



Caixa Económica Montepio Geral
First Half 2009
Report and Accounts



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I – EXECUTIVE SUMMARY

In the first half of 2009 retail banking was strongly influenced by the macroeconomic recession. In this context Montepio took several measures to improve the conditions in which it pursues its business and to prepare the institution for the post-crisis period, thus putting into practice the Guidelines laid down in its Strategic Plan 2009-2011. The main measures are based on rigorous cost structure management, on the recovery, monitoring and control of credit due and on diversification into the private and corporate customer strategic segments.

Caixa Económica's business in the first half of 2009 can be summarised as follows:

- **Net Consolidated Profit was 29.2 million euros, an increase of 5.6 million euros (+23.5%);**
- **Net Consolidated Assets recorded a year-on-year change of +2.7%;**
- Return Indicators recorded favourable progress: **ROE stood at 6.60%** (as compared to 5.91% in June 2008) and **ROA rose to 0.34%** (0.29% in the same period last year);
- **Banking Income grew 18.3%**, totalling 238.5 million euros, which accounted for a rise of 36.9 million euros, due in the main to:
 - **Growth in Net Interest Income of 13.6%** (+21.9 million euros), rising to 182.6 million euros;
 - **Increase in Commission on Services Provided to Customers of 1.8%**, totalling 35.3 million euros;
 - **Other Financial Profit** in the sum of 20.5 million euros, which accounts for a gain of 14.4 million euros.
- **Reduction in Operating Costs of 6.0%** (-7.7 million euros), which together with the sharp increase in Banking Income, resulted in a significant improvement in the **Cost-to-Income Ratio which stood at 51.1%** (64.3% in June 2008);
- The change recorded in Customer Credit reflects pursuit of the diversification strategy based on companies segments. The portfolio recorded a change of +0.6%, due in the main to:
 - The companies segment **recorded growth of 6.6%**;
 - As a means of supporting Portugal's business fabric, and as a result of the diversification strategy, **investment credit was up 23.2%**;

- Also worthy of mention is credit granted as **leasing, renting and factoring, which grew by 70.0%**;
- **Customer resources on the Balance Sheet were up 10.5%**, and the highlight was Corporate Deposits which grew by 21.6%;
- The Portuguese branch network consists of 325 units, which represents year-on-year growth of 12 branches, of which 5 were opened in the first half of this year. The number of employees was 2982, as compared to 2973 in June 2008 and 2972 in December 2008;
- The value of **Provisions and Impairments, which stood at 88.4 million euros (+76.8%), was the factor which had the greatest impact on first half profits. Nonetheless the cash flow generated was more than enough to accommodate this effect.** Over the same period, **the Ratio of Credit and Interest Due for more than 90 days was 3.2%**, as a result of the slowdown in the credit portfolio growth and the increase in non-compliance in the unfavourable macroeconomic context that impacted companies and families ability to comply;
- **The Solvency Ratio rose to 12.2% (10.5% in June 2008) and the Tier I Ratio reached 8.7% (7.4% in June 2008), substantially above the 8% level recommended by the Bank of Portugal which will come into effect from 30 September 2009.** Base Equity was strengthened, mainly through the 100 million euro increase in Institutional Capital;
- The Agency Ratings remained unchanged during the period in question.

Relationships with mutual members underwent the following changes:

- Funds under management relating to mutual schemes totalled 2,201 million euros and were up 8.7% as compared to the previous year;
- Retirement Saving mutual schemes recorded a year-on-year growth of 19.8%;
- The volume of capital received as capitalisation schemes grew to 121.7 million euros, accounting for a year-on-year growth of 30.7%.

II – BUSINESS FRAMEWORK

Macroeconomic framework

The macroeconomic framework in the first half of 2009 was marked by the continuing financial crisis, and consequently by the global contraction of business, which led to a fall off in international trade. The more visible effects were seen in the last quarter of 2008 and the first quarter of 2009. The increased uncertainty in the financial markets has led to a re-evaluation of risk on a global scale and for that reason the tightening of credit conditions. The situation will gradually be reversed as conditions begin to stabilise. The financial framework affected the real economy, to the extent that economic players' confidence and demand forecasts were changed leading them to postpone consumption and investment decisions. This was accompanied by a readjustment of indebtedness levels to ensure greater balance for families, companies and the financial institutions themselves.

In the USA, following the quarterly annualised contraction of 5.4% recorded in the 4thQ2008, Gross Domestic Product (GDP) in the 1stQ2009 saw an even stronger contraction (-6.4%), equal to that recorded in the 1stQ1982. In this sense the half-year ending in March 2009 was the worst since the beginning of 1958. In the 2ndQ2009, and in line with the trend suggested by the main monthly economic indicators, the economy's rate of contraction slowed significantly, and the first estimate suggests a quarterly annualised fall of 1.0%. In keeping with the drop in business, the rate of unemployment rose in June (to 9.5%), for the ninth consecutive month, to the highest value in 26 years, while in December it had been 7.2%. The trends in the indicators that have been published suggest that the economy will return to growth in the second half of the year, but growth rates will be lower than potential growth, which will not prevent unemployment from continuing to rise a situation that, *per se*, is the main obstacle to economic recovery. In terms of prices, we went from a year-on-year inflation rate of 0.1% in December to -1,4% in June, which makes for four consecutive months in negative territory and the largest drop since 1950. This was mainly due to the fall in energy prices (-25.5%, in year-on-year terms), a situation common to most countries. In point of fact contracts for Brent futures reached a record height of 147.50 dollars per barrel on 11 July 2008, and fell to 45.59 dollars per barrel at the end of 2008. In the first half of 2009, prices rose again (+52%), especially from March onwards, and at the end of June stood at 69.3 dollars per barrel, which was still 53% less than the record level recorded a year ago. Nonetheless, the upward trend in oil prices, in the context of a deteriorating labour market is also an important risk factor for economies' recovery.

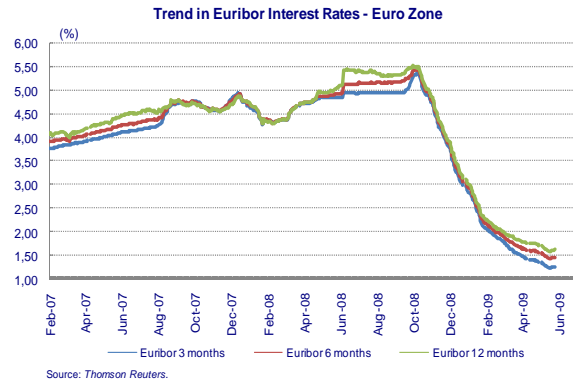
In the Eurozone, where GDP had contracted more in the 4thQ2008 than it did in the USA (-1.8% or -6.9% in annualised terms), the 1stQ2009 showed an increasing in the contraction rate that went down to 2.5% (-9.7% in annualised terms), which accounts for the greatest quarterly contraction since at least 1970. At the same time, in keeping with the signals given by the monthly macroeconomic indicators, the 2nd quarter of the year recorded a less negative contraction, as the economy shrank by 0.1% as compared to the previous quarter (-0.4% in annualised terms) and eased the year-on-year change from -4.9% to -4.6%. In line with the strong downturn in business, the rate of unemployment rose from 8.2% in December to 9.4% in June, the highest level since June 1999 (also 9.4%). As for prices, the year-on-year inflation rate fell from 1.6% in December to -0.1% in June, and so entered negative territory for the first time since the early seventies.

