), 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:

	2009 Euro '000	2008 Euro '000
Asset-backed loans	452 576	363 590
Other guaranteed loans	49 506	18 782
Unsecured loans	69 227	42 528
Public sector	254	342
Finance leases	10 025	2 094
	581 588	427 336

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

	2009 Euro '000	2008 Euro '000
Corporate:		
Construction / Production	144 921	88 952
Investment	52 602	33 682
Other short term loans	53 208	28 032
Other loans	3 047	620
Retail:		
Mortgage loans	262 286	226 752
Consumer credit	5 931	4 969
Other loans	32 788	21 331
Public sector	254	390
Other segments	26 551	22 608
	581 588	427 336

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

	2009 Euro '000	2008 Euro '000
Impairment for credit risk:		
Balance on 1 January	383 921	298 047
Impairment for the year	527 206	425 567
Write-back for the year	(379 432)	(327 710)
Loans charged-off	(37 782)	(11 983)
Balance on 31 December	493 913	383 921

In accordance with CEMG's policy, interest on credits overdue for a period over 90 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:

	2009 Euro '000	2008 Euro '000
Asset-backed loans	407 430	307 037
Other guaranteed loans	24 415	17 785
Unsecured loans	62 068	59 099
	493 913	383 921

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

	2009 Euro '000	2008 Euro '000
Asset-backed loans	22 139	12 532
Other guaranteed loans	6 081	(3 832)
Unsecured loans	9 562	3 283
	37 782	11 983

The loans charge-off performed during 2009 is related with write-offs, following «Carta-Circular» no. 15/2009 from the Bank of Portugal.

The analysis of recovered loans and overdue interest, performed during 1 January and 31 December 2009, and 2008, amounts to Euro 3 308 000 and Euro 4 324 000, respectively, related with assetbacked loans recovered, as referred in Note 13.

As at 31 December 2009 and 2008, the impairment detail in accordance with the accounting policy 1.5 is as follows:

	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
	1 092 139	175 484	14 084 156	318 429	15 176 295	493 913	14 682 382

	2008						
	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	1 472 786	80 995	3 946 111	114 674	5 418 897	195 669	5 223 228
Loans to costumers – Housing	182	1	9 320 901	169 686	9 321 083	169 687	9 151 396
Loans to costumers – Others	8 397	2 500	645 436	16 065	653 833	18 565	635 268
	1 481 365	83 496	13 912 448	300 425	15 393 813	383 921	15 009 892

Fair value of the collaterals associated to the loans portfolio is analysed as follows:

	2009 Euro '000	2008 Euro '000
Loans with impairment:		
Individually significant:		
Securities and other financial assets	60 962	87 878
Residential real estate (Housing Loans)	7 872	5 074
Other real estate (Civil Construction)	1 349 797	2 262 535
Other guarantees	28 216	12 769
	1 446 847	2 368 256
Parametric analysis:		
Securities and other financial assets	31 173	27 287
Residential real estate (Housing Loans)	2 044 393	2 193 801
Other real estate (Civil Construction)	885 526	638 349
Other guarantees	50 269	11 424
	3 011 361	2 870 861
Loans without impairment:		
Securities and other financial assets	509 751	471 790
Residential real estate (Housing Loans)	14 209 225	13 481 391
Other real estate (Civil Construction)	4 430 478	4 621 677
Other guarantees	80 483	84 403
	19 229 937	18 659 261
	23 688 145	23 898 378

21. Financial assets and liabilities held for trading

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

	2009 Euro '000	2008 Euro '000
Financial assets held for trading:		
Securities		
Shares	1 380	1 200
Bonds	5 772	3 172
	7 152	4 372
Derivatives		
Derivatives financial instruments with positive fair value	96 043	54 746
	103 195	59 118
Financial liabilities held for trading:		
Derivatives		
Derivatives financial instruments with negative fair value	41 724	37 692

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.

Financial assets and liabilities held for trading are measured in accordance with internal valuation techniques considering mainly observable market inputs. In accordance with the hierarchy of the valuation sources, as referred in IFRS 7 these instruments are classified in level 1 and 2.

As at 31 December 2009, the analysis of the portfolio of securities held for trading by the period to maturity is as follows:

	2009				
	Due within 3 months Euro '000	**3 months to 1 year Euro '000**	**Over 1 year Euro '000**	**Undetermined maturity Euro '000**	**Total Euro '000**
Variable income securities:					
Shares					
Portuguese companies	–	–	–	663	663
Foreign companies	–	–	–	717	717
	–	–	–	1 380	1 380
Fixed income securities:					
Bonds					
Issued by other entities	–	–	5 772	–	5 772
	–	–	5 772	1 380	7 152
Quoted	–	–	5 772	1 380	7 152

As at 31 December 2008, the analysis of the portfolio of securities held for trading by the period to maturity is as follows:

	2008				
	Due within 3 months Euro '000	**3 months to 1 year Euro '000**	**Over 1 year Euro '000**	**Undetermined maturity Euro '000**	**Total Euro '000**
Variable income securities:					
Shares					
Portuguese companies	–	–	–	14	14
Foreign companies	–	–	–	1 186	1 186
	–	–	–	1 200	1 200
Fixed income securities:					
Obrigações					
Issued by other entities	–	1 666	1 506	–	3 172
	–	1 666	1 506	1 200	3 172
Quoted	–	1 666	1 506	1 200	4 372

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

		2009						
		Derivative			Related asset / liability			
Derivative	Related financial asset / liability	Notional Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Book value Euro '000	Reimburse-ment amount at maturity date Euro '000
Interest rate swap	Securities issued	605 000	22 762	14 110	12 252	(10 583)	302 500	302 500
Interest rate swap	Deposits	2 070 643	4 156	3 324	2 361	(1 423)	948 692	948 692
Interest rate swap	Deposits from customers	733 572	15 365	8 952	10 562	2 760	386 471	386 471
Interest rate swap	Titularization	7 188 322	334	(3 699)	–	–	–	–
Interest rate swap	Mortgage Securitization	9 239 330	10 132	10 132	444	(444)	1 000 000	1 000 000
Currency interest rate swap	Debt issued	381 270	1 417	4 002	–	(1 128)	–	–
Futures	–	2 432	–	2	–	–	–	–
Options	Time deposits and other deposits	76 540	584	612	–	–	–	–
Credit default swaps	–	87 410	(431)	(170)	–	–	–	–
		20 384 519	54 319	37 265	25 619	(10 818)	2 637 663	2 637 663

The book value of the assets and liabilities at fair value through profit or loss as at 31 December 2008, is as follows:

		2008						
		Derivative			Related asset / liability			
Derivative	Related financial asset / liability	Notional Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Book value Euro '000	Reimburse-ment amount at maturity date Euro '000
Interest rate swap	Securities issued	450 000	8 652	(8 865)	1 669	(5 986)	315 000	315 000
Interest rate swap	Deposits	277 388	832	(2 848)	939	(2 387)	168 619	168 619
Interest rate swap	Deposits from customers	1 550 151	6 413	(21 083)	13 323	(30 756)	954 640	954 640
Interest rate swap	Titularization	1 926 961	4 033	(4 820)	–	–	–	–
Currency interest rate swap	Debt issued	151 020	(2 585)	4 044	(1 128)	2 664	10 360	10 360
Futures	–	2 130	(2)	–	–	–	–	–
Options	Time deposits and other deposits	81 206	(28)	69	–	–	–	–
Credit default swaps	–	172 934	(261)	208	–	–	–	–
		4 611 790	17 054	(33 295)	14 803	(36 465)	1 448 619	1 448 619

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

	2009					
	Notional with remaining term				Fair value	
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000	Positive Euro '000	Negative Euro '000
Interest rate contracts:						
Interest rate swaps	187 000	356 800	19 293 067	19 836 867	90 055	37 306
Options	250	50 300	25 990	76 540	1 209	625
Exchange rate contracts:						
Interest rate swaps	381 270	–	–	381 270	4 191	2 774
Index contracts:						
Index futures	2 432	–	–	2 432	–	–
Credit default contracts:						
Credit default swaps	–	1 000	86 410	87 410	588	1 019
	570 952	408 100	19 405 467	20 384 519	96 043	41 724

The analysis of financial instruments held for trading, by maturity date as at 31 December 2008, is as follows:

	2008					
	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	252 388	909 300	3 042 812	4 204 500	51 180	31 250
Options	251	6 341	74 614	81 206	630	658
Exchange rate contracts:						
Interest rate swaps	115 772	35 248	–	151 020	11	2 596
Index contracts:						
Index futures	2 130	–	–	2 130	–	2
Credit default contracts:						
Credit default swaps	43 000	2 500	127 434	172 934	2 925	3 186
	413 541	953 389	3 244 860	4 611 790	54 746	37 692

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 presented in Note 1.4 in the amount of Euro 4 956 000 (2008: Euro 1 757 000).

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

The balance Other financial assets and liabilities held for trading at fair value through profit or loss amounts in Euro 4 192 000 (2008: Euro 4 031 000), which is fully composed by fixed income bonds and other securities of other issuers.

CEMG's choice of naming these assets at fair value through profit and loss, according to IAS 39 and accounting policy 1.6, can be observed in the planed strategy of CEMG's management, considering that (i) these financial assets are managed and evaluated in a fair value basis and/or (ii) that these assets are holding embedded derivative instruments.

Other financial assets and liabilities held for trading at fair value through profit or loss are measured in accordance with internal valuation techniques considering mainly observable market inputs. In accordance with the hierarchy of the valuation sources, as referred in IFRS 7, these instruments are classified in level 1.

As at 31 December 2009 and 2008, securities portfolio included in the balance Other financial assets and liabilities held for trading at fair value through profit or loss is found quoted with a maturity greater than 1 year.

23. Available-for-sale financial assets

This balance is analysed as follows:

	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.

	2008				
		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	4	–	–	–	4
Foreign	1 076	–	(38)	–	1 038
Issued by other entities:					
Portuguese	67 725	80	(2 266)	(189)	65 350
Foreign	765 866	346	(45 927)	(19 688)	700 597
Commercial paper	138 153	–	–	(998)	137 155
Variable income securities:					
Shares in companies:					
Portuguese	5 334	–	(23)	(91)	5 220
Foreign	2 246	–	–	(810)	1 436
Investment fund units	11 209	35	(271)	(3 211)	7 762
	991 613	461	(48 525)	(24 987)	918 562

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

As referred in the accounting policy presented in Note 1.6, the portfolio of assets available-for-sale are presented at market value with fair value changes accounted for against fair value reserves, as referred in Note 39.

CEMG assesses periodically whether there is objective evidence of impairment losses on the available-for-sale financial assets, following the judgment criteria's described in Note 1.22.

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

	2009 Euro '000	2008 Euro '000
Impairment for securities:		
Balance on 1 January	24 987	4 813
Charge for the year	2 398	20 321
Charged-off	(266)	(73)
Write-back for the year	(3 461)	(74)
Balance on 31 December	23 658	24 987

During 2009 and as referred in Note 1.6, impairment losses were recognised in the amount of Euro 1 329 000.

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

	2009				
	Due within 3 months Euro '000	3 months 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	145 188	514 505	10 345	744 207
Commercial paper	172 401	30 135	–	–	202 536
	246 570	189 585	820 708	10 345	1 267 208
Variable income securities:					
Shares in companies:					
Portuguese	–	1 472	–	2 801	4 273
Foreign	–	–	–	2 290	2 290
Investment fund units	1 450	–	–	7 196	8 646
	1 450	1 472	–	12 287	15 209
	248 020	191 057	820 708	22 632	1 282 417

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2008, is as follows:

	2008				
	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	–	–	–	4	4
Foreign	–	–	1 038	–	1 038
Issued by other entities:					
Portuguese	–	–	60 325	5 025	65 350
Foreign	29 257	71 136	588 350	11 854	700 597
Commercial paper	101 280	35 875	–	–	137 155
	130 537	107 011	649 713	16 883	904 144
Variable income securities:					
Shares in companies:					
Portuguese	–	–	2 757	2 463	5 220
Foreign	–	–	–	1 436	1 436
Investment fund units	–	1 852	–	5 910	7 762
	–	1 852	2 757	9 809	14 418
	130 537	108 863	652 470	26 692	918 562

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 presented in note 1.6, the available-for-sale securities portfolio is presented net of fair value reserve and impairment losses in the amount of Euro 28 600 000 and Euro 23 658 000 (2008: Euro 48 064 000 and Euro 24 987 000), respectively.

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

	2009			2008		
	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	–	–	–	4	–	4
Foreign	8 060	–	8 060	1 038	–	1 038
Issued by other entities:						
Portuguese	284 645	27 760	312 405	31 227	34 123	65 350
Foreign	744 207	–	744 207	700 597	–	700 597
Commercial paper	–	202 536	202 536	–	137 155	137 155
Variable income securities:						
Shares in companies:						
Portuguese	700	3 573	4 273	166	5 054	5 220
Foreign	2 132	158	2 290	1 278	158	1 436
Investment fund units	8 646	–	8 646	7 762	–	7 762
	1 048 390	234 027	1 282 417	742 072	176 490	918 562

24. Hedging derivatives

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Assets:		
Interest rate swap	5 109	4 759
Currency interest rate swap	–	2 968
	5 109	7 727
Liabilities:		
Interest rate swap	598	1 008
Currency interest rate swap	–	226
	598	1 234

Hedging derivatives are measured in accordance with internal valuation techniques considering mainly observable market inputs. In accordance with the hierarchy of the valuation sources, as referred in IFRS 7 these derivatives are classified in level 2.

CEMG uses derivatives to hedge interest rate risks. The accounting method depends on the nature of the hedged risk, namely if CEMG is exposed to fair value changes, variability in cash-flows or highly probable forecast transactions.

CEMG performs periodical effectiveness tests of the hedging relationships.

The adjustment performed to the assets and liabilities that includes hedged items is analysed as follows:

	2009 Euro '000	2008 Euro '000
Deposits from other credit institutions	477	(1 510)
Debt securities issued	2 926	(796)
Deposits from customers	(318)	897
	3 085	(1 409)

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

	2009							
	Notional with remaining term				Fair value			
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000
Fair value hedge derivatives with interest rate risk:								
Interest rate swap								
Currency interest rate swap	–	44 000	155 000	199 000	1 168	–	3 343	4 511

The analysis of the hedging derivatives portfolio by maturity as at 31 December 2008 is as follows:

	2008							
	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	–	–	204 000	204 000	–	–	3 751	3 751
Currency interest rate swap	–	34 405	–	34 405	–	2 742	–	2 742
	–	34 405	204 000	238 405	–	2 742	3 751	6 493

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

2009							
Derivative	Hedged item	Hedged risk	Notional Euro '000	Fair value of derivative (2) Euro '000	Changes in the fair value of the derivative in the year Euro '000	Hedged item fair value (1) Euro '000	Changes in the fair value of the hedged item in the year (1) Euro '000
Interest rate swaps	Deposits from customers	Interest rate	44 000	4 086	492	642	146
Interest rate swaps	Deposits	Interest rate	120 000	–	–	2 203	(221)
Interest rate swaps	EMTN	Interest rate	35 000	698	541	(86)	(86)
Currency interest rate swaps	Debt issued	Interest rate	–	(273)	(3 015)	–	(3 011)
			199 000	4 511	(1 982)	2 759	(3 172)

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

As at 31 December 2008, the fair value hedge relationships present the following features:

2008							
Derivative	Hedged item	Hedged risk	Notional Euro '000	Fair value of derivative (2) Euro '000	Changes in the fair value of the derivative in the year Euro '000	Hedged item fair value (1) Euro '000	Changes in the fair value of the hedged item in the year (1) Euro '000
Interest rate swaps	Deposits from customers	Interest rate	84 000	157	1 497	496	1 717
Interest rate swaps	Deposits	Interest rate	120 000	3 594	1 991	2 424	1 818
Interest rate swaps	EMTN	Interest rate	–	–	(2 452)	–	380
Currency interest rate swaps	Debt issued	Interest rate	34 405	2 742	(259)	3 011	(63)
			238 405	6 493	777	5 931	3 852

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

25. Held-to-maturity investments

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Fixed income securities:		
Bonds issued by Portuguese public entities	18 573	24 977
Bonds issued by foreign public entities	14 950	14 935
	33 523	39 912

CEMG assessed, with reference to 31 December 2009, the existence of objective evidence of impairment on its held-to--maturity investments portfolio and no events with impact on the recoverable amount of the future cash flows associated with those investments were identified.

The held-to-maturity investments, as at 31 December 2009 are analysed as follows:

Issue	Issue date	Maturity date	Interest rate	Euro '000
OT – Setembro 98/2013	May1998	Sep. 2013	Fixed rate of 5.450%	96
OT – Junho 02/2012	Feb. 2002	June 2012	Fixed rate of 5.000%	105
OT – Maio 00/2010	Jan. 2000	May 2010	Fixed rate of 5.850%	6 394
OT – Junho 01/2011	Mar. 2001	June 2011	Fixed rate of 5.150%	1 052
OT – Outubro 05/2015	July 2005	Oct. 2015	Fixed rate of 3.350%	6 067
OT – Abril 05/2011	Nov. 2005	April 2011	Fixed rate of 3.200%	4 859
Buoni Poliennali Del Tes.06/2011	Mar. 2006	Mar. 2011	Fixed rate of 3.500%	2 976
Netherlands Government 05/2015	June 2005	July 2015	Fixed rate of 3.250%	4 948
Republic of Austria 04/2015	May 2004	July 2015	Fixed rate of 3.500%	2 001
Belgium Kingdom 05/2015	Ma. 2005	Sep. 2015	Fixed rate of 3.750%	2 008
Buoni Poliennali Del Tes.05/2015	May 2005	Aug. 2015	Fixed rate of 3.750%	2 008
Buoni Poliennali Del Tes. 05/2010	Jan. 2005	Jan. 2010	Fixed rate of 3.000%	1 009
				33 523

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

During 2009 and 2008, CEMG did not transfer to or from this assets category.

As at 31 December 2009 and 2008, the analysis of held-to-maturity investments by the period of maturity is as follows:

	2009				
	Due within 3 months Euro '000	3 months to 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Total Euro '000
Bonds issued by Portuguese public issuers	–	6 394	6 112	6 068	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
Quoted:	1 009	6 394	9 088	17 032	33 523

	2008				
	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	Tota Euro '000
Bonds issued by Portuguese public issuers	–	6 389	18 491	97	24 977
Bonds issued by foreign public issuers	–	–	3 981	10 954	14 935
	–	6 389	22 472	11 051	39 912
Quoted:	–	6 389	22 472	11 051	39 912

26. Investments in associated companies and others

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Investments in associated companies and others – Unquoted:		
Lusitania, Companhia de Seguros, S.A.	22 466	6 668
Lusitania Vida, Companhia de Seguros, S.A.	15 791	7 091
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	2 518	2 572
Norfin – Soc. Gestora de Fundos Invest. Imob., S.A..	–	454
Germont – Empreendimentos Imobiliários, S.A.	–	28
	40 775	16 813
Non quoted	40 775	16 813

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

	Assets Euro '000	Liability Euro '000	Equity Euro '000	Income Euro '000	Profit / (Loss) for the year Euro '000	Acquisition cost Euro '000
31 December 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
31 December 2008						
Lusitania, Companhia de Seguros, S.A	279 763	254 360	25 403	162 070	2 392	10 816
Lusitania Vida, Companhia de Seguros, S.A.	422 310	404 287	18 023	40 405	4 845	9 530
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	55 392	42 531	12 861	9 216	(510)	3 200
Norfin – Soc. Gestora de Fundos Invest. Imob., S.A.	5 762	1 179	4 583	5 339	1 933	50
Germont – Empreendimentos Imobiliários, S.A.	152	53	99	–	(1)	29

	Percentage held		Book value		Share of profit of associates	
	2009	2008	2009	2008	2009	2008
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. (IFI)	100%	100%	7 001	7 001	784	619
Lusitania, Companhia de Seguros, S.A.	26.25%	26.25%	22 466	6 668	1 267	628
Lusitania Vida, Companhia de Seguros, S.A.	39.34%	39.34%	15 791	7 091	1 290	1 906
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	20%	20%	2 518	2 572	(54)	(102)
Norfin – Soc. Gestora de Fundos Invest. Imob., S.A.	–	9.9%	–	454	–	191
Germont – Empreendimentos Imobiliários, S.A.	–	28.9%	–	28	–	–

The movement in this balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Balance on 1 January	16 813	20 188
Acquisitions	12 750	29
Alienations	29	–
Transfers	49	–
Share of profit of associates	2 503	2 623
Fair value reserve from associates	9 720	(5 089)
Dividends received	(1 089)	(938)
Balance on 31 December	40 775	16 813

27. Non-current assets held for sale

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Investments arising from recovered loans	157 935	116 180
Impairment	(29 336)	(23 868)
	128 599	92 312

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 Euros 9 464 000 (2008: Euro 4 703 000).

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

	2009 Euro '000	2008 Euro '000
Impairment for non current assets held for sale		
Balance on 1 January	23 868	19 397
Impairment for the year	10 088	5 322
Write-back for the year	(183)	(552)
Loans charged-off	(4 437)	(299)
Balance on 31 December	29 336	23 868

28. Property and equipment

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Cost:		
Land and buildings:		
For own use	65 808	63 515
Leasehold improvements in rented buildings	32 208	30 730
Work in progress	43	120
Equipment:		
Furniture	10 507	10 331
Office equipment	1 971	2 125
Computer equipment	51 773	43 406
Interior installations	28 416	26 696
Motor vehicles	676	676
Security equipment	3 978	3 202
Works of art	4 084	2 226
Assets in operational lease	986	478
Other tangible assets	31	31
Work in progress	550	495
	201 031	184 031
Accumulated depreciation:		
Charge for the year	(12 169)	(10 218)
Accumulated charge for the previous years	(97 587)	(87 863)
	(109 756)	(98 081)
	91 275	85 950

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

	2009				
	Balance on 1 January Euro '000	**Acquisitions/ Charges Euro '000**	**Disposals Euro '000**	**Adjustment/ Transfers Euro '000**	**Balance on 31 December Euro '000**
Cost:					
Land and buildings:					
For own use	63 515	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	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
	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

The Property and equipment movements, during the year of 2008, are analysed as follows:

2008	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	102	–	–	63 515
Leasehold improvements in rented buildings	33 900	328	(7 798)	4 300	30 730
Work in progress	105	15	–	–	120
Equipment:					
Furniture	9 361	1 200	(230)	–	10 331
Office equipment	2 358	73	(306)	–	2 125
Computer equipment	36 573	6 833	–	–	43 406
Interior installations	25 176	311	(25)	1 234	26 696
Motor vehicles	1 133	–	(457)	–	676
Security equipment	2 835	377	(10)	–	3 202
Assets in operational lease	775	1 451	–	–	2 226
Works of art	474	4	–	–	478
Other tangible assets	31	–	–	–	31
Work in progress	1 374	4 655	–	(5 534)	495
	177 508	15 349	(8 826)	–	184 031
Accumulated depreciation:					
Land and buildings:					
For own use	13 827	1 003	–	–	14 830
Leasehold improvements in rented buildings	25 277	2 303	(7 795)	–	19 785
Equipment:					
Furniture	6 950	612	(126)	–	7 436
Office equipment	2 123	106	(306)	–	1 923
Computer equipment	28 249	3 922	–	–	32 171
Interior installations	16 529	1 880	(25)	–	18 384
Motor vehicles	1 103	15	(457)	–	661
Security equipment	2 481	144	(10)	–	2 615
Assets in operational lease	43	233	–	–	276
	96 582	10 218	(8 719)	–	98 081

29. Intangible assets

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Cost:		
Software	52 375	44 988
Assets advances	4 657	2 331
	57 032	47 319
Accumulated amortisation:		
Charge for the year	(8 338)	(8 152)
Accumulated charge for the previous years	(32 543)	(24 391)
	(40 881)	(32 543)
	16 151	14 776

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:					
Software	44 988	7 790	–	(403)	52 375
Assets advances	2 331	1 872	–	454	4 657
	47 319	9 662	–	51	57 032
Accumulated amortisation:					
Software	32 543	8 338	–	–	40 881

The Intangible assets movements, during the year of 2008, 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	33	–	–	(33)	–
Software	36 667	7 737	–	584	44 988
Assets advances	1 310	1 748	–	(727)	2 331
	38 010	9 485	–	(176)	47 319
Accumulated amortisation:					
Software	24 391	8 152	–	–	32 543

30. Other assets

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Recoverable subsidies from the Portuguese Government	13 739	20 468
Other debtors	27 265	17 279
Other accrued income	6 456	6 442
Prepayments and deferred costs	1 635	1 541
Sundry debtors	65 701	24 159
	114 796	69 889
Impairment from recoverable subsidies	(3 473)	(3 473)
	111 323	66 416

The balance Recoverable subsidies from the Portuguese Government, in the amount of Euro 13 739 000 (2008: Euro 20 468 000), corresponds to mortgage credit interest subsidies, in accordance with the regulations applicable to mortgage loans benefits. The referred amounts do not bear interest and are claimed monthly.

As at 31 December 2009 and 31 December 2008, the balance Recoverable subsidies from the Portuguese Government is analysed as follows:

	2009 Euro '000	2008 Euro '000
Recoverable subsidies from the Portuguese Government unliquidated	7 311	4 194
Subsidies unclaimed	3 412	9 219
Overdue subsidies unclaimed	3 016	7 055
	13 739	20 468

As at 31 December 2009 and 31 December 2008, the balance Recoverable subsidies from the Portuguese Government include an amount of Euro 3 473 000 not recognised by the treasury authorities. This amount is totally provided for in the balance Impairment from recoverable subsidies.

As at 31 December 2009, the balance Sundry debtors includes the amount of Euro 32 816 000 (2008: Euro 5 929 000) refer to transactions with securities recorded on trade date and pending settlement, in accordance with the accounting policy 1.6.

As at 31 December 2009 and 2008, the balances related with the obligations related with pensions, included in Other sundry liabilities are analysed as follows:

	2009 Euro '000	2008 Euro '000
Projected benefit obligations	(569 822)	(514 212)
Value of the Fund	504 883	436 148
	(64 939)	(78 064)
Actuarial losses		
Corridor	56 982	51 421
Amount in excess of the corridor	29 334	29 268
	86 316	80 689
	21 377	2 625

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

31. Deposits from central banks

As at 31 December 2009, this balance includes the amount of Euro 502 353 000 (2008: Euro 852 803 000) 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 31 December 2009 and 2008, the analysis of deposits from Central Banks by the period to maturity is as follows:

	2009 Euro '000	2008 Euro '000
Up to 3 months	–	751 544
3 to 6 months	–	101 259
More than 6 months	502 353	–
	502 353	852 803

32. Deposits from other credit institutions

This balance is analysed as follows:

	2009			2008		
	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	7 995	53 745	61 740	–	106 829	106 829
Deposits from credit institutions abroad	4 023	572 007	576 030	4 772	632 855	637 627
	12 018	625 752	637 770	4 772	739 684	744 456

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

	2009 Euro '000	2008 Euro '000
Due within 3 months	298 005	210 021
3 months to 6 months	50 883	53 109
6 months to 1 year	55 960	116
1 year to 5 years	16	306 446
Over 5 years	235 531	172 340
	640 395	742 032
Adjustments arising from hedging operations	(2 625)	2 424
	637 770	744 456

33. Deposits from customers

This balance is analysed as follows:

	2009			2008		
	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	85 173	1 901 420	1 986 593	1 877 502	–	1 877 502
Time deposits (*)	–	6 679 111	6 679 111	–	5 770 374	5 770 374
Saving accounts (*)	–	511 255	511 255	–	681 025	681 025
Other items	896	–	896	177	–	177
Adjustments arising from hedging operations	3 003	–	3 003	1 262	–	1 262
	89 072	9 091 786	9 180 858	1 878 941	6 451 399	8 330 340

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 fixed annualy and based on the criteria laid out in Instruction of the Bank of Portugal.

As at 31 December 2009, this balance includes the amount of Euro 894 097 000 (2008: Euro 210 869 000) 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:

	2009 Euro '000	2008 Euro '000
Deposits repayable on demand	1 986 593	1 877 502
Time deposits and saving accounts:		
Due within 3 months	1 277 080	1 328 202
3 months to 6 months	2 740 073	3 048 990
6 months to 1 year	1 336 994	1 018 856
1 year to 5 years	–	966 310
Over 5 years	1 836 219	89 041
	9 176 959	8 328 901
Adjustments arising from hedging operations	3 003	1 262
	9 179 962	8 330 163
Other items:		
Due within 3 months	896	177
	9 180 858	8 330 340

34. Debt securities issued

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Euro Medium Term Notes	3 142 351	4 096 489
Bonds	611 517	964 998
Covered bonds	1 161 047	–
	4 914 915	5 061 487

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

This balance includes the amount of Euro 1 666 921 000 (2008: Euro 1 448 619 000) related to debt securities issued recognised at the balance sheet at fair value through profit or loss.

In the year 2009, the CEMG issued Euro 1 276 361 000 (2008: Euro 149 700 000) of securities, and was reimbursed Euro 1 248 555 000 (2008: Euro 703 427 000).

As at 31 December 2009 and 2008, the analysis of debt securities issued outstanding by period to maturity is as follows:

	2009 Euro '000	2008 Euro '000
Due within 6 months	111 756	188 762
6 months to 1 year	726 782	988 412
1 year to 5 years	3 254 825	3 094 029
Over 5 years	816 788	773 236
	4 910 151	5 044 439
Adjustments arising from hedging operations	4 764	17 048
	4 914 915	5 061 487

In 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 31 December 2009, the mortgage loans that collateralise these covered bonds amounted to Euro 1 298 998 000 in accordance with note 20.

The change occurred in debt securities issued during the year ended 31 December 2009 is 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	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.

As at 31 December 2009, the balance Debt securities issued is comprise of the following issues:

Issue	Issue Date	Maturity Date	Interest rate	2009 Euro '000
Pelican Mortgage No. 1	Dec. 2002	Dec. 2037	W.A.I. – 1.33%	118 586
Pelican Mortgage No. 2	Sep. 2003	Sep. 2037	W.A.I. – 1.53%	213 022
Obr. CEMG / 04	Sep. 2004	Sep. 2014	Euribor 3 months + 0.25%	15 000
Obr. CEMG / 05	Feb. 2005	Feb. 2015	Annual rate of 3.518%	125 000
Obr. CEMG / 05	May 2005	May 2012	Euribor 3 months + 0.25%	500 000
Obr. CEMG / 05	Sep. 2005	Sep. 2010	Euribor 3 months + 0.20%	500 000
Obr. CEMG / 05	Oct. 2005	Sep. 2010	Euribor 3 months + 0.20%	125 000
Obr. caixa MG Especial Poupança	Nov. 2005	Nov. 2010	Fixed rate semiannual of 4% (10th semestre Fixed rate of 6%)	23 000
Obr. CEMG / 06	Jan. 2006	Jan. 2011	Euribor 3 months + 0.20%	500 000
Obr. caixa MG Valor Garantido 2006	Jan. 2006	Jan. 2011	Fixed rate semiannual of 3.25% (9th semestre Fixed rate of 3.5% and in the 10th semestre Fixed rate of 4%)	10 000
Obr. caixa MG Aforro/06 5 anos 1.ª Emissão	Aug. 2006	Aug. 2011	Fixed rate semiannual of 4% (8th semestre Fixed rate of 4%. 9th semestre Fixed rate of 5% and 10º semestre Fixed rate of 6%)	7 000
Obr. caixa MG Aforro/06 5 anos 2.ª Emissão	Aug. 2006	Aug. 2011	Fixed rate semiannual of 3.875% (8th semestre Fixed rate of 4%. 9th semestre Fixed rate of 4.75% and 10th semestre Fixed rate of 7%)	4 000
Obr. CEMG / 06	Sep. 2006	Sep. 2011	Euribor 3 months + 0.25%	500 000
Obr. caixa MG Aforro/06 5 anos 3.ª Emissão	Sep. 2006	Sep. 2011	Fixed rate semiannual of 3.625% (8th semestre Fixed rate of 3.75%. 9th semestre Fixed rate of 4%. In the 10 th semestre Fixed rate of 7%)	3 500
Obr. caixa MG Aforro/06 5 anos 4.ª Emissão	Nov. 2006	Nov. 2011	Fixed rate semiannual of 3.375% (9th semestre Fixed rate of 3.5%. In the 10th semestre Fixed rate of 7%)	3 750
Obr. caixa MG Aforro/06 5 anos 5.ª Emissão	Dec. 2006	Dec. 2011	Fixed rate semiannual of 3.5% (9th. semestre Fixed rate of 3.625%. In the 10 th. semestre Fixed rate of 7%)	1 000
Obr. caixa MG Ass./06 5 anos 1.ª Emissão	Dec. 2006	Dec. 2011	Fixed rate semiannual of 3.625% (9th. semestre Fixed rate of 3.75%. In the 10 th. semestre Fixed rate of 7.25%)	1 000
Obr. CEMG / 07	Jan. 2007	Jan. 2017	Fixed rate of 3.755%	100 000
Obr. caixa – Aforro Montepio /07 3 anos 1.ª Série	Feb. 2007	Feb. 2010	Fixed rate quaterly of 6.25%	5 500
Obr. caixa – Aforro Montepio Ass./07 3 anos 1.ª Série	Feb. 2007	Feb. 2010	Fixed rate quaterly of 6.5%	9 500
Obr. caixa – Aforro Montepio Ass./07 5 anos 1ª Série	Feb. 2007	Feb. 2012	Fixed rate semiannual of 3.625% (7th. and 8th. semestres Fixed rate of 3.75%. 9th. semestre Fixed rate of 3.875% In the 10th. semestre Fixed rate of 7.25%)	4 000
Obr. caixa – Aforro Montepio /07 5 anos 1.ª Série	Feb. 2007	Feb. 2012	Fixed rate semiannual of 3.375% (7th. e 8th. semestres Fixed rate of 3.5%. 9th. semestre Fixed rate of 3.625% In the 10th. semestre Fixed rate of 7%)	1 000
Obr. CEMG / 07	Feb. 2007	Feb. 2017	Fixed rate of 5%	90 000
Obr. caixa – Aforro Montepio /07 3 anos 2.ª Série	Feb. 2007	Feb. 2010	Fixed rate quaterly of 6.25%	7 000
Obr. caixa – Aforro Montepio Ass./07 3 anos 2.ª Série	Feb. 2007	Feb. 2010	Fixed rate quaterly of 6.5%	11 000
Obr. caixa – Aforro Montepio Ass./07 5 anos 2.ª Série	Feb. 2007	Feb. 2012	Fixed rate semiannual of 3.625% (7th. and 8th. semestres Fixed rate of 3.75%. 9th. semestre Fixed rate of 3.875% In the 10th. semestre Fixed rate of 7.25%)	3 000
Obr. caixa – Aforro Montepio /07 3 anos 3.ª Série	Mar. 2007	Mar. 2010	Fixed rate quaterly of 6.75%	6 500
Obr. caixa – Aforro Montepio /07 3 anos 4.ª Série	Mar. 2007	Mar. 2010	Fixed rate quaterly of 6.75%	5 000
Obr. caixa – Aforro Montepio Ass./07 3 anos 4.ª Série	Mar. 2007	Mar .2010	Fixed rate quaterly of 7%	6 000
Obr. caixa – AM Eur 6M 5Y – 2012	Apr. 2007	Apr. 2012	Fixed rate of 4.455%	6 000
Obr. caixa – Aforro Montepio /07 3 anos 5.ª Série	Apr. 2007	Apr. 2010	Fixed rate quaterly of 6.75%	8 000
Obr. caixa – Aforro Montepio Ass./07 3 anos 5.ª Série	Apr. 2007	Apr. 2010	Fixed rate quaterly of 4% (12th. trimestre Fixed rate of 7%)	12 000
Obr. caixa – Aforro Montepio /07 3 anos 6.ª Série	May 2007	May 2010	Fixed rate quaterly of 3.750% (11th. trimestre Fixed rate of 4% and 12th. trimestre Fixed rate of 8%)	5 971

Issue	Issue Date	Maturity Date	Interest rate	2009 Euro '000
Obr. caixa – Aforro Montepio Ass./07 3 anos 6.ª Série	May 2007	May 2010	Fixed rate quaterly of 3.875% (11th. trimestre Fixed rate of 4.25% and 12th. trimestre Fixed rate of 8.5%)	8 500
Obr. CEMG / 07	May 2007	May 2013	Euribor 3 months + 0.25%	500 000
Obr. caixa – Aforro Montepio /07 3 anos 7.ª Série	Jun. 2007	Jun. 2010	Fixed rate quaterly of 3.875% (11th. trimestre Fixed rate of 4 % and 12th. trimestre Fixed rate of 8%)	5 000
Obr. caixa – Aforro Montepio Ass./07 3 anos 7.ª Série	Jun. 2007	Jun. 2010	Fixed rate quaterly of 4% (10th. trimestre of 4%. 11th. trimestre Fixed rate of 4.250% and 12th. trimestre Fixed rate of 8.5%)	8 000
Obr. caixa MG Energ. Renováveis/07 3 anos	Jun. 2007	Jun. 2010	Fixed rate anual of 2% in the 2 first years. (As at maturity date, a variable salary is paid, calculated for a maximum between 2% and the valuation of its financial asset. (Index ERIXP)	4 100
Obr. caixa – Aforro Montepio /07 3 anos 8ª Série	Jul. 2007	Jul. 2010	Fixed rate quaterly of 4% (11th. trimestre Fixed rate of 4.25% In the 12th. trimestre Fixed rate of 8%)	5 000
Obr. caixa – Aforro Montepio Ass./07 3 anos 8ª Série	Jul. 2007	Jul. 2010	Fixed rate quaterly of 4.125% (11th. trimestre Fixed rate of 4.5% In the 12th. trimestre Fixed rate of 8.5%)	6 800
Obr. caixa MG Energ. Renováveis/07 3 anos Julho 2007/2010	Jul. 2007	Jul. 2010	Fixed rate anual of 2% in the 2 first years. (As at maturity date, a variable salary is paid, calculated for a maximum between 2% and the valuation of its financial asset. (Index ERIXP)	8 100
Obr. caixa – Aforro Montepio Ass./07 3 anos 9.ª Série	Aug. 2007	Aug. 2010	Fixed rate quaterly of 4.25% (11th. trimestre Fixed rate of 4.375% In the 12th. trimestre Fixed rate of 8.5%)	10 700
Obr. caixa – Aforro Montepio /07 3 anos 9.ª Série	Aug. 2007	Aug. 2010	Fixed rate quaterly of 4.125% (11th. trimestre Fixed rate of 4.25% In the 12th. trimestre Fixed rate of 8%)	9 300
Obr. Caixa – Montepio Planeta Terra – Agosto 2007/2010	Aug. 2007	Aug. 2010	Variable rate indexad to a portfolio of 10 stocks with a floor of 3.75%	6 000
Obr. caixa – Aforro Montepio /07 3 anos 10.ª Série	Aug. 2007	Aug. 2010	Fixed rate quaterly of 4.25%. 11th. trimestre Fixed rate of 4.75% In the 12th. trimestre Fixed rate of 8.5%)	6 000
Obr. caixa – Aforro Montepio /07 3 anos 11.ª Série	Sep. 2007	Sep. 2010	Fixed rate quaterly of 4.25% (11th. trimestre Fixed rate of 4.75% In the 12th. trimestre Fixed rate of 8.5%)	6 000
Obr.caixa – Montepio Setembro 2010	Sep. 2007	Sep. 2010	Fixed rate of 4.6126%	1 500
Montepio Standard Poor's BRIC 40	Oct. 2007	Oct. 2012	Fixed rate semiannual of 0.9% (5th. till 9th. semestre Fixed rate of 0.9%). As at maturity date, variable reimbursement indexed to Standard & Poor's Index BRIC40	2 082
Obr. Caixa – Montepio Euro Aforro 2007 – 3 anos – 3.ª série	Nov.2007	Nov.2010	Sem. fixed rate of Euribor 6 months – 0.25% (6th sem. Euribor 6 months + 0.25%)	10 000
Obr. Caixa – Montepio Euro Aforro 2007 – 3 anos – 4.ª série	Dec.2007	Dec.2010	Sem. fixed rate Euribor 6 months – 0.2% (6th sem. Euribor 6 months + 0.2%)	7 000
Obr. Caixa – Montepio Euro Aforro 2007 – 3 anos – 5.ª série	Dec.2007	Dec.2010	Sem. fixed rate Euribor 6 months – 0.2% (6th sem. Euribor 6 months + 0.2%)	13 488
Obr. caixa – Montepio Cabaz Commodities Agrícolas	Jan. 2008	Jan. 2011	Variable interest rate paid at the reimbursement that corresponds to 95% of a portfolio of 5 commodities, with minimum of 1% and maximum of 50%	5 000
Obr. caixa – Aforro Montepio 2008 – 3 anos – 1.ª série	Jan. 2008	Jan. 2011	Quarterly fixed rate of 4.25% (9th and 10th trim. fixed rate of 4.375%, 11th trim. fixed rate of 4.5% and the 12th trim. fixed rate of 5%)	10 000
Obr.caixa – Montepio Euro Aforro 2008 – 3 anos – 1.ª série	Jan. 2008	Jan. 2011	Sem. fixed rate of Euribor 6 months – 0.4% (5th sem. Euribor 6 months – 0.3% and 6th sem. Euribor 6 months)	17 100