GDP stagnated in Portugal, in 2008, following a very negative year-end which meant the economy fell 1.8% in the 4thQ2008, as compared to the previous quarter. In the 1stQ2009 GDP recorded the same contraction rate as the previous quarter, but the year-on-year rate rose to 3.9% (-2.0% in the 4thQ2008), which constitutes the largest year-on-year contraction in the Portuguese economy since at least 1977. For the 2ndQ2009 the National Institute of Statistics' (NIS) quick estimate suggests an expansion of 0.3% as compared to the previous quarter, following three consecutive quarters of contraction, and a growth identical to that seen in the two largest economies in the Eurozone (Germany and France). The economy's growth ended up matching the trends in some of the monthly indicators, in particular industrial output, which was also accompanied by improvements in consumer and business confidence, a behaviour that was also seen across the USA and the Eurozone. Thus, in year-on-year terms, the rate of contraction slowed by 0.2 p.p., to 3.7%. The labour market saw a sharp rise in the rate of unemployment, and according to *Eurostat* estimates (seasonally adjusted), it rose from 8.2% in December to 9.3% in June - the highest level since March 1986. As for inflation, in June the Consumer Price Index (CPI) recorded a year-on-year negative rate for the fourth consecutive month (-1.6%), less than that recorded in December (+0.8%).

The Bank of Portugal (BoP) forecasts a contraction of 3.5% in GDP in 2009 which suggests a climate of recession for the whole of the year, marked by a fall in investment, exports and consumer spending, in particular consumption of durable goods, which implies an increase in the rate of private savings, a situation that should enhance domestic funding on the part of Portuguese banks. The BoP also forecasts a contraction in manufacturing and, to a lesser extent, in services. The latter is due to the drop in family spending and the export of services, in particular tourism, owing to the poor economic performance of the main countries which supply tourists to Portugal. The impact of the decline in durable goods sales was particularly strong in the first half of the year, with the 1stQ2009 recording a year-on-year fall of around 20%, although it should have eased slightly in the 2ndQ2009 to judge from the year-on-year change in the NIS's consumer durables index, which fell by 17.6% in the 2ndQ2009. This trend stems not only from the postponed consumer decisions but also from the greater scrutiny applying to the granting of credit and the broadening of bank spreads. In effect from December to May there was a slowdown in loans to private customers (from 4.6% to 2.5%), both for housing credit (from 4.3% to 2.7%) and for consumption loans (from 8.9% to 4.2%). Furthermore loans to non-financial companies saw growth slip from 10.7% in December to 7.2% in May, so bank loans granted to the non-financial private sector rose 4.6% in year-on-year terms, as compared to the 8.0% recorded in December. On the other hand there has been an increase in loan defaults which reached 2.80% of total credit granted in May, whereas in December the ratio was 2.04%. Among private customers (including emigrants) it rose from 2.58% to 3.48% over the same period, making it the highest figure since November 1999.

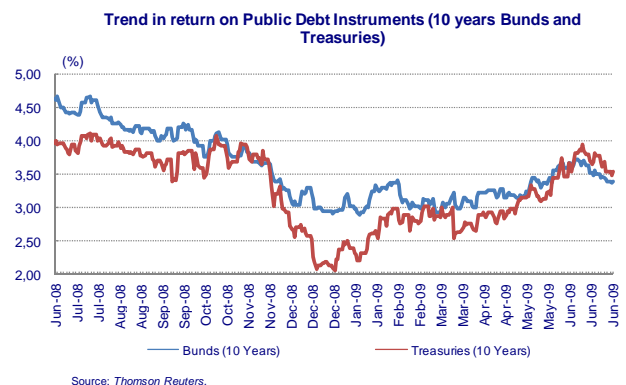
Money Market

In the USA, over a six month period in which the Federal Reserve kept the Fed Funds rate at the minimum (from 0.00% to 0.25%), the main market rates recorded a downward trend, which was particularly monotonous from mid-March and reflected the decrease in interbank risk. The OIS Spread (i.e. the difference between 3 month interest rates and the swaps for the same period on the overnight rates), which is considered to be a measure of interbank risk, fell from 121 basis points (b.p.) at the end of 2008 to 38 b.p. at the end of the 2ndQ2009, reaching levels not seen since the beginning of 2008. Thus the 3-month Libor rate for the dollar went from 1.425% to 0.595%. In the Eurozone, in addition to a similar reduction in OIS Spreads, the European Central Bank (ECB) lowered the main interest rate for the Euro Zone (Refi Rate) by 150 b.p., setting it at 1.0%, the lowest rate ever. Furthermore, the rates also reflected the fall expected in the overnight rate. There was also an increase in the funds available on the market since, in June, the ECB conducted the first liquidity granting operation for a 12 month period at an interest rate equal to the Refi Rate. Therefore the Euribor rates recorded a downward trend to historic lows. The 6-month Euribor rate finished June at 1.313%, around 166 b.p. below that of the beginning of the year, while the 3-month and 12-month Euribor rates fell 179 b.p. and 155 b.p., respectively, to 1.099% and 1.504%. Until the end of the year the ECB is not expected to reverse the expansionist monetary cycle, so the potential decrease in Euribor rates could bring about a reduction in OIS Spreads alone, since at the end of the 2ndQ2009 it was still at a fair distance from its historical average.



Bond Market

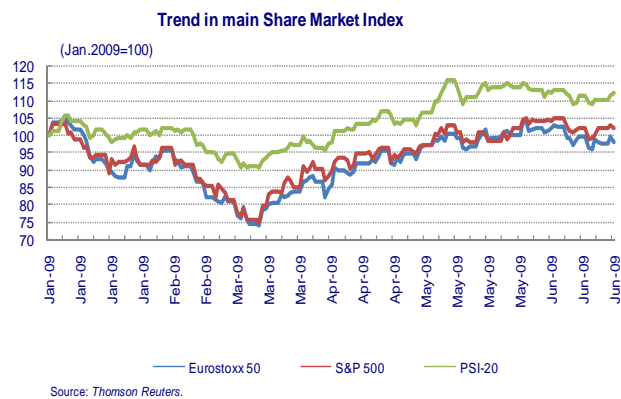
As regards the public debt market, the Eurozone witnessed a fall in shorter term bonds in the first half of the year as a result of the expansionist policy imposed by the ECB, while the longer term bonds reflected on the one hand the reduced demand for public debt as a refuge asset, due to the lower aversion to risk, and on the other hand, an increase in the supply of public debt in the market, owing to governments' increased financial needs in order to fight the crisis. Thus the return on 2-year Bunds (German Treasury Bills) fell 39 b.p. in the 1stH2009 to 1.37%, while 10-year Bunds rose 44 b.p. to 3.39%. In the USA, despite the Federal Reserve, announcing a US Public Debt purchasing program (up to 300,000 million dollars) at its March meeting, which caused a sharp fall in long-term rates, the yield curve showed a downward trend from December to June, especially in regard to the longer terms. This was due in part to the increase in investors' concern over the US Government's high financing needs (where according to Government estimates the



deficit should reach 12.9% of GDP in 2009), but also to the change in investors' forecasts for inflation that at the end of 2008 suggested an average inflation rate of 0% for the next ten years, thus implying a macroeconomic depression. Therefore during the first half of the year, the yield on US Treasury Bills rose 34 b.p. to 1.11% for 2-year Bills, while the yield on 10-year Treasuries increased 132 b.p. to 3.53%

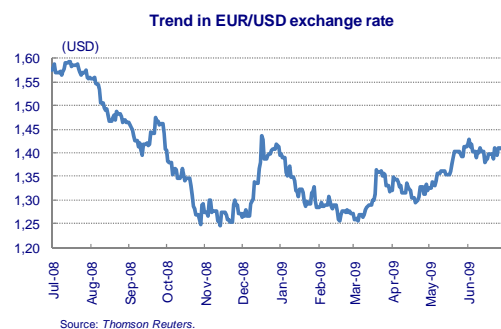
Share Market

Up to the beginning of March, investors' aversion to risk grew strongly, driven by a wave of negative macroeconomic figures but also by concern over the financial system, which led the major European and US indices to record falls of over 25% since the beginning of the year. In short the markets recognised that the world economy was in recession. However by the end of the half year feelings improved, reflecting signs of stabilisation within the banking system (e.g., the return to profits of the major international players, the outcome of the stress tests on US banks), the indications given by governments fighting the crisis (e.g., the G-20 meeting), the better than expected results of most companies (although this could be the result of overly pessimistic expectations) and the improved economic prospects clear to see in the qualitative indicators. Nonetheless the performance of the world's major stock markets varied considerably over the first six months of the year. In the USA, the Dow Jones index lost 3.8% over the half –year, the S&P 500 index went up 1.8% and the Nasdaq rose 16.4%. In Europe the Eurostoxx 50 ended June with a loss of 1.9%, the FTSE-100 dropped 4.2%, the DAX remained practically unchanged, the Ibex gained 6.4%, the CAC-40 index fell 2.4% and the FTSE MIB was down 2.0%. In Portugal the PSI-20 index ended the half-year with a cumulative gain of 12.1%.



Currency Market

Over the first half of the year, the single currency saw its value rise slightly against the US dollar (with the Euro finishing the period at 1.4050 dollars, having begun the year at 1.3953 dollars). Nonetheless, up to the beginning of March, as a result of the dominant risk aversion climate, the European currency was heavily penalised (while the dollar has been seen as a refuge currency of late), having reached the rate of 1.2543 dollars. The Euro was driven upwards for most of the 2ndQ2009, due above all to the improvement in the risk aversion climate, as well as the fact that the ECB interrupted its cycle of rate cuts earlier than the market was possibly expecting, while the Federal Reserve for its part promised to hold interest rates down for a long period; this increased expectations as to the retaining of the difference



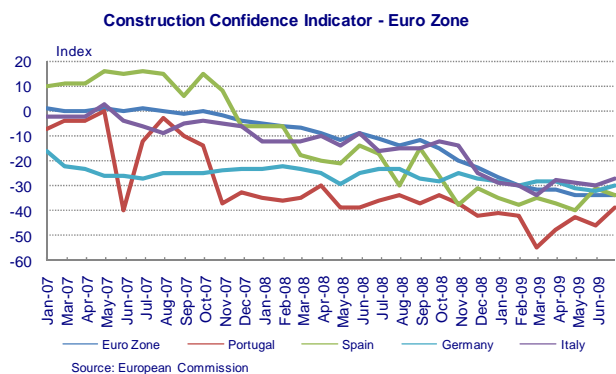
between the Refi Rate and the Fed Funds rate, which theoretically favoured the single currency. Furthermore the market was faced with statements from the heads of various countries, questioning the dollar's role as the international financial system's anchor currency.

Real Estate Market

As for the Real Estate Market (which, as we recall, has to take on a large share of the responsibility for the current global economic recession), it finally began to see some signs of stability in the first half of the year, namely in the housing segment (the hardest hit), in the economies that had been most affected by the crisis, which were in fact those that had recorded the largest overvaluations in the pre-crisis period (such as the USA, the UK and some Eurozone countries).

The USA was one of the first countries to show signs of possible market stabilisation, as early as the first quarter of the year, although they became clearer in the second quarter. The major monthly indicators for the sector (e.g., Houses Started, Building Licences, New House Sales, Used House Sales, House Building Confidence Index) recorded growth between December 2008 and June 2009, and the only exception was House Prices where, despite the latest data (for May) for the two most monitored indices in the market (FHFA and S&P/Case Shiller) beginning to suggest monthly growth in prices, only one of them (FHFA) pointed to a cumulative increase in prices in the 1stH2009.

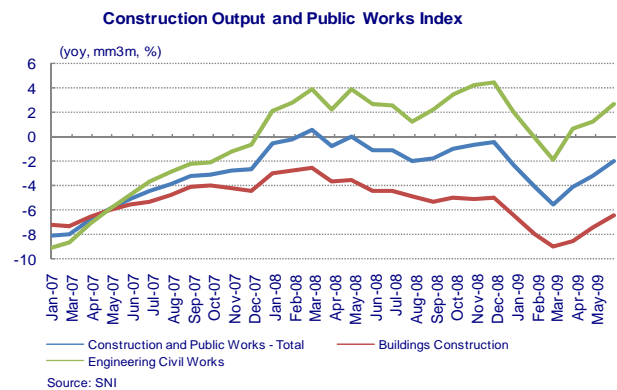
In the Eurozone, the difficulties faced by the Real Estate Market continue to be clear from the change in the Building Industry Confidence indicators (calculated by the European Commission), which, despite some improvement in recent months, still showed a drop in confidence during the first half of the year in the average of the Eurozone countries. There has been an improvement, albeit modest, in confidence only in Spain, Italy and Portugal which in fact are part of the group of countries that recorded the largest drop on confidence in the 2007-2008



periods. There was also continued contraction at the Construction Output level, although, just as for the economy as a whole, the rate of contraction has fallen (-4.6% in quarterly terms in the 4thQ2008, to -2.2% in the 1stQ2009, and -0.7% in the 2ndQ2009, but without June figures).

As for Portugal, and notwithstanding the slight improvement in confidence seen in the first half of the year, the latest available data on Gross Value Added (GVA) in the Building sector point to a strong quarterly contraction in business in the 1stQ2009 of -6.5% (-13.4% in year-on-year terms), after the decreases seen in the 4thQ2008 and in the 3rdQ2008 (respectively, -10.6% and -4.5% in year-on-year terms). Nonetheless, the situation improved slightly in the final months as the data relating to Construction Output and Public Works were consistent with a quarterly growth in the sector's business of around 1.3% in the 2ndQ2009 (still without the June figure), following on from the contraction seen in the previous quarter. The data continue to

be less favourable for the Buildings segment (which includes housing that is under the most pressure from the current economic and financial framework), while the improved trend in the Civil Engineering segment is expected to continue since the, so far partial, start to the major public works that were announced. For the second half of the year, the July figures



(NIS) for Construction and Public Works Confidence showed the third consecutive increase in confidence (and the largest of the three), resulting from the positive contributions of both order books and employment prospects, which suggests the sector will continue to see improvement. Nonetheless, Business Prospects (for the next three months) published by the NIS on a quarterly basis, worsened again in the 3rdQ2009 for the fourth consecutive quarter, as a result of the downturn in the Construction of Buildings (in the Housing segment since Non-residential Buildings witnessed a recovery) while Public Works showed improvement following three consecutive quarterly falls.

Regulatory Framework

The restoring of confidence and the financial system's stability called for a number of legislative measures, both at the level of institutional and behavioural supervision and in terms of financial measures. Some of these were of a transient nature such as the extraordinary granting of personal guarantees by the State covering the obligations of credit institutions based in Portugal under financing contracts, the broadening of the eligibility criteria for assets to be supplied as guarantees in Eurosystem operations and the moratorium on the repaying of loans relating to personal and permanent housing when the mortgagee becomes unemployed.

In regard to the soundness of financial institutions, mention should be made of the recommendation that institutions should possess a Base Equity (Tier I) ratio of not less than 8%. The 100 million euro increase in Montepio's capital made it possible to comply with the BoP recommendation.

Note should also be made of the measures linked to compliance with the principles of good governance on the part of Financial Institutions, through the presence of independent directors and the duty of transparency in regard to the remuneration of Directors and Auditors. These matters are likely to see further developments following the setting up of a working party by the National Council of Financial Supervisors.