Issue	Issue Date	Maturity Date	Interest rate	2009 Euro '000
OObr. Caixa – Montepio Select 5 anos	Jan. 2008	Jan. 2011	Fixed rate of 2.5% in the first four years, and, in the reimbursement, variable rate between 2.5% and 60% of the annual average performance of a portfolio composed by Dow Jones Eurostoxx Select Dividend 30 Index and the IBOXXEuro Eurozone Performance Sovereingns 5 to 7 years Index.	1 000
Obr. Caixa – Montepio Taxa Fixa 5Y – Janeiro 2008	Jan. 2008	Jan. 2011	Fixed rate of 2.5%	2 500
Obr. Caixa – Montepio Euro Aforro 2008 – 3 Anos – 2.ª série	Mar. 2008	Mar. 2011	Sem. fixed rate of Euribor 6 months – 0.3% (5th sem. Euribor 6 months – 0.2% and 6th sem. Euribor 6 months)	13 500
Obr. Caixa – Montepio Euro Aforro 2008 – 3 Anos – 3.ª série	Apr. 2008	Apr. 2011	Sem. fixed rate of Euribor 6 months – 0.3% (5th sem. Euribor 6 months – 0.2% and 6th sem. Euribor 6 months)	15 000
Obr. Caixa – Montepio Euro Aforro 2008 – 3 Anos – 4.ª série	May. 2008	May. 2011	Sem. fixed rate of Euribor 6 months – 0.3% (5th sem. Euribor 6 months – 0.2% and 6th sem. Euribor 6 months + 0.1%)	12 100
Obr. Caixa- Montepio Inflação 2008 – 2016 – 1.ª Série	Jun. 2008	Jun. 2016	Variable annual rate of 3.2% plus the annual rate of the European Inflation	5 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2008/2013	Sep.2008	Sep.2013	Annual fixed rate of 6% (3rd to 5th sem. Euribor 3 months + 1%)	31 500
Obr. Caixa – Capitais de Reforma Prazo Certo – Out. 2008/2013	Oct.2008	Oct.2013	Quarterly fixed rate of Euribor 3 months + 1%)	37 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Fev. 2009/2014	Feb. 2009	Feb. 2014	Annual fixed rate of 3.8% (2nd to 5th year Euribor 3 months + 0.84%)	15 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Mar. 2009/2014	Mar. 2009	Mar. 2014	Annual fixed rate of 3.5% (2nd to 5th year Euribor 3 months + 0.80%)	19 000
Obr. Caixa – MG Taxa Fixa 3 anos – 25/05/2012	May. 2009	May. 2012	Annual fixed rate of 2% (2nd year 3%, 4th year 4%)	650
Obr. Caixa – MG 5% – Julho 2014	Jul. 2009	–	Variable rate indexed to Dow Jones EuroStoxx 50 Price Index	300
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2009/2014	Sep. 2009	Sep. 2014	Annual fixed rate of 3% (2nd to 4th year 3%, 5th year 6%)	10 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2009/2017	Sep. 2009	Sep. 2017	Annual fixed rate of 3.75% (2nd to 4th year 3.75%, 5th year 6.75%)	5 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2007/2012 – 2.ª série	Sep. 2009	Sep. 2012	Variable rate indexed to Euribor 3m + 1%	29 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2008/2013 – 2.ª série	Sep. 2009	Sep. 2013	Variable rate indexed to Euribor 3m + 1%	2 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2009/2014 – 8.ª série	Nov. 2009	Nov. 2014	Fixed rate of 3.25% till the 4th year (In the 5th year. Fixed rate of 5.75%)	5 000
Obr. Caixa – Taxa variável CEMG 2009-2012	Nov. 2009	Nov. 2012	Variable rate quaterlymente indexed to the average of Euribor 3m + 1%	24 000
Obr. Caixa – Taxa variável CEMG 2009-2013	Nov. 2009	Nov. 2013	Variable rate quaterlymente indexed to the average of Euribor 3m + 1%	1 700
Obr. Caixa – Montepio Títulos Europa 2009-2013	Dec. 2009	Dec. 2013	Variable rate according to its financial assetnte (Dow Jones EuroStoxx 50)	2 711
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2009/2014 – 9.ª série	Dec. 2009	Dec. 2014	Fixed rate of 3.20% till the 4th year (In the 5th year. Fixed rate of 5.5%)	7 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2009/2014 – 10.ª série	Dec. 2009	Dec. 2014	Fixed rate of 2% (2st year Fixed rate of 3%. 3th year Fixed rate of 3.5%. 4th year Fixed rate of 4.5% and 5th year Fixed rate of 5.5%)	5 000
Covered bonds	Jul. 2009	Jul. 2012	Fixed rate of 3.25%	1 000 000
Covered bonds	Dec. 2009	Dec. 2016	Variable rate quaterlymente indexed to the average of Euribor 3m + 0.75%	150 000
				4 973 960
Adjustments arising from hedging operation				4 764
Accruals, deferred costs and income				(63 809)
				4 914 915

As at 31 December 2009, for the bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 0.91% and 5.00%.

35. Provisions

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Provisions for general banking risks	1 396	1 084
Provisions for liabilities and charges	94	584
	1 490	1 668

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

	2009 Euro '000	2008 Euro '000
Balance on 1 January	1 084	899
Charge for the year	416	248
Write-back for the year	(104)	(63)
Balance on 31 December	1 396	1 084

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

	2009 Euro '000	2008 Euro '000
Balance on 1 January	584	838
Write-back for the year	(158)	–
Charged-off	(332)	(254)
Balance on 31 December	94	584

36. Other subordinated debt

As at 31 December 2009, this balance in the amount of Euro 381 043 000 (2008: Euro 386 872 000) refers to Bonds with fixed maturity date, and with a residual reimbursement over 5 years.

As at 31 December 2009 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%	50 050
CEMG/08	Feb. 2008	Feb. 2018	150 000	Euribor 6 months + 0.13%	150 415
CEMG/08	Jun. 2008	Jun. 2018	28 000	Euribor 12 months + 0.10%	29 102
CEMG/08	Jul. 2008	Jul. 2018	150 000	Euribor 6 months + 0.13%	151 476
					381 043

As at 31 December 2009, the effective interest rate range of the subordinated debt bears postponed interest every three and six months is set between 1.19% and 2.66%.

37. Other liabilities

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Creditors:		
Suppliers	7 038	8 067
Other creditors	32 541	35 523
Public sector	7 330	10 393
Financial liabilities associated with transferred assets	428 147	485 187
Holiday pay and subsidies	24 127	19 826
Other administrative costs payable	982	450
Deferred income	585	647
Securities transactions pending settlement	38 610	6 154
Other sundry liabilities	58 442	45 066
	597 802	611 313

The balance Financial liabilities associated to transferred assets relates to securitisation transactions celebrated between CEMG and other financial institutions, that weren't derecognized in accordance with IAS 39 – Financial instruments: Recognition and Measurement. The securitisation transactions details are analysed in note 46.

38. Share Capital

On 31 March, 2009, following the General Assembly deliberation, CEMG increased the share capital of Caixa Económica Montepio Geral in the amount of Euro 100 000 000, by cash transfer.

After the referred operation, the share capital of CEMG, amounts to Euro 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:

	2009 Euro '000	2008 Euro '000
Other comprehensive Income:		
Fair value reserves		
Available-for-sale financial assets	(28 600)	(48 064)
Reserves and retained earnings:		
General reserve	163 321	156 197
Special reserve	62 555	60 788
Other reserves	14 115	1 995
Retained earnings	(29 653)	(41 121)
	210 338	177 859

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

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)

The movements of this balance during 2008 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 entitie	(64)	(23)	–	49	–	(38)
Bond issued by other entities:						
Portuguese	(173)	(1 799)	–	(26)	(189)	(2 187)
Foreign	(8 524)	(20 170)	(370)	(891)	(15 626)	(45 581)
	(8 761)	(21 992)	(370)	(868)	(15 815)	(47 806)
Variable income securities:						
Shares in companies:						
Portuguese	–	37	(23)	–	(37)	(23)
Foreign	(30)	762	–	30	(762)	–
Investment fund units	818	2 902	(50)	(694)	(3 211)	(235)
	788	3 701	(73)	(664)	(4 010)	(258)
	(7 973)	(18 291)	(443)	(1 532)	(19 825)	(48 064)

The fair value reserve can be analysed as follows:

	2009 Euro '000	2008 Euro '000
Amortised cost of available-for-sale financial assets	1 334 675	991 613
Accumulated impairment recognised	(23 658)	(24 987)
Amortised cost of available-for-sale financial assets, net impairment	1 311 017	966 626
Fair value of available-for-sale financial assets	1 282 417	918 562
Net unrealised gains / (losses) recognised in the fair value reserve	(28 600)	(48 064)

41. Obligations and future commitments

Obligations and future commitments are analysed as follows:

	2009 Euro '000	2008 Euro '000
Guarantees granted	426 156	431 209
Guarantees received	29 733 532	30 265 782
Commitments to third parties	1 211 311	1 377 791
Commitments from third parties	172 768	20 791
Securitised loans	333 270	389 663
Securities and other items held for safekeeping on behalf of customers	5 371 322	5 510 251

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

	2009 Euro '000	2008 Euro '000
Guarantees granted:		
Guarantees	423 107	428 782
Open documentary credits	3 049	2 427
	426 156	431 209

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

	2009 Euro '000	2008 Euro '000
Commitments to third parties:		
Irrevocable commitments		
Term deposits contracts	1 472	2 756
Irrevocable credit lines	302 264	281 103
Annual contribution to the Guarantee Deposits Fund	19 829	19 634
Potential obligation with the Investors' Indemnity System	3 209	3 173
Revocable commitments		
Revocable credit lines	884 537	1 071 125
	1 211 311	1 377 791

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 31 December 2009 and 31 December 2008, the balance Annual contribution to the obligations of Guarantee Deposits Fund is related with the irrevocable commitment assumed by CEMG and required by law, to deliver the unrealised amounts of annual contributions required by the Fund.

The balance Potential obligation with the Investors' Indemnity System, as at 31 December 2009 and 31 December 2008, is related with the irrevocable commitment assumed by CEMG and required by law, to deliver to that System the necessary amounts for CEMG's obligation with the investors' indemnities to be paid.

42. Distribution of profit

On 31 March, 2009, following the General Assembly deliberation, CEMG distributed to Montepio Geral – Associação Mutualista in the amount of Euro 11 271 000 (2007: Euro 25 758 000).

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 Interbank Money Market transactions and Assets with repurchase agreements**

  The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates.

  The discount rate used reflects the current conditions applied by CEMG in identical instruments for each of the different maturities. The discount rate includes the market rates for the residual maturity date (rates from the monetary market or from the interest rate swap market, at the end of the year).

– **Financial assets held for trading (except derivatives), Financial liabilities held for trading (except derivatives) and Available-for-sale financial assets**

  These financial instruments are accounted at fair value. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

  Interest rates are determined based on information disseminated by the suppliers of content financial – Reuters and Bloomberg – more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar source but regarding interbank money market. The interest rate curve obtained is calibrated with the values of interest rate shortterm futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are used in the projection of the nondeterministic cash flows such as indexes.

  When optionality is involved, the standard templates (Black-Scholes, Black, Ho and others) considering the volatility areas applicable are used. Whenever there are no references in the market of sufficient quality or that the available models do not fully apply to meet the characteristics of the financial instrument, it is applied specific quotations supplied by an external entity, typically a counterparty of the business.

In case of shares not listed, they are recognized at historical cost when there is no available market value and it is not possible to determine reliably its fair value.

– **Financial assets held to maturity**

These financial instruments are accounted at amortized cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

– **Hedging and trading derivatives**

All derivatives are recorded at fair value.

In 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 shortterm futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods.

The interest rate curves are used in the projection of the non-deterministic cash flows such as indexes.

– **Loans and advances to customers with defined maturity date**

The fair value of these instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates. The discount rate used reflects the current conditions applied by CEMG in similar instruments for each of the homogeneous classes of this type of instrument and with similar maturity. The discount rate includes the market rates for the residual maturity date (rates from the monetary market or from the interest rate swap market, at the end of the year) and the spread used at the date of the report, which was calculated from the average production of the last three months of the year.

For 31 December 2009, the average discount rate was 2.61% (2008: 3.29%), 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 31 December 2009, the average discount rate was of 0.65% (2008: 2.74%).

– **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 31 December 2009, 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				
	Euros	**United States Dollar**	**Pound Sterling**	**Czech Koruna**	**Hong-Kong Dollar**
1 day	0.300%	0.170%	0.565%	0.950%	0.360%
7 days	0.300%	0.390%	0.565%	0.950%	0.360%
1 month	0.465%	0.420%	0.580%	1.175%	0.125%
2 months	0.500%	0.440%	0.625%	1.295%	0.075%
3 months	0.630%	0.480%	0.705%	1.405%	0.120%
6 months	0.930%	0.630%	0.920%	1.655%	0.110%
9 months	1.090%	0.740%	1.210%	1.835%	0.240%
1 year	1.210%	1.110%	1.575%	1.955%	0.595%
2 years	1.861%	1.431%	1.993%	2.270%	1.220%
3 years	2.260%	2.082%	2.650%	2.640%	1.840%
5 years	2.805%	2.995%	3.388%	3.010%	2.720%
7 years	3.213%	3.532%	3.768%	3.240%	3.200%
10 years	3.598%	3.982%	4.088%	3.540%	3.570%
15 years	3.963%	4.375%	4.088%	3.820%	3.570%
20 years	4.070%	4.471%	4.088%	3.900%	3.570%
30 years	3.952%	4.541%	4.088%	3.900%	3.570%

Exchange rates and volatility

We present below the exchange rates (European Central bank) at the balance sheet date and the implied volatilities (at the money) for the main currencies used on the derivatives valuation:

			Volatility (%)				
Exchange rates	**2009**	**2008**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.4406	1.3917	10.90	12.23	12.83	12.96	13.10
EUR/GBP	0.8881	0.9525	9.25	11.25	12.30	12.80	12.95
EUR/CHF	1.4836	1.4850	5.65	5.70	5.85	5.85	5.85
EUR/JPY	133.16	126.14	13.17	14.71	15.58	16.04	16.32

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:

	2009								
	Trading Euro '000	Designated at fair value trough profit or loss Euro '000	Held-to--maturity Euro '000	Loans and advances Euro '000	Available--for-sale Euro '000	Others at amortised cost Euro '000	Others Euro '000	Carrying value Euro '000	Fair value Euro '000
Financial assets:									
Cash and deposits at central bank	–	–	–	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	15 775 387
Financial liabilities:									
Deposits from central banks	–	–	–	–	–	502 353	–	502 353	502 353
Deposits from other credit institutions	–	–	–	–	–	637 770	–	637 770	637 907
Deposits from customers	–	–	–	–	–	9 180 858	–	9 180 858	9 216 700
Debt securities issued	–	–	–	–	–	4 914 915	–	4 914 915	5 780 200
Financial liabilities held for trading	41 724	–	–	–	–	–	–	41 724	41 724
Hedging derivatives	598	–	–	–	–	–	–	598	598
Other Subordinated debt	–	–	–	–	–	381 043	–	381 043	359 999
	42 322	–	–	–	–	15 616 939	–	15 659 261	16 539 481

	2008								
	Trading Euro '000	Designated at fair value trough profit or loss Euro '000	Held-to--maturity Euro '000	Loans and advances Euro '000	Available--for-sale Euro '000	Others at amortised cost Euro '000	Others Euro '000	Carrying value Euro '000	Fair value Euro '000
Financial assets:									
Cash and deposits at central bank	–	–	–	254 742	–	–	–	254 742	254 742
Loans and advances to credit institutions repayable on demand	–	–	–	114 502	–	–	–	114 502	114 502
Loans and advances to credit institutions	–	–	–	166 781	–	–	–	166 781	166 781
Loans and advances to customers	–	–	–	15 009 892	–	–	–	15 009 892	15 402 072
Financial assets held for trading	59 118	–	–	–	–	–	–	59 118	59 118
Other financial assets at fair value trough profit or loss	–	4 031	–	–	–	–	–	4 031	4 031
Available-for-sale financial assets	–	–	–	–	918 562	–	–	918 562	918 562
Hedging derivatives	7 727	–	–	–	–	–	–	7 727	7 727
Held-to-maturity investments	–	–	39 912	–	–	–	–	39 912	40 341
Investments in associated companies and others	–	–	–	–	–	–	16 813	16 813	16 813
	66 845	4 031	39 912	15 545 917	918 562	–	16 813	16 592 080	16 984 689
Financial liabilities:									
Deposits from central banks	–	–	–	–	–	852 803	–	852 803	852 803
Deposits from other credit institutions	–	–	–	–	–	744 456	–	744 456	744 456
Deposits from customers	–	–	–	–	–	8 330 340	–	8 330 340	8 407 895
Debt securities issued	–	–	–	–	–	5 061 487	–	5 061 487	6 258 969
Financial liabilities held for trading	37 692	–	–	–	–	–	–	37 692	37 692
Hedging derivatives	1 234	–	–	–	–	–	–	1 234	1 234
Other Subordinated debt	–	–	–	–	–	386 872	–	386 872	386 676
	38 926	–	–	–	–	15 375 958	–	15 414 884	16 670 725

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.

As at 31 December 2009 and 2008, the number of participants covered by this pension plan is analysed as follows:

	2009	2008
Number of participants		
Pensioners	738	663
Employees	2 844	2 799
	3 582	3 462

In accordance with the accounting policy, described in note 1.14, the pension obligation and the respective funding as at 31 December 2009 and 2008 based on an actuarial valuation made using the projected unit credit method are analysed as follows:

	2009				2008			
	Pension plans Euro '000	Death subsidy Euro '000	Health – care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health – care benefits Euro '000	Total Euro '000
Assets/(liabilities) recognised in the balance sheet								
Defined benefit obligation								
Pensioners	(232 236)	(653)	(15 095)	(247 984)	(202 934)	(558)	(13 191)	(216 683)
Employees	(300 758)	(6 874)	(14 206)	(321 838)	(278 234)	(6 147)	(13 148)	(297 529)
	(532 994)	(7 527)	(29 301)	(569 822)	(481 168)	(6 705)	(26 339)	(514 212)
Value of the Fund	474 287	6 208	24 388	504 883	408 120	5 687	22 341	436 148
Unfunded liabilities	(58 707)	(1 319)	(4 913)	(64 939)	(73 048)	(1 018)	(3 998)	(78 064)
Liabilities exempt from financing	93 339	(7 356)	333	86 316	87 512	(7 176)	353	80 689
Assets/(liabilities) recognised in the balance sheet	34 632	(8 675)	(4 580)	21 377	14 464	(8 194)	(3 645)	2 625

As at 31 December 2009, there are no buildings in use or securities issued by CEMG recorded in the Pension Fund Financial Statements.

In accordance with the accounting policy described in Note 1.14, the Group liability with pensions is calculated semi-annually. The net assets with pensions and health-care plan are included in the balance other assets (see Note 30).

As at each balance date, CEMG reviews the value of the Fund related to its liabilities towards the pensions, according to the referred accounting policy and as established in IAS 19 – Employees benefits.

The change in the present value of obligations during 2009 and 2008 is analysed as follows:

	2009				2008			
	Pension plans Euro '000	Death subsidy Euro '000	Health – care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health – care benefits Euro '000	Total Euro '000
Balance on 1 January	481 168	6 705	26 339	514 212	509 771	8 336	30 158	548 265
Service cost	14 983	422	705	16 110	19 773	1 132	572	21 477
Interest cost	27 667	386	1 514	29 567	26 763	438	1 583	28 784
Actuarial gains and losses								
– Not arising from changes in actuarial assumptions	(1 412)	(299)	(486)	(2 197)	2 419	(2 003)	(1 638)	(1 222)
– Arising from changes in actuarial assumptions	22 452	313	1 229	23 994	(73 290)	(1 198)	(4 336)	(78 824)
Payments	(16 664)	–	–	(16 664)	(14 069)	–	–	(14 069)
Early retirements	4 800	–	–	4 800	9 801	–	–	9 801
Balance on 31 December	532 994	7 527	29 301	569 822	481 168	6 705	26 339	514 212

The evolution of the amounts related to non-financial projected benefit obligations during 2009 and 2008, are analysed as follows:

	2009				2008			
	Pension plans Euro '000	Death subsidy Euro '000	Health – care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health – care benefits Euro '000	Total Euro '000
Balance on 1 January	73 048	1 018	3 998	78 064	97 966	1 602	5 796	105 364
Service cost	14 983	422	705	16 110	19 773	1 132	572	21 477
Interest cost	27 667	386	1 514	29 567	26 763	438	1 583	28 784
Expected return on plan assets	(23 467)	(327)	(1 284)	(25 078)	(21 619)	(354)	(1 279)	(23 252)
Early retirements	4 800	–	–	4 800	9 801	–	–	9 801
Actuarial gains and losses								
– Not arising from changes in actuarial assumptions	(15 348)	(493)	(1 249)	(17 090)	50 188	(602)	1 662	51 248
– Arising from changes in actuarial assumptions	22 452	313	1 229	23 994	(73 290)	(1 198)	(4 336)	(78 824)
Contributions to the Fund	(45 553)	–	–	(45 553)	(36 648)	–	–	(36 648)
Costs supported by the Fund	125	–	–	125	114	–	–	114
Balance on 31 December	58 707	1 319	4 913	64 939	73 048	1 018	3 998	78 064

The assets of the pensions Fund are analysed as follows:

	2009 Euro '000	2008 Euro '000
Shares	40 774	31 467
Other variable income securities	78 910	68 372
Bonds	296 343	275 337
Others	88 856	60 972
	504 883	436 148

The securities issued by companies of CEMG accounted on the portfolio of the Fund are analysed as follows:

	2009 Euro '000	2008 Euro '000
Fixed income securities	4 606	–
Variable income securities	4 281	22 521
	8 887	22 521

The change in the fair value of assets of the Fund during 2009 and 2008 is analysed as follows:

	2009				2008			
	Pension plans Euro '000	Death subsidy Euro '000	Health – care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health – care benefits Euro '000	Total Euro '000
Balance on 1 January	408 120	5 687	22 341	436 148	411 805	6 734	24 362	442 901
Expected return on plan assets	23 467	327	1 284	25 078	21 619	354	1 279	23 252
Actuarial gains / (losses)	13 936	194	763	14 893	(47 769)	(1 401)	(3 300)	(52 470)
Contributions to the Fund of CEMG	43 924	–	–	43 924	35 176	–	–	35 176
Contributions to the Fund of the employers	1 629	–	–	1 629	1 472	–	–	1 472
Payments	(16 664)	–	–	(16 664)	(14 069)	–	–	(14 069)
Others	(125)	–	–	(125)	(114)	–	–	(114)
Balance on 31 December	474 287	6 208	24 388	504 883	408 120	5 687	22 341	436 148

The contributions to the Fund include the additional contribution in the amount of Euro 21 500 000 made by CEMG during January, 2010 with value date of 2009. The pension fund contributions in 2009 were fully paid in cash.

In accordance with IAS 19, deferred actuarial losses, including the corridor, as at 31 December 2009 and 2008 are analysed as follows:

	2009				2008			
	Pension plans Euro '000	Death subsidy Euro '000	Health – care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health – care benefits Euro '000	Total Euro '000
Unrecognised net actuarial losses at the beginning of the year	87 512	(7 176)	353	80 689	111 886	(5 376)	3 027	109 537
Actuarial gains and losses:								
– Actuarial	21 040	14	743	21 797	(70 871)	(3 201)	(5 974)	(80 046)
– Financial	(13 936)	(194)	(763)	(14 893)	47 769	1 401	3 300	52 470
Actuarial losses depreciation in excess of the corridor	(1 277)	–	–	(1 277)	(1 272)	–	–	(1 272)
Balance on 31 December	93 339	(7 356)	333	86 316	87 512	(7 176)	353	80 689
Of which:								
Within the corridor	61 618	(4 856)	220	56 982	48 117	2 634	670	51 421
Outside the corridor	31 721	(2 500)	113	29 334	39 395	(9 810)	(317)	29 268

As at 31 December 2009, considering the value of the actuarial gains and losses registered in the calculation of the benefit obligations and in the value of the Fund, the value of the corridor calculated in accordance with paragraph 92 of IAS 19, amounted to Euro 56 982 000 (2008: Euro 51 421 000).

As at 31 December 2009, the net actuarial gains and losses in excess of the value of the corridor amounted to Euro 29 334 000 (2008: Euro 29 268 000) and will be recorded in results over a 24 year period considering the balance at the beginning of the year, as referred in the accounting policy presented in note 1.14.

In 2009, CEMG accounted as pension costs the amount of Euro 26 676 000 (2008: Euro 38 082 000).

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

	2009				2008			
	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	14 983	422	705	16 110	19 773	1 132	572	21 477
Interest cost	27 667	386	1 514	29 567	26 763	438	1 583	28 784
Expected return on plan assets	(23 467)	(327)	(1 284)	(25 078)	(21 619)	(354)	(1 279)	(23 252)
Actuarial gains and losses depreciation	1 277	–	–	1 277	1 272	–	–	1 272
Early retirements	4 800	–	–	4 800	9 801	–	–	9 801
Net benefit cost	25 260	481	935	26 676	35 990	1 216	876	38 082

Considering the market indicators, particularly the estimations of the inflation and the long-term interest rate for Euro Zone as well as the demographic characteristics of the participants, CEMG changed the actuarial assumptions used for the calculation of the liabilities for the pension obligations with reference to 31 December 2008. The comparative analysis of the actuarial assumptions is shown as follows:

	Assumptions	
	2009	2008
Salaries increase rate	3.00%	3.00%
Pensions increase rate	2.00%	2.00%
Projected rate of return of Fund assets	5.50%	5.75%
Discount rate	5.50%	5.75%
Mortality table	TV 88/90	TV 88/90
Disability table	EVK 80	EVK 80

The assumptions used in the calculation of the pension liabilities are in accordance with the requirements of IAS 19.

No disability retirements are considered in the calculation of the total liabilities.

Net actuarial gains related to the difference between the actuarial assumptions used for the estimation of the pension liabilities and the actual liabilities for the year ended 31 December 2009 amounted to Euro 6 904 000 (2008: Euro 27 576 000) and are analysed as follows:

	Actuarial (gains) / losses	
	2009 Euro '000	2008 Euro '000
Discount rate	23 293	(80 056)
Salaries increase rate	(1 334)	(3 243)
Pensions increase rate	(162)	3 253
Return of fund assets	(14 893)	52 470
	6 904	(27 576)

Health benefit costs have a significant impact in pension costs. Considering this impact we produced a sensitivity analysis to a positive one percent variation in health benefit costs (from 6.5% to 7.5% in 2009) and a negative variation (from 6.5% to 5.5% in 2009) of one percent in health benefit costs, whose impact is analyzed as follows:

	Positive variation of 1% (6.5% to 7.5%)		Negative variation of 1% (6.5% to 5.5%)	
	2009 Euro '000	2008 Euro '000	2009 Euro '000	2008 Euro '000
Pension cost impact	(2 322)	(2 029)	2 322	2 029
Liability impact	(2 186)	(2 023)	2 186	2 023

The liabilities with health benefits are fully covered by the Pension Fund and correspond, in 2009, to Euros 29 301 000 (2008: Euros 26 339 000).

The estimated value of contributions to the pension plan in 2010 is Euro 28 000 000 (2008: Euro 32 873 000).

The changes in the assets/(liabilities) recognised in the balance sheet is analysed as follows:

	2009				2008			
	Pension plans Euro '000	Death subsidy Euro '000	Health – care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health – care benefits Euro '000	Total Euro '000
Balance on 1 January	14 464	(8 194)	(3 645)	2 625	13 980	(6 978)	(2 769)	4 173
Net benefit cost	(25 260)	(481)	(935)	(26 676)	(35 990)	(1 216)	(876)	(38 082)
Contributions of the year and pensions paid	45 553	–	–	45 553	36 648	–	–	36 648
Other	(125)	–	–	(125)	(114)	–	–	(114)
Balance on 31 December	34 632	(8 675)	(4 580)	21 377	14 464	(8 194)	(3 645)	2 625

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

	2009			2008			2007			2006			2005		
	Pension plans Euro '000	Death subsidy Euro '000	Health – care benefits Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health – care benefits Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health – care benefits Euros '00	Pension plans Euro '000	Death subsidy Euro '000	Health – care benefits Euros '00	Pension plans Euro '000	Death subsidy Euro '000	Health – care benefits Euros '000
Defined benefit obligation	(532 994)	(7 527)	(29 301)	(481 168)	(6 705)	(26 339)	(509 771)	(8 336)	(30 158)	(475 205)	–	(31 190)	(439 080)	–	(29 057)
Fair value of plan assets	474 287	6 208	24 388	408 120	5 687	22 341	411 805	6 734	24 362	351 341	–	23 060	307 380	–	20 341
(Un)/over funded liabilities	(58 707)	(1 319)	(4 913)	(73 048)	(1 018)	(3 998)	(97 966)	(1 602)	(5 796)	(123 864)	–	(8 130)	(131 700)	–	(8 716)
Experience adjustments arising on plan liabilities (gains)/losses	(1 412)	(299)	(486)	2 419	(2 003)	(1 638)	11 490	1 359	(3 266)	3 781	–	248	11 785	–	780
Experience adjustments arising on plan assets (gains)/ losses	(13 936)	(194)	(763)	47 769	1 401	3 300	2 372	(6 734)	(207)	(3 929)	–	(258)	(1 441)	–	(95)

45. Related parties transactions

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 31 December 2008, 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	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
Norfin – Sociedade Gestora de FIM, S.A.	6 195	–	6 195
	62 762	16 740	79 502

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
Norfin – Sociedade Gestora de FIM, S.A.	–	376	376
	20	45 940	45 960

As at 31 December 2008, 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	471	3 151	3 622
Lusitania Vida Companhia de Seguros, S.A	952	7 479	8 431
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	2	–	2
SIBS – Sociedade Interbancária de Serviços, S.A.	5	11 104	11 109
MG Gestão de Activos Financeiros – S.G.F.I.M., S.A.	9	4 165	4 174
Futuro – Sociedade Gestora de Fundo de Pensões, S.A.	19	3 428	3 447
Norfin – Sociedade Gestora de FIM, S.A.	8	359	367
	1 466	29 686	31 152

The costs with salaries and other benefits attributed to CEMG key management personnel, as well as its transactions, are presented in note 10.

According to the principle of fair value, every transaction concerning related parties is at market prices.

During 2009 and 2008, there were no transactions with the pension's fund of CEMG.

46. Securitisation transactions

As at 31 December 2009, there are five securitisation operations between CEMG and other financial institutions presented in the following paragraphs.

As at 19 December, 2002, Caixa Económica Montepio Geral has settled a securitisation operation with a Special Purpose Vehicle («SPV») – Pelican Mortgages No. 1 PLC, established in Dublin. The referred agreement consists in a mortgage credit transfer for a period of 35 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 650 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.016% of the referred nominal value.

As at 29 September, 2003, Caixa Económica Montepio Geral has settled a securitisation operation with a Special Purpose Vehicle («SPV») – Pelican Mortgages No. 2 PLC, established in Dublin. The referred agreement consists in a mortgage credit transfer for a period of 33 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 700 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0286% of the referred nominal value.

As at 30 March, 2007, Caixa Económica Montepio Geral 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.

Caixa Económica Montepio Geral is the operation servicer, acting as collector of the credits sold. The received values are transferred to Pelican Mortgages No.1 PLC and to Pelican Mortgages No. 2 PLC. As at 31 December 2004, in accordance with accounting principles, as established by the Bank of Portugal, the assets, loans and securities transfer under above transactions were derecognised. The acquired securities under these transactions were classified as financial assets held--to-maturity and provision in accordance with Regulation no. 27/2000 of the Bank of Portugal.

In accordance with IFRS 1, CEMG follows derecognised criteria to individual statements to all transactions occur until 1 January, 2004. For the all transactions after this date, CEMG follows de guidance of IAS 39 concerning derecognise, which refers that recognition have to occur either when risks and rewards have substantially been transferred or has not retained control of the assets.

As at 31 December 2009, the securitisation operations are presented as follows:

Issue	Settlement date	Currency	Asset transferred	Amount Euro'000
Pelican Mortgages No. 1 PLC	December, 2002	Euro	Mortgage credit	650 000
Pelican Mortgages No. 2 PLC	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
				4 100 000

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

	2009 Euro '000	2008 Euro '000
Pelican Mortgages No. 1 PLC	120 550	142 875
Pelican Mortgages No. 2 PLC	212 720	246 788
	333 270	389 663

As at 31 December 2009 and 2008, the main impacts in the consolidation of these entities in the balance of CEMG can be analysed as follows:

	2009 Euro '000	2008 Euro '000
Loan to costumers (net from impairment)	318 961	375 280
Debts securities issued	331 608	390 545
Equity	(379)	415
Net profit/(loss)	(791)	(39)

As at 31 December 2009, 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	76 986 058	–	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	171 715 266	–	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	BBB
	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	414 922 986	–	2054	AAA	Aaa	AAA	AAA	Aaa	AAA
	Class B	14 250 000	10 712 724	–	2054	AA–	Aa2	AA–	AA–	Aa2	AA-
	Class C	12 000 000	9 021 241	–	2054	A	A3	A	A–	A3	A
	Class D	6 375 000	4 792 534	–	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	743 481 648	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.

47. Segmental Reporting

During 2009, CEMG adopted IFRS 8 – Operating Segments, for the disclosure of the financial information by operating segments, using new criteria in the preparation of this information.

CEMG's consolidated activity is essentially developed in the financial sector, aiming for companies, institutions and private clients. Has its core decision centre in Portugal, which gives its privileged target market.

Products and services include the entire offer implicit to financial activity, such as deposit capitation, credit concession and financial services to companies and private and also the custody, and also the managing investment funds and life insurances through its associates of the insurance sector. Additionally, CEMG executes short and long-term investments in the capital or monetary market as a way of taking advantage of the price variations or restabilising its available financial resources.

CEMG has a network of 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.

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.

Retrospective Information

In 2009, CEMG adopted IFRS 8 – Operating Segments, which differ substantially from the rules employed until this date in the preparation of the financial statements. Therefore, the information related to 2008 was reorganized and prepared to be consistent and compliant with IFRS 8.

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

INCOME STATEMENT INDICATORS	**Retail Euro '000**	**Corporate and Institutional Euro '000**	**Operations between Segments Euro '000**	**Total Euro '000**
Interest and similar income	743 804	94 792	32 805	871 401
Interest expense and similar charges	483 049	45 932	21 612	550 593
Net interest income	260 755	48 860	11 193	320 808
Dividends from equity instruments	–	–	703	703
Fees and commissions income	70 196	12 871	5 652	88 719
Fees and commissions expense	(10 257)	(1 789)	(1 559)	(13 605)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	–	–	28 319	28 319
Net gains/(losses) arising from available-for-sale financial assets	–	–	1 657	1 657
Net gains arising from foreign exchange differences	–	–	2 070	2 070
Net gains from sale of other financial assets	594	–	(205)	389
Other operating income	5 864	340	10 453	16 657
Total operational income	327 152	60 282	58 283	445 717
Staff costs	108 581	19 367	19 404	147 352
General and administrative expenses	58 205	11 067	9 932	79 204
Depreciation and amortisation	15 112	2 695	2 700	20 507
Total operating costs	181 898	33 129	32 036	247 063
Total of Provisions and Impairment	124 882	20 010	11 789	156 681
Operating Profit	20 372	7 143	14 458	41 973
Share of profit of associates under the equity method	–	–	2 503	2 503
Profit of the year	20 372	7 143	16 961	44 476
Net Assets	7 899 264	2 769 569	6 575 934	17 244 767
Liabilities	7 447 511	2 611 180	6 199 862	16 258 553
Investments in Associates	–	–	40 775	40 775

The report by operating segments as at 31 December 2008, is as follows:

INCOME STATEMENT INDICATORS	Retail Euro '000	Corporate and Institutional Euro '000	Operations between Segments Euro '000	Total Euro '000
Interest and similar income	959 346	108 106	44 000	1 111 452
Interest expense and similar charges	693 554	75 041	28 000	796 595
Net interest income	265 792	33 065	16 000	314 857
Dividends from equity instruments	–	–	882	882
Fees and commissions income	75 485	6 732	2 327	84 544
Fees and commissions expense	(11 891)	(1 030)	(639)	(13 560)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	–	–	(2 401)	(2 401)
Net gains/(losses) arising from available for-sale financial assets	–	–	3 765	3 765
Net gains arising from foreign exchange differences	–	–	1 681	1 681
Net gains from sale of other financial assets	278	–	220	498
Other operating income	4 087	992	9 965	15 044
Total operational income	333 751	39 759	31 800	405 310
Staff costs	132 537	11 499	7 224	151 260
General and administrative expenses	75 087	6 518	4 091	85 696
Depreciation and amortisation	16 096	1 397	877	18 370
Total operating costs	223 720	19 414	12 192	255 326
Total of Provisions and Impairment	82 123	11 592	25 018	118 733
Operating Profit	27 908	8 753	(5 410)	31 251
Share of profit of associates under the equity method	–	–	2 623	2 623
Profit of the year	27 908	8 753	(2 787)	33 874
Net Assets	13 883 586	4 354 416	(1 386 468)	16 851 534
Liabilities	13 204 984	4 141 581	(1 318 700)	16 027 865
Investments in Associates	–	–	16 813	16 813

CEMG develops bank activities as well as financial services in Portugal and in Cabo Verde.

Geographical Segments

CEMG operates with special emphasis in markets such as Portugal and Cabo Verde. Considering this, the geographical segments information includes Portugal and Cabo Verde, being that the segment Portugal reflects, essentially, the activities carried out by Caixa Económica Montepio Geral. The segment Cabo Verde includes the operations developed by Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. (IFI).