In terms of behavioural supervision, the emphasis was on protecting the customer and the saver, which led to an increase in the cover provided by the deposit guarantee system, to new requirements as to the information to be provided about complex financial products (namely the ICAE) and to new consumer credit regulations, i.e. Decree-Law n°133/2009 of 2 June which requires Financial Institutions to adopt financial education practices in their relationships with Customers.

A series of initiatives at the international level are still in progress, which include the expected change in the accounting rules for Financial Assets, the pro-cyclical reinforcing of institutions' capital ratios and the passing of regulations regarding Agency Rating and the operating of Alternative Investment Funds, namely Hedge Funds. Also expected is an improvement in EU financial supervision, through the setting up of a new structure at the European level. In the context of risk mitigation, the Committee of European Banking Supervisors (CEBS) has released, documents covering operational risk mitigation techniques and liquidity buffers for public consultation. Developments are also expected in the area of sustainability, in light of the European Commission's public consultation on the practices behind the granting of loans within the European Union.

III – MONTEPIO GROUP STRUCTURE AND CAIXA ECONÓMICA CONSOLIDATION SCOPE

The Montepio Group is a Portuguese group with mutualist roots – created with the aim of promoting and developing social protection and health benefits and improve the life quality – whose core business is the related credit institution Caixa Económica.

Caixa Económica (hereinafter referred to as Montepio) has its own distribution network that serves both mutual members and customers to promote products and mutualist activities as well as to offer a wide range of banking and financial products and services.

Associação Mutualista is the body responsible for the Group’s Corporate Centre, which controls the companies making up its strategic units.

Within this organisational model, Montepio Group has holdings in specialist companies in complementary sectors, such as Insurance – Lusitania and Lusitania Vida, Asset Management – Montepio Gestão de Activos, Pension Funds – Futuro, and Healthcare/Well-being – Residências Montepio.



These strategic units base their activities on generating value for mutual members:

- Lusitania, an insurance company, has been giving priority to the development of Insurance Banking and its *Assurfinance* business and recently launched a project aimed at promoting banking services through its distribution channels;
- Lusitania Vida, a life assurance company, operates in a manner that complements the business of both Associação Mutualista and Lusitania;
- Montepio Gestão de Activos specialises in investment fund management and portfolio management;
- Futuro specialises in pension fund management;
- The aim of Residências Montepio is to strengthen the Group’s position in the health and social facilities sector, by promoting well-being and quality of life, especially among the senior segment.

Caixa Económica Montepio Geral Consolidation Scope:

Caixa Económica Montepio Geral;
 Lusitania, Companhia de Seguros, SA;
 Lusitania Vida, Companhia de Seguros, SA;
 Banco Montepio Geral Cabo Verde, IFI, SA;
 Norfin, Sociedade Gestora de Fundos de Investimento Imobiliários, SA;
 HTA Hotéis, Turismo e Animação dos Açores, SA;
 Credit Securitisation Instruments Pelican Mortgages nº 1 and nº 2.

The differences between the individual and consolidated accounts can be summarised to the flows operating at the Profit and Equity, that is to say, Consolidated Net Profit was less than Individual Net Profit in 1.2 million euros and Consolidated Equity had a difference of 27.3 million euros.

The difference in Profit is due mainly to the Pension Fund (0.6 million euros), to swaps linked to securitisation operations (0.3 million euros) and to the Group company HTA Hotéis, Turismo e Animação dos Açores (0.1 million euros). As for the difference in Equity, this was mainly due to the Pension Fund (33 million euros) and to Lusitania Seguros (2.3 million euros).

(thousands euro)

ITEM	NET PROFIT	EQUITY
1 - CEMG - Individual Accounts 30.Jun.2009	30.451	964.319
2 - Impact of Consolidation of Financial Holdings	-303	-2.855
2.1 - Full Consolidation	-40	708
MG Cabo Verde	-40	708
2.2 - Net Worth	-263	-3.563
Lusitania - Seguros	-64	-2.300
Lusitania - Vida	-81	-897
NORFIN	-9	370
HTA Hotéis Turismo Animação dos Açores	-109	-736
3 - Other Consolidation Adjustments	-921	-24.469
Credit Portfolio Impairment		8.422
Pension Fund	-636	-33.018
Swaps related to securitisation operations	-285	127
4 - CEMG - Consolidated Accounts 30.Jun.2009 (1+2+3)	29.227	936.995

IV – BUSINESS MODEL AND STRATEGY

The first half of 2009 marks the beginning of a new cycle of strategic planning for Montepio, with the implementation of Strategic Guidelines 2009-2011 which were approved at the end of 2008. They lay down suitable responses to the current situation, so as to prepare the Montepio Group for the post-crisis period. As the highly adverse climate brought about by the economic and financial crisis worsened, the business environment in the banking sector was marked by events that affected the reputation of some institutions, causing systematic and intense press coverage and public scrutiny of the entire sector.

The framework of financial instability and economic crisis led to an increase in unemployment and deterioration in the quality of assets, in particular debt, thus increasing impairment as companies and families faced increasing difficulties. In the banking field, Montepio's response to this difficult and uncertain climate was based on actions to contain non-compliance and debt recovery, to reduce costs and to scrutinise new credit operations more thoroughly.

Decreased risk exposure, in particular credit risk, by means of reducing financial leverage was, in fact, the general response of all institutions in the sector to the crisis, which caused a strong slowdown in banking business. As a matter of fact, although interest rates fell to extraordinarily low levels in this period, there was a sharp reduction in the rate of credit growth, due to the use of more restrictive criteria, coupled with smaller demand, as a result of economic conditions, in particular the postponing of spending and investment decisions.

In regard to non-compliance and credit due, measures were taken to speed up and specialise in debt management, in keeping with best practice in the sector, together with greater vigilance and control over credit operations, and more frequent reporting, by means of watch list for major risk operations.

In terms of costs, a policy of stricter management was adopted, in keeping with the budget drawn up for 2009. The process of budgetary cost management and control was revised.

Furthermore, in such an adverse environment, guidelines were drawn up to achieve the goals of growth and sustained profitability which strengthened the business model of universal domestic retail banking, by adopting a policy of diversification of the credit portfolio and income sources in sectors other than real estate with growth prospects among sole traders, micro-businesses and SME.

To prepare for the post-crisis future, the Strategic Guidelines predict the Montepio Group's growth will be based on its distinctive mutual nature, which translates into the creation of value for mutual members, for customers and for society in general, while meeting their financial, savings, welfare and other needs, as well as the requirements of corporate ethics and sustainability. The pursuit of mutual ends by the institutions making up the Montepio Group requires the aligning of its strategic units' activities, based on complementary products and services and distribution, as well as integrated policies covering risk management, cost control and sustained growth. The growth goals laid down by the group companies aim at achieving a critical size

which allows for improvement in productivity, efficiency and profitability, and which is determined by their ranking in the various sectors where Montepio operates thus improving its ability to serve mutual members and customers in a broader and more competitive manner. In order to achieve the size and market share goal, the purchase by Lusitania Companhia de Seguros of a majority holding in Real, Companhia de Seguros, held until now by Sociedade Lusa de Negócios, was prepared over the first half of the year. The deal was completed at the beginning of second half of the year for the sum of 42.5 million euros; of which 35 million euros were used to strengthen Real's equity.

For Caixa Económica, which is the group's main unit both in terms of size and commercial and distribution capacity, the mutual movement and relations with the tertiary should have a greater role, at both the commercial policy level and that of the other operational policies, and should become the main strategic driving force. In order to cement the mutual movement's position as the strategic centre, the organisational structure was revamped and the Associação Mutualista took over as the head of the Montepio Group, integrating the corporate centre which brings together the group's major cross functions.