As at 31 December 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 expense and similar charges	551 445	9 390	(10 242)	550 593
Net interest income	319 956	852	–	320 808
Dividends from equity instruments	1 260	–	(557)	703
Fees and commissions income	88 719	–	–	88 719
Fees and commissions expense	(13 605)	–	–	(13 605)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	28 317	2	–	28 319
Net gains/(losses) arising from available for-sale financial assets	1 657	–	–	1 657
Net gains arising from foreign exchange differences	2 052	18	–	2 070
Net gains from sale of other financial assets	389	–	–	389
Other operating income	16 683	(26)	–	16 657
Total operational income	445 328	846	(557)	445 717
Staff costs	147 352	–	–	147 352
General and administrative expenses	79 147	57	–	79 204
Depreciation and amortisation	20 502	5	–	20 507
Total operating costs	247 001	62	–	247 063
Loans impairment	144 490	–	–	144 490
Other assets impairment	12 037	–	–	12 037
Other provisions	154	–	–	154
Operating Profit	42 959	784	(557)	41 973
Share of profit of associates under the equity method	2 503	–	–	2 503
Profit 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	597 801	–	–	597 802
Total Liabilities	16 266 372	299 826	(307 644)	16 258 553
Share capital	760 000	7 001	(7 001)	760 000
Fair value reserves	(28 600)	–	–	(28 600)
Other reserves and retained earnings	209 590	191	557	210 338
Profit for the period	44 249	784	(557)	44 476
Total Equity	985 239	7 976	(7 001)	986 214
Total Liabilities and Equity	17 251 610	307 082	(323 505)	17 244 767

As at 31 December 2008, 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	1 111 452	14 921	(14 921)	1 111 452
Interest expense and similar charges	797 322	14 194	(14 921)	796 595
Net interest income	314 130	727	–	314 857
Dividends from equity instruments	1 013	–	(131)	882
Fees and commissions income	84 544	–	–	84 544
Fees and commissions expense	(13 560)	–	–	(13 560)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	(2 396)	(5)	–	(2 401)
Net gains/(losses) arising from available-for-sale financial assets	3 765	–	–	3 765
Net gains arising from foreign exchange differences	1 710	(29)	–	1 681
Net gains from sale of other financial assets	498	–	–	498
Other operating income	15 069	(25)	–	15 044
Total operational income	404 773	668	(131)	405 310
Staff costs	151 260	–	–	151 260
General and administrative expenses	85 651	45	–	85 696
Depreciation and amortisation	18 366	4	–	18 370
Total operating costs	255 277	49	–	255 326
Loans impairment	93 530	–	–	93 530
Other assets impairment	25 018	–	–	25 018
Other provisions	185	–	–	185
Operating Profit	30 163	619	(131)	31 251
Share of profit of associates under the equity method	2 623	–	–	2 623
Profit of the year	33 386	619	(131)	33 874

Balance Sheet Indicators	Portugal Euro '000	Cabo Verde Euro '000	Adjustments Euro '000	Consolidated Euro '000
Cash and deposits at central banks	254 742	–	–	254 742
Loans and advances to credit institutions repayable on demand	114 420	87	(5)	114 502
Other loans and advances to credit institutions	166 780	328 772	(328 771)	166 781
Loans and advances to customers	15 009 892	–	–	15 009 892
Financial assets held for trading	59 120	2	(4)	59 118
Other financial assets at fair value through profit or loss	4 031	–	–	4 031
Financial assets available-for-sale	918 562	–	–	918 562
Hedging derivatives	7 727	–	–	7 727
Held-to-maturity investments	39 912	–	–	39 912
Investments in associated companies and others	23 814	–	(7 001)	16 813
Non-current assets held for sale	92 312	–	–	92 312
Property and equipment	85 848	102	–	85 950
Intangible assets	14 776	–	–	14 776
Other assets	66 146	–	–	66 146
Total Assets	16 858 352	328 963	(335 781)	16 851 534
Deposits from central banks	852 803	–	–	852 803
Deposits from other credit institutions	744 350	111	(5)	744 456
Deposits from customers	8 338 014	321 097	(328 771)	8 330 340
Debt securities issued	5 061 487	–	–	5 061 487
Financial liabilities held for trading	37 694	2	(4)	37 692
Hedging derivatives	1 234	–	–	1 234
Provisions	1 668	–	–	1 668
Other subordinated debt	386 872	–	–	386 872
Other liabilities	611 309	4	–	611 313
Total Liabilities	16 035 431	321 214	(328 780)	16 027 865
Share capital	660 000	7 001	(7 001)	660 000
Fair value reserves	(48 064)	–	–	(48 064)
Other reserves and retained earnings	177 599	129	131	177 859
Profit for the period	33 386	619	(131)	33 874
Total Equity	822 921	7 749	(7 001)	823 669
Total Liabilities and Equity	16 858 352	328 963	(335 781)	16 851 534

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;

– Market Risk Department;

– Operational Risk Department;

– Companies Credit Analysis Department.

«DAGR» also ensures the communications with Bank of Portugal regarding the prudential reports related to capital requirements, liquidity risk and interest rate risk.

Regarding risk and control management, developments were made in several activities, such as:

– Implementation of new models of scoring for small entities business;

– Enforcement of the reporting activity regarding credit portfolio's risk evolution and monitoring the use of the internal rating and coring systems;

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

– Price methodology regarding credit adjusted to credit portfolio's risk to companies, assuring application of this methodology to its main segments;

– Integration of the risk control regarding counterparties.

At the regulatory level, 2009 was distinguished by the development of the reports established in Basel II, such as Pillar II – Capital Adequacy and III – Market Discipline, concerning Basel II.

According to Pillar II, reports of the Process of Self evaluation of Capital and Effort tests were delivered to the Bank of Portugal. The results not only show that capital is solid against risk with major magnitude but also that there is a great evolution potential against the principle macroeconomics factors. In what concerns Pillar III, it was held the Market Discipline report, showing every detail of the type and levels of risk that are implicit in CEMG's activity, as well as all the processes, structure and organization of the risk management.

It was introduced new methods for analysing corporate credit, namely exposure limit, risk adjusted pricing models and the creation of new credit reports that are more useful and functional in a decision making perspective, which are automatically free through the system, the same that also started to support exposure credit limit information. Additionally, there was a technological integration of the new intern rating models for the Credit Analysis.

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

Main types of risk

Credit – Credit risk is associated with the degree of uncertainty of the expected returns as a result of the inability either of the borrower (and the guarantor, if any) or of the issuer of a security or of the counterparty to an agreement to fulfil their obligations.

Market – Market risk reflects the potential loss inherent in a given portfolio as a result of changes in rates (interest and exchange) and/or in the prices of the various financial instruments that make up the portfolio, considering both the correlations that exist between them and the respective volatility.

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

Operational – Operational risk is the potential loss resulting from failures or inadequacies in internal procedures, persons or systems, and also the potential losses resulting from external events.

Internal 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. Indeed, the granting of credit to individuals requires requests to be submitted to the reactive scoring models used by the different portfolios (housing loans, personal credit and credit cards).

Credit decisions are dependent upon risk ratings and compliance with various rules governing financial capacity and applicants' behaviour. In orders to support commercial strategies behavioural scoring models are also used.

New reactive scoring models have been introduced into the information systems of certain individual credit portfolios that recognise the need to distinguish between customers and non-customers (or new customers). New internal rating models for companies and scoring models for small businesses are also in the IT completion stage.

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

	2009 Euro '000	2008 Euro '000
Deposits with Other credit institutions	69 870	114 502
Deposits with banks	370 938	166 781
Loans and advances to customers	14 682 382	15 009 892
Financial assets held for trading	101 815	57 918
Financial assets at fair value through profit or loss	4 192	4 031
Available-for-sale financial assets	1 267 208	904 144
Hedging derivatives	5 109	7 727
Held-to-maturity investments	33 523	39 912
Investments in associated companies and others	40 075	16 813
Other assets	109 688	64 875
Guarantees granted	426 156	431 209
Irrevocable commitments	302 264	281 103
Credit default swaps (notionals)	41 458	94 500
	17 455 378	17 193 407

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

	2009							
Sector of activity	**Loans and advances to costumers**		**Financial assets held for trading**	**Other financial assets at fair value trough profit or loss**	**Available-for-sale financial assets**		**Held-to maturity investments**	**Guarantees granted**
	Gross amount Euro '000	**Impairment Euro '000**	**Gross amount Euro '000**	**Gross amount Euro '000**	**Gross amount Euro '000**	**Impairment Euro '000**	**Gross amount Euro '000**	**Euro '000**
Agriculture	31 191	(914)	–	–	154	(47)	–	395
Mining	8 003	(333)	–	–	541	–	–	1 147
Food, beverage and tobacco	74 913	(4 098)	–	–	41	–	–	1 915
Textiles	35 051	(7 520)	–	–	–	–	–	1 345
Shoes	8 316	(759)	–	–	–	–	–	–
Wood and cork	29 909	(2 711)	–	–	–	–	–	932
Printing and publishing	22 394	(2 061)	–	–	–	–	–	951
Petroleum refining	177	(48)	229	–	34 928	–	–	–
Chemicals and rubber	31 723	(813)	–	–	1 025	–	–	1 164
Non-metallic minerals	23 189	(1 205)	–	–	–	–	–	2 136
Basis metallurgic industries and metallic products	81 352	(39)	–	–	–	–	–	3 943
Production of machinery	17 471	(1 895)	–	–	270	–	–	1 798
Production of transport material	12 672	(253)	–	–	5 387	–	–	134
Other transforming material	29 956	(2 988)	685	–	81 182	(698)	–	805
Electricity, gas and water	73 634	(126)	406	3 206	37 098	(252)	–	890
Construction	2 684 448	(165 548)	–	–	41 533	(998)	–	212 348
Wholesale and retail	662 998	(49 627)	49	–	13 428	–	–	36 394
Tourism	236 908	(14 834)	–	–	8 961	(90)	–	11 924
Transports	103 126	(1 405)	–	–	2 966	–	–	11 775
Communications and information activities	28 123	(2 115)	359	–	19 044	–	–	335
Financial activities	155 795	(545)	101 467	986	906 640	(19 742)	–	38 623
Real estate's activities	819 163	(28 075)	–	–	12 142	–	–	29 463
Services provided to companies	334 303	(10 243)	–	–	–	–	–	9 158
Public services	203 243	(2 679)	–	–	10 168	–	33 523	4 020
Other activities of collective services	65 795	(2 356)	–	–	670	–	–	4 285
Mortgage loans	9 106 948	(188 329)	–	–	86 460	(1 641)	–	9 056
Others	295 494	(2 394)	–	–	43 437	(190)	–	41 220
TOTAL	15 176 295	(493 913)	103 195	4 192	1 306 075	(23 658)	33 523	426 156

The analysis of the risk exposure by sector of activity, as at 31 December 2008, can be analysed as follows:

2008								
Sector of activity	Loans and advances to costumers		Financial assets held for trading	Other financial assets at fair value trough profit or loss	Available-for-sale financial assets		Held-to maturity investments	Guarantees granted
	Gross amount Euro '000	Impairment Euro '000	Gross amount Euro '000	Gross amount Euro '000	Gross amount Euro '000	Impairment Euro '000	Gross amount Euro '000	Euro '000
Agriculture	25 127	(821)	–	–	–	–	–	512
Mining	5 699	(63)	–	–	–	–	–	842
Food, beverage and tobacco	54 486	(2 412)	–	–	–	–	–	961
Textiles	30 279	(7 504)	–	–	–	–	–	1 333
Shoes	5 658	(657)	–	–	–	–	–	66
Wood and cork	28 304	(1 336)	–	–	–	–	–	1 205
Printing and publishing	17 430	(1 834)	–	–	–	–	–	294
Petroleum refining	24	(2)	–	–	3 257	–	–	–
Chemicals and rubber	23 627	(628)	–	–	999	–	–	1 509
Non-metallic minerals	18 055	(1 501)	–	–	–	–	–	1 625
Basis metallurgic industries and metallic products	54 438	(2 540)	–	–	–	–	–	3 277
Production of machinery	13 855	(2 692)	–	–	–	–	–	1 497
Production of transport material	10 386	(202)	–	–	–	–	–	232
Other transforming material	23 169	(2 322)	–	–	57 700	–	–	712
Electricity, gas and water	38 318	(613)	1 187	2 998	31 404	(1 014)	–	516
Construction	2 886 325	(141 005)	–	–	10 981	(998)	–	205 943
Wholesale and retail	553 210	(45 906)	–	–	8 896	–	–	37 728
Tourism	186 208	(14 489)	–	–	10 163	(54)	–	17 171
Transports	82 708	(1 911)	2	–	15 898	–	–	3 993
Communications and information activities	20 489	(1 947)	4	–	–	–	–	220
Financial activities	96 081	(1 921)	57 925	1 033	707 440	(22 685)	–	55 172
Real estate's activities	823 421	(32 525)	–	–	8 537	–	–	69 082
Services provided to companies	306 022	(9 063)	–	–	–	–	–	6 930
Public services	186 503	(3 764)	–	–	2 883	–	39 912	2 896
Other activities of collective services	51 889	(2 683)	–	–	565	–	–	3 737
Mortgage loans	9 320 901	(102 266)	–	–	59 970	(190)	–	10 299
Outros	531 201	(1 314)	–	–	24 856	(46)	–	3 457
TOTAL	15 393 813	(383 921)	59 118	4 031	943 549	(24 987)	39 912	431 209

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

During 2009, CEMG entered into a number of credit default swaps relating to investment grade issuers, where the notional value of the purchase and protective sales positions at the year-end were Euro 41 458 500 and Euro 37 958 500, respectively.

Overall Risks and Financial Assets

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

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

Concerning risk information and analysis, regular reports are provided on the credit and market risks on the company's financial assets and those of the other members of the Group. For the company's own portfolio, the various risk limits are defined using the Value-at-Risk («VaR») method. There are different exposure limits such as global «VaR» limits, by issuer, by asset type/class and rating. There are also limits of Stop Loss. Investment portfolio is mainly concentrated in bonds which as at the end of 2009 represented 80.8% of the total's portfolio, being 84.8% from the financial services sector.

Own portfolios are concentrated in variable rate debt securities, which gives them a low VaR (Var calculation is based on analytical methodology development by risk metrics, concerning a ten-day period and with a 99% confidence interval). Credit risk exposure is also very restricted, due to the bonds portfolio held are usually of investment grade levels.

CEMG continuously calculates its own portfolios «VaR», given a 10-day horizon and a 99% confidence interval, given the greater volatility witnessed in the major financial markets. At the same time, the portfolio's average life remained short.

Regarding the nature of the retail activity, the institution normally presents interest rate positive gaps, which by the end of 2009, would reach, in static terms, about Euro 400 068 000 (2008: Euro 472 000 000) (considering the total of the refixing terms of the interest rate).

The following table presents the mainly indicators of these measures, as at 31 December 2009 and 2008:

	2009				2008			
	December Euro '000	Annual Average Euro '000	Maximum Euro '000	Minimum Euro '000	December Euro '000	Annual Average Euro '000	Maximum Euro '000	Minimum Euro '000
Interest rate GAP	400 068	662 050	924 031	400 068	472 200	752 700	1 033 200	472 200

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
31 December 2009					
Liabilities	13 368 081	4 169 695	115 793	183 241	50 222
Off balance sheet	3 855 697	265 965	489 500	48 500	–
Total	17 223 778	4 435 660	605 293	231 741	50 222
Liabilities	11 231 280	2 668 503	1 668 584	1 918 256	341
Off balance sheet	4 165 097	451 782	2 400	31 882	8 500
Total	15 396 377	3 120 285	1 670 984	1 950 138	8 841
31 December 2008					
Liabilities	10 723 517	3 944 496	43 111	467 267	82 450
Off balance sheet	143 500	3 000	192 752	103 500	76 020
Total	10 867 017	3 947 496	235 863	570 767	158 470
Liabilities	9 540 455	2 443 888	843 929	1 884 268	76 020
Off balance sheet	269 771	245 000	–	–	4 000
Total	9 810 226	2 688 888	843 929	1 884 268	80 020

Sensibility analysis

As at December, 2009, 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 20 770 000 (2008: Euro 17 000 000).

The following table presents the average interests, in relation to the CEMG major assets and liabilities categories for the years ended 31 December 2009 and 2008, as well as the average balances and the income and expense for the year:

	2009			2008		
Products	**Average balance for the year Euro '000**	**Average interest rate (%)**	**Income/ Expense Euro '000**	**Average balance for the year Euro '000**	**Average interest rate (%)**	**Income/ Expense Euro '000**
Assets						
Loans to customers	15 159 383	3,71	562 858	15 067 513	5,60	844 039
Deposits	157 614	1,23	1 934	155 963	3,90	6 076
Securities portfolio	1 158 637	5,34	61 860	982 895	9,35	91 896
Inter-bank loans and advances	281 442	0,62	1 750	420 830	4,28	18 004
Other assets	–	–	–	1 922	6,05	116
Swaps	–	–	239 586	–	–	147 784
Total Assets	16 757 076	5,18	867 988	16 629 123	6,66	1 107 915
Liabilities						
Deposits from customers	8 558 425	1,75	184 689	8 232 516	2,72	285 291
Interbank deposits	782 350	1,63	12 747	564 890	4,24	23 979
Securities deposits	711 568	2,22	15 793	731 364	4,53	33 151
Deposits from other credit institutions	225 000	1,81	4 074	225 000	5,16	11 606
Debt securities	5 424 995	3,10	124 589	5 830 109	4,67	251 045
Other subordinated liabilities	378 000	3,10	11 721	336 800	5,08	19 814
Other liabilities	682	3,18	22	876	2,63	23
Swaps			193 544	–	–	168 149
Total liabilities	16 081 020	4,98	547 179	15 921 655		793 058

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

	2009							
	Euros Euro '000	US Dollars Euro '000	Sterling Pounds Euro '000	Canadian Dollars Euro '000	Hong-Kong Dollar Euro '000	Suisse Frank Euro '000	Other foreign currencies Euro '000	Total amount Euro '000
Assets by currency								
Cash and deposits at central banks	298 830	4 141	443	116	131	1 019	338	305 018
Loans and advances to credit institutions repayable on demand	63 353	3 475	877	437	3	1 668	57	69 870
Loans and advances to credit institutions	370 627	97	–	–	214	–	–	370 938
Loans and advances to customers	14 679 957	2 082	–	–	–	343	–	14 682 382
Financial assets held for trading	103 070	125	–	–	–	–	–	103 195
Other financial assets at fair value trough profit or loss	4 189	3	–	–	–	–	–	4 192
Available-for-sale financial assets	1 280 778	1 598	–	–	–	41	–	1 282 417
Hedging derivatives	5 109	–	–	–	–	–	–	5 109
Held-to-maturity investments	33 523	–	–	–	–	–	–	33 523
Investments in associated companies and others	40 775	–	–	–	–	–	–	40 775
Non-current assets held for sale	128 599	–	–	–	–	–	–	128 599
Property and equipment	91 275	–	–	–	–	–	–	91 275
Intangible assets	16 151	–	–	–	–	–	–	16 151
Other assets	52 428	36 980	3 570	18 310	–	35	–	111 323
	17 168 664	48 501	4 890	18 863	348	3 106	395	17 244 767
Liabilities by currency								
Deposits from central banks	502 353	–	–	–	–	–	–	502 353
Deposits from other credit institutions	636 337	1 247	4	41	–	140	1	637 770
Deposits from customers	9 112 744	44 541	4 389	18 822	1	361	–	9 180 858
Debt securities issued	4 912 833	2 082	–	–	–	–	–	4 914 915
Financial liabilities held for tradings	41 702	22	–	–	–	–	–	41 724
Hedging derivatives	598	–	–	–	–	–	–	598
Provisions	1 490	–	–	–	–	–	–	1 490
Other subordinated debt	381 043	–	–	–	–	–	–	381 043
Other liabilities	593 353	609	497	–	347	2 600	394	597 802
Total Liabilities	16 182 455	48 501	4 890	18 863	348	3 101	395	16 258 553
Net asset / liability by currency	986 209	–	–	–	–	5	–	986 214
Equity	986 207	2	–	–	–	5	–	986 214
Net exposure	(2)	(2)	–	–	–	–	–	–

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2008 is analysed as follows:

	2008							
	Euros Euro '000	US Dollars Euro '000	Sterling Pounds Euro '000	Canadian Dollars Euro '000	Hong-Kong Dollar Euro '000	Suisse Frank Euro '000	Other foreign currencies Euro '000	Total amount Euro '000
Assets by currency								
Cash and deposits at central banks	247 954	4 359	728	168	–	–	1 533	254 742
Loans and advances to credit institutions repayable on demand	68 766	43 716	687	812	–	–	521	114 502
Loans and advances to credit institutions	40 283	62 399	6 555	29 668	9 271	18 605	–	166 781
Loans and advances to customers	15 006 994	2 231	–	–	–	–	667	15 009 892
Financial assets held for trading	59 056	62	–	–	–	–	–	59 118
Other financial assets at fair value trough profit or loss	4 021	3	–	–	7	–	–	4 031
Available-for-sale financial assets	917 173	1 389	–	–	–	–	–	918 562
Hedging derivatives	7 504	–	–	–	–	223	–	7 727
Held-to-maturity investments	39 912	–	–	–	–	–	–	39 912
Investments in associated companies and others	16 813	–		–	–	–	–	16 813
Property and equipment	85 950	–	–	–	–	–	–	85 950
Intangible assets	14 775	–	–	–	–	–	–	14 775
Other assets	130 616	117	12	106	9 271	18 605	2	158 729
	16 639 817	114 276	7 982	30 754	18 549	37 433	2 723	16 851 534
Liabilities by currency								
Deposits from central banks	852 803	–	–	–	–	–	–	852 803
Deposits from other credit institutions	628 668	69 926	3 463	14 354	9 271	18 605	169	744 456
Deposits from customers	8 270 167	39 730	3 897	16 312	–	–	234	8 330 340
Debt securities issued	5 031 455	2 156	–	–	9 271	18 605	–	5 061 487
Financial liabilities held for trading	37 547	145	–	–	–	–	–	37 692
Hedging derivatives	1 234	–	–	–	–	–	–	1 234
Provisions	1 668	–	–	–	–	–	–	1 668
Other subordinated debt	386 872	–	–	–	–	–	–	386 872
Other liabilities	605 685	2 369	622	88	7	223	2 319	611 313
Total Liabilities	15 816 100	114 325	7 982	30 754	18 549	37 433	2 722	16 027 865
Net asset / liability by currency	823 717	(49)	–	–	–	–	1	823 669
Equity	823 621	48	–	–	–	–	–	823 669
Net exposure	96	(97)	–	–	–	–	1	–

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.

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 total 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, the retained earnings and a decreasing value extinguishable in 2014, which compensates the negative impact in the Own Funds of the realised differences in the Pensions Fund transition to NIC's / NCA's. It is deducted by the book value of intangible assets, deferred costs, actuarial losses and negative fair value reserves. Additionally, 50% of the book value of equity investments in banking and insurance entities, exceeding 10% of the respective share capital is also deducted;

– 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%;

– 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 changed the treatment of the equity investments in banking and insurance entities that began to be deducted in 50% to the CMOF and 50% to the COF. In the case of the participations in institutions that are under consolidated basis supervision, in the terms of the article no. 131 from the Regime Geral das Instituições de Crédito e Sociedades Financeiras, or under a complementar supervision foreseen in the Law-Decree no. 145/2006, CEMG does not proceed to the inclusion of these participations in the deductions. Before, these participations were included in deductions made to the total of Own Funds.

The impact on regulatory capital of adopting NIC's/NCA's regarding to the Pensions Fund is being recognised on a strait line basis (in accordance with Regulation no. 2/2005, no. 4/2005 and no. 12/2005 and no. 7/2008 from the Bank of Portugal).

Therefore, as at the end of 2009, the negative net impact in Own Funds are, calculated in consolidated basis, was Euro 38 000 000, that results from a negative impact of Euro 29 600 000 registered in accrued costs, compensated by a positive variation of Euro 22 207 000 that refers to unrecognized impacts of Own Funds (according to no 4, of 13th.-A, from the Regulation no. 12/2001). The compensating value in Own Funds will decrease until their extinguish in 2014.

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 31 December 2009 and 2008 is presented as follows:

	2009 Euro '000	2008 Euro '000
Core own funds		
Paid-up capital	760 000	660 000
Results, general and special reserves and retained earnings	240 700	209 738
Other regulatory adjustments	(68 199)	(66 045)
NIC/NCA adjustments	22 207	28 623
	954 708	832 316
Complementary own funds		
Upper Tier 2	18 154	8 420
Lower Tier 2	378 000	378 000
Deductions	(12 753)	(6 879)
	383 400	379 541
Deductions to total own funds	(9 079)	(9 507)
Total own funds	1 329 030	1 202 350
Own funds requirements		
Credit risk (Regulation no. 5/2007)	737 373	776 151
Market risk (Regulation no. 8/2007)	2 985	5 265
Operational risk (Regulation no. 9/2007)	61 185	59 052
	802 705	840 468
Prudential ratios		
Ratio core Tier 1	9.51%	7.92%
Solvency ratio	13.25%	11.44%

49. Accounting standards recently issued

The new standards and interpretations that have been issued, but that are not yet effective and that the Group has not yet applied, can be analysed as follows:

- ***IAS 1 (amendment) – Presentation of Financial Statements***

  The International Accounting Standards Board (IASB) has issued in September 2007 an amendment to IAS 1 – Presentation of Financial Statements, which is applicable from 1 January, 2009, although allowing for an early adoption.

  Changes regarding the current text of IAS 1:

  – The presentation of the financial position statement (balance sheet) is required for current and comparative periods. According with changed IAS 1, the financial position statement should also be presented for the beginning of the comparative period whenever an entity restates the comparatives following a change in an accounting policy, a correction of an error or the reclassification of an item in the financial statements. In these cases, three statements of the financial position will be presented, comparatively to the other two required statements;

  – Following the changes required by this standard, the users of the financial statements will be able to distinguish, in an easier way, the variations in the equity of the Bank on transactions with shareholders, as shareholders (ex. dividends, transactions with own shares) and transactions with third parties, that are summarized in the comprehensive income statement. CEMG does not expect any impact on its financial statements from the adoption of these amendments.

  Given the nature of these changes (disclosures) the impact was exclusively related to the presentation.

- ***IAS 23 (amendment) – Borrowing costs***

  The International Accounting Standards Board (IASB) has issued in March, 2007 an amendment to IAS 23 – Borrowing costs, which is applicable from 1 January, 2009, although early adoption was permitted.

This standard requires the capitalization of borrowing costs that are directly related to the acquisition, production or construction of a qualifying asset, as part of the cost of that asset. As a result, the option to recognize such borrowing costs as an expense in the period which they arise was eliminated.

CEMG did not obtain any significant impact from the adoption of this amendment.

- ***IAS 32 (amendment) – Financial Instruments: Presentation – Puttable Financial Instruments and obligations arising from liquidation***

The International Accounting Standards Board (IASB) has issued in February 2008 an amendment to IAS 32 – Financial Instruments: Presentation – Puttable financial instruments and obligations arising from liquidation, which is applicable from 1 January 2009.

According with the previous requirements of IAS 32, if an issuer can be required to make a payment in money or in other financial asset in exchange for the redemption or repurchase of the financial instrument, the instrument is classified as a financial liability. As a result of this review, some financial instruments that currently comply with the definition of a financial liability will be classified as an equity instrument if (i) represent a residual interest in the net assets of the entity; (ii) are included in a class of instruments subordinated to any other class of instruments issued by the entity; and (iii) if all instruments in the class have the same terms and conditions. A change in IAS 1 Presentation of Financial Statements was also performed to add a new presentation requirement for puttable financial instruments and obligations arising from liquidation.

CEMG did not obtain any significant impact from the adoption of this amendment.

- ***IFRS 2 (amendment) – Share-based payment: Acquisition conditions***

The International Accounting Standards Board (IASB) has issued in January, 2008 an amendment to IFRS 2 – Share-based payment: Acquisition conditions, which is applicable from 1 January, 2009, although early adoption was permitted.

This change to IFRS 2 allowed clarifying that: (i) the acquisition conditions of the inherent rights for a share-based payment plan are limited to service or performance conditions and that (ii) any cancellation of these programmes, by the entity itself or by third parties, has the same accounting treatment.

At 31 December 2009, CEMG does not have any share-based payment plan and therefore the issue of this amendment does not have any impact in the financial statements of CEMG.

- ***IFRS 7 (amendment) – Financial instruments: Disclosures***

The International Accounting Standards Board (IASB) has issued in March 2009 an amendment to IFRS 7 – Financial instruments: Disclosures, for obligatory application in 1 January 2009.

This amendment to IFRS 7 requires additional information in the disclosures related to fair value measurement, namely that these amounts should be presented in three hierarchical levels defined in the interpretation and related to liquidity risk.

Given the nature of these changes the impact in the Bank's financial statements was exclusively related to the disclosures.

- ***IFRS 8 – Operational segments***

The International Accounting Standards Board (IASB) has issued on 30 November 2006 the IFRS 8- Operational segments, which was endorsed by the European Commission on 21 November, 2007. This standard is mandatorily applicable to periods from or on 1 January, 2009.

IFRS 8 sets out the requirements for disclosures of information about an entity's operational segments and also about services and products, geographical areas where the entity operates and its major clients. This standard specifies how an entity should disclose its information in the annual financial statements and, as a consequential amendment to IAS 34 – Interim Financial Reporting, regarding the information to be disclosed in the interim financial reporting. Each entity should also to provide a description of the segmental information disclosed namely profit or loss and of assets, as well as a brief description of how the segmental information is produced.

Given the nature of these changes (disclosures) the impact was exclusively related to the presentation.

- ***IFRIC 13 – Customer Loyalty Programmes***

The International Financial Reporting Interpretations Committee (IFRIC) has issued in July 2007 the IFRIC 13 – Customer Loyalty Programmes with effective date of application for the financial years starting from 1 July 2008, although allowing for an early adoption.

This interpretation is applicable to customer loyalty programmes and addresses how companies grant their customers loyalty award credits (often called «points») when buying goods or services, allowing them to exchange these credits, in the future, by free goods or services or with a discount.

CEMG did not obtain any impact from the adoption of this interpretation.

- ***IFRIC 15 – Agreements for the Construction of Real Estate***

The IFRIC 15 – Agreements for the Construction of Real Estate is effective for the years started from 1 January 2009.

This interpretation includes guidance that allows determining if a contract for the construction of real estate is within the scope of IAS 18 – Revenue or IAS 11 – Construction Contracts. Is expected that IAS 18 will be applied to a larger number of transactions.

CEMG did not obtain any impact on its financial statements from this interpretation.

- ***IFRIC 16 – Hedges of a Net Investment in a Foreign Operation***

The International Financial Reporting Interpretations Committee (IFRIC) issued in July, 2008, IFRIC 16 – Hedges of a Net Investment in a Foreign Operation, with mandatory application date for years started after 1 October 2008, although an early adoption was permitted

This interpretation intends to clarify that:

– The hedge of a net investment in a foreign operation can only be applied to exchange differences resulting from the foreign subsidiaries' financial statements conversion from its functional currency to the parent company's functional currency and only for an amount equal or smaller to the subsidiary's net assets;

– The hedge instrument can be contracted by any of the Bank's entities, except by the entity that is being hedged; and

– At the moment of the hedged subsidiary's sale the accumulated gain or loss related to the effective hedge component is reclassified to profit and loss.

This interpretation allows an entity that uses the step by step consolidation method to choose an accounting policy that allows determining the accumulated foreign exchange conversion adjustment that is reclassified to profit and loss when the subsidiary is sold, as it would do if applying the direct consolidation method. This interpretation has a prospective application.

CEMG did not obtain any significant impact on its financial statements from the adoption of this interpretation.

- ***Annual Improvement Project***

In May, 2008 the IASB published the Annual Improvement Project that implied changes to the standards in force. The effective date of the referred changes depends on the specific standard, although the majority is mandatory for the Bank in 2009, as follows:

– Changes to IAS 1 – Financial Statements presentation, which is applicable from 1 January 2009. The change clarifies that only some financial instruments classified as trading instruments are an example of current assets and liabilities.

CEMG did not obtain any significant impact from the adoption of this amendment.

– Changes to IAS 16 – Property, Plant and Equipment, which is applicable from 1 January 2009. The change that occurred establishes classification rules (i) for the income originated by the sale of rented assets subsequently sold and (ii) for these assets during the period between the date of termination of the rental agreement and the date of the sale agreement.

CEMG did not obtain any significant impact from the adoption of this amendment.

– Changes to IAS 19 – Employee Benefits, which is applicable from 1 January 2009. The changes allowed clarifying (i) the concept of negative costs associated to past services resulting from changes in the defined benefit plan, (ii) the interaction between the expected return from the assets and the costs of managing the plan, and (iii) the distinction between short, medium and long term benefits.

CEMG did not obtain any significant impact from the adoption of this amendment.

– Changes to IAS 20 – Accounting for government grants and disclosure of government assistance, which is applicable from 1 January 2009. This change established that the benefit arising from obtaining a government loan at rates below market rates should be measured as the difference between the fair value of the liability at granting date, determined according with IAS 39 – Financial Instruments: Recognition and Measurement and the amount received. This benefit should be subsequently accounted according with IAS 20.

CEMG did not obtain any significant impact from the adoption of this amendment.

– Changes to IAS 23 – Borrowing Costs, applicable from 1 January 2009. The concept of borrowing costs was changed to clarify that these costs should be determined according with the effective interest rate as defined in IAS 39 – Financial Instruments: Recognition and Measurement, thus eliminating the inconsistency between IAS 23 and IAS 39.

CEMG did not obtain any significant impact from the adoption of this amendment.

– Changes to IAS 27 – Consolidated and separate financial statements, applicable from 1 January 2009. The change to this standard determines that in the cases when an investment in a subsidiary is accounted at fair value in the individual accounts, according with IAS 39 – Financial Instruments: Recognition and Measurement and qualifies for classification as a non-current asset held for sale according with IFRS 5 – Non-current assets held for sale and discontinued operations, the investment should continue to be measured as defined in IAS 39.

CEMG did not obtain any significant impact from the adoption of this amendment.

– Change to IAS 28 – Investments in Associates, applicable from 1 January 2009. The changes to IAS 28 – Investments in Associates had the objective of clarifying (i) that an investment in an associate should be treated as a single asset for impairment testing purposes under the scope of IAS 36 – Impairment of assets, (ii) that any impairment loss to be recognized shouldn't be allocated to specific assets namely to goodwill and (iii) that the impairment write-backs are accounted as an adjustment to the carrying amount of the associate as long as and to the extent that the recoverable amount of the investment increases.

CEMG did not obtain any significant impact from the adoption of this amendment.

– Change to IAS 38 – Intangible Assets, applicable from 1 January 2009. This change determined that an incurred deferred expense related with advertising or promotional activities can only be recognized in the balance sheet if an advance payment was made regarding goods and services that will be received in a future date. The recognition in profit and loss should occur when the entity has the right to receive the goods and services.

CEMG did not obtain any significant impact from the adoption of this amendment.

– Changes to the IAS 39 – Financial Instruments: Recognition and Measurement, applicable from 1 January 2009. This change includes mainly in (i) the clarification that it is possible to perform transfers from and to the category of fair value through profit and loss regarding derivatives, whenever these start or end an hedge relationship in cash-flows hedge models or net investment in an associate or subsidiary, (ii) the change to the definition of financial instruments at fair value through profit and loss in what relates the trading portfolio, determining that in the case of financial instrument portfolios jointly managed and for which there is evidence of a recent and real model of short-term profit taking, these should be classified as trading on initial recognition; (iii) the change to the documentation requirements and the effectiveness tests of the hedge relationship for the operational segments defined under the scope of IFRS 8 – Operating Segments; and (iv) the clarification that the measurement of a financial liability at amortized cost, after the interruption of the respective fair value hedge relationship, should be performed based on the new effective rate calculated at the interruption date.

CEMG did not obtain any significant impact from the adoption of this amendment.

– Change to IAS 40 – Investment Properties, applicable from 1 January 2009. Following this change, the properties under construction or development for subsequent use as investment properties are included under the scope of IAS 40 (before they were included under the scope of IAS 16 Property, Plant and Equipment). These properties under construction can be accounted at fair value except if they cannot be reliably measured in which case they should be accounted at acquisition cost.

CEMG did not obtain any significant impact from the adoption of this amendment.

Standards, changes and interpretations issued but not effective for the Bank

- ***IAS 39 (amendment) – Financial Instruments: Recognition and measurement – Eligible hedged items***

The International Accounting Standards Board (IASB) has issued an amendment to IAS 39 – Financial Instruments: Recognition and measurement – Eligible hedged items, which is for mandatory application from 1 July 2009.

This change clarifies the application of the existing principles that determine what risks or which cash-flows can be designated as a hedged item.

CEMG is evaluating the impact of adopting this standard in its financial statements.

- ***IFRS 1 (amendment) – First time adoption of the International Financial Reporting Standards and IAS 27 – Consolidated and Separate Financial Statements***

The changes in the IFRS 1 – First time adoption of the International Financial Reporting Standards and IAS 27 – Consolidated and Separated Financial Statements are effective from 1 July 2009.

These changes allowed entities adopting IFRS for the first time in the preparation of the individual accounts to use as deemed cost of the investments in subsidiaries, joint-ventures and associated companies, the respective fair value at the transition date to the IFRS or the carrying amount determined based on the previous accounting framework.

CEMG does not expect any significant impact from the adoption of this amendment.

- ***IFRS 3 (amendment) – Business combinations and IAS 27 (amendment) Consolidated and separate Financial statements***

The International Accounting Standards Board (IASB) has issued in January 2008 an amendment to IFRS 3 (amendment) – Business Combinations, with mandatory application from 1 July 2009, although early adoption is permitted.

The main impacts of the changes to these standards are: (i) the treatment of partial acquisitions where the non-controlling interests (previously defined as minority interests) will be measured at fair value (which implies also the recognition of goodwill attributable to non-controlling interests) or as an alternative allows for the attributable to non controlling interest of the fair value of the net assets acquired (as currently required) to be measured at fair value; (ii) the step acquisition that require, at the time when the goodwill is determined, the revaluation against profit and loss, of the fair value of any non-controlling interest held previously to the acquisition; (iii) the costs directly related with the acquisition of a subsidiary will be accounted in profit and loss; (iv) the changes in the estimates of the contingent prices are accounted in profit and loss and do not affect goodwill; and (v) the changes in percentages of subsidiaries held that do not result in a loss in control are accounted as equity changes.

Additionally, following the changes to IAS 27, the accumulated losses in a subsidiary will be attributed to the non--controlling interests (recognition of negative non-controlling interests) and when a subsidiary is sold with a subsequent loss of control, the remaining non-controlling interests are measured at the fair value determined at the date of the transaction.

CEMG does not expect any significant impact from the adoption of this amendment.

- ***IFRS 9 – Financial instruments***

The International Accounting Standards Board (IASB) has issued in November 2009, IFRS 9 – Financial instruments part I: Classification and measurement, which is for mandatory application for the financial years starting on 1 January 2013, although early adoption is permitted. This standard has not yet been adopted by European Union.

This standard is part of phase I of the IASB's comprehensive project to replace IAS 39 and relates to matters of classification and measurement of financial assets. The main issues considered are as follows:

– The financial assets can be classified in two categories: at amortized cost or at fair value. This decision should be defined at initial recognition of the financial assets. Its classification depends on the entity, business model for managing its financial instruments and the contractual cash flows associated to each financial asset;

– Only debt instruments could be measured at amortized cost when the contractual cash-flows represents only payments of principal and interest, which means that contains only the basic loan features, and for which an entity holds the asset to collect the contractual cash flows. All the other debt instruments are recognized at fair value; and

– Equity instruments issued by third parties are recognized at fair value with subsequent changes recognized in the profit and loss. Although, for equity instruments an entity could make an irrevocable election at initial recognition to recognize fair value changes are recognized in fair value reserves. Gains and losses recognized on fair value reserves cannot be recycled to profit and loss. This is a discretionary decision, not implying that all the equity instruments should be treated on this basis. The dividends received are recognized as income for the year.

CEMG is evaluating the impact from the adoption of this standard.

- ***IFRIC 12 – Service Concession Arrangements***

The International Financial Reporting Interpretations Committee (IFRIC) has issued in July 2007 IFRIC 12 – Service Concession Arrangement. The EU endorsement was at 25 March 2009. This interpretation is mandatory for annual periods beginning on or after 29 March 2009. The IFRIC 12 applies to public-to private service concession arrangements. This interpretation will be applicable only when a) the grantor controls or regulates what services the operator must provide and b) the grantor controls any significant residual interest in the infrastructure at the term of the arrangement.

Considering the nature of the contracts considered under this interpretation, CEMG does not expect any significant impact from its adoption in the financial statements.

- ***IFRIC 17 – Distributions of Non-cash Assets to Owners***

The International Financial Reporting Interpretations Committee (IFRIC) issued in November 2008, IFRIC 17 – Distributions of Non-cash Assets to Owners, with effective application date to years started after 1 July 2009, early adopting being allowed.

This interpretation intends to clarify the accounting treatment of non-cash assets distribution to owners. It establishes that non-cash assets distributions must be accounted at fair value and the difference to the distributed assets carrying amount recognized in profit and loss in the period of the distribution.

CEMG does not expect any significant impact from the adoption of this interpretation in the financial statements.

- ***IFRIC 18 – Transfers of Assets from Customers***

The International Financial Reporting Interpretations Committee (IFRIC) issued in November 2008, IFRIC 18 – Transfers of Assets from Customers, with effective application date to years started after 1 July 2009, early adopting being allowed.

This interpretation intends to clarify the accounting treatment of agreements through which an entity receives assets from customers for its own use and with the intent of establishing a future connection of the clients to a network or of granting continued access to the supply of services and goods to customers.

The interpretation clarifies:

– The conditions in which an asset is within the scope of this interpretation;

– The assets recognition and initial measurement;

– The identification of the identifiable services (one or more services in exchange for the transferred asset);

– Revenue recognition; and

– Accounting of money transfers from customers.

CEMG does not expect any significant impact from the adoption of this interpretation in the financial statements.

- ***Annual Improvement Project***

In May, 2008, as referred previously IASB published the Annual Improvement Project that implied changes to the standards in force. However, the effective date of the referred changes depends on each specific standard.

– Changes to IFRS 5 – Non-current assets held for sale and discontinued operations, effective for years starting after 1 July 2009. This change clarifies that all the assets and liabilities of a subsidiary must be classified as non-current assets held for sale in accordance with IFRS 5 if a plan for the partial sale of the subsidiary, that will imply losing the subsidiary's control, exists.

This standard will be adopted prospectively by CEMG.

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CONSOLIDATED AUDITORS' REPORT

(ISSUED BY THE STATUTORY AUDITOR)

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

INTRODUCTION

1. In accordance with the applicable legislation, we present our Auditors' Report, on the consolidated financial information included in Report of the Board of Directors and in the accompanying consolidated financial statements as at and for the year ended 31 December, 2009 of **Caixa Económica Montepio Geral**, which comprise the consolidated Balance sheet as at 31 December 2009 (showing total assets of 17,244,767 thousand Euros and total equity attributable of 986,214 thousand Euros, including a net profit of 44,476 thousands of Euro), the consolidated statements of income, of cash flows, of changes in equity and of comprehensive income for the year then ended, and the corresponding notes to the accounts.

RESPONSIBILITIES

2. The Board of Directors is responsible for:

   a) the preparation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, that present fairly the financial position of the group of companies included in the consolidation, the consolidated results of its operations, its consolidated cash-flows, its consolidated changes in equity and in the comprehensive income;

   b) the preparation of historical financial information in accordance with IFRS 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) maintaining an appropriate systems of internal control; and

   e) the communication of any relevant fact that may have influenced the activity of the companies included in the consolidation, their financial position or results.

3. Our responsibility is to verify the 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 audit.

KPMG

SCOPE

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

- verification, that the financial statements of the companies included in the consolidation have been properly audited and verification, on a test basis, of the information underlying the figures and its disclosures contained therein, and an assessment of the estimates, based on the judgments and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;
- verification of the consolidation procedures and of the application of the equity method;
- evaluation of the appropriateness of the accounting policies used and of their disclosure taking into account the applicable circumstances;
- assessing the applicability of the going concern principle;
- assessment of the appropriateness of the overall presentation of the consolidated financial statements; and
- assessment of whether the consolidated financial information is complete, true, current, clear, objective and lawful.

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

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

OPINION

7. In our opinion, the consolidated financial information referred to above presents fairly, in all material respects, the consolidated financial position of **Caixa Económica Montepio Geral**, as at 31 December 2009, the consolidated results of its operations, consolidated cash flows, consolidated changes in equity and comprehensive income for the year then ended, in accordance with IFRS as adopted by the European Union and the information contained therein is complete, true, current, clear, objective and lawful.

Lisbon, 8 March 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)

5.3. CAIXA ECONÓMICA MONTEPIO GERAL (CEMG) – INDIVIDUAL ACCOUNTS

INDIVIDUAL BALANCE SHEET AS AT 31 DECEMBER 2009 AND 2008

(thousand euros)

	2009			2008
	GROSS ASSETS	IMPAIRMENT AND DEPRECIATION	NET ASSETS	NET ASSETS
ASSETS				
Cash and deposits at Central Banks	305 018		305 018	254 742
Loans and Advances to Credit Institutions repayable on demand	51 745		51 745	92 125
Financial Assets held for trading	98 239		98 239	56 899
Other Financial Assets at fair value based on profit or loss	4 192		4 192	4 031
Available-for-sale Financial Assets	3 194 409	29 899	3 164 510	1 886 107
Other loans and Advances to Credit Institutions	370 950	66	370 884	166 781
Loans and advances to customers	14 849 742	401 580	14 448 162	14 724 822
Held-to-maturity Investments	33 523		33 523	39 912
Hedging Derivatives	7 844		7 844	7 045
Non-current assets held for sale	157 935	29 336	128 599	92 312
Other Tangible Assets	200 918	109 745	91 173	85 847
Intangible Assets	57 032	40 881	16 151	14 776
Investments in associated companies and others	43 297		43 297	30 626
Other Assets	135 920	3 473	132 447	103 354
TOTAL ASSETS	**19 510 764**	**614 980**	**18 895 784**	**17 559 379**
LIABILITIES				
Deposits from Central Banks			502 353	852 803
Financial Liabilities held for trading			36 388	35 886
Deposits from other Credit Institutions			945 400	1 073 122
Deposits from Customers and other Loans			8 881 046	8 009 242
Debts securities issued			4 583 307	4 670 942
Financial liabilities associated with transferred assets			2 301 379	1 450 122
Hedging Derivatives			5 008	1 801
Provisions			102 800	102 908
Other Subordinated Liabilities			381 043	386 872
Other Liabilities			161 826	118 385
TOTAL LIABILITIES			**17 900 550**	**16 702 083**
EQUITY				
Equity			760 000	660 000
Revaluation Reserves			-20 196	-39 660
Other Reserves and Retained Earning			217 652	201 645
Profit for the year			37 778	35 311
TOTAL EQUITY			**995 234**	**857 296**
TOTAL LIABILITIES AND EQUITY			**18 895 784**	**17 559 379**

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 31 DE DECEMBER DE 2009 AND 2008

(thousand euros)

	2009	2008
Interest and similar revenues	923 858	1 150 288
Interest and similar costs	603 902	836 159
NET INTEREST INCOME	**319 956**	**314 129**
Returns on equity instruments	2 471	1 952
Returns on services and fees	88 719	84 544
Charges of services and fees	13 605	13 560
Profit on assets and liabities at fair value based on profit or loss	29 109	-2 356
Profit on available-for-sale financial assets	1 657	3 765
Profit on currency revaluations	2 052	1 710
Profit on sale of the assets	267	498
Other operating profits	19 990	19 392
BANKING REVENUE	**450 616**	**410 074**
Staff Costs	146 406	149 988
General Administrative Costs	79 147	85 651
Depreciation	20 502	18 367
Provisions net of adjustments	224	4 442
Adjustments for customer credit and sums due from other debtors (net of increases and write-offs)	154 522	91 646
Impairment on other financial assets net of reversals and recoveries	2 132	19 899
Impairment on other assets net of reversals and recoveries	9 905	4 770
PROFIT	**37 778**	**35 311**

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Armindo Marques Matias

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STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED AT 31 DECEMBER 2009 AND 2008

(thousand euros)

	2009	2008
Cash flows arising from operating activities		
Interest income received	943 814	1 008 067
Commission income received	87 095	82 506
Interest expense paid	(647 779)	(655 506)
Commission expense paid	(13 409)	(13 726)
Payments to employees and suppliers	(245 025)	(242 193)
Recovered from charged-off loans	3 308	4 324
Other payments and receivables	93 685	(13 936)
	221 689	**169 536**
(Increase) / decrease in operating assets		
Loans and advances to credit institutions and customers	739 899	575 369
Other assets	(64 174)	(9 098)
	675 725	**566 271**
(Increase) / decrease in operating liabilities		
Deposits from central banks	898 716	(84 629)
Deposits from clients	(974 530)	121 098
Deposits from credit institutions	500 000	850 000
	424 186	886 469
	1 321 600	**1 622 276**
Cash flows arising from investing activities		
Dividends received	2 471	1 952
(Acquisition) / sale of trading financial assets	(33 355)	(14 856)
(Acquisition) / sale of other financial assets at fair value through profit or loss	(161)	(135)
(Acquisition) / sale of available for sale financial assets	(1 261 070)	(1 040 732)
(Acquisition) / sale of hedging derivatives	2 408	(3 608)
(Acquisition) / sale of held to maturity investments	6 278	(638)
(Acquisition) / sale of shares in associated companies	(12 671)	(29)
Deposits owned with the purpose of monetary control	(41 048)	17 560
Proceeds from sale of fixed assets	156	107
Acquisition of fixed assets	(27 348)	(24 733)
	(1 364 340)	**(1 065 112)**
Cash flows arising from financing activities		
Dividends paid	(11 271)	(25 758)
Proceeds from issuance of share capital	100 000	25 000
Proceeds from issuance of bonds and subordinated debt	1 167 712	(83 917)
Reimbursement of bonds and subordinated debt	(1 248 555)	(417 500)
Increase / (decrease) in other (sundry) liabilities	3 702	(22 427)
	11 588	**(524 602)**
Net changes in cash and equivalents	(31 152)	32 562
Cash and equivalents balance at the beginning of the year	182 025	149 463
Cash (note 16)	89 900	86 799
Loans and advances to credit institutions repayable on demand (note 17)	92 125	62 664
Cash and equivalents balance at the end of the year	**150 873**	**182 025**

See accompanying notes to the individual financial statements

STATEMENT OF CHANGES IN EQUITY
FOR THE YEARS ENDED AT 31 DECEMBER 2009 AND 2008

(thousand euros)

	Total equity	Share capital	General and special reserves	Other reserves	Fair value reserves	Retained earnings
Balance on 1 January 2008	**878 044**	**635 000**	**200 808**	**8 404**	**(7 973)**	**41 805**
Other movements recognised directly in Equity:						
Changes in fair value (note 39)	(40 091)	–	–	–	(40 091)	–
Dividends paid (note 41)	(25 758)	–	–	–	–	(25 758)
IAS 19 adjustments	(15 210)	–	–	–	–	(15 210)
Profit for the period	35 311	–	–	–	–	35 311
Total gains and losses recognised in the period	832 296	635 000	200 808	8 404	(48 064)	36 148
Increase in share capital (note 37)	25 000	25 000	–	–	–	–
Reserves constitution						
General reserve	–	–	12 837	–	–	(12 837)
Special reserve	–	–	3 210	–	–	(3 210)
Balance on 31 December 2008	**857 296**	**660 000**	**216 855**	**8 404**	**(48 064)**	**20 101**
Other movements recognised directly in Equity:						
Changes in fair value (note 39)	19 464	–	–	–	19 464	–
Dividends paid (note 41)	(11 271)	–	–	–	–	(11 271)
IAS 19 adjustments	(8 033)	–	–	–	–	(8 033)
Profit for the period	37 778	–	–	–	–	37 778
Total gains and losses recognised in the period	895 234	660 000	216 855	8 404	(28 600)	38 575
Increase in share capital (note 37)	100 000	100 000	–	–	–	–
Reserves constitution						
General reserve	–	–	7 064	–	–	(7 064)
Special reserve	–	–	1 766	–	–	(1 766)
Balance on 31 December 2009	**995 234**	**760 000**	**225 685**	**8 404**	**(28 600)**	**29 745**

STATEMENT OF THE COMPREHENSIVE INCOME
FOR THE YEARS ENDED AT 31 DECEMBER 2009 AND 2008

(thousand euros)

	Note	2009	2008
Fair value reserves			
Available-for-sale financial instruments	39	(28 600)	(48 064)
Profit for the period		37 778	35 311
Total comprehensive income for the period		9 178	(12 753)

See accompanying notes to the individual financial statements

NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS
31 DECEMBER 2009

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. Is authorised to operate in accordance with Decree-Laws no. 298/92 of 31 December, and no. 136/79 of 18 May, which regulate the activity of savings banks and establish some restrictions to their activities. However, CEMG is authorised to carry out banking operations in addition to those mentioned in its by-laws, if previously authorised by the Bank of Portugal. This fact conducts to the practice of banking operations in general.

In accordance with Regulation (EC) no. 1606/2002 of the European Parliament and the Council, of 19 July 2002, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of 17 February and Regulation no. 1/2005 from Bank of Portugal, CEMG's financial statements are required to be prepared in accordance with Adjusted Accounting Standards («NCA's»), as established by the Bank of Portugal.

NCA's are composed by all the standards included in the International Financial Reporting Standards («IFRS») as adopted for use in the European Union, with the exception of issues regulated by the Bank of Portugal such as loans impairment and recognition in retained earnings of the adjustments related to pensions during the transition period, as defined in the no. 2 and no. 3 of the Regulation no. 1/2005 and in the no. 2 of the Regulation no. 4/2005 of the Bank of Portugal.

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

The individual financial statements for the year ended 31 December 2009 were prepared in accordance with NCA's, which includes the IFRS adopted for use in the European Union until 31 December 2009. The accounting policies used by CEMG in the preparation of the financial statements for the year ended 31 December 2009, are consistent with those used for the preparation of the annual financial statements for the year ended 31 December 2008.

However as described in note 49, in the preparation of the financial statements as at 31 December 2009, CEMG adopted the accounting standards issued by the IASB and the interpretations issued by the IFRIC effective since 1 January 2009. The accounting principles used by CEMG in the preparation of these financial statements, described in this note, were modified accordingly. The adoption of these new standards and interpretations by CEMG in 2009 had impact mainly in new disclosures for which comparative figures are presented.

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

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

The preparation of financial statements in conformity with NCA's requires the application of judgment and the use of estimates and assumptions by management that affects the process of applying the CEMG's accounting policies and the reported amounts of income, expenses, assets and liabilities. Actual results in the future may differ from those reported. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1.21.

These financial statements were approved in the Board of Directors meeting held on 25 February 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 with equity instruments classified as available-for-sale, in which case are accounted for against reserves.

1.3. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGE ACCOUNTING

Classification

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

All other derivatives are classified as trading derivatives.

Recognition and measurement

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is re-measured on a regular basis and the resulting gains or losses on re-measurement are recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses of the derivatives designated as hedging instruments depend 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 each hedge relationship in order to be classified as such according to IAS 39, effectiveness has to be demonstrated. As such, the Group performs prospective tests at the beginning date of the initial hedge, if applicable and retrospective tests in order to demonstrate at each reporting period the effectiveness, showing that the changes in the fair value of the hedging instrument are hedged by the changes in the hedged item for the risk being covered. Any ineffectiveness is recognized immediately in profit and loss when incurred.

iv) Embedded derivatives

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

1.4. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers include loans and advances originated by CEMG, which are not intended to be sold in the short term and are recognised when cash is advanced to borrowers.

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

Loans and advances to customers are initially recognised at the face value, and cannot be reclassified to the remanings financial assets categories.

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 or that can be included in the definition of derivative (except in the case of a derivative that is an effective hedge instrument) 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.

The note 21 has a summary of the assets and the liabilities that were designated at fair value through profit or loss, at the inception time.

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

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

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

Held-to-maturity investments

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

Available-for-sale financial assets

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

ii) Initial recognition, measurement and derecognising

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

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

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

iii) Subsequent measurement

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

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

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

Any reclassification or sale of financial assets included in this category that does not occur close to the maturity of the assets will require that CEMG reclassify the entire portfolio as Financial assets available for sale and CEMG will not be allowed to classify any assets under this category for the following two years.

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

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

iv) Reclassifications between categories

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

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

In October 2008, 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 years of 2009 and 2008, there were no reclassifications between categories.

v) Impairment

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

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

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

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

1.6. SALE AND REPURCHASE AGREEMENTS

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

Securities lent under lending agreements are not derecognised of the balance sheet, being classified and measured in accordance with 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 CEMG meet the above mentioned conditions and, in accordance, are classified under the fair value through profit or loss category.

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

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

1.8. OFFSETTING FINANCIAL INSTRUMENTS

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

1.9. ASSETS ARISING OUT OF RECOVERED LOANS

Assets arising out of recovered loans include buildings, loans seize and securities arising from the settlement of loan contracts. These assets are reported under Other assets 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 regular valuations performed by CEMG. Subsequently, those assets are measured at the lower of their carrying amount and the corresponding fair values less costs to sell and are not depreciated. Any subsequent write-down of the acquired assets to fair value is recorded in the income statement.

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 NCA's, (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 of CEMG, which was broadly similar to depreciated cost measured under NCA's 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
Loans and buildings for own use	50
Improvements in leasehold property	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, which 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 based on 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 finance leases 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 income 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 lessors, such as negotiating and securing leasing arrangements Initial direct costs incurred by lessors 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 1.11.

CEMG performs impairment testing whenever events or circumstances show that the book value exceeds the recoverable amount. 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 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 principles by recognition, through retained earnings.

In accordance with no. 2 of Regulation no. 4/2005 of the Bank of Portugal was established a deferral period for the transition impact to IAS 19 as at 1 January, 2005.

Subsequently, with the amendments introduced with no.2 of the Regulation no. 7/2008 of the Bank of Portugal, the recognition, in retained earnings of the impact which in 31 December 2009, is still to be recognised, in accordance with the amortisation plan established with no. 2 of the Regulation no. 4/2005 of Bank of Portugal, might be achieved through the application of a regular instalments amortisation plan with the additional duration of three years in relation with the original duration.

In these terms, the Health-care Benefits was missing 42 months to 31 December 2011, that with the additional 36 months was a total of amortisation period of 78 months (6 years and 6 months). For other liabilities, the deferment period is now 54 months (4 years and 6 months). The deferment of the impact resulting from this alteration is analysed as follows:

Balances	Deferral period
Obligations with health-care benefits	10 years
Deferred actuarial costs, corridor and disability decreases	8 years
Liabilities increases	8 years

Additionally, in accordance with the Bank of Portugal Regulation no. 12/2005, in preparing financial statements in accordance with NCA'S, the increase in liabilities resulting from changes in actuarial assumptions related to mortality tables after 1 January 2005, is added to the corridor limit.

The liability with pensions is calculated semi-annually by CEMG, as at 31 December and 30 June, 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.

Variable remunerations to employees and to the Board of Directors (Bonus)

In accordance with IAS 19 – Employees benefits, variable remunerations (bonus) payment to employees and to the Board of Directors, are recognised in the income statement in the period to which they relate.

1.15. INCOME TAX

According to the no. 1 a) of Article 10th, of IRC Legislation, CEMG is exempt from income tax payment (*Imposto sobre o Rendimento das Pessoas Colectivas – IRC*). This exemption was recognised by a regulation issued by the Ministerial Secretary of Fiscal Affairs dated 3 December 1993, and confirmed by the Law no. 10-B/96 from 23 March, which approved the public budget for the year of 1996.

1.16. PROVISIONS

Provisions are recognised when (i) CEMG has a present legal or constructive obligation, (ii) it is probable that its payment will be required and (iii) a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reverted through profit and loss in the proportion of the payments that are not probable.

The provisions are derecognized through their use for the obligations for which they were initially accounted or for the cases that the situations were not already observed.

1.17. INTEREST RECOGNITION

Interest income and expense are recognised in the income statement under interest and similar income and interest and similar expense for all non-derivative financial instruments measured at amortised cost and for the available-for-sale financial assets, using the effective interest method. Interest income arising from non-derivative financial assets and liabilities at fair value through profit or loss is also included under interest and similar income or interest expense and similar charges, respectively.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is calculated at inception and it is not subsequently revised.

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

In the 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 those classified as hedging instruments of interest rate risk and (ii) those used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss, the interest component of the changes in their fair value is not separated out and is classified under net (losses)/gains from financial assets at fair value through profit or loss. The interest component of the changes in the fair value of hedging derivatives of interest rate risk and of derivatives used to manage the risk of certain financial assets and financial liabilities designated at fair value through profit or loss, in order to eliminate an accounting mismatch, is recognised under interest and similar income or interest and similar expense.

1.18. FEE AND COMMISSION INCOME

Fee and commission are recognised as follows:

– Fee and commission that are earned on the execution of a significant act, as loan syndication fees, are recognised as income when the significant act has been completed;

– Fee and commission earned over the period in which the services are provided are recognised as income in the period the services are provided;

– Fee and commission that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest method.

1.19. DIVIDENDS FROM EQUITY INSTRUMENTS

Dividends from equity instruments are recognised when the right to receive payment is established.

1.20. SEGMENTAL REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

According with IFRS 8 – Segment Reporting, paragraph 4, CEMG does not disclose its segment reporting, since these financial statements are reported together with CEMG's consolidated financial statements.

1.21. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the inception date, including other loans and advances to credit institutions.

Cash and cash equivalents exclude restricted balances with central banks.

1.22. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

NCA's set forth a range of accounting treatments and require management to apply judgment and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies are discussed in this section in order to improve understanding of how their application affects the CEMG's reported results and related disclosure. A broader description of the accounting policies employed by the CEMG is shown in notes 1.1 to 1.21 to the Financial Statements.

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

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

Impairment of available-for-sale financial assets

CEMG determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost or when it has identified an event with impact on the estimated future cash flows of the assets. This determination requires judgement based on all available relevant information, including the normal volatility of the financial instruments prices.

Considering the high volatility of the markets, 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 judgment in making estimates of fair value.

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

Fair value of derivatives financial statements

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 on a regularly basis, as described in note 1.4.

The evaluation process in determining whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgments. The frequency of default, risk ratings, loss recovery rates and the estimation of both the amount and timing of future cash flows, among other things, are considered in making this evaluation.

The use of alternative methodologies and the use of different assumptions and estimates could result in a different level of impairment losses with a consequent impact in the income statement of CEMG.

Held-to-maturity investments

CEMG follows the guidance of IAS 39 – Financial instruments: Recognition and Measurement on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity investments. This classification requires significant judgement.

In making this judgement, CEMG evaluates its intention and ability to hold such investments to maturity. If CEMG fails to keep these investments to maturity other than for specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

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

Pension and other employee's benefits

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

Changes in these assumptions could materially affect these values.

INCOME STATEMENT FOR THE YEARS ENDED AT 31 DECEMBER 2009 AND 2008

(thousand euros)

	NOTES	2009	2008
Interest and similar income	3	923 858	1 150 288
Interest and similar expense	3	603 902	836 159
NET INTEREST INCOME		**319 956**	**314 129**
Dividends from equity instruments	4	2 471	1 952
Fee and comission income	5	88 719	84 544
Fee and comission expense	5	(13 605)	(13 560)
Net losses arising from assets and liabilities at fair value through profit or loss	6	29 109	(2 356)
Net gains/(losses) arising from available-for-sale financial assets	7	1 657	3 765
Net gains arising from foreign exchange differences	8	2 052	1 710
Net gains from sale of other financial assets		267	498
Other operating income	9	16 682	15 067
TOTAL OPERATING INCOME		**447 308**	**405 749**
Staff costs	10	146 406	149 988
General and administrative expenses	11	79 147	85 651
Depreciation and amortisation	12	20 502	18 367
TOTAL OPERATING COSTS		**246 055**	**254 006**
Loans impairment	13	151 284	91 578
Other assets impairment	14	12 037	24 669
Other provisions	15	154	185
OPERATING PROFIT		**37 778**	**35 311**
PROFIT FOR THE YEAR		**37 778**	**35 311**

See accompanying notes to the individual financial statements

BALANCE SHEET AS AT 31 DECEMBER 2009 AND 2008

(thousand euros)

	NOTES	2009	2008
ASSETS			
Cash and deposits at central banks	16	305 018	254 742
Loans and advances to credit institutions repayable on demand	17	51 745	92 125
Other loans and advances to credit institutions	18	370 884	166 781
Loans and advances to customers	19	14 448 162	14 724 822
Financial assets held for trading	20	103 195	58 655
Other financial assets at fair value through profit or loss	21	4 192	4 031
Financial assets available-for-sale	22	3 164 510	1 886 107
Hedging derivatives	23	5 109	7 727
Held-to-maturity investments	24	33 523	39 912
Investments in associated companies and others	25	43 297	30 626
Non-current assets held for sale	26	128 599	92 312
Property and equipment	27	91 173	85 847
Intangible assets	28	16 151	14 776
Other assets	29	130 226	100 916
TOTAL ASSETS		**18 895 784**	**17 559 379**
LIABILITIES			
Deposits from central banks	30	502 353	852 803
Deposits from other credit institutions	31	945 400	1 073 122
Deposits from customers	32	8 881 046	8 009 242
Debt securities issued	33	4 583 307	4 670 942
Financial liabilities held for trading	20	41 345	37 643
Hedging derivatives	23	598	1 234
Provisions	34	102 800	102 908
Other subordinated debt	35	381 043	386 872
Other liabilities	36	2 462 658	1 567 317
TOTAL LIABILITIES		**17 900 550**	**16 702 083**
EQUITY			
Share capital	37	760 000	660 000
Fair value reserves	39	(28 600)	(48 064)
Other reserves and retained earnings	38 and 39	226 056	210 049
Profit for the year		37 778	35 311
TOTAL EQUITY		**995 234**	**857 296**
TOTAL		**18 895 784**	**17 559 379**

See accompanying notes to the individual financial statements

2. Net interest income and net gains arising from assets and liabilities at fair value through profit or loss and available for sale financial assets

NCA's requires separate disclosure of net interest income and net gains arising from assets and liabilities at fair value thought profit or loss and available for sale financial assets, as presented in notes 3, 6 and 7. A particular business activity can generate impact in net interest income and net gains arising from trading, hedging and AFS activities. This required disclosure, however, does not take into account that net gains arising from assets and liabilities at fair value through profit or loss, available-for-sale financial assets and interest and similar income activities are generated by a range of different business activities. In many cases, a particular business activity can generate both net interest and trading income.

These balances are analysed as follows:

	2009 Euro '000	2008 Euro '000
Net interest income	319 956	314 129
Net gains arising from assets and liabilities at fair value through profit and loss and available-for-sale financial assets	30 766	1 409
	350 722	315 538

3. Net interest income

The amount of this account is comprised of:

	2009			2008		
	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	598 580	–	598 580	866 113	–	866 113
Interest from other assets	1 731	–	1 731	17 900	–	17 900
Interest from deposits	1 952	–	1 952	6 178	–	6 178
Interest from available-for-sale securities	60 086	–	60 086	89 872	–	89 872
Interest from held-to-maturity securities	1 420	–	1 420	1 647	–	1 647
Interest from hedging derivatives	5 713	–	5 713	7 172	–	7 172
Interest from financial investments held for trading	–	234 230	234 230	–	140 989	140 989
Other interest and similar income	20 146	–	20 146	20 417	–	20 417
	689 628	234 230	923 858	1 009 299	140 989	1 150 288
Interest and similar expense:						
Interest from deposits	175 321	–	175 321	271 120	–	271 120
Interest from securities issued	126 517	–	126 517	253 658	–	253 658
Interest from loans	7 368	–	7 368	14 793	–	14 793
Interest from other funding	29 487	–	29 487	52 914	–	52 914
Interest from hedging derivatives	3 614	–	3 614	7 966	–	7 966
Interest from financial investments held for trading	–	189 934	189 934	–	160 183	160 183
Other interest and similar expense	71 661	–	71 661	75 525	–	75 525
	413 968	189 934	603 902	675 976	160 183	836 159
Net interest income	275 660	44 296	319 956	333 323	(19 194)	314 129

4. Dividends from equity instruments

The amount of this account is comprised of:

	2009 Euro '000	2008 Euro '000
Dividends from available-for-sale financial assets	703	882
Dividends from associated companies	1 768	1 070
	2 471	1 952

5. Net fee and commission income

The amount of this account is comprised of:

	2009 Euro '000	2008 Euro '000
Fee and commission income:		
From banking services	60 489	58 985
From commitments to third parties	9 195	9 685
From guarantees granted	6 535	5 527
Other fee and commission income	12 500	10 347
	88 719	84 544
Fee and commission expense:		
From banking services rendered by third parties	12 661	12 389
From transactions with securities	484	412
Other fee and commission expense	460	759
	13 605	13 560
Net fee and commission income	75 114	70 984

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

The amount of this account is comprised of:

	2009			2008		
	Gains Euro '000	Losses Euro '000	Total Euro '000	Gains Euro '000	Losses Euro '000	Total Euro '000
Assets and liabilities held for trading						
Bonds and other fixed income securities						
Issued by public entities	49	17	32	77	56	21
Issued by other entities	1 002	66	936	117	46	71
Shares	660	17	643	154	1 183	(1 029)
	1 711	100	1 611	348	1 285	(937)
Derivative financial instruments						
Exchange rate contracts	112 842	109 941	2 901	3 793	5 313	(1 520)
Interest rate contracts	352 772	345 154	7 618	202 265	165 587	36 678
Credit default contracts	6 541	6 014	527	8 595	8 152	443
Others	58 080	42 508	15 572	71 926	108 818	(36 892)
	530 235	503 617	26 618	286 579	287 870	(1 291)
	531 946	503 717	28 229	286 927	289 155	(2 228)
Other financial assets at fair value through profit or loss						
Bonds and other fixed income securities						
Issued by other entities	160	–	160	224	89	135
Hedging derivatives						
Financial liabilities						
Other loans and advances to credit institutions	1 237	760	477	2 025	3 535	(1 510)
Deposits from customers	520	795	(275)	1 586	3 150	(1 564)
Debt securities issued	4 946	2 020	2 926	3 090	3 886	(796)
Other subordinated debt	35 515	37 923	(2 408)	47 781	44 174	3 607
	42 218	41 498	720	54 482	54 745	(263)
	574 324	545 215	29 109	341 633	343 989	(2 356)

The result of own issuing repurchase is calculate according to the referred in the accounting policy 1.3.

7. Net gains/(losses) arising from available-for-sale financial assets

The amount of this account is comprised of:

	2009			2008		
	Gains Euro '000	Losses Euro '000	Total Euro '000	Gains Euro '000	Losses Euro '000	Total Euro '000
Bonds and other fixed income securities						
Issued by public entities	1 005	2	1 003	173	15	158
Issued by other entities	851	413	438	56	317	(261)
Shares	218	49	169	2 676	101	2 575
Other variable income securities	413	366	47	1 613	320	1 293
	2 487	830	1 657	4 518	753	3 765

8. Net gains from foreign exchange differences

The amount of this account is comprised of:

	2009			2008		
	Gains Euro '000	Losses Euro '000	Total Euro '000	Gains Euro '000	Losses Euro '000	Total Euro '000
Foreign exchange differences	26 458	24 406	2 052	87 962	86 252	1 710

This account is comprised of the results from foreign exchange differences of monetary assets and liabilities in foreign currency in accordance with the accounting policy presented in note 1.2.

9. Other operating income

The amount of this account is comprised of:

	2009 Euro '000	2008 Euro '000
Other operating income:		
Income from services	4 578	4 206
Reimbursement of expenses	1 541	1 606
Profits arising from deposits on demand management	7 574	8 699
Repurchase debt	7 191	6 376
Other operating income	2 809	1 708
	23 693	22 595
Other operating expense:		
Indirect taxes	106	240
Donations and quotizations	423	425
Contributions to the Deposit Guarantee Fund	1 748	1 885
Other operating expenses	4 734	4 978
	7 011	7 528
Other net operating income	16 682	15 067

10. Staff costs

The amount of this account is comprised of:

	2009 Euro '000	2008 Euro '000
Remunerations	105 633	98 471
SAMS contributions	6 349	6 328
Mandatory social security charges	7 924	7 848
Other charges with the pensions fund	23 127	34 711
Other staff costs	3 373	2 630
	146 406	149 988

The health-care benefits – SAMS include the amount of Euro 705 000 (2008: Euro 572 000) 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, for 2009, the amount of Euro 25 729 000 (2008: Euros 36 811 000) related to the pension cost for the year. The referred amount also includes, for 2009, the amount of Euros 4 800 000 (2008: Euros 9 801 000) related to early retirements during the year.

The costs with salaries and other benefits attributed to CEMG key management personnel in 2009 are presented as follows:

	Boards of Directors Euro '000	Other key management Euro '000	Total Euro '00
Salaries and other short-term benefits	843	3 876	4 719
Pension costs and health-care benefits (SAMS)	6	164	170
Variable remunerations	144	496	640
	993	4 536	5 529

The costs with salaries and other benefits attributed to CEMG key management personnel in 2008 are presented as follows:

	Boards of Directors Euro '000	Other key management Euro '000	Total Euro '00
Salaries and other short-term benefits	1 119	4 446	5 565
Pension costs and health-care benefits (SAMS)	1 320	1 125	2 445
Variable remunerations	322	595	917
	2 761	6 166	8 927

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

As at 31 December 2009 and 2008, loans granted by CEMG to its key management personnel, amounted to Euro 4 685 000 and Euro 5 338 000, respectively.

The average number of employees by professional category at service in CEMG during 2009 and 2008 is analysed as follows:

	2009	2008
Management	125	128
Managerial staff	512	569
Technical staff	662	520
Specific categories	144	162
Administrative	1 418	1 472
Staff	74	80
	2 935	2 931

11. General and administrative expenses

The amount of this account is comprised of:

	2009 Euro '000	2008 Euro '000
Rents	24 613	23 770
Specialised services		
Information technology services	3 748	3 529
Outsourcing	3 633	3 306
Other specialised services	13 462	16 444
Advertising	3 578	10 588
Communications	8 229	8 436
Water, electricity and fuel	3 706	4 076
Maintenance and related services	4 754	3 187
Transportation	3 501	3 186
Insurance	2 881	2 359
Travel, hotel and representation costs	1 179	1 434
Consumables	1 749	1 868
Training costs	718	761
Other supplies and services	3 396	2 707
	79 147	85 651

The balance Rents, includes the amount of Euro 15 764 000 (2008: 15 482 000), related to rents paid regarding buildings used by CEMG as leaser.

12. Depreciation and amortisation

The amount of this account is comprised of:

	2009 Euro '000	2008 Euro '000
Intangible assets:		
Software	8 338	8 152
Other tangible assets:		
Land and buildings	3 266	3 303
Equipment:		
Furniture	613	611
Office equipment	91	106
Computer equipment	5 737	3 922
Interior installations	1 741	1 881
Motor vehicles	9	15
Security equipment	229	144
Operational lease	478	233
	12 164	10 215
	20 502	18 367

13. Loans impairment

The amount of this account is comprised of:

	2009 Euro '000	2008 Euro '000
Overdue loans and advances to customers:		
Charge for the year	527 206	423 215
Write-back for the year	(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 year	162	503
Write-back for the year	(138)	(506)
	24	(3)
	151 284	91 578

14. Other assets impairment

The amount of this account is comprised of:

	2009 Euro '000	2008 Euro '000
Impairment for investments arising from recovered loans:		
Charge for the year	10 088	5 322
Write-back for the year	(183)	(552)
	9 905	4 770
Impairment for securities:		
Charge for the year	2 398	20 372
Write-back for the year	(266)	(473)
	2 132	19 899
	12 037	24 669

15. Other provisions

The amount of this account is comprised of:

	2009 Euro '000	2008 Euro '000
Provision for liabilities and charges:		
Charge for the year	416	248
Write-back for the year	(262)	(63)
	154	185

16. Cash and deposits at central banks

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Cash	99 128	89 900
Bank of Portugal	205 890	164 842
	305 018	254 742

The balance Bank of Portugal includes mandatory deposits intended to satisfy legal minimum cash requirements. According to the European Central Bank Regulation (CE) no. 2818/98, of 1 December 1998, minimum cash requirements kept as deposits with the Bank of Portugal earn interest, and correspond to 2% of deposits and debt certificates maturing in less than 2 years, excluding deposits and debt certificates of institutions subject to the European System of Central Banks' minimum reserves requirements.

As at 31 December 2009, these deposits have earned interest at an average rate of 1.35% (2008: 4.14%).

17. Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Credit institutions in Portugal	135	75
Credit institutions abroad	9 433	48 875
Amounts due for collection	42 177	43 175
	51 745	92 125

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:

	2009 Euro '000	2008 Euro '000
Loans and advances to credit institutions in Portugal		
Deposits	245	590
Short term deposits	–	14 372
Other loans and advances	50 014	26 385
	50 259	41 347
Loans and advances to credit institutions abroad		
Deposits	105	110
Short term deposits	280 000	120 337
Other loans and advances	40 586	5 029
	320 691	125 476
	370 950	166 823
Impairment for credit risks over credit institutions	(66)	(42)
	370 884	166 781

The main loans and advances to credit institutions in Portugal, as at 31 December 2009, bear interest at an average annual interest rate of 1% (2008: 2.99%). 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:

	2009 Euro '000	2008 Euro '000
Due within 3 months	285 686	155 539
3 months to 6 months	50 014	9 394
6 months to 1 year	34 900	1 190
More than 5 years	245	590
Undetermined	105	110
	370 950	166 823

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

	2009 Euro '000	2008 Euro '000
Impairment for credit risks over credit institutions:		
Balance on 1 January	42	45
Charge for the year	162	503
Write-back for the year	(138)	(506)
Balance on 31 December	66	42

19. Loans and advances to customers

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Domestic loans:		
Corporate		
Loans	1 249 077	1 053 448
Commercial lines of credits	2 309 633	2 617 830
Finance leases	203 803	144 270
Discounted bills	121 695	139 958
Factoring	76 807	54 169
Overdrafts	5 274	6 907
Other loans	681 905	814 635
Retail		
Mortgage loans	8 780 393	8 936 771
Finance leases	36 411	27 283
Consumer and other loans	803 137	786 963
	14 268 135	14 582 234
Foreign loans:		
Corporate		
Overdrafts	18	114
	14 268 153	14 582 348
Overdue loans and interest:		
Less than 90 days	73 470	76 995
More than 90 days	508 118	350 341
	581 588	427 336
	14 849 741	15 009 684
Impairment for credit risks	(401 579)	(284 862)
	14 448 162	14 724 822

During December 2008, the Board of Directors of CEMG resolve to sell to Bolsimo – Gestão de Activos S.A. («Bolsimo») a portfolio of overdue loans.

This sale involves the transfer of all the risks and benefits from the referred portfolio, including the entitlement of the assets that backed up the loans.

Considering the nature of the transaction, the Board of Directors analysed the operation and the accounting framework, mainly the derecognition of a financial asset expressed in the paragraph AG 36 and next paragraphs of IAS 39 – Financial instruments: Recognition and Measurement. This analysis has the main objective to verify the follows:

– The integral transfer from the future cash-flows of the asset;

– The existence or not of a contingency price;

– The existence or not of the right of recover the loans;

– To verify the independence of the Transferee (autopilot); and

– The existence of control or influence by CEMG on Bolsimo;

As a result of this sale, it was celebrated a contract between CEMG and Bolsimo, and which characteristics enable the Board of Directors to conclude that, by the sale of credits, CEMG eliminated its exposure to variability resulting from the amount and timing of cash flows associated with this portfolio. On that basis, it was decided that were transferred the risks and benefits associated with the portfolio of credit granted, and it was derecognised from balance sheet the credits in the amount of Euro 138 607 000. For provisions relating specifically to this portfolio, in the amount of Euro 58 636 000, CEMG relocate to other credit risk provisions in the amount of Euro 39,700,000 and recorded in the income statement as a write-back of provisions the amount of Euro 18 936 000.