The aim is also to ensure that Montepio's activities in the various fields are performed by qualified managerial and operating resources and procedures, that fully comply with requirements and best practice. To that end strategic guidelines have been established for developing the internal control system and the system of governance, as well as the Social Responsibility policy. In this field mention must be made of, the support the Montepio Foundation gave to a considerable number of entities in the health and social welfare spheres in the first half of the year. In addition there is the awarding of the Montepio School Prize and the Solidarity Fleet Project that provided means of transport to 16 social welfare institutions, and thus applied tax deposit funds. Reference should also be made to activities conducted under the Financial Education Program and the Corporate Volunteer Program, in the fields of environmental protection, entrepreneurship, social work and health.

The Montepio Group's strategic vision takes into account that in a situation of crisis and uncertainty, it is essential to manage the risks and short-term challenges, but not lose sight of the long-term which will bring new growth and development paradigms in the coming decade.

The recent changes in financial regulations have already led to a new approach to supervision, based on reform of the institutions and greater cooperation and integration at the national and international levels, which should call for changes to be made to institutions' management procedures and internal control systems as well as their governance models.

At the economic level, new patterns of growth are expected, founded on a new more rational and efficient way of employing resources and on the search for renewable sources. Ensuring the sustainability of institutions, systems and companies, is therefore the duty and responsibility of all economic players, and a central strategic concern of the Montepio Group.

Montepio's vision includes the conviction that when management is directed to the medium- and long-term the current situation represents an opportunity for those institutions less affected by the crisis to take advantage of the opportunities stemming from the sale of competitors' businesses, thus contributing to the stability and strengthening of the national financial sector.

V – CAIXA ECONÓMICA MONTEPIO GERAL

1. Overall Indicators

	(thousand euros)		
INDICATORS	Jun 08	Dec 08	Jun 09
1. SIZE			
Net Assets	16.811.682	16.851.534	17.266.354
Change	3,10%	-0,28%	2,70%
Own Funds (Capital, Reserves and Profits)	835.345	823.669	936.995
Employees - Staff in Portugal (Units)	2.973	2.972	2.982
Branches and offices worldwide (units)	319	326	331
Branches (units)	313	320	325
Offices Worldwide (units)	6	6	6
2. PROFITABILITY			
Net Profit	23.664	33.874	29.227
Banking Income	201.547	409.635	238.482
Banking Income/Average Net Assets	2,43%	2,43%	2,80%
Net Profit/Average Net Assets (ROA)	0,29%	0,20%	0,34%
Net Profit/Average Net Equity (ROE)	5,91%	4,08%	6,60%
3. CREDIT RISK			
Ratio of Credit Due over 90 days	2,36%	2,34%	3,21%
Ratio of Credit in default	2,74%	2,90%	3,96%
Ratio of Credit in default net of provisions	1,31%	1,09%	1,90%
4. PRUDENTIAL RATIOS			
Solvency Ratio	10,53%	11,44%	12,20%
Base Equity Adequacy Ratio (Tier I)	7,43%	7,92%	8,70%
Net Fixed Assets Ratio (Fixed Assets/Equity)	10,74%	10,63%	10,29%
Total Credit Provisions/Credit and Interest Due + 3 months	93,85%	110,21%	97,87%
Pension Fund Value/Total Recognised liabilities	84,82%	84,82%	84,62%
Pension Fund Value/Minimum Liabilities	99,22%	100,00%	98,40%
5. RATING (Short-term: Long term)			
Fitch Ratings	F2 : A-	F2 : A-	F2 : A-
Moody's	P-1 : A2	P-1 : A2	P-1 : A2
6. EFFICIENCY			
Running Costs/Average Net Assets	1,46%	1,40%	1,32%
Running Costs + Depreciation/Banking Income (cost-to-income)	64,28%	62,33%	51,08%
Total Staff in Portugal/Branches (units)	9,39	9,16	9,04
Staff Costs/Banking Income	39,22%	36,93%	31,44%

2. Business Management Variables

2.1. Distribution Channels

The strategy set for developing Montepio's distribution methods was pursued in the early months of 2009. That strategy combines the different ways and means of interacting with Customers, the direct distribution, being supported by an increased geographic coverage of the branch network, by the spread of specialised customer service (Customer Managers) and by the remote distribution channels. As for the use of indirect distribution channels, the *Assurfinance* Project is in the initial stage; in conjunction with the Montepio Group's insurance company - Lusitania - it sets out to market banking products to business partners that deal with it.

On 30th June 2009 Montepio's distribution channels consisted of a physical network of 325 branches in mainland Portugal (297) and the islands (28), a number of complementary electronic channels (Telebanking, Internet Banking, Mobile Banking and the Self-service Network) and 6 representative offices overseas.

Branch Network

In order to tap the potential of local markets, which are suited to Montepio's value approach, the process of selective opening of new branches continued and a total of five were opened in the first half of the year. The coverage areas are carefully selected using methods that are able to identify locations with potential for economic development and banking business, especially in the private retailers and micro-businesses segments.

A business plan is drawn up for each new branch that takes into account local conditions, so as to shorten the investment recovery period and provide suitable rates of return.



Branch Network to Dec. 2008	320	
Branches opened in 2009	5	
Évora	Montemor o Novo	Jan-09
Lisboa	Amadora - Vila Chã	Abr-09
Braga	Prado	Abr-09
Santarém	Ourém	Jun-09
Porto	Póvoa do Varzim	Jun-09
Branch Network to June 2009	325	



Offices Worldwide	6
Germany	Frankfurt
Switzerland	Genève
United Kingdom	London
USA	Newark
France	Paris
Canada	Toronto

Over the first half of 2009, there was also an increase in specialist customer services with a 47% increase in the number of Premium Customer Managers, who work with Affluent Private Customers, and the doubling of the number of Business Managers handling the micro-businesses segment.

Electronic and Remote Channels

The channels that complement the Private Customers segment (Net24, Phone24, Netmóvel24 and SMS24) had 506,000 users in the first half of 2009, which accounts for a growth of 12% as compared to the same period last year. In the case of the business channels (Net24 Empresas, Phone24 Empresas, Netmóvel24 Empresas e SMS24 Empresas), there was a rise of 34% in the number of users, as compared to June 2008.

In the field of self-service banking and electronic payments, the market share also increased in terms of the number of Montepio ATM's in the national network run by SIBS (Sociedade Interbancária de Serviços), which went from 5.9% in June 2008 to 6.0% in June 2009. The development of Montepio's own ATM network - Chave24 – fits in with the logic of diversifying automated service (cash dispensing, intelligent deposits, intelligent dispensing and depositing of cheques and the updating of bank books) so as to improve customer services in a distinctive manner and at the same time contributing to efficient branch service management.

The Automatic Payment Machines recorded an increase in market share from 5.4% in June 2008 to 5.6% in June 2009.

Complementary electronic channels continue to play an important role in distribution efficiency and customer service. The relative weight of the operations that have shifted to the complementary channels was 70%, in terms of the total number of operations processed.

Other forms of driving distribution that Montepio has employed include the management of agreements, not just the signing of new ones but the revitalizing of old ones, signed with entities with which Montepio maintains healthy relations.

The Montepio-Lusitania *Assurfinance* project, launched recently, already has over thirty developers. Business from this type of distribution is expected to increase, due to the broadening of the service on offer and the increase in business opportunities.

Montepio's website continues to record high levels of hits and usage. In an average month it receives 1.7 million visitors who visit 23.7 million pages. Over the next few months the website will be redesigned so as to provide continual improvement to Montepio's internet services.