As at 31 December 2009, this balance includes 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 (2008: Euro 6 298 000) 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 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
Financial leases	232	91 175	148 807	10 025	250 239
	1 382 463	2 670 355	10 215 335	581 588	14 849 741

As at 31 December 2009, the balance Other guarantee loans included the amount of Euro 2 301 379 000 (2008: Euro 1 450 122 000) approximately, related with credits that were securitized and in accordance with the accounting policy described in the note 1.4 were not derecognized. This amount was also recognized 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 2008, 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	711 496	2 529 886	9 644 584	363 590	13 249 556
Other guarantee loans	627 711	77 820	128 636	18 782	852 949
Unsecured loans	305 976	118 244	209 654	42 528	676 402
Public sector loans	25	454	56 195	342	57 016
Foreign loans	114	–	–	–	114
Financial leases	51	66 306	105 196	2 094	173 647
	1 645 373	2 792 710	10 144 265	427 336	15 009 684

The balance Financial leases, by the period to maturity as at 31 December 2009, is analysed as follows:

	Financial leases			
	Due within 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Total Euro '00
Outstanding rents	49 580	116 482	93 464	259 526
Outstanding interest	(820)	(18 631)	(21 886)	(41 337)
Residual values	817	9 973	11 235	22 025
	49 577	107 824	82 813	240 214

The balance Financial leases, by the period to maturity as at 31 December 2008, is analysed as follows:

	Financial leases			
	Due within 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Total Euro '00
Outstanding rents	35 673	87 604	95 332	218 609
Outstanding interest	(8 586)	(24 105)	(27 942)	(60 633)
Residual values	532	8 244	4 801	13 577
	27 619	71 743	72 191	171 553

Regarding the Operational Leasing, CEMG does not present significant contracts as leaser. In accordance with note 11, the balance Rents, includes as at 31 December 2009, the amount of Euros 15 764 000 (2008: Euros 15 482 000), 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:

	2009 Euro '000	2008 Euro '000
Asset-backed loans	452 576	363 590
Other guaranteed loans	49 506	18 782
Unsecured loans	69 227	42 528
Public sector loans	254	342
Financial lease	10 025	2 094
	581 588	427 336

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

	2009 Euro '000	2008 Euro '000
Corporate:		
Construction/Production	144 921	88 952
Investment	52 602	33 682
Other short term loans	53 208	28 032
Other loans	3 047	620
Retail:		
Mortgage loans	262 286	226 752
Consumer credit	5 931	4 969
Other loans	32 788	21 331
Public Sector	254	390
Other segments	26 551	22 608
	581 588	427 336

The impairment for credit risks is analysed as follows:

	2009 Euro '000	2008 Euro '000
Impairment for credit risks:		
Balance on 1 January	284 862	205 197
Charge for the year	476 820	372 540
Write-back for the year	(322 322)	(280 892)
Loans charged-off	(37 781)	(11 983)
Balance on 31 December	401 579	284 862

Additionally, as at 31 December 2009, CEMG has a provision for general banking risks in the amount of Euro 101 310 000 (2008: Euro 101 240 000), which in accordance to NCA's is presented as a liability, as referred in note 34.

In accordance with CEMG's policy, interest on overdue loans for a period over 90 days not covered by asset-backed guarantees, is only recorded as income when received.

The table below shows the analysis of the overdue loans and advances and the impairment for credit risk as at 31 December 2009:

	Classes of overdue loans and interest					
	Due within 3 months Euro '000	3 months to 6 months Euro '000	6 months to 12 months Euro '000	1 year to 3 years Euro '000	Over 3 years Euro '000	Total Euro '000
Secured overdue loans	58 035	16 047	46 629	237 300	154 350	512 361
Impairment	431	1 880	11 982	141 206	127 345	282 844
Unsecured overdue loans	16 248	5 142	8 862	19 020	19 955	69 227
Impairment	9 572	1 370	5 593	19 020	19 955	55 510
Total overdue loans	74 283	21 189	55 491	256 320	174 305	581 588
Total impairment for overdue loans	10 003	3 250	17 575	160 226	147 300	338 354
Total impairment for overdue loans and for other credit risks	133	802	5 276	41 584	15 430	63 225
Total impairment for credit risks	10 136	4 052	22 851	201 810	162 730	401 579

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

	2009 Euro '000	2008 Euro '000
Asset-backed loans	300 776	233 277
Other guaranteed loans	38 351	15 241
Unsecured loans	62 452	36 344
	401 579	284 862

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:

	2009 Euro '000	2008 Euro '000
Asset-backed loans	22 139	12 532
Other guaranteed loans	6 080	(3 832)
Unsecured loans	9 562	3 283
	37 781	11 983

The recovered loans and overdue interest, performed during the period of 1 January to 31 December 2009 and during 2008, related with asset-backed loans recovered, amounts to Euro 3 308 000 and Euro 4 324 000, as referred in note 13.

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

	2009 Euro '000	2008 Euro '000
Loans and advances to costumers with impairment:		
Individually significant:		
Securities and other financial assets	60 962	87 878
Home mortgages	7 872	5 074
Other real estate	1 349 797	2 262 535
Other guarantees	28 216	12 769
	1 446 847	2 368 256
Parametric analysis:		
Securities and other financial assets	31 173	27 287
Home mortgages	1 969 551	2 193 801
Other real estate	885 217	638 349
Other guarantees	49 592	11 424
	2 935 533	2 870 861
Loans and advances to costumers without impairment:		
Securities and other financial assets	509 751	471 790
Home mortgages	13 360 369	13 481 391
Other real estate	4 429 434	4 621 677
Other guarantees	80 483	84 403
	18 380 037	18 659 261
	22 762 417	23 898 378

20. Financial assets and liabilities held for trading

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

	2009 Euro '000	2008 Euro '000
Financial assets held for trading:		
Securities		
Shares	1 380	1 200
Bonds	5 772	3 172
	7 152	4 372
Derivatives		
Derivatives financial instruments with positive fair value	96 043	54 283
	103 195	58 655
Financial liabilities held for trading:		
Derivatives		
Derivatives financial instruments with negative fair value	41 345	37 643

The trading portfolio is recorded at fair value trough profit or loss, in accordance with the accounting policy 1.5. As referred in the accounting policy, the securities held for trading are those who are acquired with the purpose of short--term transactions, independently from its maturity.

As referred in IFRS 7, financial assets held for trading and available for sale are valued in accordance with the following fair value measurement levels:

– Level 1: financial instruments measured in accordance with quoted market prices or providers.

– Level 2: financial instruments measured in accordance with internal valuation techniques based on observable market inputs.

– Level 3: financial instruments measured in accordance with valuation techniques based on inputs not based on observable data that have significant impact in the instruments valuation.

The financial assets and liabilities held for trading are valued in accordance with market prices or providers and with internal valuation techniques based on observable market inputs. Therefore, accordingly with the hierarchy of the valuation sources, as referred in IFRS 7 these instruments are classified in the levels 1 and 2.

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

	2009				
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Undetermined Euro '000	Total Euro '000
Variable income securities:					
Shares in companies					
Portuguese	–	–	–	663	663
Foreign	–	–	–	717	717
	–	–	–	1 380	1 380
Fixed income securities:					
Bonds issued by					
Other entities	–	–	5 772	–	5 772
	–	–	5 772	1 380	7 152
Quoted	–	–	5 772	1 380	7 152

The analysis of the securities portfolio held for trading by maturity as at 31 December 2008 is as follows:

	2008				
	Due within 3 months Euro '000	**3 months to 1 year Euro '000**	**Over 1 year Euro '000**	**Undetermined Euro '000**	**Tota Euro '000**
Variable income securities:					
Shares in companies					
Portuguese	–	–	–	14	14
Foreign	–	–	–	1 186	1 186
	–	–	–	1 200	1 200
Fixed income securities:					
Bonds issued by					
Other entities	–	1 666	1 506	–	3 172
	–	1 666	1 506	1 200	4 372
Quoted	–	1 666	1 506	1 200	4 372

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

		2009						
		Derivative			**Related asset / liability**			
Derivative	**Related financial asset / liability**	**Notional Euro '000**	**Fair value Euro '000**	**Changes in the fair value in the year Euro '000**	**Fair value Euro '000**	**Changes in the fair value in the year Euro '000**	**Book value Euro '000**	**Reimburse-ment amount at maturity date Euro '000**
Interest rate swap	Securities issued	605 000	22 762	14 109	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	Covered bonds	9 239 330	10 132	10 132	444	(444)	1 000 000	1 000 000
Currency interest rate swap	Debt issued	381 270	1 417	4 001	–	(1 128)	–	–
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 book value of the assets and liabilities at fair value through profit or loss, as at 31 December 2008, is as follows:

		2008						
		Derivative			Related asset / liability			
Derivative	**Related financial asset / liability**	**Notional Euro '000**	**Fair value Euro '000**	**Changes in the fair value in the year Euro '000**	**Fair value Euro '000**	**Changes in the fair value in the year Euro '000**	**Book value Euro '000**	**Reimburse-ment amount at maturity date Euro '000**
Interest rate swap	Securities issued	450 000	8 652	8 865	1 669	(5 986)	315 000	315 000
Interest rate swap	Deposits	277 388	832	2 848	939	(2 387)	168 619	168 619
Interest rate swap	Deposits due to customers	1 550 151	6 413	21 083	13 323	(30 756)	954 640	954 640
Interest rate swap	Titularization	1 926 961	3 619	4 820	–	–	–	–
Currency interest rate swap	Debt issued	151 020	(2 585)	(4 044)	(1 128)	2 664	10 360	10 360
Interest rate futures	–	2 130	(2)	–	–	–	–	–
Options	Time deposits and other deposits	81 206	(28)	(69)	–	–	–	–
Credit default swaps	–	172 934	(261)	(208)	–	–	–	–
		4 611 790	16 640	33 295	14 803	(36 465)	1 448 619	1 448 619

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

	2009					
	Notional with remaining term				Fair value	
	Due within 3 months Euro '000	**3 months to 1 year Euro '000**	**Over 1 year Euro '000**	**Total Euro '000**	**Positive Euro '000**	**Negative Euro '000**
Interest rate contracts:						
Interest rate swaps	187 000	356 800	19 293 067	19 836 867	90 055	37 927
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 analysis of financial instruments held for trading, by maturity as at 31 December 2008, is as follows:

	2008					
	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	252 388	909 300	3 042 812	4 204 500	51 717	31 201
Options	251	6 341	74 614	81 206	630	658
Exchange rate contracts:						
Interest rate swaps	115 772	35 248	–	151 020	11	2 596
Index contracts:						
Index futures	2 130	–	–	2 130	–	2
Credit default contracts:						
Credit default swaps	43 000	2 500	127 434	172 934	2 925	3 186
	413 541	953 389	3 244 860	4 611 790	54 283	37 643

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 presented in note 1.3 in the amount of Euro 4 956 000 (2008: Euro 1 757 000).

21. Other financial assets at fair value through profit or loss

This balance in the amount of Euro 4 192 000 (2008: 4 031 000) refers to bonds and other fixed income securities issued by other entities.

In light of IAS 39 and in accordance with the account 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 31December 2009 and 2008, the securities portfolio include 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:

	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	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.

	2008				
		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	4	–	–	–	4
Foreign	1 076	–	(38)	–	1 038
Issued by other entities:					
Portuguese	1 032 662	79	(2 266)	(189)	1 030 286
Foreign	774 716	346	(45 927)	(25 929)	703 206
Commercial paper	138 153	–	–	(998)	137 155
Variable income securities:					
Shares in companies:					
Portuguese	5 334	–	(23)	(91)	5 220
Foreign	2 246	–	–	(810)	1 436
Investment fund units	11 208	35	(270)	(3 211)	7 762
	1 965 399	460	(48 524)	(31 228)	1 886 107

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

As referred in the accounting policy presented in note 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:

	2009 Euro '000	2008 Euro '000
Impairment for securities:		
Balance on 1 January	31 228	11 403
Charge for the year	2 398	20 372
Write-back for the year	(266)	(473)
Charged-off	(3 461)	(74)
Balance on 31 December	29 899	31 228

During 2009 and as referred in accounting policy 1.5, were written-off impairment losses in the amount of Euro 1 329 000.

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

	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	2 177 627	–	2 191 889
Foreign	74 169	145 188	517 114	10 345	746 816
Commercial paper	172 401	30 135	–	–	202 536
	246 570	189 585	2 702 801	10 345	3 149 301
Variable income securities:					
Shares in companies:					
Portuguese	–	1 471	–	2 801	4 273
Foreign	–	–	–	2 290	2 290
Investment fund units	1 450	–	–	7 197	8 647
	1 450	1 471	–	12 288	15 209
	248 020	191 057	2 702 800	22 633	3 164 510

The analysis of the available-for-sale financial assets by maturity, as at 31 December 2008, is as follows:

	2008				
	Due within 3 months Euro '000	3 months and 1 year Euro '000	Over 1 year Euro '000	Undetermined Euro '000	Totall Euro '000
Fixed income securities:					
Issued by public entities:					
Portuguese	–	–	–	4	4
Foreign	–	–	1 038	–	1 038
Issued by other entities:					
Portuguese	–	–	1 025 261	5 025	1 030 286
Foreign	29 257	71 136	590 959	11 854	703 206
Commercial paper	101 280	35 875	–	–	137 155
	130 537	107 011	1 617 258	16 883	1 871 689
Variable income securities:					
Shares in companies:					
Portuguese	–	–	2 757	2 463	5 220
Foreign	–	–	–	1 436	1 436
Investment fund units	–	1 852	–	5 910	7 762
	–	1 852	2 757	9 809	14 418
	130 537	108 863	1 620 015	26 692	1 886 107

CEMG recognises impairment on financial assets available-for-sale 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 presented in note 1.5, the available-for-sale securities portfolio is presented net of fair value reserve and impairment losses in the amount of Euro 28 600 000 and Euro 29 899 000 (2008: Euro 48 064 000 and Euro 31 228 000) respectively.

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

	2009			2008		
	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	–	–	–	4	–	4
Foreign	8 060	–	8 060	1 038	–	1 038
Issued by other entities:						
Portuguese	2 164 127	27 761	2 191 888	31 227	999 059	1 030 286
Foreign	744 206	2 610	746 816	700 596	2 610	703 206
Commercial paper	–	202 536	202 536	–	137 155	137 155
Variable income securities:						
Shares in companies:						
Portuguese	699	3 573	4 272	166	5 054	5 220
Foreign	2 132	158	2 290	1 278	158	1 436
Investment fund units	8 647	–	8 647	7 762	–	7 762
	2 927 871	236 638	3 164 509	742 071	1 144 036	1 886 107

23. Hedging derivatives

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Assets:		
Interest rate swap	5 109	4 759
Currency interest rate swap	–	2 968
	5 109	7 727
Liabilities:		
Interest rate swap	598	1 008
Currency interest rate swap	–	226
	598	1 234

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:

	2009 Euro '000	2008 Euro '000
Deposits from other credit institutions	477	(1 510)
Debt securities issued	2 926	(796)
Deposits from customers	(318)	897
	3 085	(1 409)

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

	2009							
	Notional with remaining term				Fair value			
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000
Fair value hedge derivatives with interest rate risk:								
Currency interest rate swap	–	44 000	155 000	199 000	1 168	–	3 343	4 511

The analysis of the hedging derivatives portfolio by maturity, as at 31 December 2008, is as follows:

	2008							
	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	–	–	204 000	204 000	–	–	3 751	3 751
Currency interest rate swap	–	34 405	–	34 405	–	2 742	–	2 742
	–	34 405	204 000	238 405	–	2 742	3 751	6 493

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

2009								
Derivative	**Hedged item**	**Hedged risk**	**Notional Euro '000**	**Fair value of derivative (2) Euro '000**	**Changes in the fair value of the derivative in the year Euro '000**	**Hedged item fair value (1) Euro '000**	**Changes in the fair value of the hedged item in the year (1) Euro '000**
Interest rate 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.

As at 31 December 2008, the fair value hedge relationships present the following features:

2008							
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	84 000	157	1 497	496	1 717
Interest rate swap	Deposits	Interest rate	120 000	3 594	1 991	2 424	1 818
Interest rate swap	EMTN	Interest rate	–	–	(2 452)	–	380
Currency interest rate swap	Debt issued	Interest rate	34 405	2 742	(259)	3 011	(63)
			238 405	6 493	777	5 931	3 852

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

24. Held-to-maturity investments

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Fixed income securities:		
Bonds issued by Portuguese public entities	18 573	24 977
Bonds issued by foreign public entities	14 950	14 935
	33 523	39 912

CEMG assessed, with reference to 31 December 2009, the existence of objective evidence of impairment on its held-to--maturity investments portfolio and no events with impact on the recoverable amount of the future cash flows associated with those investments were identified.

The held-to-maturity investments as at 31 December 2009 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%	96
OT – Junho 02/2012	February 2002	June 2012	Fixed rate of 5.000%	105
OT – Maio 00/2010	January 2000	May 2010	Fixed rate of 5.850%	6 394
OT – Junho 01/2011	March 2001	June 2011	Fixed rate of 5.150%	1 052
OT – Outubro 05/2015	July 2005	October 2015	Fixed rate of 3.350%	6 067
OT – Abril 05/2011	November 2005	April 2011	Fixed rate of 3.200%	4 859
Buoni Poliennali Del Tes.06/2011	March 2006	March 2011	Fixed rate of 3,500%	2 976
Netherlands Government 05/2015	June 2005	July 2015	Fixed rate of 3.250%	4 948
Republic of Austria 04/2015	May 2004	July 2015	Fixed rate of 3.500%	2 001
Belgium Kingdom 05/2015	March 2005	September 2015	Fixed rate of 3.750%	2 008
Buoni Poliennali Del Tes.05/2015	May 2005	August 2015	Fixed rate of 3.750%	2 008
Buoni Poliennali Del Tes. 05/2010	January 2005	January 2010	Fixed rate of 3.000%	1 009
				33 523

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

During the years of 2009 and 2008, there were no transfers between categories.

As at 31 December 2009 and 2008, the analysis of held-to-maturity investments by the period of maturity is as follows:

	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

	2008				
	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	–	6 389	18 491	97	24 977
Bonds issued by foreign public issuers	–	–	3 981	10 954	14 935
	–	6 389	22 472	11 051	39 912

25. Investments in associated companies and others

This balance is analysed as follows:

	2009 Euro '000	2008 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	10 816
Lusitania Vida, Companhia de Seguros, S.A.	9 530	9 530
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3 200	3 200
Norfin – Soc. Gestora de Fundos Invest. Imob., S.A.	–	50
Germont – Empreendimentos Imobiliários, S.A.	–	29
	43 297	30 626

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
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
31 December, 2008				
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	10 816
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
Norfin – Soc. Gestora de Fundos Invest. Imob., S.A.	9 900	9.90%	5.00	50
Germont – Empreendimentos Imobiliários, S.A.	1 000	28.9%	1.00	29
				30 626

26. Non-current assets held for sale

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Investments arising from recovered loans	157 935	116 180
Impairment	(29 336)	(23 868)
	128 599	92 312

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 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 Euros 9 464 000 (2008: Euro 4 703 000).

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

	2009 Euro '000	2008 Euro '000
Impairment for non current assets held for sale		
Balance on 1 January	23 868	19 397
Impairment for the year	10 088	5 322
Write-back for the year	(183)	(552)
Loans charged-off	(4 437)	(299)
Balance on 31 December	29 336	23 868

27. Property and equipment

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Cost:		
Land and buildings:		
For own use	65 706	63 413
Leasehold improvements in rented buildings	32 208	30 730
Work in progress	43	120
Equipment:		
Furniture	10 502	10 326
Office equipment	1 971	2 125
Computer equipment	51 772	43 405
Interior installations	28 414	26 696
Motor vehicles	676	676
Security equipment	3 978	3 202
Assets in operational lease	4 084	2 226
Works of art	986	478
Other tangible assets	31	31
Work in progress	550	495
	200 921	183 923
Accumulated depreciation:		
Charge for the year	(12 164)	(10 215)
Accumulated charge for the previous years	(97 584)	(87 861)
	(109 748)	(98 076)
	91 173	85 847

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

2009	Balance on 1 January Euro '000	Acquisitions/ Charges Euro '000	Disposals Euro '000	Adjustment/ Transfers Euro '000	Balance on 31 December Euro '000
Cost:					
Land and buildings:					
For own use	63 413	2 293	–	–	65 706
Leasehold improvements in rented buildings	30 730	680	–	798	32 208
Work in progress	120	31	–	(108)	43
Equipment:					
Furniture	10 326	433	(257)	–	10 502
Office equipment	2 125	35	(189)	–	1 971
Computer equipment	43 405	8 404	(37)	–	51 772
Interior installations	26 696	328	–	1 390	28 414
Motor vehicles	676	–	–	–	676
Security equipment	3 202	786	(20)	10	3 978
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

The Property and equipment movements, during the year of 2008, are analysed as follows:

2008	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	–	–	–	63 413
Leasehold improvements in rented buildings	33 900	328	(7 798)	4 300	30 730
Work in progress	105	15	–	–	120
Equipment:					
Furniture	9 356	1 200	(230)	–	10 326
Office equipment	2 358	73	(306)	–	2 125
Computer equipment	36 572	6 833	–	–	43 405
Interior installations	25 176	311	(25)	1 234	26 696
Motor vehicles	1 133	–	(457)	–	676
Security equipment	2 835	377	(10)	–	3 202
Assets in operational lease	775	1 451	–	–	2 226
Works of art	474	4	–	–	478
Other tangible assets	31	–	–	–	31
Work in progress	1 373	4 656	–	(5 534)	495
	177 501	15 248	(8 826)	–	183 923
Accumulated depreciation:					
Land and buildings:					
For own use	13 827	1 000	–	–	14 827
Leasehold improvements in rented buildings	25 277	2 303	(7 795)	–	19 785
Equipment:					
Furniture	6 948	611	(126)	–	7 433
Office equipment	2 123	106	(306)	–	1 923
Computer equipment	28 246	3 922	–	–	32 168
Interior installations	16 529	1 881	(25)	–	18 385
Motor vehicles	1 106	15	(457)	–	664
Security equipment	2 481	144	(10)	–	2 615
Assets in operational lease	43	233	–	–	276
	96 580	10 215	(8 719)	–	98 076

28. Intangible assets

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Cost:		
Set up costs and key money		–
Software	52 375	44 988
Assets advances	4 657	2 331
	57 032	47 319
Accumulated amortisation:		
Charge for the year	(8 338)	(8 152)
Accumulated charge for the previous years	(32 543)	(24 391)
	(40 881)	(32 543)
	16 151	14 776

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:					
Software	44 988	7 790	–	(403)	52 375
Assets advances	2 331	1 872	–	454	4 657
	47 319	9 662	–	51	57 032
Accumulated amortisation:					
Software	32 543	8 338	–	–	40 881

The Intangible assets movements, during the year of 2008, 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	33	–	–	(33)	–
Software	36 667	7 737	–	584	44 988
Assets advances	1 310	1 748	–	(727)	2 331
	38 010	9 485	–	(176)	47 319
Accumulated amortisation:					
Software	24 391	8 152	–	–	32 543

29. Other assets

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Recoverable subsidies from the Portuguese Government	13 739	20 468
Other debtors	19 756	17 279
Other accrued income	6 456	6 442
Prepayments and deferred costs	28 728	36 669
Sundry debtors	65 020	23 531
	133 699	104 389
Impairment from recoverable subsidies	(3 473)	(3 473)
	130 226	100 916

The balance Recoverable subsidies from the Portuguese Government, in the amount of Euro 13 379 000 (2008: Euro 20 468 000), corresponds to mortgage credit interest subsidies, in accordance with the regulations applicable to mortgage loans benefits. The referred amounts do not bear interest and are claimed monthly.

As at 31 December 2009 and 31 December 2008, the balance Recoverable subsidies from the Portuguese Government is analysed as follows:

	2009 Euro '000	2008 Euro '000
Recoverable subsidies from the Portuguese Government unliquidated	7 311	4 194
Subsidies unclaimed	3 412	9 219
Overdue subsidies unclaimed	3 016	7 055
	13 739	20 468

As at 31 December 2009 and 31 December 2008, 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 31 December 2009, the balance Prepayments and deferred costs includes an amount of Euro 27 094 000 (2008: Euro 35 127 000) 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 31 December 2009, the balance Sundry debtors includes the amount of Euro 32 816 000 (2008: Euro 5 929 000) refer to transactions with securities recorded on trade date and pending settlement, in accordance with the accounting policy 1.5.

As at 31 December 2009 and 2008, the balances related with the obligations related with pensions, included in Other sundry liabilities are analysed as follows:

	2009 Euro '000	2008 Euro '000
Projected benefit obligations	(569 822)	(514 212)
Value of the Fund	504 883	436 148
	(64 939)	(78 064)
Actuarial losses		
Corridor	80 954	81 931
Amount in excess of the corridor	7 580	29
	88 534	81 960
	23 595	3 896

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

30. Deposits from central banks

As at 31 December 2009, this balance includes the amount of Euro 502 353 000 (2008: Euro 852 803 000) 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 31 December 2009 and 2008, the analysis of deposits from Central Banks by the period to maturity is as follows:

	2009 Euro '000	2008 Euro '000
Up to 3 months	–	751 544
3 to 6 months	–	101 259
More than 6 months	502 353	–
	502 353	852 803

31. Deposits from other credit institutions

This balance is analysed as follows:

	2009			2008		
	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	7 995	53 745	61 740	–	106 829	106 829
Deposits from credit institutions abroad	4 023	879 637	883 660	4 777	961 516	966 293
	12 018	933 382	945 400	4 777	1 068 345	1 073 122

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

	2009 Euro '000	2008 Euro '000
Due within 3 months	605 635	538 686
3 months to 6 months	50 883	53 109
6 months to 1 year	55 960	116
1 year to 5 years	16	306 446
Over 5 years	235 531	172 341
	948 025	1 070 698
Adjustments arising from hedging operations	(2 625)	2 424
	945 400	1 073 122

32. Deposits from customers

This balance is analysed as follows:

	2009			2008		
	Non interest bearing Euro '000	**Interest bearing Euro '000**	**Total Euro '000**	**Non interest bearing Euro '000**	**Interest bearing Euro '000**	**Tota Euro '000**
Deposits repayable on demand	85 173	1 901 420	1 986 593	1 877 502	–	1 877 502
Time deposits (*)	–	6 379 299	6 379 299	–	5 449 219	5 449 219
Saving accounts (*)	–	511 255	511 255	–	681 082	681 082
Other items	896	–	896	177	–	177
Adjustments arising from hedging operations	3 003	–	3 003	1 262	–	1 262
	89 072	8 791 974	8 881 046	1 878 941	6 130 301	8 009 242

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 fixed annualy and based on the criteria laid out in Instruction, of the Bank of Portugal.

As at 31 December 2009, this balance includes the amount of Euro 894 097 000 (2008: Euro 210 869 000) 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:

	2009 Euro '000	**2008 Euro '000**
Deposits repayable on demand	1 986 593	1 877 502
Time deposits and saving accounts:		
Due within 3 months	1 240 950	1 270 016
3 months to 6 months	2 612 167	2 902 217
6 months to 1 year	1 253 706	906 440
1 year to 5 years	–	962 587
Over 5 years	1 783 731	89 041
	8 877 147	8 007 803
Adjustments arising from hedging operations	3 003	1 262
	8 880 150	8 009 065
Other items:		
Due within 3 months	896	177
	8 881 046	8 009 242

33. Debt securities issued

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Euro Medium Term Notes	2 810 743	3 705 944
Bonds	611 517	964 998
Covered bonds	1 161 047	–
	4 583 307	4 670 942

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

This balance includes the amount of Euro 1 666 921 000 (2008: Euro 1 448 619 000) related to debt securities issued recognised at the balance sheet at fair value through profit or loss.

In the year of 2009, CEMG issued Euro 1 276 361 000 (2008: Euro 149 700 000) of securities, and was reimbursed Euro 1 248 555 000 (2008: Euro 703 427 000).

As at 31 December 2009 and 2008, the analysis of debt securities issued outstanding by period to maturity is as follows:

	2009 Euro '000	2008 Euro '000
Due within 6 months	111 756	188 762
6 months to 1 year	726 782	988 413
1 year to 5 years	3 254 825	3 094 029
Over 5 years	485 180	382 690
	4 578 543	4 653 894
Adjustments arising from hedging operations	4 764	17 048
	4 583 307	4 670 942

In 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 31 December 2009, the mortgage loans that collateralise these covered bonds amounted to Euro 1 298 998 000 in accordance with note 19.

The change occurred in debt securities issued during the year ended 31 December 2009 is 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 derecognized from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognized in the income statement.

As at 31 December 2009, the balance Debt securities issued is comprise of the following issues:

Issue	Issue Date	Maturity Date	Interest rate	Book value Euro '000
Obr. CEMG / 04	Sep.2004	Sep.2014	Euribor 3 months + 0.25%	15 000
Obr. CEMG / 05	Feb.2005	Feb.2015	Fixed annual rate of 3.518%	125 000
Obr. CEMG / 05	May.2005	May.2012	Euribor 3 months + 0.25%	500 000
Obr. CEMG / 05	Sep.2005	Sep.2010	Euribor 3 months + 0.20%	500 000
Obr. CEMG / 05	Oct.2005	Sep.2010	Euribor 3 months + 0.20%	125 000
Obr. caixa MG Especial Poupança	Nov.2005	Nov.2010	Sem. fixed rate of 2.5% (10th sem. fixed rate de 6%)	23 000
Obr. CEMG / 06	Jan.2006	Jan.2011	Euribor 3 months + 0.20%	500 000
Obr. caixa MG Valor Garantido 2006	Jan.2006	Jan.2011	Sem. fixed rate of 3% (7th and 8th sem. fixed rate of 3.25%, 9th sem. fixed rate of 3.5% and 10th sem. fixed rate of 4%)	10 000
Obr. caixa MG Aforro/06 5 anos 1.ª Emissão	Aug.2006	Aug.2011	Sem. fixed rate of 4% (9th sem. fixed rate of 6% and 10th sem. fixed rate of 6%)	7 000
Obr. caixa MG Aforro/06 5 anos 2.ª Emissão	Aug.2006	Aug.2011	Sem. fixed rate of 3.875% (8th sem. fixed rate of 4%, 9th sem. fixed rate of 4.75% and 10th sem. fixed rate of 7%) taxa fixa de 7%)	4 000
Obr. CEMG / 06	Sep.2006	Sep.2011	Euribor 3 months + 0.25%	500 000
Obr. caixa MG Aforro/06 5 anos 3.ª Emissão	Sep.2006	Sep.2011	Sem. fixed rate of 3.625% (8th sem. fixed rate of 3.75%, 9th sem. fixed rate of 4% and 10th sem. fixed rate of 7%)	3 500
Obr. caixa MG Aforro/06 5 anos 4.ª Emissão	Nov.2006	Nov.2011	Sem. fixed rate of 3.375% (9th sem. fixed trate of 3.5%, 10th sem. fixed rate of 7%)	3 750
Obr. caixa MG Aforro/06 5 anos 5.ª Emissão	Dec.2006	Dec.2011	Sem. fixed rate of 3.5% (9th sem. fixed rate of 3.625%, 10th sem. fixed rate of 7%)	1 000
Obr. caixa MG Ass./06 5 anos 1.ª Emissão	Dec.2006	Dec.2011	Sem. fixed rate of 3.625% (9th sem. fixed rate of 3.75%, 10th sem. fixed rate of 7.25%)	1 000
Obr. CEMG / 07	Jan.2007	Jan.2017	Fixed rate of 3,755%	100 000
Obr. caixa – Aforro Montepio /07 3 anos 1.ª Série	Feb.2007	Feb.2010	Quarterly fixed rate of 6.25%	5 500
Obr. caixa – Aforro Montepio Ass./07 3 anos 1.ª Série	Feb.2007	Feb.2010	Quarterly fixed rate of 6.5%	9 500
Obr. caixa – Aforro Montepio Ass./07 5 anos 1ª Série	Feb.2007	Feb.2012	Sem. fixed rate of 3.625% (7th and 8th sem. fixed rate of 3.75%, 9th sem. fixed rate of 3.875% and 10th sem. fixed rate of 7.25%)	4 000
Obr. caixa – Aforro Montepio /07 5 anos 1.ª Série	Feb.2007	Feb.2012	Sem. fixed rate of 3.375% (7th and 8th sem. fixed rate of 3.5%, 9th sem. fixed trate of 3.625% and 10th sem. fixed rate of 7%)	1 000
Obr. CEMG / 07	Feb.2007	Feb.2017	Fixed rate of 5%	90 000
Obr. caixa – Aforro Montepio /07 3 anos 2.ª Série	Feb.2007	Feb.2010	Quarterly fixed rate of 6.25%	7 000
Obr. caixa – Aforro Montepio Ass./07 3 anos 2.ª Série	Feb.2007	Feb.2010	Quarterly fixed rate of 6.5%	11 000
Obr. caixa – Aforro Montepio Ass./07 5 anos 2.ª Série	Feb.2007	Feb.2012	Sem. fixed rate of 3.625% (7th and 8th sem. fixed rate of 3.75%, 9th sem. fixed rate of 3.875% and 10th sem. fixed rate of 7.25%)	3 000
Obr. caixa – Aforro Montepio /07 3 anos 3.ª Série	Mar.2007	Mar.2010	Quarterly fixed rate of 6.75%	6 500
Obr. caixa – Aforro Montepio /07 3 anos 4.ª Série	Mar.2007	Mar.2010	Quarterly fixed rate of 6.75%	5 000
Obr. caixa – Aforro Montepio Ass./07 3 anos 4.ª Série	Mar.2007	Mar.2010	Quarterly fixed rate of 7%	6 000
Obr. caixa – AM Eur 6M 5Y – 2012	Apr.2007	Apr.2012	Fixed rate of 4.455%	6 000
Obr. caixa – Aforro Montepio /07 3 anos 5.ª Série	Apr.2007	Apr.2010	Quarterly fixed rate of 6.75%	8 000
Obr. caixa – Aforro Montepio Ass./07 3 anos 5.ª Série	Apr.2007	Apr.2010	Quarterly fixed rate of 4% (12th trim. fixed rate of 7%)	12 000
Obr. caixa – Aforro Montepio /07 3 anos 6.ª Série	May.2007	May.2010	Quarterly fixed rate of 3.75% (11th trim. fixed rate of 4% and the 12th trim. fixed rate of 8%)	5 971

Issue	Issue Date	Maturity Date	Interest rate	Book value Euro '000
Obr. caixa – Aforro Montepio Ass./07 3 anos 6.ª Série	May.2007	May.2010	Quarterly fixed rate of 3.875% (11th trim. fixed rate of 4.25% and the 12th trim. fixed rate of 8.5%)	8 500
Obr. CEMG / 07	May.2007	May.2013	Euribor 3 months + 0.25%	500 000
Obr. caixa – Aforro Montepio /07 3 anos 7.ª Série	Jun.2007	Jun.2010	Quarterly fixed rate of 3.875% (11th trim. fixed rate of 4% and the 12th trim. fixed rate of 8%)	5 000
Obr. caixa – Aforro Montepio Ass./07 3 anos 7.ª Série	Jun.2007	Jun.2010	Quarterly fixed rate of 4% (11th trim. fixed rate of 4.25% and the 12th trim. fixed rate of 8.5%)	8 000
Obr. caixa MG Energ. Renováveis/07 3 anos	Jun.2007	Jun.2010	Annual fixed rate of 2% in the 1st two years (at maturity date is paid a variable remuneration indexed to ERIXP Index with a floor of 2%)	4 100
Obr. caixa – Aforro Montepio /07 3 anos 8ª Série	Jul.2007	Jul.2010	Quarterly fixed rate of 3.75% (7th and 8th trim. fixed rate of 3.75%, 9th and 10th trim. fixed rate of 4%, 11th trim. fixed rate of 4.25% and the 12th trim. fixed rate of 8%)	5 000
Obr. caixa – Aforro Montepio Ass./07 3 anos 8ª Série	Jul.2007	Jul.2010	Quarterly fixed rate of 4.125% (11th trim. fixed rate of 4.5% and the 12th trim. fixed rate of 8.5%)	
Obr. caixa MG Energ. Renováveis/07 3 anos Julho 2007/2010	Jul.2007	Jul.2010	Annual fixed rate of 2% in the 1st two years (at maturity date is paid a variable remuneration indexed to ERIXP Index with a floor of 2%)	8 100
Obr. caixa – Aforro Montepio Ass./07 3 anos 9.ª Série	Aug.2007	Aug.2010	Quarterly fixed rate of 4.25% (11th trim. fixed rate of 4.375% and the 12th trim. fixed rate of 8.5%)	10 700
Obr. caixa – Aforro Montepio /07 3 anos 9.ª Série	Aug.2007	Aug.2010	Quarterly fixed rate of 4.125% (11th trim. fixed rate of 4.25% and the 12th trim. fixed rate of 8%)	9 300
Obr. Caixa – Montepio Planeta Terra – Agosto 2007/2010	Aug.2007	Aug.2010	Variable rate indexed to a portfolio of 10 shares with a floor of 3.75%	6 000
Obr. caixa – Aforro Montepio /07 3 anos 10.ª Série	Aug. 2007	Aug. 2010	Fixed rate quaterly of 4.25%. 11th. trimestre Fixed rate of 4.75% In the 12th. trimestre Fixed rate of 8.5%)	6 000
Obr. caixa – Aforro Montepio /07 3 anos 11.ª Série	Sep. 2007	Sep. 2010	Fixed rate quaterly of 4.25% (11th. trimestre Fixed rate of 4.75% In the 12th. trimestre Fixed rate of 8.5%)	6 000
Obr.caixa – Montepio Setembro 2010	Sep.2007	Sep.2010	Fixed rate of 4,6126%	1 500
Montepio Standard Poor's BRIC 40	Oct.2007	Oct.2012	Sem. fixed rate of 0.9% (5th to 9th sem. fixed rate of 0.9%. At the maturity date, variable remuneration indexed at the Standard&Poor's BRIC 40 Index)	2 082
Obr. Caixa – Montepio Euro Aforro 2007 – 3 anos – 3.ª série	Nov.2007	Nov.2010	Sem. fixed rate of Euribor 6 months – 0.25% (6th sem. Euribor 6 months + 0.25%)	10 000
Obr. Caixa – Montepio Euro Aforro 2007 – 3 anos – 4.ª série	Dec.2007	Dec.2010	Sem. fixed rate Euribor 6 months – 0.2% (6th sem. Euribor 6 months + 0.2%)	7 000
Obr. Caixa – Montepio Euro Aforro 2007 – 3 anos – 5.ª série	Dec.2007	Dec.2010	Sem. fixed rate Euribor 6 months – 0.2% (6th sem. Euribor 6 months + 0.2%)	13 488
Obr. caixa – Montepio Cabaz Commodities Agrícolas	Jan. 2008	Jan. 2011	Variable interest rate paid at the reimbursement that corresponds to 95% of a portfolio of 5 commodities, with minimum of 1% and maximum of 50%	5 000
Obr. caixa – Aforro Montepio 2008 – 3 anos – 1.ª série	Jan. 2008	Jan. 2011	Quarterly fixed rate of 4.25% (9th and 10th trim. fixed rate of 4.375%, 11th trim. fixed rate of 4.5% and the 12th trim. fixed rate of 5%)	10 000
Obr.caixa – Montepio Euro Aforro 2008 – 3 anos – 1.ª série	Jan. 2008	Jan. 2011	Sem. fixed rate of Euribor 6 months – 0.4% (5th sem. Euribor 6 months – 0.3% and 6th sem. Euribor 6 months)	17 100

Issue	Issue Date	Maturity Date	Interest rate	Book value Euro '000
Obr. Caixa – Montepio Select 5 anos	Jan. 2008	Jan. 2011	Fixed rate of 2.5% in the first four years, and, in the reimbursement, variable rate between 2.5% and 60% of the annual average performance of a portfolio composed by Dow Jones Eurostoxx Select Dividend 30 Index and the IBOXXEuro Eurozone Performance Sovereingns 5 to 7 years Index.	1 000
Obr. Caixa – Montepio Taxa Fixa 5Y – Janeiro 2008	Jan. 2008	Jan. 2011	Fixed rate of 2.5%	2 500
Obr. Caixa – Montepio Euro Aforro 2008 – 3 Anos – 2.ª série	Mar. 2008	Mar. 2011	Sem. fixed rate of Euribor 6 months – 0.3% (5th sem. Euribor 6 months – 0.2% and 6th sem. Euribor 6 months)	13 500
Obr. Caixa – Montepio Euro Aforro 2008 – 3 Anos – 3.ª série	Apr. 2008	Apr. 2011	Sem. fixed rate of Euribor 6 months – 0.3% (5th sem. Euribor 6 months – 0.2% and 6th sem. Euribor 6 months)	15 000
Obr. Caixa – Montepio Euro Aforro 2008 – 3 Anos – 4.ª série	May. 2008	May. 2011	Sem. fixed rate of Euribor 6 months – 0.3% (5th sem. Euribor 6 months – 0.2% and 6th sem. Euribor 6 months + 0.1%)	12 100
Obr. Caixa- Montepio Inflação 2008 – 2016 – 1.ª Série	Jun. 2008	Jun. 2016	Variable annual rate of 3.2% plus the annual rate of the European Inflation	5 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2008/2013	Sep.2008	Sep.2013	Annual fixed rate of 6% (3rd to 5th sem. Euribor 3 months + 1%)	31 500
Obr. Caixa – Capitais de Reforma Prazo Certo – Out. 2008/2013	Oct.2008	Oct.2013	Quarterly fixed rate of Euribor 3 months + 1%)	37 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Fev. 2009/2014	Feb. 2009	Feb. 2014	Annual fixed rate of 3.8% (2nd to 5th year Euribor 3 months + 0.84%)	15 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Mar. 2009/2014	Mar. 2009	Mar. 2014	Annual fixed rate of 3.5% (2nd to 5th year Euribor 3 months + 0.80%)	19 000
Obr. Caixa – MG Taxa Fixa 3 anos – 25/05/2012	May. 2009	May. 2012	Annual fixed rate of 2% (2nd year 3%, 4th year 4%)	650
Obr. Caixa – MG 5% – Julho 2014	Jul. 2009	–	Variable rate indexed to Dow Jones EuroStoxx 50 Price Index	300
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2009/2014	Sep. 2009	Sep. 2014	Annual fixed rate of 3% (2nd to 4th year 3%, 5th year 6%)	10 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2009/2017	Sep. 2009	Sep. 2017	Annula fixed rate of 3.75% (2nd to 4th year 3.75%, 5th year 6.75%)	5 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2007/2012 – 2.ª série	Sep. 2009	Sep. 2012	Variable rate indexed to Euribor 3 months average + 1%	29 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2008/2013 – 2.ª série	Sep. 2009	Sep. 2013	Variable rate indexed to Euribor 3 months average + 1%	2 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2009/2014 – 8.ª série	Nov. 2009	Nov. 2014	Fixed rate of 3.25% until the 4th year (5th year fixed rate of 5.75%)	5 000
Obr. Caixa – Taxa variável CEMG 2009-2012	Nov. 2009	Nov. 2012	Quarterly variable rate indexed to the average of Euribor 3 months + 1%	24 000
Obr. Caixa – Taxa variável CEMG 2009-2013	Nov. 2009	Nov. 2013	Quarterly variable rate indexed to the average of Euribor 3 months + 1%	1 700
Obr. Caixa – Montepio Títulos Europa 2009-2013	Dec. 2009	Dec. 2013	Variable rate in accordance with underlying asset (Dow Jones Euro Stoxx 50)	2 711
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2009/2014 – 9.ª série	Dec. 2009	Dec. 2014	Fixed rate of 3.2% until 4th year (5th year, fixed rate of 5.5%)	7 000
Obr. Caixa – Capitais de Reforma Prazo Certo – Set. 2009/2014 – 10.ª série	Dec. 2009	Dec. 2014	Fixed rate of 2% (2nd year fixed rate of 3%, 3th year fixed rate 3.5%, 4th year fixed rate of 4.5% and 5th year fixed rate of 5.5%)	5 000
Covered bonds	Jul. 2009	Jul. 2012	Fixed rate of 3.25%	1 000 000
Covered bonds	Dec. 2009	Dec. 2016	Quarterly variable rate indexed to the average of Euribor 3 months + 0.75%	150 000
				4 642 352
Adjustments arising from hedging operations				4 764
Accruals, deferred costs and income				(63 809)
				4 583 307

As at 31 December 2009, for the bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 0.91% and 5.00%.

34. Provisions

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Provisions for general banking risks	101 310	101 240
Provisions for liabilities and charges	1 490	1 668
	102 800	102 908

The provisions for general banking risks are analysed as follows:

	2009 Euro '000	2008 Euro '000
Balance on 1 January	101 240	96 983
Charge for the year	50 386	50 675
Write-back for the year	(50 316)	(46 418)
Balance on 31 December	101 310	101 240

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 provisions for liabilities and charges are analysed as follows:

	2009 Euro '000	2008 Euro '000
Balance on 1 January	1 668	1 737
Charge for the year	416	248
Write-back for the year	(262)	(63)
Charged-off	(332)	(254)
Balance on 31 December	1 490	1 668

The provisions were accounted in accordance with the probability of occurrence of certain contingencies related with CEMG's activity, which is revised in each reporting date in order to reflect the best estimate of the amount and probability of payment.

35. Other subordinated debt

As at 31 December 2009, this balance in the amount of Euro 381 043 000 (2008: Euro 386 872 000) refers to Bonds with fixed maturity date, and with a residual reimbursement over 5 years.

As at 31 December 2009 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%	50 050
CEMG/08	Feb. 2008	Feb. 2018	150 000	Euribor 6 months + 0.13%	150 415
CEMG/08	Jun. 2008	Jun. 2018	28 000	Euribor 12 months + 0.10%	29 102
CEMG/08	Jul. 2008	Jul. 2018	150 000	Euribor 6 months + 0.13%	151 476
					381 043

As at 31 December 2009, the effective interest rate range of the subordinated debt bears postponed interest every three and six months is set between 1.19% and 2.66%.

36. Other liabilities

This balance is analysed as follows:

	2009 Euro '000	2008 Euro '000
Creditors:		
Suppliers	7 038	8 067
Other creditors	25 228	27 809
Public sector	7 330	10 393
Financial liabilities associated with transferred assets	2 301 379	1 450 122
Holiday pay and subsidies	24 127	19 826
Other administrative costs payable	982	450
Deferred income	585	647
Securities transactions pending settlement	38 610	6 154
Other sundry liabilities	57 379	43 849
	2 462 658	1 567 317

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

On 31 March, 2009, following the General Assembly deliberation, CEMG increased the share capital of Caixa Económica Montepio Geral in the amount of Euro 100 000 000, by cash transfer.

After the referred operation, the share capital of CEMG, amounts to Euro 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:

	2009 Euro '000	2008 Euro '000
Other comprehensive Income:		
Fair value reserves		
Available-for-sale financial assets	(28 600)	(48 064)
Reserves and retained earnings:		
General reserve	163 130	156 067
Special reserve	62 555	60 788
Other reserves	8 404	8 404
Retained earnings	(8 033)	(15 210)
	226 056	210 049

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

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)

The movements of this balance during 2008 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	(64)	(23)	–	49	–	(38)
Bond issued by other entities:						
Portuguese	(173)	(1 799)	–	(26)	(189)	(2 187)
Foreign	(8 524)	(20 170)	(370)	(891)	(15 626)	(45 581)
	(8 761)	(21 992)	(370)	(868)	(15 815)	(47 806)
Variable income securities:						
Shares in companies:						
Portuguese	–	37	(23)	–	(37)	(23)
Foreign	(30)	762	–	30	(762)	–
Investment fund units	818	2 902	(50)	(694)	(3 211)	(235)
	788	3 701	(73)	(664)	(4 010)	(258)
	(7 973)	(18 291)	(443)	(1 532)	(19 825)	(48 064)

As at 31 December, 2009, the balance Retained earnings in the amount of Euro 8 033 000 (2008: Euro 15 210 000) related with the IAS 19 transition adjustments amortisation, as referred in the accounting policy 1.14.

The fair value reserve can be analysed as follows:

	2009 Euro '000	2008 Euro '000
Amortised cost of available-for-sale financial assets	3 223 009	1 965 399
Accumulated impairment recognised	(29 899)	(31 228)
Amortised cost available-for-sale financial assets, net impairment	3 193 110	1 934 171
Fair value of available-for-sale financial assets	3 164 510	1 886 107
Net unrealized gains / losses recognised in the fair value reserve	(28 600)	(48 064)

40. Obligations and future commitments

Obligations and future commitments are analysed as follows:

	2009 Euro '000	2008 Euro '000
Guarantees granted	426 156	431 209
Guarantees received	29 733 532	30 265 782
Commitments to third parties	1 211 311	1 377 791
Commitments from third parties	172 768	20 791
Securitised loans	333 270	389 663
Securities and other items held for safekeeping on behalf of customers	5 371 322	5 510 251

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

	2009 Euro '000	2008 Euro '000
Guarantees granted:		
Guarantees	423 107	428 782
Open documentary credits	3 049	2 427
	426 156	431 209

	2009 Euro '000	2008 Euro '000
Commitments to third parties:		
Irrevocable commitments		
Term deposits contracts	1 472	2 756
Irrevocable credit lines	302 264	281 103
Annual contribution to the Guarantee Deposits Fund	19 829	19 634
Potential obligation with the Investors' Indemnity System	3 209	3 173
Revocable commitments		
Revocable credit lines	884 537	1 071 125
	1 211 311	1 377 791

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 31 December 2009 and 2008, the balance Annual contribution to the obligations of Guarantee Deposits Fund is related with the irrevocable commitment assumed by CEMG and required by law, to deliver the unrealised amounts of annual contributions required by the Fund.

The balance Potential obligation with the Investors' Indemnity System, as at 31 December 2009 and 2008, 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 in off-balance sheet accounts (obligations and future commitments), are also subject to the same control and approval procedures required for the credit portfolio. The Board of Directors does not anticipate any material losses as a result of these transactions.

41. Distribution of profit

On 31 March, 2009, following the General Assembly deliberation, CEMG distributed to Montepio Geral – Associação Mutualista in the amount of Euro 11 271 000 (2008: Euro 25 758 000).

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 Interbank Money Market transactions and Assets with repurchase agreements**

  The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates.

  The discount rate used reflects the current conditions applied by CEMG in identical instruments for each of the different maturities. The discount rate 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 31 December 2009, the average discount rate was 2.61% (2008: 3.29%), 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 31 December 2009, the average discount rate was of 0.65% (2008: 2.74%).

– **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 31 December 2009, 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	0.300%	0.170%	0.565%	0.950%	0.360%
7 days	0.300%	0.390%	0.565%	0.950%	0.360%
1 month	0.465%	0.420%	0.580%	1.175%	0.125%
2 months	0.500%	0.440%	0.625%	1.295%	0.075%
3 months	0.630%	0.480%	0.705%	1.405%	0.120%
6 months	0.930%	0.630%	0.920%	1.655%	0.110%
9 months	1.090%	0.740%	1.210%	1.835%	0.240%
1 year	1.210%	1.110%	1.575%	1.955%	0.595%
2 years	1.861%	1.431%	1.993%	2.270%	1.220%
3 years	2.260%	2.082%	2.650%	2.640%	1.840%
5 years	2.805%	2.995%	3.388%	3.010%	2.720%
7 years	3.213%	3.532%	3.768%	3.240%	3.200%
10 years	3.598%	3.982%	4.088%	3.540%	3.570%
15 years	3.963%	4.375%	4.088%	3.820%	3.570%
20 years	4.070%	4.471%	4.088%	3.900%	3.570%
30 years	3.952%	4.541%	4.088%	3.900%	3.570%

Exchange rates and volatility

We present below the exchange rates (European Central bank) at the balance sheet date and the implied volatilities (at the money) for the main currencies used on the derivatives valuation:

			Volatility (%)				
Exchange rates	**2009**	**2008**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.4406	1.3917	10.90	12.23	12.83	12.96	13.10
EUR/GBP	0.8881	0.9525	9.25	11.25	12.30	12.80	12.95
EUR/CHF	1.4836	1.4850	5.65	5.70	5.85	5.85	5.85
EUR/JPY	133.16	126.14	13.17	14.71	15.58	16.04	16.32

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:

	2009								
	Trading Euro '000	**Designated at fair value trough profit or loss Euro '000**	**Held-to--maturity Euro '000**	**Loans and advances Euro '000**	**Available--for-sale Euro '000**	**Others at amortised cost Euro '000**	**Others Euro '000**	**Carrying value Euro '000**	**Fair value Euro '000**
Financial assets:									
Cash and deposits at central bank	–	–	–	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

	2008								
	Trading Euro '000	Designated at fair value trough profit or loss Euro '000	Held-to--maturity Euro '000	Loans and advances Euro '000	Available--for-sale Euro '000	Others at amortised cost Euro '000	Others Euro '000	Carrying value Euro '000	Fair value Euro '000
Financial assets:									
Cash and deposits at central bank	–	–	–	254 742	–	–	–	254 742	254 742
Loans and advances to credit institutions repayable on demand	–	–	–	92 125	–	–	–	92 125	92 125
Loans and advances to credit institutions	–	–	–	166 781	–	–	–	166 781	166 781
Loans and advances to customers	–	–	–	14 724 822	–	–	–	14 724 822	15 089 645
Financial assets held for trading	58 655	–	–	–	–	–	–	58 655	58 655
Other financial assets at fair value trough profit or loss	–	4 031	–	–	–	–	–	4 031	4 031
Available-for-sale financial assets	–	–	–	–	1 886 107	–	–	1 886 107	1 886 107
Hedging derivatives	7 727	–	–	–	–	–	–	7 727	7 727
Held-to-maturity investments	–	–	39 912	–	–	–	–	39 912	40 341
Investments in associated companies and others	–	–	–	–	–	–	30 626	30 626	30 626
	66 382	4 031	39 912	15 238 470	1 886 107	–	30 626	17 265 528	17 630 780
Financial liabilities:									
Deposits from central banks	–	–	–	–	–	852 803	–	852 803	852 803
Deposits from other credit institutions	–	–	–	–	–	1 073 122	–	1 073 122	1 073 285
Deposits from customers	–	–	–	–	–	8 009 242	–	8 009 242	8 086 797
Debt securities issued	–	–	–	–	–	4 670 942	–	4 670 942	4 643 065
Financial liabilities held for trading	37 643	–	–	–	–	–	–	37 643	37 643
Hedging derivatives	1 234	–	–	–	–	–	–	1 234	1 234
Other subordinated debt	–	–	–	–	–	386 872	–	386 872	367 676
	38 877	–	–	–	–	14 992 981	–	15 031 858	15 062 503

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.

As at 31 December 2009 and 2008, the number of participants covered by this pension plan is analysed as follows:

	2009	2008
Number of participants		
Pensioners	738	663
Employees	2 844	2 799
	3 582	3 462

In accordance with the accounting policy 1.14, the pension obligation and the respective funding as at 31 December 2009 and 2008 based on an actuarial valuation made using the projected unit credit method are analysed as follows:

	2009				2008			
	Pension plans Euro '000	**Death subsidy Euro '000**	**Health-care benefits Euro '000**	**Total Euro '000**	**Pension plans Euro '000**	**Death subsidy Euro '000**	**Health-care benefits Euro '000**	**Total Euro '000**
Assets/(liabilities) recognised in the balance sheet								
Defined benefit obligation								
Pensioners	(232 236)	(653)	(15 095)	(247 984)	(202 934)	(558)	(13 191)	(216 683)
Employees	(300 758)	(6 874)	(14 206)	(321 838)	(278 234)	(6 147)	(13 148)	(297 529)
	(532 994)	(7 527)	(29 301)	(569 822)	(481 168)	(6 705)	(26 339)	(514 212)
Value of the Fund	474 287	6 208	24 388	504 883	408 120	5 687	22 341	436 148
Unfunded liabilities	(58 707)	(1 319)	(4 913)	(64 939)	(73 048)	(1 018)	(3 998)	(78 064)
Liabilities exempt from financing	95 557	(7 356)	333	88 534	88 783	(7 176)	353	81 960
Assets/(liabilities) recognised in the balance sheet	36 850	(8 675)	(4 580)	23 595	15 735	(8 194)	(3 645)	3 896

As at 31 December 2009, there are no buildings in use or securities issued by CEMG recorded in the Pension Fund Financial Statements.

In accordance with the accounting policy described in Note 1.14, the Group liability with pensions is calculated semi-annually. The net assets with pensions and health-care plan are included in the balance other assets (see Note 29).

As at each balance date, CEMG reviews the value of the Fund related to its liabilities towards the pensions, according to the referred accounting policy and as established in IAS 19 – Employees benefits.

The change in the present value of obligations during 2009 and 2008 is analysed as follows:

	2009				2008			
	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000
Balance on 1 January	481 168	6 705	26 339	514 212	509 771	8 336	30 158	548 265
Service cost	14 983	422	705	16 110	19 773	1 132	572	21 477
Interest cost	27 667	386	1 514	29 567	26 763	438	1 583	28 784
Actuarial gains and losses								
– Not arising from changes in actuarial assumptions	(1 412)	(299)	(486)	(2 197)	2 419	(2 003)	(1 638)	(1 222)
– Arising from changes in actuarial assumptions	22 452	313	1 229	23 994	(73 290)	(1 198)	(4 336)	(78 824)
Payments	(16 664)	–	–	(16 664)	(14 069)	–	–	(14 069)
Early retirements	4 800	–	–	4 800	9 801	–	–	9 801
Balance on 31 December	532 994	7 527	29 301	569 822	481 168	6 705	26 339	514 212

The evolution of the amounts related to non-financial projected benefit obligations during 2009 and 2008, are analysed as follows:

	2009				2008			
	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000
Balance on 1 January	73 048	1 018	3 998	78 064	97 966	1 602	5 796	105 364
Service cost	14 983	422	705	16 110	19 773	1 132	572	21 477
Interest cost	27 667	386	1 514	29 567	26 763	438	1 583	28 784
Expected return on plan assets	(23 467)	(327)	(1 284)	(25 078)	(21 619)	(354)	(1 279)	(23 252)
Early retirements	4 800	–	–	4 800	9 801	–	–	9 801
Actuarial gains and losses								
– Not arising from changes in actuarial assumptions	(15 348)	(493)	(1 249)	(17 090)	50 188	(602)	1 662	51 248
– Arising from changes in actuarial assumptions	22 452	313	1 229	23 994	(73 290)	(1 198)	(4 336)	(78 824)
Contributions to the Fund	(45 553)	–	–	(45 553)	(36 648)	–	–	(36 648)
Costs supported by the Fund	125	–	–	125	114	–	–	114
Balance on 31 December	58 707	1 319	4 913	64 939	73 048	1 018	3 998	78 064

The assets of the pensions Fund are analysed as follows:

	2009 Euro '000	2008 Euro '000
Shares	40 774	31 467
Other variable income securities	78 910	68 372
Bonds	296 343	275 337
Others	88 856	60 972
	504 883	436 148

The securities issued by companies of CEMG accounted on the portfolio of the Fund are analysed as follows:

	2009 Euro '000	2008 Euro '000
Fixed income securities	4 606	–
Variable income securities	4 281	22 521
	8 887	22 521

The change in the fair value of assets of the Fund during 2009 and 2008 are analysed as follows:

	2009				2008			
	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000
Balance on 1 January	408 120	5 687	22 341	436 148	411 805	6 734	24 362	442 901
Expected return on plan assets	23 467	327	1 284	25 078	21 619	354	1 279	23 252
Actuarial gains / (losses)	13 936	194	763	14 893	(47 769)	(1 401)	(3 300)	(52 470)
Contributions to the Fund of CEMG	43 924	–	–	43 924	35 176	–	–	35 176
Contributions to the Fund of the employers	1 629	–	–	1 629	1 472	–	–	1 472
Payments	(16 664)	–	–	(16 664)	(14 069)	–	–	(14 069)
Others	(125)	–	–	(125)	(114)	–	–	(114)
Balance on 31 December	474 287	6 208	24 388	504 883	408 120	5 687	22 341	436 148

The contributions to the Fund include the additional contribution in the amount of Euro 21 500 000 made by CEMG during January 2010 with value date of 2009. The pension fund contributions in 2009 were fully paid in cash.

In accordance with IAS 19, deferred actuarial losses, including the corridor, as at 31 December 2009 and 2008 are analysed as follows:

	2009				2008			
	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death subsidy Euro '000	Health-care benefits Euro '000	Total Euro '000
Unrecognised net actuarial losses at the beginning of the year	88 783	(7 176)	353	81 960	111 886	(5 376)	(3 027)	109 537
Actuarial gains and losses:								
– Actuarial	21 040	14	743	21 797	(70 871)	(3 201)	(5 974)	(80 046)
– Financial	(13 936)	(194)	(763)	(14 893)	47 769	1 401	3 300	52 470
Actuarial losses depreciation in excess of the corridor	(330)	–	–	(330)	(1)	–	–	(1)
Balance on 31 December	95 557	(7 356)	333	88 534	88 783	(7 176)	353	81 960
Of which:								
Within the corridor	87 377	(6 727)	304	80 954	76 666	4 197	1 068	81 931
Outside the corridor	8 180	(629)	29	7 580	12 117	(11 373)	(715)	29

As at 31 December 2009, considering the value of the actuarial gains and losses registered in the calculation of the benefit obligations and in the value of the Fund, the value of the corridor calculated in accordance with paragraph 92 of IAS 19, amounted to Euro 80 954 000 (2008: Euro 81 931 000).

As at 31 December 2009, the net actuarial gains and losses in excess of the value of the corridor amounted to Euro 7 580 000 (2008: Euro 29 000) and will be recorded in results over a 24 year period considering the balance at the beginning of the year, as referred in the accounting policy presented in note 1.14.

In 2009, CEMG accounted as pension costs the amount of Euro 25 729 000 (2008: Euro 36 811 000). The analysis of the cost of the year is as follows:

	2009				2008			
	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	14 983	422	705	16 110	19 773	1 132	572	21 477
Interest cost	27 667	386	1 514	29 567	26 763	438	1 583	28 784
Expected return on plan assets	(23 467)	(327)	(1 284)	(25 078)	(21 619)	(354)	(1 279)	(23 252)
Actuarial gains and losses depreciation	330	–	–	330	1	–	–	1
Early retirements	4 800	–	–	4 800	9 801	–	–	9 801
Net benefit cost	24 313	481	935	25 729	34 719	1 216	876	36 811

Considering the market indicators, particularly the estimations of the inflation and the long-term interest rate for Euro Zone as well as the demographic characteristics of the participants, CEMG changed the actuarial assumptions used for the calculation of the liabilities for the pension obligations with reference to 31 December 2009. The comparative analysis of the actuarial assumptions is shown as follows:

	Assumptions	
	2009	2008
Salaries increase rate	3.00%	3.00%
Pensions increase rate	2.00%	2.00%
Projected rate of return of Fund assets	5.50%	5.75%
Discount rate	5.50%	5.75%
Mortality table	TV 88/90	TV 88/90
Disability table	EVK 80	EVK 80

The assumptions used in the calculation of the pension liabilities are in accordance with the requirements of IAS 19.

No disability retirements are considered in the calculation of the total liabilities.

The projected rate of return of the Plan assets was determined on a consistent way according with current market conditions and with the nature and return of the plan assets.

Net actuarial gains related to the difference between the actuarial assumptions used for the estimation of the pension liabilities and the actual liabilities for the year ended 31 December, 2009 amounted to Euro 6 904 000 (2008: Euro 27 576 000) and are analysed as follows:

	Actuarial (gains) / losses	
	2009 Euro '000	2008 Euro '000
Discount rate	23 293	(80 056)
Salaries increase rate	(1 334)	(3 243)
Pensions increase rate	(162)	3 253
Return of fund assets	(14 893)	52 470
	6 904	(27 576)

Health benefit costs have a significant impact in pension costs. Considering this impact we produced a sensitivity analysis to a positive one percent variation in health benefit costs (from 6.5% to 7.5% in 2009) and a negative variation (from 6.5% to 5.5% in 2009) of one percent in health benefit costs, whose impact is analyzed as follows:

	Positive variation of 1% (6.5% to 7.5%)		**Negative variation of 1% (6.5% to 5.5%)**	
	2009 Euro '000	**2008 Euro '000**	**2009 Euro '000**	**2008 Euro '000**
Pension cost impact	(2 322)	(2 029)	2 322	2 029
Liability impact	(2 186)	(2 023)	2 186	2 023

The liabilities with health benefits are fully covered by the Pension Fund and correspond, in 2009, to Euros 29 301 000 (2008: Euros 26 339 000).

The estimated value of contributions to the pension plan in 2010 is Euro 28 000 000 (2008: Euro 32 873 000).

The changes in the assets/(liabilities) recognised in the balance sheet is analysed as follows:

	2009				**2008**			
	Pension plans Euro '000	**Death subsidy Euro '000**	**Health-care benefits Euro '000**	**Total Euro '000**	**Pension plans Euro '000**	**Death subsidy Euro '000**	**Health-care benefits Euro '000**	**Total Euro '000**
Balance on 1 January	15 735	(8 194)	(3 645)	3 896	13 920	(6 978)	(2 769)	4 173
Net benefit cost	(24 313)	(481)	(935)	(25 729)	(34 719)	(1 216)	(876)	(36 811)
Contributions of the year and pensions paid	45 553	–	–	45 553	36 648	–	–	36 648
Other	(125)	–	–	(125)	(114)	–	–	(114)
Balance on 31 December	36 850	(8 675)	(4 580)	23 595	15 735	(8 194)	(3 645)	3 896

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

	2009			**2008**			**2007**			**2006**			**2005**		
	Pension plans Euro '000	**Death subsidy Euro '000**	**Health-care benefits Euro '000**	**Pension plans Euro '000**	**Death subsidy Euro '000**	**Health-care benefits Euro '000**	**Pension plans Euro '000**	**Death subsidy Euro '000**	**Health-care benefits Euros '00**	**Pension plans Euro '000**	**Death subsidy Euro '000**	**Health-care benefits Euros '00**	**Pension plans Euro '000**	**Death subsidy Euro '000**	**Health-care benefits Euros '00**
Defined benefit obligation	(532 994)	(7 527)	(29 301)	(481 168)	(6 705)	(26 339)	(509 771)	(8 336)	(30 158)	(475 205)	–	(31 190)	(439 080)	–	(29 057)
Fair value of plan assets	474 287	6 208	24 388	408 120	5 687	22 341	411 805	6 734	24 362	351 341	–	23 060	307 380	–	20 341
(Un)/over funded liabilities	(58 707)	(1 319)	(4 913)	(73 048)	(1 018)	(3 998)	(97 966)	(1 602)	(5 796)	(123 864)	–	(8 130)	(131 700)	–	(8 716)
Experience adjustments arising on plan liabilities (gains)/ losses	(1 412)	(299)	(486)	2 419	(2 003)	(1 638)	11 490	1 359	(3 266)	3 781	–	248	11 785	–	780
Experience adjustments arising on plan assets (gains)/losses	(13 936)	(194)	(763)	47 769	1 401	3 300	2 372	(6 734)	(207)	(3 929)	–	(258)	(1 441)	–	(95)

44. Related parties transactions

As at 31 December 2009, CEMG had credits over associated companies, 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	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 31 December 2008, CEMG had credits over associated companies, 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
Norfin – Sociedade Gestora de FIM, S.A.	6 195	–	6 195
	62 762	16 740	79 502

As at 31 December 2009, CEMG's income over 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
Norfin – Sociedade Gestora de FIM, S.A.	–	376	376
	20	45 940	45 960

As at 31 December 2008, CEMG's income over 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	471	3 151	3 622
Lusitania Vida Companhia de Seguros, S.A	952	7 479	8 431
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	2	–	2
SIBS – Sociedade Interbancária de Serviços, S.A.	5	11 104	11 109
MG Gestão de Activos Financeiros – S.G.F.I.M., S.A.	9	4 165	4 174
Futuro – Sociedade Gestora de Fundo de Pensões, S.A.	19	3 428	3 447
Norfin – Sociedade Gestora de FIM, S.A.	8	359	367
	1 466	29 686	31 152

The costs with salaries and other benefits attributed to CEMG key management personnel, as well as its transactions, are presented in note 10.

According to the principle of fair value, every transaction concerning related parties is at market prices.

During 2009 and 2008, there were no transactions with the pension's fund of CEMG.

45. Assets securitisation

As at 31 December 2009, there are five securitisation operations between CEMG and other financial institutions presented in the following paragraphs.

As at 19 December 2002, Caixa Económica Montepio Geral has settled a securitisation operation with a Special Purpose Vehicle («SPV») – Pelican Mortgages No. 1 PLC, established in Dublin. The referred agreement consists in a mortgage credit transfer for a period of 35 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 650 000 000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.016% of the referred nominal value.

As at 29 September 2003, Caixa Económica Montepio Geral has settled a securitisation operation with a Special Purpose Vehicle («SPV») – Pelican Mortgages No. 2 PLC, established in Dublin. The referred agreement consists in a mortgage credit transfer for a period of 33 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 700 000,000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0286% of the referred nominal value.

As at 30 March 2007, Caixa Económica Montepio Geral 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.

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.

As at 31 December 2009, the securitisation operations are presented as follows:

Issue	Settlement date	Currency	Asset transferred	Amount Euro'000
Pelican Mortgages No. 1 PLC	December, 2002	Euro	Mortgage credit	650 000
Pelican Mortgages No. 2 PLC	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
				4 100 000

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

	2009 Euro '000	2008 Euro '000
Pelican Mortgages No. 1 PLC	120 550	142 875
Pelican Mortgages No. 2 PLC	212 720	246 788
	333 270	389 663

As at 31 December 2009, 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	76 986 058	–	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	171 715 266	–	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	BBB
	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	414 922 986	–	2054	AAA	Aaa	AAA	AAA	Aaa	AAA
	Class B	14 250 000	10 712 724	–	2054	AA–	Aa2	AA–	AA–	Aa2	AA-
	Class C	12 000 000	9 021 241	–	2054	A	A3	A	A–	A3	A
	Class D	6 375 000	4 792 534	–	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	743 481 648	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.

46. Amounts owed by CEMG to subsidiary companies

As at 31 December 2008 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)	307 644

47. Related party 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.

CEMG's risk management policy is designed not only to ensure adequate relationship at all times between its own funds and the business it carries on, but 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;
- Market Risk Department;
- Operational Risk Department;
- Companies Credit Analysis Department.

«DAGR» also ensures the communications with Bank of Portugal regarding the prudential reports related to capital requirements, liquidity risk and interest rate risk.

Regarding risk and control management, developments were made in several activities, such as:

- Implementation of new models of scoring for small entities business;
- Enforcement of the reporting activity regarding credit portfolio's risk evolution and monitoring the use of the internal rating and coring systems;
- Accompanying in the process of implementation of the new systems of credit workflow and management of its limits;
- Price methodology regarding credit adjusted to credit portfolio's risk to companies, assuring application of this methodology to its main segments;
- Integration of the risk control regarding counterparties.

At the regulatory level, 2009 was distinguished by the development of the reports established in Basel II, such as Pillar II – Capital Adequacy and III – Market Discipline, concerning Basel II.

According to Pillar II, reports of the Process of Self evaluation of Capital and Effort tests were delivered to the Bank of Portugal. The results not only show that capital is solid against risk with major magnitude but also that there is a great evolution potential against the principle macroeconomics factors. In what concerns Pillar III, it was held the Market Discipline report, showing every detail of the type and levels of risk that are implicit in CEMG's activity, as well as all the processes, structure and organization of the risk management.

It was introduced new methods for analysing corporate credit, namely exposure limit, risk adjusted pricing models and the creation of new credit reports that are more useful and functional in a decision making perspective, which are automatically free through the system, the same that also started to support exposure credit limit information. Additionally, there was a technological integration of the new intern rating models for the Credit Analysis.

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

Main types of risk

Credit – Credit risk is associated with the degree of uncertainty of the expected returns as a result of the inability either of the borrower (and the guarantor, if any) or of the issuer of a security or of the counterparty to an agreement to fulfil their obligations.

Market – Market risk reflects the potential loss inherent in a given portfolio as a result of changes in rates (interest and exchange) and/or in the prices of the various financial instruments that make up the portfolio, considering both the correlations that exist between them and the respective volatility.

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

Operational – Operational risk is the potential loss resulting from failures or inadequacies in internal procedures, persons or systems, and also the potential losses resulting from external events.

Internal 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. Indeed, the granting of credit to individuals requires requests to be submitted to the reactive scoring models used by the different portfolios (housing loans, personal credit and credit cards).

Credit decisions are dependent upon risk ratings and compliance with various rules governing financial capacity and applicants' behaviour. In orders to support commercial strategies behavioural scoring models are also used.

New reactive scoring models have been introduced into the information systems of certain individual credit portfolios that recognise the need to distinguish between customers and non-customers (or new customers). New internal rating models for companies and scoring models for small businesses are also in the IT completion stage.

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

	2009 Euro '000	2008 Euro '000
Deposits with Other credit institutions	51 745	92 125
Deposits with banks	370 884	166 781
Loans and advances to customers	14 448 162	14 724 822
Financial assets held for trading	101 815	57 455
Financial assets at fair value through profit or loss	4 192	4 031
Available-for-sale financial assets	3 149 301	1 871 689
Hedging derivatives	5 109	7 727
Held-to-maturity investments	33 523	39 912
Investments in associated companies and others	43 297	30 626
Other assets	101 498	64 247
Guarantees granted	426 156	431 209
Irrevocable commitments	302 264	281 103
Credit default swaps (notionals)	41 458	94 500
	19 079 404	17 866 227

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

2009

Sector of activity	Loans and advances to costumers		Financial assets held for trading	Other financial assets at fair value trough profit or loss	Available-for-sale financial assets		Held-to--maturity investments	Guarantees granted
	Gross amount Euro '000	Impairment [a] Euro '000	Gross amount Euro '000	Gross amount Euro '000	Gross amount Euro '000	Impairment Euro '000	Gross amount Euro '000	Euro '000
Agriculture	28 399	(1 148)	–	–	154	(47)	–	395
Mining	7 817	(401)	–	–	541	–	–	1 147
Food, beverage and tobacco	73 471	(4 805)	–	–	41	–	–	1 915
Textiles	34 030	(7 750)	–	–	–	–	–	1 345
Shoes	8 153	(823)	–	–	–	–	–	–
Wood and cork	29 452	(2 957)	–	–	–	–	–	932
Printing and publishing	22 213	(2 242)	–	–	–	–	–	951
Petroleum refining	177	(48)	229	–	34 928	–	–	–
Chemicals and rubber	31 314	(1 113)	–	–	1 025	–	–	1 164
Non-metallic minerals	22 955	(1 404)	–	–	–	–	–	2 136
Basis metallurgic industries and metallic products	79 888	(3 279)	–	–	–	–	–	3 943
Production of machinery	16 983	(2 051)	–	–	270	–	–	1 798
Production of transport material	12 499	(373)	–	–	5 387	–	–	134
Other transforming material	28 928	(3 208)	685	–	81 182	(698)	–	805
Electricity, gas and water	72 477	(968)	406	3 206	37 098	(252)	–	890
Construction	2 652 811	(190 541)	–	–	41 533	(998)	–	212 348
Wholesale and retail	642 336	(55 196)	49	–	13 428	–	–	36 394
Tourism	228 966	(16 768)	–	–	8 961	(90)	–	11 924
Transports	100 739	(2 431)	–	–	2 966	–	–	11 775
Communications and information activities	25 191	(2 347)	359	–	19 044	–	–	335
Financial activities	153 705	(2 373)	101 467	986	906 640	(19 743)	–	38 623
Real estate's activitiess	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).

The analysis of the risk exposure by sector of activity, as at 31 December 2008, can be analysed as follows:

2008								
Sector of activity	Loans and advances to costumers		Financial assets held for trading	Other financial assets at fair value trough profit or loss	Available-for-sale financial assets		Held-to--maturity investments	Guarantees granted
	Gross amount Euro '000	Impairment [(a)] Euro '000	Gross amount Euro '000	Gross amount Euro '000	Gross amount Euro '000	Impairment Euro '000	Gross amount Euro '000	Euro '000
Agriculture	25 127	(821)	–	–	–	–	–	512
Mining	5 699	(63)	–	–	–	–	–	842
Food, beverage and tobacco	54 486	(2 412)	–	–	–	–	–	961
Textiles	30 279	(7 504)	–	–	–	–	–	1 333
Shoes	5 658	(657)	–	–	–	–	–	66
Wood and cork	28 304	(1 336)	–	–	–	–	–	1 205
Printing and publishing	17 430	(1 834)	–	–	–	–	–	294
Petroleum refining	24	(2)	–	–	3 257	–	–	–
Chemicals and rubber	23 627	(628)	–	–	999	–	–	1 509
Non-metallic minerals	18 055	(1 501)	–	–	–	–	–	1 625
Basis metallurgic industries and metallic products	54 438	(2 540)	–	–	–	–	–	3 277
Production of machinery	13 855	(2 692)	–	–	–	–	–	1 497
Production of transport material	10 386	(202)	–	–	–	–	–	232
Other transforming material	23 169	(2 322)	–	–	57 700	–	–	712
Electricity, gas and water	38 318	(613)	1 187	2 998	31 404	(1 014)	–	516
Construction	2 886 325	(141 005)	–	–	10 981	(998)	–	205 943
Wholesale and retail	553 210	(45 906)	–	–	8 896	–	–	37 728
Tourism	186 208	(14 489)	–	–	10 163	(54)	–	17 171
Transports	82 708	(1 911)	2	–	15 898	–	–	3 993
Communications and information activities	20 489	(1 947)	4	–	–	–	–	220
Financial activities	96 081	(1 921)	57 462	1 033	707 440	(22 685)	–	55 172
Real estate's activities	823 421	(32 525)	–	–	8 537	–	–	69 082
Services provided to companies	306 022	(9 063)	–	–	–	–	–	6 930
Public services	186 503	(3 764)	–	–	2 883	–	39 912	2 896
Other activities of collective services	51 889	(2 683)	–	–	565	–	–	3 737
Mortgage loans	9 163 523	(104 447)	–	–	1 033 755	(6 430)	–	10 299
Others	304 450	(1 314)	–	–	24 857	(47)	–	3 457
TOTAL	15 009 684	(386 102)	58 655	4 031	1 917 335	(31 228)	39 912	431 209

(a) includes the provision for impairment in the amount of Euro 284 862 000 (see Note 19) and the provision for general credit risks in the amount of Euros 101 240 000 (see Note 33).

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

During 2009, CEMG entered into a number of credit default swaps relating to investment grade issuers, where the notional value of the purchase and protective sales positions at the year-end were Euro 41 458 000 and Euro 37 958 500, respectively.

Overall Risks and Financial Assets

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

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

Concerning risk information and analysis, regular reports are provided on the credit and market risks on the company's financial assets and those of the other members of the Group. For the company's own portfolio, the various risk limits are defined using the Value-at-Risk («VaR») method. There are different exposure limits such as global 'VaR' limits, by issuer, by asset type/class and rating. There are also limits of Stop Loss. Investment portfolio is mainly concentrated in bonds which as at the end of 2009 represented 80.8% of the total's portfolio, being 84.8% from the financial services sector.