Montepio's remote channels continue to win awards

Montepio website was once again considered to be one of the 3 best Online Banking websites by PC Guia 2009 Readers Awards and Montepio's Contact Centre was, for the fourth year running, awarded bronze by the Portuguese Association of Contact Centres (APCC). Previously Montepio has won gold, silver and bronze.

2.2. Products and Services and Customer Management

Over the first half of the year adjustments were made to the products and services Montepio offers in order to fulfil the goals laid down in the Strategic Guidelines; in particular pricing was adjusted to risk according to the Customer segment, and to commercial relations management.

Private Customer Segments

In the first half of 2009, there was a 0.7% increase in the number of Private Customers, as a result of the specialist work carried out by the distribution network in regard to the strategic segments.

Given that Montepio Customers are classified into three major groups: Mass Market, Mass-Affluent and Affluent, the range of products and services available to Affluent and Mass-Affluent Customers were further broadened by the launching of exclusive products, in particular financial investments.

In the case of products that attract resources, campaigns were carried out to promote short- and medium-term time deposits among the Mass Market and Affluent segments. The range of deposits exclusive to the remote channels was also increased. In this field particular concern was shown over price management and the interest rates for time deposits and the savings portfolio were adjusted to match the changes in the market.

Special mention must be made of the savings campaign for the junior sub segment involving a commemorative edition of “Montepio Piggy Bank”. The aim of the campaign is to increase this age group’s presence and so refresh the Customer base and strengthen Montepio’s competitive position, while at the same time continuing the lifelong Montepio tradition of encouraging saving and financial literacy among citizens from childhood.

In the Insurance field, the highlight was the launch of two new insurance policies in a joint venture with the Group’s insurer Lusitania: “Seguro Montepio Voluntariado” (aimed at all Institutions that employ volunteers) and “Seguro Montepio Caçador” (aimed at hunters).

Concern for sustained development and raising individual awareness to environmental protection and the diversification of energy sources has been a factor in the marketing of new credit lines. Montepio signed up the Agreement proposed by the Ministry of Finance and Public Administration and the Ministry of the Economy and Innovation in the field of renewable energy, under which the State subsidises the purchase of solar panels for housing. To that end a credit line was developed that encourages the purchase of solar panels as a way of promoting micro-generation of electricity among households.

In the field of motor credit, partnerships were entered into to develop products attractive to Mass Market and Affluent Customers.

As for the bankcard business, a program, called Super Advantages, was devised to encourage customer loyalty among Mega cardholders. A co-branded card was also developed with the Portuguese Hunting Federation (Fençaça) aimed at hunters (even if they do not have a commercial relationship with Montepio). The number of credit cards rose to 188,386, an increase of 2.9% as compared to December 2008 (Private Customers and Businesses).

Businesses Segment

In order to pursue credit diversification and promote the increase in market share among micro-businesses and SME in the sectors covered by the Strategic Plan, efforts were made to recruit new Customers in these fields.

As a result of the greater focus on these segments, the first half of the year saw a year-on-year increase of 5.6% in the number of Business Customers.

In this context and in regard to credit for businesses, specific actions were taken to enhance the specialist credit lines, in particular the Agreement entered into with the EIB - European Investment Bank that supports SME projects and the existing official credit lines: the Agreement with the Mutual Guarantee Societies; Banking Agreement ITP2007 – Tourism; SME Credit Line Invest II/ QREN – Montepio; SME Credit Line Invest III – Montepio; the Agreement with the IFAP – Support for the Agricultural, Forestry and Agro-Industrial sector. Specific agreements are also in operation in the autonomous regions of Madeira and the Azores.

As for attracting resources from businesses, mention must be made of the launch of two time deposit series, “Montepio Business” and “Montepio Business TOP” that set out to make a distinction between the products offered to sole traders and Micro-businesses, and those offered to the larger scale businesses.

In regard to card business, there was an increase in the new Business and Business Trade cards, means of payment aimed specifically at the business segments’ payment and cash flow management needs.

Quality and Satisfaction

Once again Montepio took part in the European Consumer Satisfaction Index (developed by Instituto Português da Qualidade and Universidade Nova de Lisboa) and was awarded a satisfaction classification above the banking sector average.

Information as to the quality of customer service in each branch was published by the commercial network in the form of a barometer, and it contributed to improved customer service and management.

Since the quality of the service provided to Customers is a constant concern for Montepio, a number of e-learning training courses were run covering products and customer service techniques, so as to provide the commercial network with better knowledge of the approach best suited to the needs and expectations of each Customer.

In the first half of the year the «Results» project was devised, which aims to improve efficiency by cutting the number of administrative tasks performed by the commercial network. The measures in force provide for an average increase in availability for commercial activities of 19% and a reduction in administrative duties of 25%.

Given the importance of internal communication a new intranet was launched that offers Montepio employees new functions and simpler and faster use of the contents, as well as making better use of audiovisual resources for communication and training purposes.

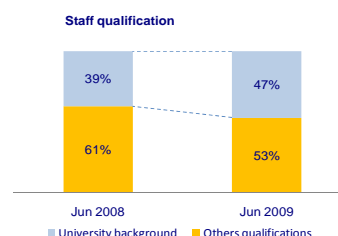
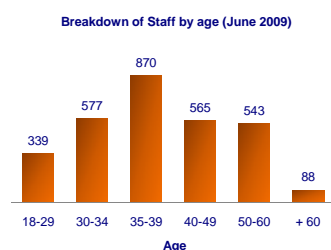
2.3. Human Resources

At the end of June 2009 Montepio employed 2,982 staff, which represents a year-on-year rise of just 9 employees. Given the increase in the number of branches, this led to a drop in the average number of employees per branch from 9.4 to 9.0.

Staff	Jun 08	Dec 08	Jun 09	YoY	
				N.º	%
Total Staff	2.973	2.972	2.982	9	0,3
Men	54%	53%	53%	-1,0	b.p.
Women	46%	47%	47%	1,0	b.p.
Nº of branches	313	320	325	12	3,8
Total Staff/Nº Branches	9,39	9,16	9,04		

As a result of the resources qualification and optimisation policy and the careful assessment in terms of recruitment and selection, at the end of June 2009 Montepio's staff had the following features:

- 74% of employees belong to the commercial network;
- Average age was 40 and average length of service 14.7 years;
- 53% were male and 47% female;
- The percentage of staff with a higher education increased to 47% from 39% the previous year.



Montepio has always strived to improve its staff's qualifications and skills, as can be seen from the fact that they received over 130,000 hours of training in the first half of the year, shared among 2,175 participants and using e-learning and b-learning methods. Topics were varied and included «Financial Advice for Customers», «Operational risks and Business Risks», «Specialist Credit » and «Financing Decisions and Credit Analysis».

It should also be noted that during the first half of the year, evaluation of objectives was included into the Performance Management System, while the new branch management model that covers employees who manage Customer portfolios continued to be developed.

In 2009 the model for determining commercial incentives was revised and now focuses on price and credit risk management. It incorporates Key Performance Indicators relating to risk and price management into the goals of each business unit, as well as stability/growth of business portfolios.

A new tool for assessing commercial performance is now available daily to the commercial network that places greater emphasis on the various business accounts.

Simulations were run in regard to In-house Emergency Plans for large buildings and an epidemiological study was completed into the outcome of regular health exams that sets out to prescribe preventative measures.

3. Progress in Business Areas

In the first half of 2009 Montepio saw its key businesses progress favourably, despite the adverse climate. Its position as a Retail bank with a savings bank nature was reinforced: Customer Resources on the Balance Sheet increased by 963.3 million euros (+10.5%), while credit was up by +0.6%, equal to 87.9 million euros.