Own portfolios are concentrated in variable rate debt securities, which gives them a low VaR (Var calculation is based on analytical methodology development by risk metrics, concerning a ten-day period and with a 99% confidence interval). Credit risk exposure is also very restricted, due to the bonds portfolio held are usually of investment grade levels.

CEMG continuously calculates its own portfolios «VaR», given a 10-day horizon and a 99% confidence interval, given the greater volatility witnessed in the major financial markets. At the same time, the portfolio's average life remained short.

Regarding the nature of the retail activity, the institution normally presents interest rate positive gaps, which by the end of 2009, would reach, in static terms, about Euro 389 892 000 (2008: Euro 458 900 000) (considering the total of the refixing terms of the interest rate).

The following table presents the mainly indicators of these measures, as at 31 December, 2009 and 2008:

	2009				**2008**			
	December Euro '000	**Annual Average Euro '000**	**Maximum Euro '000**	**Minimum Euro '000**	**December Euro '000**	**Annual Average Euro '000**	**Maximum Euro '000**	**Minimum Euro '000**
Interest rate GAP	389 892	650 646	911 400	389 892	458 900	739 400	1 019 900	458 900

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 offbalance positions by repricing intervals.

	Due within 3 months Euro '000	**3 to 6 months Euro '000**	**6 months to 1 year Euro '000**	**1 to 5 years Euro '000**	**Over 5 years Euro '000**
31 December, 2009					
Liabilities	13 368 081	4 169 695	115 793	183 241	50 222
Off balance sheet	3 855 697	265 965	489 500	48 500	–
Total	17 223 778	4 435 660	605 293	231 741	50 222
Liabilities	11 369 217	2 585 393	1 623 933	1 918 256	341
Off balance sheet	4 165 097	451 782	2 400	31 882	8 500
Total	15 534 314	3 037 175	1 626 333	1 950 138	8 841
GAP (Assets – Liabilities)	1 689 464	1 398 485	(1 021 040)	(1 718 397)	41 381
31 December, 2008					
Liabilities	10 723 517	3 944 496	43 111	467 267	82 450
Off balance sheet	143 500	3 000	192 752	103 500	76 020
Total	10 867 017	3 947 496	235 863	570 767	158 470
Liabilities	9 733 744	2 380 049	731 452	1 880 616	76 020
Off balance sheet	269 771	245 000	–	–	4 000
Total	10 003 515	2 625 049	731 452	1 880 616	80 020
GAP (Assets – Liabilities)	863 502	1 322 447	(495 589)	(1 309 849)	78 450

Sensibility analysis

As at December, 2009 based on the interest rate gaps observed, a instantaneous positive variation in the interest rates by 100 bp would cause an increase in the income statement in Euro 20 669 000 (2008: Euro 17 000 000).

The following table presents the average interests, in relation to the CEMG major assets and liabilities categories for the years ended 31 December 2009 and 2008, as well as the average balances and the income and expense for the year:

	2009			2008		
Products	**Average balance for the year Euro '000**	**Average interest rate (%)**	**Income/ Expense Euro '000**	**Average balance for the year Euro '000**	**Average interest rate (%)**	**Income/ Expense Euro '000**
Assets						
Loans to customers	14 803 140	4.16	615 312	14 478 792	6.05	882 724
Deposits	149 705	1.29	1 934	148 424	4.09	6 076
Securities portfolio	2 859 754	2.16	61 860	1 602 280	5.74	91 896
Inter-bank loans and advances	263 558	0.66	1 749	488 560	3.68	18 003
Other assets	–	–	–	2 217	5.24	116
Swaps	–	–	239 589	–	–	147 784
Total Assets	18 076 157		920 444	16 820 273		1 146 599
Liabilities						
Deposits from customers	8 539 978	1.89	185 540	8 291 152	2.71	286 019
Debt securities	7 802 141	2.88	208 632	7 106 555	5.47	354 300
Inter-bank deposits	785 274	1.62	12 747	551 699	4.35	23 979
Other liabilities	687	3.15	22	878	2.62	23
Swaps	–	–	193 548	–	–	168 149
Total liabilities	17 128 080		600 489	15 950 284		832 470

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

	2009							
	Euro Euro '000	US Dollars Euro '000	Sterling Pounds Euro '000	Canadian Dollars Euro '000	Hong-Kong Dollar Euro '000	Suisse Frank Euro '000	Other foreign currencies Euro '000	Total amount Euro '000
Assets by currency								
Cash and deposits at central banks	298 830	4 141	443	116	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
Property and equipment	128 599	–	–	–	–	–	–	128 599
Other tangible assets	91 173	–	–	–	–	–	–	91 173
Intangible assets	16 151	–	–	–	–	–	–	16 151
Other assets	71 259	36 981	3 570	18 381	35	–	–	130 226
Total Assets	18 819 610	48 502	4 890	18 934	3 106	347	395	18 895 784
Liabilities by currency								
Deposits from other credit institutions	502 353	–	–	–	–	–	–	502 353
Deposits from customers	910 445	14 265	2 912	17 392	386	–	–	945 400
Debt securities issued	8 846 153	31 703	1 529	1 542	117	1	1	8 881 046
Financial liabilities held for trading	4 581 225	2 082	–	–	–	–	–	4 583 307
Other financial liabilities at fair value trough profit or loss	41 323	22	–	–	–	–	–	41 345
Hedging derivatives	598	–	–	–	–	–	–	598
Provisions	102 800	–	–	–	–	–	–	102 800
Other subordinated debt	381 043	–	–	–	–	–	–	381 043
Other liabilities	2 458 441	430	449	–	2 598	346	394	2 462 658
Total Liabilities	17 824 381	48 502	4 890	18 934	3 101	347	395	17 900 550
Net asset / liability by currency	995 229	–	–	–	5	–	–	995 234
Equity	995 237	2	–	–	(5)	–	–	–
Net exposure	(8)	(2)	–	–	10	–	–	–

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2008 is analysed as follows:

	2008							
	Euro Euro '000	US Dollars Euro '000	Sterling Pounds Euro '000	Canadian Dollars Euro '000	Hong-Kong Dollar Euro '000	Suisse Frank Euro '000	Other foreign currencies Euro '000	Total amount Euro '000
Assets by currency								
Cash and deposits at central banks	247 954	4 359	728	168	–	–	1 533	254 742
Loans and advances to credit institutions repayable on demand	46 515	43 716	687	807	–	–	400	92 125
Loans and advances to credit institutions	72 679	47 716	3 150	15 360	9 271	18 605	–	166 781
Loans and advances to customers	14 721 924	2 231	–	–	–	–	667	14 724 822
Financial assets held for trading	58 593	62	–	–	–	–	–	58 655
Other financial assets at fair value trough profit or loss	4 021	3	–	–	7	–	–	4 031
Available-for-sale financial assets	1 884 718	1 389	–	–	–	–	–	1 886 107
Hedging derivatives	7 504	–	–	–	–	223	–	7 727
Held-to-maturity investments	39 912	–	–	–	–	–	–	39 912
Investments in associated companies and others	30 626	–	–	–	–	–	–	30 626
Property and equipment	85 847	–	–	–	–	–	–	85 847
Intangible assets	14 776	–	–	–	–	–	–	14 776
Other assets	164 966	117	12	255	9 271	18 605	2	193 228
Total Assets	17 380 035	99 593	4 577	16 590	18 549	37 433	2 602	17 559 379
Liabilities by currency								
Deposits from other credit institutions	852 803	–	–	–	–	–	–	852 803
Deposits from customers	957 334	69 926	3 463	14 354	9 271	18 605	169	1 073 122
Debt securities issued	7 981 150	25 252	577	2 147	–	–	116	8 009 242
Financial liabilities held for trading	4 640 910	2 156	–	–	9 271	18 605	–	4 670 942
Other financial liabilities at fair value trough profit or loss	37 499	144	–	–	–	–	–	37 643
Hedging derivatives	1 234	–	–	–	–	–	–	1 234
Provisions	102 908	–	–	–	–	–	–	102 908
Other subordinated debt	386 872	–	–	–	–	–	–	386 872
Other liabilities	1 561 982	2 163	537	88	7	223	2 317	1 567 317
Total Liabilities	16 522 692	99 641	4 577	16 589	18 549	37 433	2 602	16 702 083
Net asset / liability by currency	857 343	(48)	–	1	–	–	–	857 296
Equity	857 248	48	–	–	–	–	–	857 296
Net exposure	95	(96)	–	1	–	–	–	–

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.

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 total 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, the retained earnings and a decreasing value extinguishable in 2014, which compensates the negative impact in the Own Funds of the realised differences in the Pensions Fund transition to NIC's / NCA's. It is deducted by the book value of intangible assets, deferred costs, actuarial losses and negative fair value reserves. Additionally, 50% of the book value of equity investments in banking and insurance entities, exceeding 10% of the respective share capital is also deducted;

– Complementary Own Funds (CMOF): Essentially incorporates the subordinated eligible debt, the reavaluation 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%;

– 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 changed the treatment of the equity investments in banking and insurance entities that began to be deducted in 50% to the CMOF and 50% to the COF. In the case of the participations in institutions that are under consolidated basis supervision, in the terms of the article no. 131 from the Regime Geral das Instituições de Crédito e Sociedades Financeiras, or under a complementar supervision forseen in the Law-Decree no. 145/2006, CEMG does not proceed to the inclusion of these participations in the deductions. Before, these participations were included in deductions made to the total of Own Funds.

In 2008, the Bank of Portugal introduced some changes to the own funds calculation. Thus, through the new Regulation 6/2008, similarly to credit and other receivables, potential gains and losses arising from available for sale fixed rate securities were excluded from the own funds, to the portion exceeding the impact of related hedging transactions. The obligation of excluding from the Tier 1 the positive revaluation reserves representing non realized gains on available for sale equity instruments (net of taxes), in excess to the potential related impaired amounts is maintained.

Simultaneously, through Regulation 7/2008, the Bank of Portugal extended, for three additional years, the amortization plan of the transition adjustments to the presently applicable reporting standards that were not fully recognized in the own funds of June 30, 2008, concerning post-retirement health benefits and liabilities of the pension fund. On the other hand, the Bank of Portugal published the Regulation 11/2008, which allowed, for regulatory purposes, the enlargement of the pension fund corridor up to the amount of the actuarial losses of 2008, excluding the expected return of the fund's assets in 2008, to be amortized steadily through the next four years.

The impact in the Own Funds is being followed, accordingly to Regulation 2/2005, 4/2005, 12/2005 and 7/2008, from the Bank of Portugal.

Therefore, as at the end of 2009, the negative net impact in Own Funds are, calculated in an individual basis, was Euro 20 500 000, that results from a negative impact of Euro 8 033 000 plus Euro 27 094 000 registered in accrued costs and other deviations of Euro 7 579 000, compensated by a positive variation of Euro 22 207 000 that refers to unrecognized impacts of Own Funds (according to no 4, of 13º-A, from the Regulation no.12/2001).

The amount of Euro 27 094 000, from which Euro 7 488 000 refers to health-care benefits and Euro 19 606 000 to other benefits in pensions, will be progressively taken into retained earnings till 2014. In a same way, Own Funds compensation will decrease until their extinguish in 2014. At the end, differences will be absorved by the statuaries reserves.

The confirmation that an entity has an amount of own funds not below the amount of its capital requirements assures the adequacy of its capital, reflected on a solvency ratio – represented by the percentage of total own funds to the result of 12.5 times the capital requirements – of at least the regulatory minimum of 8%. Additionally, the Bank of Portugal released a recommendation in order to, by September 30, 2009, the financial groups submitted to its supervision, as well as the respective mother-companies, strengthen their Tier 1 ratios to a figure not below 8%.

The capital adequacy of CEMG as at 31 December 2009 and 2008 is presented as follows:

	2009 Euro '000	**2008 Euro '000**
Core own funds		
Paid-up capital	760 000	660 000
Results, general and special reserves and retained earnings	254 430	236 956
Other regulatory adjustments	(64 954)	(63 898)
NIC/NCA adjustments	22 207	28 623
	972 684	861 681
Fundos Próprios Complementares		
Upper Tier 2	18 154	8 420
Lower Tier 2	378 000	378 000
Deductions	(13 674)	(13 674)
	382 480	372 746
Deductions to total own funds	(9 079)	(9 507)
Total own funds	1 346 085	1 224 920
Own funds requirements		
Credit risk (Regulation no. 5/2007)	728 989	767 686
Market risk (Regulation no. 8/2007)	2 986	5 265
Operational risk (Regulation no. 9/2007)	62 243	58 981
	794 218	831 932
Prudential ratios		
Ratio core Tier 1	9.80%	8.29%
Solvency ratio	13.56%	11.78%

49. Accounting standards recently issued

The new standards and interpretations that have been issued, but that are not yet effective and that the Group has not yet applied, can be analysed as follows:

- ***IAS 1 (amendment) – Presentation of Financial Statements***

  The International Accounting Standards Board (IASB) has issued in September 2007 an amendment to IAS 1 – Presentation of Financial Statements, which is applicable from 1 January, 2009, although allowing for an early adoption.

  Changes regarding the current text of IAS 1:

  – The presentation of the financial position statement (balance sheet) is required for current and comparative periods. According with changed IAS 1, the financial position statement should also be presented for the beginning of the comparative period whenever an entity restates the comparatives following a change in an accounting policy, a correction of an error or the reclassification of an item in the financial statements. In these cases, three statements of the financial position will be presented, comparatively to the other two required statements.

  – Following the changes required by this standard, the users of the financial statements will be able to distinguish, in an easier way, the variations in the equity of the Bank on transactions with shareholders, as shareholders (ex. dividends, transactions with own shares) and transactions with third parties, that are summarized in the comprehensive income statement. CEMG does not expect any impact on its financial statements from the adoption of these amendments.

  Given the nature of these changes (disclosures) the impact was exclusively related to the presentation.

- ***IAS 23 (amendment) – Borrowing costs***

  The International Accounting Standards Board (IASB) has issued in March, 2007 an amendment to IAS 23 – Borrowing costs, which is applicable from 1 January, 2009, although early adoption was permitted.

  This standard requires the capitalization of borrowing costs that are directly related to the acquisition, production or construction of a qualifying asset, as part of the cost of that asset. As a result, the option to recognize such borrowing costs as an expense in the period which they arise was eliminated.

  CEMG did not obtain any significant impact from the adoption of this amendment.

- ***IAS 32 (amendment) – Financial Instruments: Presentation – Puttable Financial Instruments and obligations arising from liquidation***

  The International Accounting Standards Board (IASB) has issued in February 2008 an amendment to IAS 32 – Financial Instruments: Presentation – Puttable financial instruments and obligations arising from liquidation, which is applicable from 1 January 2009.

  According with the previous requirements of IAS 32, if an issuer can be required to make a payment in money or in other financial asset in exchange for the redemption or repurchase of the financial instrument, the instrument is classified as a financial liability. As a result of this review, some financial instruments that currently comply with the definition of a financial liability will be classified as an equity instrument if (i) represent a residual interest in the net assets of the entity; (ii) are included in a class of instruments subordinated to any other class of instruments issued by the entity; and (iii) if all instruments in the class have the same terms and conditions. A change in IAS 1 Presentation of Financial Statements was also performed to add a new presentation requirement for puttable financial instruments and obligations arising from liquidation.

  CEMG did not obtain any significant impact from the adoption of this amendment.

- ***IFRS 2 (amendment) – Share-based payment: Acquisition conditions***

  The International Accounting Standards Board (IASB) has issued in January, 2008 an amendment to IFRS 2 – Share-based payment: Acquisition conditions, which is applicable from 1 January, 2009, although early adoption was permitted.

  This change to IFRS 2 allowed clarifying that: (i) the acquisition conditions of the inherent rights for a share-based payment plan are limited to service or performance conditions and that (ii) any cancellation of these programmes, by the entity itself or by third parties, has the same accounting treatment.

  At 31 December 2009, CEMG does not have any share-based payment plan and therefore the issue of this amendment does not have any impact in the financial statements of CEMG.

- ***IFRS 7 (amendment) – Financial instruments: Disclosures***

  The International Accounting Standards Board (IASB) has issued in March 2009 an amendment to IFRS 7 – Financial instruments: Disclosures, for obligatory application in 1 January 2009.

  This amendment to IFRS 7 requires additional information in the disclosures related to fair value measurement, namely that these amounts should be presented in three hierarchical levels defined in the interpretation and related to liquidity risk.

  Given the nature of these changes the impact in the Bank's financial statements was exclusively related to the disclosures.

- ***IFRS 8 – Operational segments***

  The International Accounting Standards Board (IASB) has issued on 30 November 2006 the IFRS 8- Operational segments, which was endorsed by the European Commission on 21 November, 2007. This standard is mandatorily applicable to periods from or on 1 January, 2009.

  IFRS 8 sets out the requirements for disclosures of information about an entity's operational segments and also about services and products, geographical areas where the entity operates and its major clients. This standard specifies how an entity should disclose its information in the annual financial statements and, as a consequential amendment to IAS 34 – Interim Financial Reporting, regarding the information to be disclosed in the interim financial reporting. Each entity should also to provide a description of the segmental information disclosed namely profit or loss and of assets, as well as a brief description of how the segmental information is produced.

  Given the nature of these changes (disclosures) the impact was exclusively related to the presentation.

- ***IFRIC 13 – Customer Loyalty Programmes***

  The International Financial Reporting Interpretations Committee (IFRIC) has issued in July 2007 the IFRIC 13 – Customer Loyalty Programmes with effective date of application for the financial years starting from 1 July 2008, although allowing for an early adoption.

  This interpretation is applicable to customer loyalty programmes and addresses how companies grant their customers loyalty award credits (often called «points») when buying goods or services, allowing them to exchange these credits, in the future, by free goods or services or with a discount.

  CEMG did not obtain any impact from the adoption of this interpretation.

- ***IFRIC 15 – Agreements for the Construction of Real Estate***

  The IFRIC 15 – Agreements for the Construction of Real Estate is effective for the years started from 1 January 2009.

  This interpretation includes guidance that allows determining if a contract for the construction of real estate is within the scope of IAS 18 – Revenue or IAS 11 – Construction Contracts. Is expected that IAS 18 will be applied to a larger number of transactions.

  CEMG did not obtain any impact on its financial statements from this interpretation.

- ***IFRIC 16 – Hedges of a Net Investment in a Foreign Operation***

  The International Financial Reporting Interpretations Committee (IFRIC) issued in July, 2008, IFRIC 16 – Hedges of a Net Investment in a Foreign Operation, with mandatory application date for years started after 1 October 2008, although an early adoption was permitted.

  This interpretation intends to clarify that:

  – The hedge of a net investment in a foreign operation can only be applied to exchange differences resulting from the foreign subsidiaries' financial statements conversion from its functional currency to the parent company's functional currency and only for an amount equal or smaller to the subsidiary's net assets;

  – The hedge instrument can be contracted by any of the Bank's entities, except by the entity that is being hedged; and

  – At the moment of the hedged subsidiary's sale the accumulated gain or loss related to the effective hedge component is reclassified to profit and loss.

  This interpretation allows an entity that uses the step by step consolidation method to choose an accounting policy that allows determining the accumulated foreign exchange conversion adjustment that is reclassified to profit and loss when the subsidiary is sold, as it would do if applying the direct consolidation method. This interpretation has a prospective application.

CEMG did not obtain any significant impact on its financial statements from the adoption of this interpretation.

- ***Annual Improvement Project***

In May, 2008 the IASB published the Annual Improvement Project that implied changes to the standards in force. The effective date of the referred changes depends on the specific standard, although the majority is mandatory for the Bank in 2009, as follows:

– Changes to IAS 1 – Financial Statements presentation, which is applicable from 1 January 2009. The change clarifies that only some financial instruments classified as trading instruments are an example of current assets and liabilities.

CEMG did not obtain any significant impact from the adoption of this amendment.

– Changes to IAS 16 – Property, Plant and Equipment, which is applicable from 1 January 2009. The change that occurred establishes classification rules (i) for the income originated by the sale of rented assets subsequently sold and (ii) for these assets during the period between the date of termination of the rental agreement and the date of the sale agreement.

CEMG did not obtain any significant impact from the adoption of this amendment.

– Changes to IAS 19 – Employee Benefits, which is applicable from 1 January 2009. The changes allowed clarifying (i) the concept of negative costs associated to past services resulting from changes in the defined benefit plan, (ii) the interaction between the expected return from the assets and the costs of managing the plan, and (iii) the distinction between short, medium and long term benefits.

CEMG did not obtain any significant impact from the adoption of this amendment.

– Changes to IAS 20 – Accounting for government grants and disclosure of government assistance, which is applicable from 1 January 2009. This change established that the benefit arising from obtaining a government loan at rates below market rates should be measured as the difference between the fair value of the liability at granting date, determined according with IAS 39 – Financial Instruments: Recognition and Measurement and the amount received. This benefit should be subsequently accounted according with IAS 20.

CEMG did not obtain any significant impact from the adoption of this amendment.

– Changes to IAS 23 – Borrowing Costs, applicable from 1 January 2009. The concept of borrowing costs was changed to clarify that these costs should be determined according with the effective interest rate as defined in IAS 39 – Financial Instruments: Recognition and Measurement, thus eliminating the inconsistency between IAS 23 and IAS 39.

CEMG did not obtain any significant impact from the adoption of this amendment.

– Changes to IAS 27 – Consolidated and separate financial statements, applicable from 1 January 2009. The change to this standard determines that in the cases when an investment in a subsidiary is accounted at fair value in the individual accounts, according with IAS 39 – Financial Instruments: Recognition and Measurement and qualifies for classification as a non-current asset held for sale according with IFRS 5 – Non-current assets held for sale and discontinued operations, the investment should continue to be measured as defined in IAS 39.

CEMG did not obtain any significant impact from the adoption of this amendment.

– Change to IAS 28 – Investments in Associates, applicable from 1 January 2009. The changes to IAS 28 – Investments in Associates had the objective of clarifying (i) that an investment in an associate should be treated as a single asset for impairment testing purposes under the scope of IAS 36 – Impairment of assets, (ii) that any impairment loss to be recognized shouldn't be allocated to specific assets namely to goodwill and (iii) that the impairment write-backs are accounted as an adjustment to the carrying amount of the associate as long as and to the extent that the recoverable amount of the investment increases.

CEMG did not obtain any significant impact from the adoption of this amendment.

– Change to IAS 38 – Intangible Assets, applicable from 1 January 2009. This change determined that an incurred deferred expense related with advertising or promotional activities can only be recognized in the balance sheet if an advance payment was made regarding goods and services that will be received in a future date. The recognition in profit and loss should occur when the entity has the right to receive the goods and services.

CEMG did not obtain any significant impact from the adoption of this amendment.

– Changes to the IAS 39 – Financial Instruments: Recognition and Measurement, applicable from 1 January 2009. This change includes mainly in (i) the clarification that it is possible to perform transfers from and to the category of fair value through profit and loss regarding derivatives, whenever these start or end an hedge relationship in cash-flows hedge models or net investment in an associate or subsidiary, (ii) the change to the definition of financial instruments at fair value through profit and loss in what relates the trading portfolio, determining that in the case of financial instrument portfolios jointly managed and for which there is evidence of a recent and real model of short-term profit taking, these should be classified as trading on initial recognition; (iii) the change to the documentation requirements and the effectiveness tests of the hedge relationship for the operational segments defined under the scope of IFRS 8 – Operating Segments; and (iv) the clarification that the measurement of a financial liability at amortized cost, after the interruption of the respective fair value hedge relationship, should be performed based on the new effective rate calculated at the interruption date.

CEMG did not obtain any significant impact from the adoption of this amendment.

– Change to IAS 40 – Investment Properties, applicable from 1 January 2009. Following this change, the properties under construction or development for subsequent use as investment properties are included under the scope of IAS 40 (before they were included under the scope of IAS 16 Property, Plant and Equipment). These properties under construction can be accounted at fair value except if they cannot be reliably measured in which case they should be accounted at acquisition cost.

CEMG did not obtain any significant impact from the adoption of this amendment.

Standards, changes and interpretations issued but not effective for the Bank

- ***IAS 39 (amendment) – Financial Instruments: Recognition and measurement – Eligible hedged items***

  The International Accounting Standards Board (IASB) has issued an amendment to IAS 39 – Financial Instruments: Recognition and measurement – Eligible hedged items, which is for mandatory application from 1 July 2009.

  This change clarifies the application of the existing principles that determine what risks or which cashflows can be designated as a hedged item.

  CEMG is evaluating the impact of adopting this standard in its financial statements.

- ***IFRS 1 (amendment) – First time adoption of the International Financial Reporting Standards and IAS 27 – Consolidated and Separate Financial Statements***

  The changes in the IFRS 1 – First time adoption of the International Financial Reporting Standards and IAS 27 – Consolidated and Separated Financial Statements are effective from 1 July 2009.

  These changes allowed entities adopting IFRS for the first time in the preparation of the individual accounts to use as deemed cost of the investments in subsidiaries, joint-ventures and associated companies, the respective fair value at the transition date to the IFRS or the carrying amount determined based on the previous accounting framework.

  CEMG does not expect any significant impact from the adoption of this amendment.

- ***IFRS 3 (amendment) – Business combinations and IAS 27 (amendment) Consolidated and separate Financial statements***

  The International Accounting Standards Board (IASB) has issued in January 2008 an amendment to IFRS 3 (amendment) – Business Combinations, with mandatory application from 1 July 2009, although early adoption is permitted.

  The main impacts of the changes to these standards are: (i) the treatment of partial acquisitions where the non-controlling interests (previously defined as minority interests) will be measured at fair value (which implies also the recognition of goodwill attributable to non-controlling interests) or as an alternative allows for the attributable to non controlling interest of the fair value of the net assets acquired (as currently required) to be measured at fair value; (ii) the step acquisition that require, at the time when the goodwill is determined, the revaluation against profit and loss, of the fair value of any non-controlling interest held previously to the acquisition; (iii) the costs directly related with the acquisition of a subsidiary will be accounted in profit and loss; (iv) the changes in the estimates of the contingent prices are accounted in profit and loss and do not affect goodwill; and (v) the changes in percentages of subsidiaries held that do not result in a loss in control are accounted as equity changes.

  Additionally, following the changes to IAS 27, the accumulated losses in a subsidiary will be attributed to the non-controlling interests (recognition of negative non-controlling interests) and when a subsidiary is sold with a subsequent loss of control, the remaining non-controlling interests are measured at the fair value determined at the date of the transaction.

  CEMG does not expect any significant impact from the adoption of this amendment.

- ***IFRS 9 – Financial instruments***

  The International Accounting Standards Board (IASB) has issued in November 2009, IFRS 9 – Financial instruments part I: Classification and measurement, which is for mandatory application for the financial years starting on 1 January 2013, although early adoption is permitted. This standard has not yet been adopted by European Union.

  This standard is part of phase I of the IASB's comprehensive project to replace IAS 39 and relates to matters of classification and measurement of financial assets. The main issues considered are as follows:

  – The financial assets can be classified in two categories: at amortized cost or at fair value. This decision should be defined at initial recognition of the financial assets. Its classification depends on the entity, business model for managing its financial instruments and the contractual cash flows associated to each financial asset;

  – Only debt instruments could be measured at amortized cost when the contractual cash-flows represents only payments of principal and interest, which means that contains only the basic loan features, and for which an entity holds the asset to collect the contractual cash flows. All the other debt instruments are recognized at fair value; and

  – Equity instruments issued by third parties are recognized at fair value with subsequent changes recognized in the profit and loss. Although, for equity instruments an entity could make an irrevocable election at initial recognition to recognize fair value changes are recognized in fair value reserves. Gains and losses recognized on fair value reserves cannot be recycled to profit and loss. This is a discretionary decision, not implying that all the equity instruments should be treated on this basis. The dividends received are recognized as income for the year.

  CEMG is evaluating the impact from the adoption of this standard.

- ***IFRIC 12 – Service Concession Arrangements***

  The International Financial Reporting Interpretations Committee (IFRIC) has issued in July 2007 IFRIC 12 – Service Concession Arrangement. The EU endorsement was at 25 March 2009. This interpretation is mandatory for annual periods beginning on or after 29 March 2009. The IFRIC 12 applies to public-to private service concession arrangements. This interpretation will be applicable only when a) the grantor controls or regulates what services the operator must provide and b) the grantor controls any significant residual interest in the infrastructure at the term of the arrangement.

  Considering the nature of the contracts considered under this interpretation, CEMG does not expect any significant impact from its adoption in the financial statements.

- ***IFRIC 17 – Distributions of Non-cash Assets to Owners***

  The International Financial Reporting Interpretations Committee (IFRIC) issued in November 2008, IFRIC 17 – Distributions of Non-cash Assets to Owners, with effective application date to years started after 1 July 2009, early adopting being allowed.

  This interpretation intends to clarify the accounting treatment of non-cash assets distribution to owners. It establishes that non-cash assets distributions must be accounted at fair value and the difference to the distributed assets carrying amount recognized in profit and loss in the period of the distribution.

  CEMG does not expect any significant impact from the adoption of this interpretation in the financial statements.

- ***IFRIC 18 – Transfers of Assets from Customers***

  The International Financial Reporting Interpretations Committee (IFRIC) issued in November 2008, IFRIC 18 – Transfers of Assets from Customers, with effective application date to years started after 1 July 2009, early adopting being allowed.

  This interpretation intends to clarify the accounting treatment of agreements through which an entity receives assets from customers for its own use and with the intent of establishing a future connection of the clients to a network or of granting continued access to the supply of services and goods to customers.

  The interpretation clarifies:

  – The conditions in which an asset is within the scope of this interpretation;

  – The assets recognition and initial measurement;

  – The identification of the identifiable services (one or more services in exchange for the transferred asset);

  – Revenue recognition; and

  – Accounting of money transfers from customers.

CEMG does not expect any significant impact from the adoption of this interpretation in the financial statements.

- ***Annual Improvement Project***

In May, 2008, as referred previously IASB published the Annual Improvement Project that implied changes to the standards in force. However, the effective date of the referred changes depends on each specific standard.

– Changes to IFRS 5 – Non-current assets held for sale and discontinued operations, effective for years starting after 1 July 2009. This change clarifies that all the assets and liabilities of a subsidiary must be classified as non-current assets held for sale in accordance with IFRS 5 if a plan for the partial sale of the subsidiary, that will imply losing the subsidiary's control, exists.

This standard will be adopted prospectively by CEMG.

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AUDITORS' REPORT

(ISSUED BY THE STATUTORY AUDITOR)

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

INTRODUCTION

1. In accordance with the applicable legislation, we present our Auditors' Report, on the individual financial information included in Report of the Board of Directors and in the accompanying financial statements as at and for the year ended 31 December, 2009 of **Caixa Económica Montepio Geral**, which comprise the Balance sheet as at 31 December 2009 (showing total assets of 18,895,784 thousand Euros and total equity of 995,234 thousand Euros, including a net profit of 37,778 thousand Euros) the statements of income, of cash flows, of changes in equity and of comprehensive income for the year then ended and the corresponding notes to the accounts.

RESPONSIBILITIES

2. The Board of Directors is responsible for:

   a) the preparation of the financial information in accordance with the Adjusted Accounting Standards ("Normas de Contabilidade Ajustadas") issued by the Bank of Portugal, which are based on the application of International Financial Reporting Standards ("IFRS") as adopted by the European Union, with exception of the issues defined in no. 2 and no. 3 of Regulation no. 1/2005 and no. 2 of Regulation no. 4/2005 of the Bank of Portugal ("NCA's"), that present fairly the financial position of **Caixa Económica Montepio Geral**, the results of its operations, cash flows, changes in equity and its comprehensive income;

   b) maintaining historical financial information prepared in accordance with generally accepted accounting principles 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.

3. 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 audit.

SCOPE

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

- verification, on a test basis, of the information underlying the figures and its disclosures contained therein, and an assessment of the estimates, based on the judgements and criteria defined by the Board of Directors, used in the preparation of the referred financial statements;
- evaluating the appropriateness of the accounting policies used and of their disclosure, taking into account the applicable circumstances;
- assessing the applicability of the going concern basis of accounting;
- assessment of the appropriateness of the overall presentation of the financial statements; and
- assessment of whether the financial information is complete, true, timely, clear, objective and lawful.

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

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

OPINION

7. In our opinion, the financial information referred to above presents fairly, in all material respects, the financial position of **Caixa Económica Montepio Geral**, as at 31 December 2009, the results of its operations, its cash flows, its changes in equity and the comprehensive income for the year then ended, in accordance with the Adjusted Accounting Standards defined by the Bank of Portugal and the information contained therein is complete, true, current, clear, objective and lawful.

Lisbon, 8 March 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)

6. Internal Audit Board's Reports, Opinions And Compliance Statement

INTERNAL AUDIT BOARD'S REPORT AND OPINION ON MGAM AND CEMG

To the Members:

Pursuant to our duties, laid down in article 36(1-d) of the Articles of Association of Montepio Geral-Associação Mutualista (hereinafter referred to as Montepio Geral) and article 25 (f) of the Articles of Association of Caixa Económica Montepio Geral, (hereinafter referred to as Caixa Económica), we hereby submit for your appreciation our Report and Opinion on their Annual Reports and Financial Statements for 2009, drawn up by the Board of Directors.

REPORT

1. In 2009 we followed the management of Montepio Geral and Caixa Económica by reading the minutes of Board meetings, by holding regular meetings with the Board and some of its members, and by examining the accounting documents, reports and figures supplied monthly by the Departments. We also attended General Board meetings and held working meetings with those Board members closely linked to our functions.
2. During the course of our work, we received all the cooperation of the Board of Directors and the Institution's Departments, which provided us with all information required to perform our duties.
3. During the year we prepared all statutory documents required, as well as others required by the Bank of Portugal, in particular, the Report on adequacy and efficiency of the internal control system as regards both the individual and consolidated accounts, which was prepared with the technical support of the external auditors and which, in addition to identifying deviations and recommending improvements, states that as a whole, the internal control procedures meet fairly in all material respects the requirements of Bank of Portugal Notice No. 5/2008.
4. In 2009, Montepio Geral's financial statements were prepared on the basis of the recognition and measurement criteria laid down in the International Financial Reporting Standards (IFRS), as adopted by the European Union by 31st December 2009. The accounting policies Montepio Geral employed to prepare its financial statements as at 31st December 2009, are consistent with those employed in the annual financial statements as at 31st December 2008, and comply with the requirements of the Official Accounting Plan for Mutual Associations.
5. The accounts of Caixa Económica continue to be prepared, presented and published in accordance with the Adjusted Accounting Standards («AAS's»), i.e. the individual financial statements are prepared according to the International Financial Reporting Standards (IFRS) as adopted by the European Union, with the exception of matters regulated by the Bank of Portugal, such as customer credit impairment losses and accounting for retained earnings in the case of liabilities relating to retirement and survivor's pension.
6. In our opinion, the contents of the Annual Report are consistent in all material respects with the financial statements presented and comply with the legal requirements and the Articles of Association.
7. When examining the Financial Statements, we paid special attention to the Auditors' Report (Montepio Geral) and the Statutory Audit Opinion of the Financial Statements and Auditors' Report (Caixa Económica), drawn up by the External Auditors, the body hired to monitor and audit the accounting practices over the year and the accounts produced by the Board of Directors, under the provisions of the law and the Articles of Association. The documents produced by the External Auditors reported no qualification and we are in agreement with their contents. However, we also agree with the fact that the Montepio Geral Auditors' Report highlights the changes in accounting policies referred to in paragraph 4 above, which are suitably described in Notes no. 3.1 and, 3.15 to the Accounts.
8. Following the closing of the accounts for 2009, we examined the accounting statements, consisting of the Annual Report, the Balance Sheet as at 31st December 2009, the Income Statement, the Cash Flow Statement and Changes in Equity Statement and the Return for the Year ending on that date, as well as the Notes to the Accounts.

9. We would like to call your attention to the importance of the Social Responsibility and Institutional Corporate Governance Reports which are included in the Annual Report for 2009.
10. As a result of the work undertaken, it is our belief that the Board of Directors' Annual Report, the Financial Statements and the Notes to the Accounts comply with the law and the Institutions' Articles of Association and provide an accurate view of their financial position, the profit made, the cash flow position, changes in equity and return for the year, as at 31 December 2009.
11. We wish to thank the Board of Directors for its reference to our work and second the Board of Directors' vote of thanks to the various entities, Governing Body members and Employees referred to in the Annual Report.
12. The year was marked by a worsening of the economic situation, at both the national and international levels, including a clear slowdown in production and demand that had a knock on effect on economic players' expectations. The contraction in investment, the increase in unemployment, and the increasing internal and external indebtedness, were features of the past year. Despite the unfavourable economic climate and the constraints, Montepio Geral and Caixa Económica managed to achieve almost all their growth, profitability and soundness goals and pursue their strategic guidelines.
13. Therefore we give our support to the measures taken by Montepio Geral and Caixa Económica, knowing that the Board of Directors, with the support of the Employees, will follow the necessary paths to minimise the difficulties that arise and will restore the Institution's upward trend.

In the light of the above, we are of the

OPINION

That the General Meeting should approve:

a) The Annual Reports and Financial Statements of Montepio Geral and Caixa Económica, as at 31 December 2009;

b) The profit distribution proposals set out in said Annual Reports;

c) The other proposals contained in the Montepio Geral Annual Report;

d) A vote of appreciation to the Board of Directors for their efficient management, which should be extended to the employees in recognition of their efforts.

Lisbon, 8th March 2010

INTERNAL AUDIT BOARD

Manuel Jacinto Nunes – Chairman

Gabriel José dos Santos Fernandes – Member

José Moreira Venâncio – Member

INTERNAL AUDIT BOARD'S REPORT AND OPINION ON THE CONSOLIDATED ACCOUNTS

To the Members:

Pursuant to our duties, laid down in article 25 (f) of Articles of Association of Caixa Económica Montepio Geral, hereinafter referred to as Caixa Económica, we hereby submit for your appreciation our Report and Opinion on the Consolidated Annual Report and Financial Statements for 2009 of Caixa Económica and the companies included in the consolidation, as drawn up by the Board of Directors.

REPORT

1. We have examined the Board of Directors' Consolidated Annual report and Accounts consisting of the consolidated Balance Sheet as at 31 December 2009, the Consolidated Income Statement, the Consolidated Cash Flows, the Changes in Equity and the Return for the Year for 2009, as well as the respective Notes to the Consolidated Financial Statements.
2. We checked that contents of the Consolidated Annual Report match, in all material matters, the Consolidated Financial Statements, and comply with the law and the Articles of Association.
3. When examining the Consolidated Financial Statements for the year, we based our opinion on the Statutory Audit Opinion and Auditor's Unqualified Report, drawn up by the External Auditors with which we are in agreement.
4. As a result of the work undertaken, it is our opinion that the Consolidated Financial Statements (Consolidated Balance Sheet as at 31 December 2009, Consolidated Income Statement, Consolidated Cash Flows, Changes in Equity and Return for the Year for 2009, as well as the respective Notes to the Consolidated Financial Statements) provide an accurate view of Caixa Económica's financial position and that of the companies covered by the consolidation, as at 31 December 2009, and of the nature of the consolidated profit in 2009.

In light of the above, we are of the

OPINION

That the General Meeting should approve the Annual Report and Consolidated Financial Statements for the year ending 31 December 2009.

Lisbon, 8th March 2010

INTERNAL AUDIT BOARD

Manuel Jacinto Nunes – Chairman

Gabriel José dos Santos Fernandes – Member

José Moreira Venâncio – Member

COMPLIANCE STATEMENT

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

According to its statutory duties the Internal Audit Board is responsible for supervising and auditing the Institution's business and for expressing a professional opinion based on its examination of the Annual Report and Financial Statements.

We confirm all items and information supplied to us and state that, to the best of our knowledge:

- All the individual and consolidated financial information as at 31 December 2009 provides a true and fair view of the assets, liabilities, financial position and profits pertaining to the Institution and the companies falling within the consolidation scope, and

- The annual report accurately describes the evolution of the business, the performance and position of the Institution and the companies falling within the consolidation scope, pursuant to the applicable rules.