Resources of retail and institutional Customers continued to be the main source of funding, followed by wholesale funding and securitisation operations (In March the securitisation operation Pelican Mortgages n° 5 was completed). The Interbank Money Market (IMM) and the European Central Bank (ECB) were used as complementary sources, in line with rational price management and the inherent nature of business finance sources.

Business on the IMM was slow at the beginning of the year, and the amounts lent and borrowed increased over the half-year as the market began to show signs of confidence.

(thousand euros)

	Jun 08	Dec 08	Jun 09	YoY	
	Value	Value	Value	Value	%
Total Customer Credit	15.116.652	15.393.813	15.204.539	87.887	0,6
Total Customer Resources	9.165.862	9.602.683	10.129.121	963.259	10,5

3.1. Individual Business Analysis

3.1.1. Private Customer and Small Businesses Banking

In the first half of 2009 Montepio acquired around 11,000 new Customers. This growth was brought about by the definition of strategic segments undertaken in the Strategic Plan 2009-2011, which is beginning to bear fruit.

A decisive factor in the growth in the Private Customers and Small Businesses Segment was the Montepio Group's decision to increase the number of Premium Customer Managers and Business Managers, which led to:

- Growth in resources of 2.3% as compared to the same period in 2008, thanks to the availability of a range of products aimed at attracting the savings of different types of Customer;

(thousand euros)

	Jun 08	Dec08	Jun 09	YoY	
	Value	Value	Value	Value	%
Private Customer and Small Business Deposits	6.565.050	6.779.922	6.713.322	148.272	2,3
Private customers	5.472.877	5.609.789	5.757.152	284.275	5,2
Traders and Liberal Professionals	47.832	52.828	50.261	2.429	5,1
Not-for-profit organisations	1.044.341	1.117.305	905.909	-138.432	-13,3
Corporate Deposits	984.435	975.620	1.196.871	212.436	21,6
Deposits from Other Segments	471.451	553.821	1.121.179	649.728	137,8
Instruments placed with Customers	1.124.091	1.272.343	1.119.260	-4.831	-0,4
TOTAL	9.145.027	9.581.706	10.150.632	1.005.605	11,0

- An increase in credit granted, on a more selective basis that resulted in an additional 17.1 million euros of personal credit and 23.5 million euros in credit to small businesses, in line with the planned strategy.

(thousand euros)

	Jun 08	Dec 08	Jun 09	YoY	
	Value	Value	Value	Value	%
Private Customer and Small Businesses					
Total Loans Portfolio	9.998.813	10.184.455	9.929.778	-69.035	-0,7
Private Customers	9.766.409	9.934.383	9.673.871	-92.538	-0,9
of which:					
Housing	8.476.183	8.420.974	8.352.193	-123.990	-1,5
Individual	368.116	374.945	385.241	17.125	4,7
Small Businesses	232.403	250.072	255.907	23.504	10,1
For memory:					
Guarantees	20.864	20.428	19.214	-1.650	-7,9

3.1.2. Corporate Banking

In the first half of 2009, Montepio continued to diversify its activities in the Businesses area, particularly among Small and Medium-size Enterprises. In this context, the segment recorded growth of 21.6% as compared to the previous year.

The results obtained in this segment are based on three elements:

- **Significant growth in the number of Customers in the strategic segments**, by providing specialist customer service through the Businesses Network and the Business Customer Managers, along with the risk and finance fields;
- **Increase Montepio's ranking as the first Bank for Business Customers**. To achieve this aim the range of product and services on offer was increased;
- **Rise share-of-wallet for Customers in the strategic segments**, by marketing Group company products.

(thousand euros)

	Jun 08	Dec 08	Jun 09	YoY	
	Value	Value	Value	Value	%
Businesses					
Total Credit Portfolio	4.521.668	4.692.674	4.819.125	297.457	6,6
of which:					
Construction	2.161.828	2.154.768	2.101.493	-60.335	-2,8
Investment	1.138.262	1.248.346	1.402.254	263.992	23,2
Credit and Interest Due Ratio	3,3%	3,2%	5,0%	1,7 p.p.	
For memory:					
Guarantees	348.224	383.993	386.891	38.667	11,1

Montepio increased its support to Portuguese businesses and credit granted to businesses grew by 6.6%. This was due in part to investment credit which rose by 264.0 million euros, up 23.2% as compared to the same period last year. The increase in investment credit was the result of the diversification strategy pursued by Montepio which included the signing of agreements with State bodies.

Specialist credit business (Leasing, Factoring and Renting) recorded expressive growth as compared to the same period in 2008. This item increased by 107.4 million euros (+70.0%), due in good measure to property leasing which was up 40.6 million euros (+53.9%).

Factoring increased by 32.7 million euros, +141.0% compared to the same period in 2008.

	Jun 08	Dec 08	Jun09	YoY	
	Value	Value	Value	Value	%
Leasing	129.044	171.181	202.618	73.574	57,0
Auto	18.454	24.093	28.882	10.428	56,5
Equipment	35.347	48.845	57.936	22.589	63,9
Real Property	75.243	98.243	115.800	40.557	53,9
Ok Invoice - Factoring	23.156	54.242	55.815	32.659	141,0
Renting	1.126	1.988	2.268	1.142	101,4
TOTAL	153.326	227.411	260.701	107.375	70,0

3.2. Cross-selling

3.2.1. Asset Management

Montepio ended the first half of 2009 with disintermediation resources of 1,069 million euros placed by its distribution network. This portfolio is managed by the Group companies specialising in investment fund management, pension fund management and capitalisation insurance. The negative year-on-year change of 171.5 million euros was fundamentally due to the poor performance of the markets in 2008, which had the greatest impact on Investment Funds (-26.4%). Nonetheless, performance compared favourably with that of the sector, where the change for the period in review was -31.4% (Source: APFIPP).

(thousand euros)

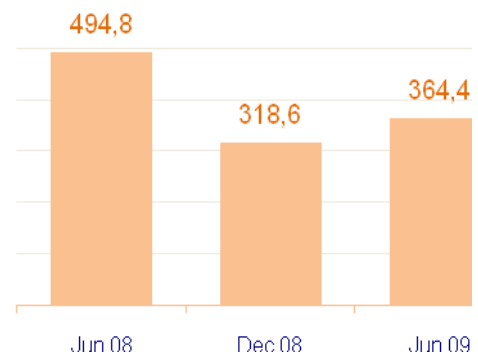
	Jun 08		Dec 08		Jun 09		YoY	
	Value	%	Value	%	Value		Value	%
Stock investment Funds	494.780	39,9	318.552	31,3	364.398	34,1	-130.382	-26,4
Treasury Funds	265.214	21,4	184.856	18,2	227.436	21,3	-37.778	-14,2
Bond Funds	8.411	0,7	5.746	0,6	5.003	0,5	-3.408	-40,5
Share Funds	95.501	7,7	60.180	5,9	62.839	5,9	-32.662	-34,2
Funds of Funds	125.654	10,1	67.770	6,6	69.120	6,4	-56.534	-45,0
Real Estate Funds	308.234	24,9	299.675	29,4	301.671	28,2	-6.563	-2,1
Open-end Pension Funds	208.665	16,8	193.188	19,0	189.475	17,7	-19.190	-9,2
Capitalisation Insurance	228.795	18,4	206.102	20,3	213.466	20,0	-15.329	-6,7
TOTAL	1.240.474	100,0	1.017.517	100,0	1.069.010	100,0	-171.464	-13,8

Investment Funds

At the end of the first half of 2009, assets under management in the Portuguese stock investment funds market totalled 14,193 million euros, almost identical to the December 2008 figure. The gradual recovery in the financial markets seen in the first six months of the year, as well as renewed investor interest in this type of asset, explains the reversal in the strong downward trend that began in the first half of 2007 and continued throughout 2008, the year in which assets under management shrank by 44.3%.