Lisboa, 8th March 2010

INTERNAL AUDIT BOARD

Manuel Jacinto Nunes – Chairman

Gabriel José dos Santos Fernandes – Member

José Moreira Venâncio – Member

7. Social Responsibility Report

MONTEPIO'S MISSION

Montepio pursues the mutual approach at the service of a growing community, which now has well over four hundred thousand members. Its core business aims at solving problems and meeting social needs, while complying with solidarity principles and high ethical standards.

That mission has social solidarity goals and naturally involves a highly socially responsible performance of which Montepio has been proud to achieve for almost 170 years.

Thus, Montepio has contributed to Portugal's economic, social and cultural development, through increasingly varied and improved financial and banking activities, which cover the entire country, and through its many Social Responsibility activities that are more and more systematic, wide ranging and publicised, and set out to promote an inclusive society, raise awareness among the general public and develop solidarity.

Despite its long, continuous and growing presence in the social solidarity field, which includes the setting up of Fundação Montepio in 1995, until recently Montepio acted very discreetly. But now it has begun to require from its organisation improved strategy, systematisation, programming and communication of its actions. To this end Social Responsibility was included into the Group's Vision and strategic goals. Guidelines were drawn up on Social Responsibility policy and in 2006 a specific body reporting directly to the Board of Directors – the Social Responsibility Office – was set up to carry out that policy.

In recent years the Group's Social Responsibility role has been more organised, methodical and wide-ranging and integrated within the Group companies. Likewise that role became more visible both internally and externally due to the increase in communication and publicity that has led to the spread of good solidarity practices. In 2009, an effort was made to inform all those who work for the Group companies, and in particular all those who interact with the Montepio Group, of the contributions that have been made to common causes and to society as a whole, as proof of what makes Montepio different and of its commitment to the future.

CORPORATE GOVERNANCE

Montepio's longevity and soundness and the growth in Membership and customers reflect the market's and society's confidence in the Institution and the Montepio brand. That is due in part to Montepio's diligent, prudent and transparent governance policies, which are based on the highest ethical standards.

Taking as its goal the adequate creation of wealth for Members and customers, Montepio pursues a demanding compliance policy, which is shown not only in strict compliance with internal and external rules, but also the adoption of good management practices and recommendations, particularly in terms of the disseminating of information, the continual development of risk management processes and internal control systems, along with policies of improved service quality and more efficient use and upgrading of resources.

The revision of the Articles of Association will allow the organisation to continue to modernise and adapt to the changes in management systems and methods, as well as to new regulatory requirements in the corporate governance field.

MEMBERS AND CUSTOMERS

Montepio is at the service of its Members, Customers and the Community in general. It supports families and contributes to the productive sector's development by identifying and foreseeing their problems and needs in a proactive and systematic manner so as to find the best response, by continually adapting and creating new products and services, in both the mutual and banking and finance fields.

For its Individual Customers the Montepio Group offers a wide range of products that fully meet the banking and financial need of its Members and Customers over their life cycles, in a distinctive manner compared to the other options on the market.

Its contribution to economic development is reflected in the growing number of Companies that seek its banking services for supporting investment and renewing the national productive structure, in particular the Micro businesses and SME segments. Montepio offers a wide range of products and services, as well as entering into agreements with public bodies and the European Investment Bank (EIB) in order to provide customers with medium and long-term finance under the most favourable terms, such as:

- «SME Invest» Credit – intended to support micro and small business investment in the motor, export and tourism sectors, to which Montepio has contributed 131 million euros;
- Credit for financing SME investment, expansion and innovation under a direct agreement with EIB to the sum of 100 million euros;
- Credit to support companies in the autonomous regions of the Azores and Madeira, to which Montepio has contributed 11 million euros;
- Credit for SMEs in the Agriculture, Forestry and Agro-Industrial sectors – the programme is managed by the IFAP and aims to stimulate the business of companies in the agriculture, livestock, forestry and agro-industrial sectors. Montepio has contributed 2.7 million euros.

Concern for social progress and inclusion, particularly for the unemployed, first job seekers and self-employed persons with low earnings, led to the creating of the Entrepreneurship and Self-Employment Support Programme, in cooperation with the Institute of Employment and Vocational Training. Other options are under discussion to expand microcredit which is currently provided by the microcredit department, under an agreement with the social welfare institution, Santa Casa da Misericórdia de Lisboa.

Within the scope environmental responsibility, an agreement has been signed with the Ministry of Finance and Central Government and the Ministry of the Economy and Innovation to provide credit for Renewable Energy projects to charities and private individuals who wish to install generating equipment and use eco-friendly forms of energy.

Montepio is aware that creating wealth for Members and Customers involves much more than financial and banking products and services and the quality of the service rendered, so it has developed a policy of supporting projects that convey the brands' values in an objective manner. Therefore, for the second year running Montepio was associated with the largest children's' event in Portugal, the «Panda» Festival. And as part of its strategy of getting closer to national culture, it sponsored the Portuguese version of the musical that has won the most awards in the history of Broadway, Mel Brooks' «The Producers», as well as the «Amália Hoje» CD, which is a tribute to traditional Portuguese music's greatest artist, Amália Rodrigues, and which has received three platinum records.

On the association front, training courses were run for Members and cultural and sporting events were organised, which provided for more personal contact with Members, encouraged participation in the association movement and the sharing of humanist values.

WALKING WITH HISTORY

Montepio launched a cultural programme aimed at strengthening relationships with Members, who were invited to ***Walk with History****. A number of thematic visits were made to museums and other Portuguese symbols, such as Portugal's Birthplace, Roman Braga, Belém, Downtown Lisbon, Romantic Sintra and Oporto in the works of Camilo and Julio Dinis. The visits were led by official guides who set the scene for the various groups of Members and provided information on each theme.*

EMPLOYMENT AND HUMAN RESOURCES DEVELOPMENT

The Montepio Group continues to be a contributor to the increase in employment in Portugal, having seen the total number of staff in the Group's companies, including Associação Mutualista, Caixa Económica, Lusitania – Companhia de Seguros, Futuro and Residências Montepio, rise by 114, which is an important contribution in the current situation.

Recruitment of new staff complies with the principles of gender equality and non-discrimination by age, race, disease or disability. In this light, it must be mentioned that Montepio was the only financial entity to sign the «Companies and HIV» Code of Conduct, to ensure that no member of staff or applicant is discriminated against for having the AIDS virus.

The new employee's probation period includes a basic training course run in cooperation with the Bank Training Institute. It runs for 176 hours and inducts staff into the organisation's culture and puts them in contact with the reality of the workplace. It also includes a specific module on social responsibility in which the Board of Directors is directly involved. Given the important part first working practice plays in the employability and careers of young professionals, Montepio provided training placements in the private customers and companies departments of 93 of its branches in mainland Portugal and on the islands.

Human Resources are the cornerstone and the basis for the progress of Montepio, and attention has always been paid to their development, through investment in vocational training as well as the promotion of and support for cultural and sports development. In order to enhance staff's professional skills, a total of 172 605 hours of training were given, involving 2 706 trainees, which meant average training time per employee rose from 36 to 57 hours.

In 2009, Human Resources policies were aligned with the Institution's strategic goals and employees' expectations, through the development and improvement of the Performance Management System, aimed at strengthening the degree of commitment to the Institution, increase motivation and levels of professional achievement, within a system that provides greater clarity, objectivity, thoroughness and empowerment.

Career development was also one of the strategic guidelines of Human Resources management. Montepio has sought to build a more youthful management team, on the basis of in-house human potential, backed by a Coaching programme.

In the field of HSE, measures were taken to increase the prevention, monitoring and control of external threats to employees' well-being and health, thereby ensuring business goes on.

In 2009, Montepio undertook a number of recreational and cultural initiatives that involved staff and their families. A number of social benefits were also provided to support family expenses. Efforts were also made to identify the concrete social support employees require, which called for the participation of a Social Worker. Other more cross-disciplinary actions were taken in the context of Montepio's Social Policy, to improve staff well-being and that of their families, in particular the entering into of agreements in the fields of therapeutic and psychological support.

Montepio
Serviços Sociais

COMMUNITY AND SOCIAL SOLIDARITY

Fundação Montepio continued to play its social role by granting support to 154 projects and entities to the amount of 1.5 million euros. Of special note are the «*Frota Solidária*» programme, the Montepio School Prize, the «*Mais Vida*» Card and the Christmas Donations. Another highlight is the Financial Education programme run jointly with the National Association of Young Persons for Family Action, which reached 318 people from June to December 2009.

FROTA SOLIDÁRIA
SUPERAR OBSTÁCULOS
Montepio

As a driving force behind the social economy, Montepio continued to support Third Sector institutions. In 2009 the mutual shop received 23 institutions under the «*Incluarte*» project, allowing them to raise funds and sell products made by their users. Cooperation agreements were signed with a number of entities in the Third Sector, including the Portuguese Fire-fighters League and the Confederation of Cultural and Recreational Collectives.

In order to disseminate social solidarity practices, throughout 2009 Montepio run campaigns to rally staff and aid partner charities. The first campaign sought to obtain foodstuffs and medicines for over 600 animals belonging to Zoophile Union, the Society for the Protection of Animals and the «*PATA*» Association (Funchal). The second campaign set out to buy hygiene products for two charities, «*Ninho dos Pequeninos*» in Leiria and the Portuguese Youth Foundation in Oporto, supporting babies and pregnant teenagers. The third solidarity campaign was undertaken with the CASA Association that supports poor families and the homeless in various parts of the country: Lisbon, Setúbal, Cascais, Coimbra, Oporto, Faro and Funchal.

VOLUNTARIADO MONTEPIO
SOLIDARIAMENTE CONSIGO

Montepio's undeniable solidarity towards the Third Sector makes ita benchmark in the field of Corporate Volunteers. During the year Montepio organised 17 volunteer initiatives in a wide range of fields, such as solidarity, health, education, environmental protection and defence of animals. Some 204 current and retired Montepio employees took part, bringing direct benefits to around 4600 people and 300 animals and indirect benefits to the communities concerned. The majority of these initiatives aimed at increasing social solidarity by supporting the various institutions that work with people with disabilities, children, poorer families and the homeless. Other initiatives promoted education among children, young people and elderly Members, environmental conservation and quality of life for all living things.

Mention should also be made of Montepio's role in promoting and spreading Social Responsibility and Sustainable Development policies, through its presence in the Corporate Ethics Reflection Group, the «*Aprender a Empreender*» Association, the ECO Movement, the National Centre of Foundations, the European Savings Banks' Social Responsibility Committee, the Portuguese Social Responsibility Association and the Portuguese Sustainable Development Council.

8. Institutional Governance Report

CHAPTER 0

DECLARATION OF COMPLIANCE

This report was prepared in accordance with SEC Regulation no. 1/2007 (as amended by SEC Regulation no. 1/2010) and complies with Montepio's governance principles and practices, the SEC general recommendations and Montepio's specific legal status.

The strategic guidelines continue to focus on the development of the governance structure and system, always taking into account the needs of the market, in general, and Members, in particular.

In addition to the requirements of the law, the Articles of Association and the regulations, all activities undertaken by Montepio (Associação Mutualista and Caixa Económica) are also governed by the decisions of the governing bodies, by internal rules, codes of conduct and ethical standards.

The Internal Regulations are published on the Intranet, so as to reach all employees, and contain a series of documents classified by goals and the respective contents, as well as a series of professional and ethical practices and rules. In regard to compliance with prudence rules and the respective external report deadlines, there are Internal Regulations covering the duty to inform.

A number of documents are available on Montepio's website, www.montepio.pt, including the Articles of Association, financial information, such as Annual Reports and Accounts, quarterly and half-yearly data, as well as ratings and other compulsory information.

CHAPTER I

GENERAL MEETING

The General Meeting is Montepio Geral – Associação Mutualista's collegiate and institutional body, made up of all full members, and its functions include:

- elect or remove governing body members;
- approve the Board of Directors (BD) annual report, the accounts for the year, the Internal Audit Board's opinion and the General Board's report;
- approve the work programme and the budget submitted by the BD and the Internal Audit Board's opinion;
- approve the proposed profit distribution;
- authorise the setting up of own funds not provided for specifically in the Articles of Association and the increase of any funds which do not fall within the powers of the Board of Directors;
- vote on amendments to the Articles of Association;
- elect a committee every three years to set remuneration for governing body members.

The General Meeting is governed by specific regulations, in addition to the Articles of Association.

Pursuant to the Articles of Association, a General Meeting shall be called at least fifteen days in advance and is only duly convened on first call when at least half the members are present. On second call the General Meeting, held an hour later, may conduct business no matter how many members are present.

However, decisions as to the revision or amendment of the Articles of Association, mergers, splits, modifications or incorporations of CEMG, require the presence of at least two thirds of members on first call, and any number of members on second call up to twenty but no less than fifteen days later.

Notices calling General Meetings shall be published in the daily press and also on Montepio's website and as regards the annual accounts, on the SEC website via the extranet.

In 2009 three Ordinary General Meetings were held, one to elect the Governing Bodies for 2010-2012, for both Montepio Geral – Associação Mutualista and Caixa Económica Montepio Geral. Those elected on 11th December 2009 took office on 11th January 2010.

I.1. GENERAL MEETING BOARD

The General Meeting Board consists of a Chairman and two Secretaries. In the Chairman's absence the First Secretary shall assume his/her functions, and in the latter's absence the Second Secretary shall assume those functions. As is the case with the other members of the governing and institutional bodies, the General Meeting Board members is elected every three years and they may be elected for more than three successive terms of office.

The General Meeting Board Chairman is responsible for calling the meetings and presiding over them, and the Secretaries are responsible for drawing up the minutes and issuing the respective certificates.

The General Meeting Board Chairman shall be provided with the logistics and human resources required to perform its functions by the Institution's General Secretary and the appropriate departments.

The General Meeting Board Chairman's remuneration is based on attendance at the rate of € 813.75 per session in 2009.

I.2. PROCEDURES RELATING TO VOTING RIGHTS

Under the Articles of Association only full members, that is to say people who were admitted at least two years ago, are adults of sound mind and who comply with certain legal provisions, the Articles of Association and applicable regulations, may attend General Meetings and may vote. Each eligible Member shall have one vote.

The same rules apply to those wishing to vote by mail.

Voting rights are granted to all Members under equal terms and may be exercised in person or by post. In the latter case the vote shall be cast for the election of governing bodies and pursuant to the Articles of Association.

In addition to the General Meeting call advertised in the press, Members shall be notified by means of notices placed on the Institution's website, which shall also disclose the main documents to be considered and approved, as well as by written, non-binding notice sent to their places of abode.

At the same time General Meeting members shall be granted access to all documents pertaining to the agenda, at the head office, at least fifteen days before the meeting is held.

The call shall clearly state the date, time and place of the General Meeting, as well as details of the places where members may obtain clarifications and postal votes may be sent.

When the governing and institutional bodies were elected for the three-year period 2010/2012, the Member-employee who is part of the Internal Audit Board was elected by electronic vote, pursuant to the Law and the Articles of Association.

Following the elections the results shall be published on both the Intranet and the Internet.

There is still no system which allows the electronic election of the remaining bodies.

I.3. REMUNERATION COMMITTEE

Every three years, the General Meeting shall elect a Remuneration Committee, consisting of three members, a chairman and two members, none of whom shall be a member of the Board of Directors or the spouse or relative to the third degree of such a member.

The Remuneration Committee shall have the power to set governing body members' remuneration and shall issue an annual report setting out the criteria used to set remuneration.

The election of the Remuneration Committee for 2010/2012 shall take place at the General Meeting of Members on 24th March 2010.

CHAPTER II

MANAGEMENT AND SUPERVISORY BOARDS

In addition to the General Meeting, the Board of Directors, the Internal Audit Board and the General Board are also governing bodies.

II.1. BOARD OF DIRECTORS

The Board of Directors is the body responsible for managing Montepio Geral – Associação Mutualista and Caixa Económica Montepio Geral. It is charged with:

- drawing up the annual report and accounts and the appropriation of profit proposal, as well as the work programme and budget for the following year;
- approve the increase in the institutional financial investment and the issuing of mutual fund shares, within the limits set by the Articles of Association;
- approve the opening and closing of branches and any other form of representation;
- approve the purchase, sale and pledging of real property.

The Board of Directors, consisting of Executive Directors, acts as a collegiate body and may take decisions provided a majority of its Members are present. As a rule it meets twice a week and decisions are taken by a simple majority, the Chairman having a casting vote.

II.1.1. Responsibilities

Responsibilities are divided amongst the members of the Board of Directors as follows:

António Tomás Correia

General-Secretariat, Planning and Studies Division, Board Support Office, Group Financial Strategy Office, Institutional Public Relations Office, Social Responsibility Office, Insurance Holdings.

José de Almeida Serra

Risk Analysis and Management Division, Audit and Inspection Division, Financial and International Division, Association Relations and Communication Office, Mutual Schemes Development Office, Financial, Pension Fund and other Holdings.

Rui Manuel Silva Gomes do Amaral

Greater Oporto Commercial Division, Northern Commercial Division, Organisational Development Division, Operations Division, Information Systems Division, Shared Services Division.

Eduardo José da Silva Farinha

Central Commercial Division, Greater Lisbon Commercial Division, Accounts Division, Real Estate and Facilities Division, Legal and Credit Recovery Division, Human Resources Division, Financial and Insurance Holdings.

Álvaro Cordeiro Dâmaso

Corporate Commercial Division, Lisbon and Autonomous Regions Commercial Division, Southern Commercial Division, Marketing Division, Compliance Office, Customer Ombudsman Office.

For each area of responsibility a substitute Director has been appointed. Whenever the corporate structure is reorganized, areas of responsibility are redistributed.

II.1.2. Professional Qualification

	Academic Qualifications	Working Experience
António Tomás Correia *Chairman*	Graduate in Law, Lisbon University	**From 1995 to 2003** Director of CGD **From 2004 to 30th April 2008** Director of Montepio **Since 1st May 2008** Chairman of Board of Directors of Montepio
José de Almeida Serra Member	Graduate in Economics, ISCEF, and post-graduate at Massachusetts Institute of Technology	**From 1999 to 2003** Director of SOGRUPO (CGD Group) **Since 2004** Director of Montepio
Rui Manuel Silva Gomes do Amaral Member	Graduate in Finance, Higher Institute of Economics	**From 2000 to 2006** Director of Banif-Banco Internacional do Funchal, SA, nd and several companies belonging to this finance group. **Since January 2007** Director of Montepio.
Eduardo José da Silva Farinha Member	Graduate in Finance, ISCEF	**From 1996 to 2006** Chairman of Board of Directors of Credivalor – Soc. Parabancária de Valorização de Créditos, SA. **Since January 2007** Director of Montepio
Álvaro Cordeiro Dâmaso Member	Graduate in Law	Chairman of the Lisbon Stock Exchange (BVL) – **1 year** Chairman of ICP – ANACOM **for 3 years** Chairman of Consultative Board of ANACOM **for 5 years** **In 2006/2007** Manager of Melo Abreu, Lda. **From 2007 to 2009** Chairman of the Agência de Promoção do Investimento dos Açores **Since January 2010** Director of Montepio

II.1.3. Posts held in Group companies

Chairman: António Tomás Correia

Chairman of the Board of Directors of Lusitania, Companhia de Seguros, SA

Chairman of the Board of Directors of Lusitania Vida, Companhia de Seguros, SA

Member: José de Almeida Serra

Chairman of the Board of Directors of Residências Montepio, Serviços de Saúde, SA

Chairman of the Board of Directors of Montepio Gestão de Activos – SGFI, SA

Chairman of the Board of Directors of Futuro – Soc. Gestora de Fundos de Pensões, SA

Chairman of the Board of Directors of Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, SA (IFI)

Member of the Remuneration Committee of SAGIES – Soc. de Análise e Gestão de Instalações e Equipamentos Sociais, SA

Member: Rui Manuel Silva Gomes do Amaral

Member of the Board of Directors of SAGIES – Soc. de Análise e Gestão de Instalações e Equipamentos Sociais, SA

Non-executive Member of the Board of Directors of SIBS – Soc. Interbancária de Serviços, SA

Member: Eduardo José da Silva Farinha

Chairman of General Meeting Board of Montepio Gestão de Activos – SGFI, SA

Chairman of the Board of Directors of MG Investimentos Imobiliários, SA

Chairman of the Management Board of Leacock Seguros, Lda.

Chairman of the Remuneration Committee of Bolsimo – Gestão de Activos, SA

Vice-Chairman of the Board of Directors of MCS – Moçambique, Companhia de Seguros, SA

Member of the Board of Directors of Clínica CUF Belém, SA

II.1.4. Remuneration

As stated in point I.3. of this report, the remuneration of the members of the governing bodies is set by the Remuneration Committee elected at a General Meeting.

In 2009 total remuneration paid to members of the Board of Directors was as follows:

(euros)

	2009 Value
António Tomás Correia – Chairman	524 408.09
José de Almeida Serra	462 885.15
Rui Manuel Silva Gomes do Amaral	468 177.15
Eduardo José da Silva Farinha	462 885.15
TOTAL	**1 918 355.54**

II.2. INTERNAL AUDIT BOARD

The Internal Audit Board consists of a Chairman and two Members, one of whom must be an Auditor and another appointed by the employees under the terms of Article 28 of the Articles of Association. Pursuant to the Articles of Association, the Internal Audit Board meets at least once a month and may only conduct business when a majority of members are present, the Chairman having a casting vote. In the course of its duties the Board checks compliance with the law, Articles of Association and regulations, issues an opinion on the annual report and accounts, increases in share capital, internal control, proposals, budgets and work programmes submitted by the Board of Directors.

In 2009 the Internal Audit Board met twenty times, their members received a monthly fixed remuneration of Euros 5 500 to the chairman and Euros 5 000 to the other members and also an attendance fee per session.

II.3. GENERAL BOARD

The General Board is made up of the members of the General Meeting Board, the Board of Directors and the Internal Audit Board, as well as the Members elected by the General Meeting. Its changes include, among other things, providing strategic guidance and, following a proposal from the Board of Directors, approving the general guidelines and the multiannual work programmes and their revisions.

In 2009, the General Board met seven times.

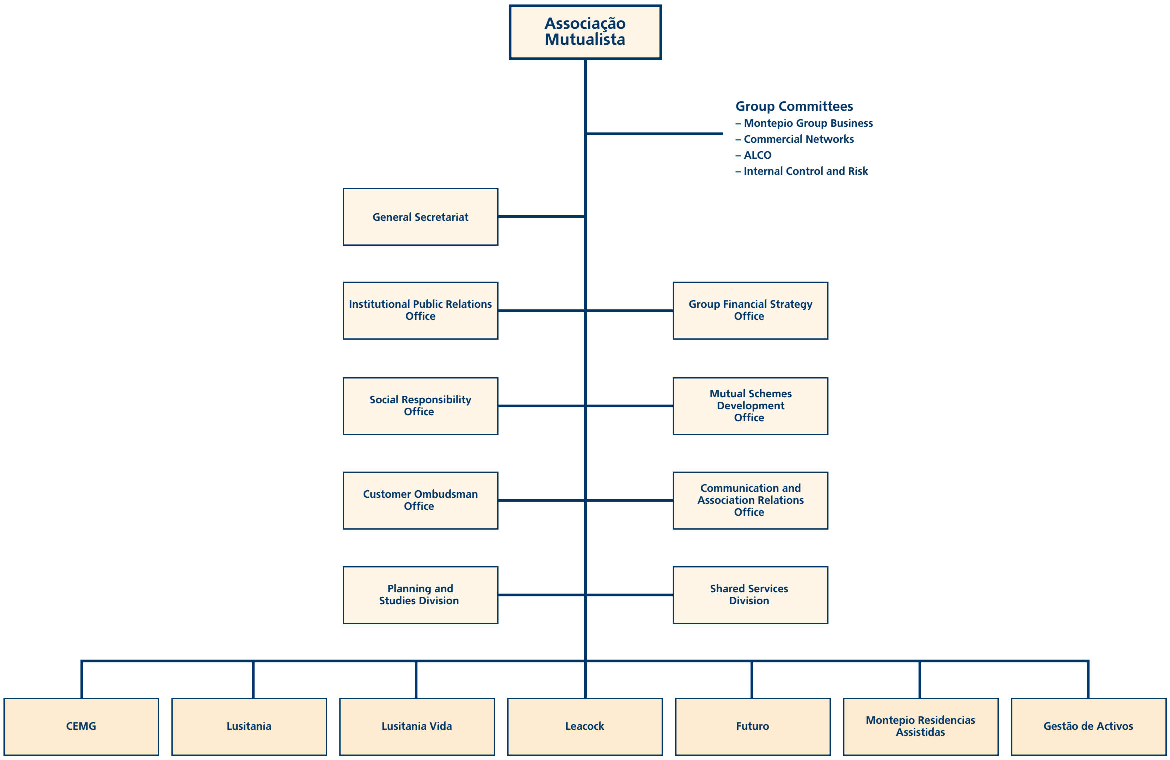
II.4. ORGANISATIONAL STRUCTURE

The organisational model and the division of tasks and responsibilities between the various units are defined by the Board of Directors.

Various units report directly to the Board of Directors. Each unit is divided into Divisions and Departments that take decisions in a decentralised manner at the different levels of the hierarchy. This process includes a greater empowerment along the decision chain, and is subject to the monitoring of the audit and control bodies.

Following the definition of the new corporate model, in 2009 organisational structure was subject to a number of adjustments, in particular among some Divisions. These adjustments and improvements were aimed at providing the Institution with an even more flexible structure and ensuring a better coordination for greater efficiency and profitability.

ORGANISATION CHART – ASSOCIAÇÃO MUTUALISTA



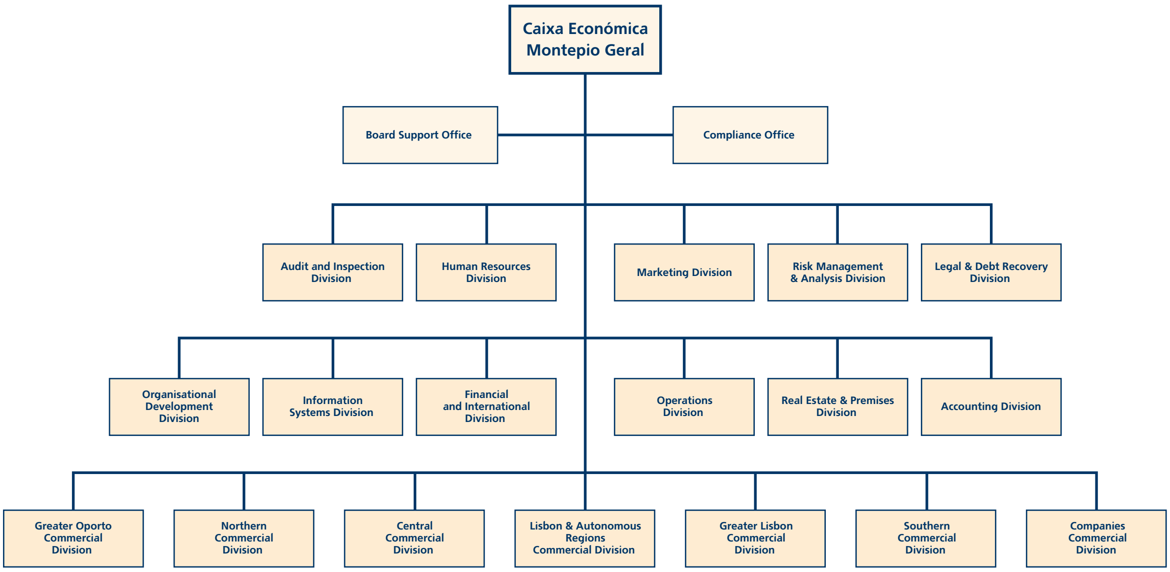
In addition to the companies shown in the chart, the Group includes Bolsimo – Gestão de Activos, SA, Germont – Empreendimentos Imobiliários, SA and MG Investimentos Imobiliários, SA.

In order to further integrate the strategies of the companies belonging to the Montepio Group (made up of Montepio Geral – Associação Mutualista, Caixa Económica Montepio Geral and the companies in which they have holdings) and to monitor the various themes covered by the Strategic Guidelines, several Committees were set up, as per the Articles of Association, in particular: the Montepio Group Business Committee, the Commercial Networks Committee, the ALCO Committee and the Risk and Internal Control Committee.

Essentially the Committees' role is to draw up recommendations and proposals to be approved by the Board of Directors. Each Committee is attended by the Chairman of the Board of Directors, the Directors responsible for the areas concerned and the heads of the various units involved.

In regard to the organisational structure of CEMG, some units changed names and services were transferred between units, so as to create a more efficient and flexible organisation which, given the changes in the market and in competitors, must respond appropriately in terms of structure, procedures and management tools.

ORGANISATION CHART – CAIXA ECONÓMICA MONTEPIO GERAL



The breakdown of the organisational structure and the unit heads can be found in the Annual Report under the heading «Management».

II.5. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

The Board of Directors, in the exercise of its duties, annually approves and reviews the strategic guidelines for the following three-year period and continuously controls the Institution's overall development, the risks inherent in the business and the conducting and outcomes of the various projects.

A detailed description of the principles, methods and tools used in the management of the various risks is given in a separate chapter in the Annual Report. However a brief description is given here of the methods employed and the bodies responsible for internal audits, compliance and risk management.

In addition to assessing the internal control system, the Auditing and Inspection Division, reviews and assesses procedures, in line with the legislation in force and with the established standards and rules, and it checks compliance with the applicable legislation.

In cooperation with the External Auditors, the Internal Auditors coordinated the preparation of the annual Internal Control Reports on the individual and consolidated accounts sent to the Bank of Portugal, and prepared the annual Financial Intermediation Supervision and Control Report for the SEC.

Thus Internal Auditing is an integral part of the continuous monitoring system of MGAM and CEMG. It provides an independent supervision of the adequacy of and compliance with the established policies and aids top management.

The Risk Analysis and Management Division reviews and manages risk from a group standpoint, including the identification, assessment, monitoring and control of credit, interest rate, liquidity, exchange, market and operating risks.

This Division undertakes the supervisory reporting duties, namely in terms of own funds, large risks, liquidity risks, interest rate risk, country risk, counterpart risk, stress testing, self-assessment of adequacy of Own Funds and Market Discipline.

The Compliance Office coordinates its activities with the Risk Analysis and Management Division reporting acts likely to lead to material exposure, and also interacts with the Customer Ombudsman's office (handling of Complaints), and with Internal Auditing (Internal Control).

Compliance risk is controlled by the Compliance Office which also ensures implementation of policies approved by the Board of Directors in regard to this type of risk and the prevention of money laundering.

The compliance role is performed in a permanent, effective, autonomous and independent manner, so as to ensure that the management bodies, organisational structure and all staff fully comply with the external and internal requirements.

In 2009, following the publication and coming into force of a range of legislation and rules issued by the Supervisory Bodies, mainly as a result of the adoption of Community Directives within the Framework of Behavioural Supervision, it was necessary to adapt and/or amend processes and procedures covered by such measures. This had an impact on planning, requiring the resetting of priorities in the light of the deadlines established, and on development costs and resource allocation, affecting a number of units.

CAPÍTULO III
INFORMATION AND AUDITING

III.1. INFORMATION

CEMG was incorporated with the aim of making its profits, less the deductions laid down in the Articles of Association, available to Montepio Geral – Associação Mutualista (MGAM), so that the latter could apply them in the pursuit of its goals, as laid down in article 4 of its Articles of Association.

Furthermore under the terms of article 7 of CEMG's Articles of Association, its institutional capital is permanent, unredeemable and does not give rise to the payment of interest or dividends.

The institutional capital consists of the sums paid over by MGAM for this purpose and which become an integral part of CEMG's equity, and those CEMG reserves which are incorporated.

As at 31st December 2009, CEMG's institutional capital was 760 million euros and was fully paid up.

As stated at the beginning of this Report, all the financial statements are available on the Montepio website in the financial section. Information of an institutional nature is available in the institutional section.

The Institution publishes information quarterly, half-yearly and annually, in addition to the monthly and weekly economic analysis and financial market reports.

Although Montepio does not have an Investor Support Office, since it is not an entity that resorts to the market to acquire capital, a department is responsible for disseminating institutional and financial information.

III.2. AUDITORS

KPMG & Associados – SROC, SA are the Independent Auditors responsible for the Statutory Audit of both Montepio Geral – Associação Mutualista and Caixa Económica Montepio Geral.

In 2009 the fees paid to KPMG & Associados – SROC, SA, for the various services provided to Montepio Geral – Associação Mutualista and Caixa Económica Montepio Geral were Euros 41 664 and 609 294, respectively.

ANNEX
DECLARATION OF REMUNERATION POLICY

The Remuneration Policy applicable to CEMG's Directors and Auditors is governed by the following principles:

1 – The overall, underlying rules on remuneration policy are set in General Meeting and applied to concrete situations by a Remuneration Committee, elected pursuant to article 16 (b) of the Articles of Association. The company does not hire the services of external consultants in these matters.

2 – The General Meeting reviews the performance of CEMG's Directors and Auditors.

3 – Directors' pay is made up of:

a) A monthly fixed remuneration, which is paid double in January (holiday bonus) and November (Christmas bonus); this sum which is greater in the case of the Chairman of the Board and equal in the case of the other Directors;

b) An annual fixed sum bonus, paid in April, which shall not exceed 11% of annual fixed pay;

c) Travel expenses, paid under exactly the same terms as those paid to staff;

d) A possible special bonus to be awarded and distributed under identical terms and on the basis of the criteria applied to first line Managers;

e) The variable bonus may not exceed 20% of annual fixed pay;

f) The pay referred to in a) and c) above may be reviewed annually under the same conditions as staff pay is reviewed;

g) When leaving office Directors are entitled to receive the monthly pay up to the day they cease to hold office, plus that which would be due under an employment contract;

h) Directors removed from office without good cause shall be entitled to the monthly pays which would be due to them up to the end of their term of office;

i) Work performed in subsidiary companies shall not be paid by those companies, nor by CEMG.

4 – The Internal Audit Board shall receive a monthly remuneration, paid 14 times a year, and the remuneration paid to the Chairman shall be greater than that paid to the other Members. This remuneration shall be subject to the provisions of 3 (f) above.

9. Appendix

9.1. COMPLIANCE WITH THE RECOMMENDATIONS OF THE FINANCIAL STABILITY FORUM (FSF) AND OF THE COMMITTEE OF EUROPEAN BANKING SUPERVISORS (CEBS), REGARDING TRANSPARENCY OF INFORMATION AND ASSET VALUATION

Bank of Portugal Circular no. 58/2009/DSB calls for institutions to continue to comply fully with the recommendations of the FSF and the CEBS relating to the transparency of information and asset valuation, taking into account the proportionality principle.

Accordingly the Bank of Portugal recommends that, while the effects of the present crisis are still evident and whenever exceptional market circumstances arise, institutions shall draw up a specific chapter or appendix to the financial statements, dealing with the main impacts, so as to ensure suitable transparency of the information disclosed.

Some of the recommendations are covered in the Annual Report and the Notes to the Accounts, and when applicable reference will be made to those documents.

I. BUSINESS MODEL

1. Description of business model

Points 4.6.2, 4.6.3 and 4.6.5 of the Annual Report (AR) provide a description of the business model. Emphasis has been placed on the performance of Customer and Business Managers, taking into account customer segmentation (mass market, mass-affluent and affluent), so as to improve penetration in the private retail and high income segments, and the corporate segments, namely Micro businesses and SMEs. In accordance with the guidelines laid down in the Strategic Plan, efforts have been made to improve customer loyalty and diversify credit, given the circumstances under which business is pursued.

2. Description of strategies and objectives

Point 4.4 of the AR sets out Montepio's overall strategy and the strategies devised for each of the main institutions: MGAM and CEMG.

Point 4.6.5 of the AR (supplementary balance sheet resources) and point 46 of the Notes to the Accounts refer to the securitisation operations.

3., 4. and 5. Activities undertaken and their contribution to business

Points 4.6.2, 4.6.3 and 4.6.5 of the AR describe the Activities undertaken and their contribution to business.

II. RISK AND RISK MANAGEMENT

6. and 7. Description and nature of risks and management practices

Point 4.6.4 of the AR and point 48 of the Notes to the Accounts describe and quantify the various risks faced, as well as the monitoring, recovery and control practices adopted to minimise them.

In point 8, Chapter II, of the AR (Institutional Governance Report) the internal organization is described as are the activities associated with risks.

III. IMPACT OF FINANCIAL TURBULENCE ON PROFITS

8., 9., 10. and 11 Qualitative and quantitative description of profits, emphasising losses and the impact and breakdown of write-downs

Point 4.6.5 of the AR (securities portfolio) covers the matter of impairment losses related to financial market fluctuations.

This point and the analysis of Profits, Provisions and Impairment also sets out the value of impairment losses on the securities portfolio, which was down 89.5% compared to the previous year, and whose relative weight in Provisions and Impairment went from 16.5% in 2008 to 1.3% in 2009. Points 20 and 23 of the Notes to the Accounts also show the impact of Impairment.

12. and 13. Breakdown of write-downs by realised and non-realised sums and their impact on share price

Not applicable.

14. Disclosure of maximum loss risk associated with prolonging of financial turbulence

Point 4.6.4 of the AR (financial asset risks and balance sheet structural risks) deal with these matters generally.

15. Disclosure of impact on profit of change in spreads associated with the Institution's liabilities

Points 21 to 24, 34 and 36 of the Notes to the Accounts provide detailed information deemed sufficient for the purposes.

IV. EXPOSURE LEVELS AND TYPES AFFECTED BY THE TURBULENCE

16. Nominal amount (or amortised cost) and fair values of outstanding exposures

Points 21, 23 and 24 of the Notes to the Accounts provide a breakdown by historic cost, net book value and fair value.

17. Information on credit risk mitigating factors (e.g. credit default swaps) and the respective value of the existing exposure

Point 21 of the Notes to the Accounts provides information as to credit risk mitigating factors for assets and liabilities at fair value based on return.

18. Detailed disclosure exposures

The information contained in points 4.6.4 and 4.6.5, as well as in points 34, 46 and 48 of the Notes to the Accounts, is deemed to cover the matter.

19. Exposure movements between relevant reporting periods and the underlying reasons for these changes (sales, purchases, write-downs, etc.)

The information contained in point 40 of the Notes to the Accounts deals with this matter.

20. Disdcussion of exposures (including «vehicles» and, in such cases, the respective activities) that have not been consolidated (or that have not been recognised during the crisis) and the respective reasons

In the Notes to the Accounts, point 46 refers to the Securitisation of Assets and provides a detailed description of the various securitisation operations undertaken and their respective «vehicles», in particular Special Purpose Vehicles (SPV).

21. Exposure to monoline insurers and quality of insured assets.

Not applicable.

V. ACCOUNTING POLICIES AND VALUATION ISSUES

22., 23., 24. and 25. Classification of transactions and structured products for accounting purposes, consolidation of Special Purpose Vehicles (SPV), detailed information on the fair values of the financial instruments and description of the modelling techniques used for the valuation of financial instruments

Points 1, 46 and 49 of the Notes to the Accounts provide detailed information about these matters.

VI. OTHER DISCLOSURE ASPECTS

26. Description of information policies and principles used in the disclosure report and financial report

One of the goals of Montepio's internal control system is to ensure compliance with the rules of prudence, the reliability of information, and the reporting deadlines set by the various outside bodies. The system defines the units responsible for the reports and overall control of their production.

As for in-house dissemination of the main management reports, on the one hand, responsibility has been steadily centred on those units most suited to the task, and on the other hand, responsibility for more specialist reports has been decentralised and given to units whose tasks and activities make them better qualified to ensure reliable information is produced in good time.

In 2009, mechanisms for making information available on the intranet were developed so as make more regular and integrated information available to all staff, especially at the strategic information and management control levels.

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