Stock Investment Funds

million euros



In a climate of market stagnation, the Real Estate Funds managed by Montepio Gestão de Activos recorded notable growth in assets under management of 14.4% in the first half of 2009, which contrasted with the – 26.4% drop in the previous year. This growth over the first six months of the year resulted mainly from the increase in net purchases in the Montepio Treasury fund and the general rise in stock fund values.

Montepio's and Montepio Gestão de Activos' main concern was to match investment funds to Customers' needs and to the nature of the market, so a new special investment fund aimed at the Money Market – Montepio Monetário Plus was approved in the first half of the year.

Pension Funds

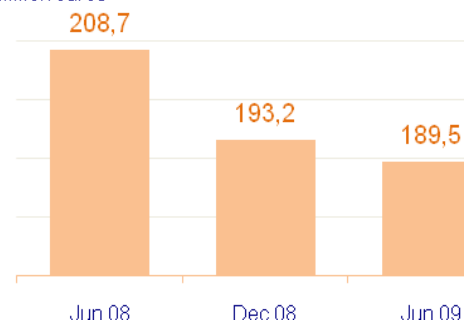
The Open-end Pension Funds marketed by Montepio are managed by the Group's pension fund, Futuro, that complements the services provided by the Associação Mutualista (which specialises in investments in low risk assets). The Open-end Pension Funds Futuro manages are aimed at the businesses segments, while the Retirement Savings Plan (RSP) and Shares Savings Plan (SSP) are aimed at private customers.

Futuro's pension fund's portfolio, which includes higher risk assets, was, like other investment funds, affected by the crisis in the financial markets.

In June 2009, assets under management belonging to pension funds sold at Montepio branches totalled 189.5 million euros, which represents a fall in the assets under management of 9.2% as compared to the same period the previous year and 1.9% in 2009. However

Open-end Pension Funds market by Caixa Económica

million euros



the positive change in the financial markets allowed the prices of all the funds to recover to the values recorded on 31st December 2008.

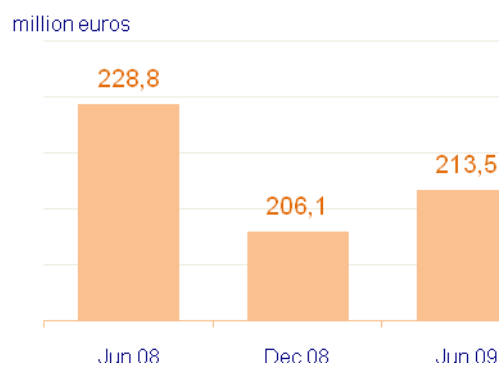
At the end of the first half of 2009, total Pensions Funds assets under Futuro's management were 1,002 million euros.

In its drive to meet the highest standards in service quality, Futuro's Quality Management System was certified in April 2009 and now meets the requirements of the new version of standard NP EN ISO 9001:2008.

Capitalisation insurance

Lusitania Vida's capitalisation insurance completes the range of long-term savings products offered by Montepio and complements the Associação Mutualista products. A new product, Annual Remuneration Capitalisation Insurance, was launched at the beginning of the year in order to meet the diversification goal.

Capitalisation insurance



In June 2009, Lusitania Vida's capitalisation insurance products, marketed by Montepio, totalled 213.5 million euros, 3.6% higher than the December 2008 figure, but 6.7% down on the June 2008 portfolio.

3.2.2. Insurance

(thousand euros)

	Jun 08		Dec 08		Jun 09		YoY	
	Value	%	Value	%	Value	%	Value	%
Life Assurance	22.607	71,6	45.472	71,4	23.777	71,1	1.170	5,2
Non-life insurance	8.966	28,4	18.220	28,6	9.650	28,9	684	7,6
TOTAL	31.573	100,0	63.692	100,0	33.427	100,0	1.854	5,9

The Life-Risk assurance policies were devised by Lusitania Vida to complement the risk products sold by the Associação Mutualista, thus expanding the Group's product range in this field. In June 2009 premiums collected by the network recorded a year-on-year growth of 5.2% amounting to 23.8 million euros.

Non-life insurance, developed in partnership with Lusitania, continued to be an important commercial option for the Montepio distribution network, so during the first half of the year the campaign under which the first premium for Contents is free to holders of Montepio Fully Comprehensive Property Insurance continued.

Two new insurance policies were launched for companies covering volunteers and hunters. The former is aimed at all those institutions that employ volunteers and is an innovative move in the market, which meets the need for protection for a Customer segment that has grown significantly in recent years. While the hunters insurance offers policyholders two distinct options, in addition to third party liability, that allow Customers to meet their safety and protection needs.

Accordingly, Non-life premiums collected by Montepio in the first half of the year rose to 9.7 million euros, which is +7.6% up on the figure for the same period last year.

3.3. Mutual Products

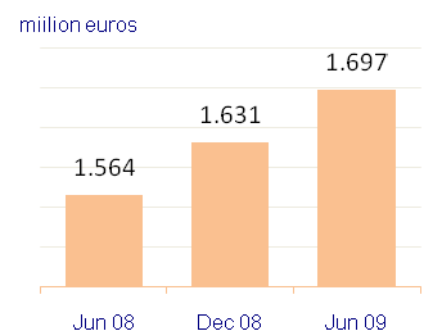
At the end of June the Associação Mutualista had around 437,000 mutual members, who benefit from medium - and long - term savings products and welfare products. Funds under management totalled 2,201 million euros, up 8.7% on June of last year.

This change reflects the high rate of growth in mutual schemes generally.

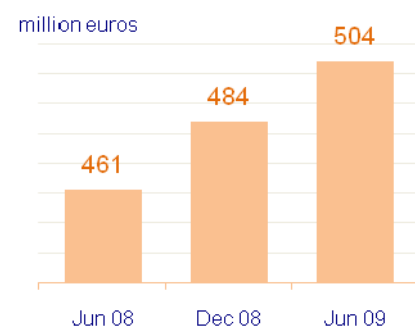
The capitalisation schemes, Retirement Capital and the “Montepio Capital Certo” issues, continued to dominate demand for mutual schemes and accounted for 74.0% of the total. Also worthy of note in this period is the performance of retirement products that grew by 19.8%, in year-on-year terms, reflecting the commercial network’s success in making working age Customers aware of the need to save for retirement sooner rather than later.

In the first half of the year, the volume of capital received as capitalisation schemes was 121.7 million euros, 30.7% higher than that received in the first half of last year (93.1 million euros).

Capitalisation Mutual Schemes



Mutual Welfare Schemes



(thousand euros)

	Jun 08		Dec 08		Jun 09		YoY	
	Value	%	Value	%	Value	%	Value	%
Mutual Capitalisation Schemes	1.564.429	77,2	1.630.837	77,1	1.697.043	77,1	132.614	8,5
Retirement Capital and "Montepio Capital Certo"	1.507.219	74,4	1.564.702	74,0	1.629.396	74,0	122.177	8,1
Collective Schemes	7.777	0,4	8.025	0,4	8.421	0,4	644	8,3
Retirement Savings	49.433	2,4	58.110	2,7	59.226	2,7	9.793	19,8
Mutual Welfare Schemes	461.092	22,8	483.918	22,9	504.042	22,9	42.950	9,3
TOTAL	2.025.521	100,0	2.114.755	100,0	2.201.085	100,0	175.564	8,7

4. Risk Analysis and Management

The impact of current market conditions on the decision making process has led to Montepio giving top priority to risk management. To that end it stepped up monitoring of liquidity and counterparty risks, while also aligning its credit operation pricing to the change in risk levels and funding costs.

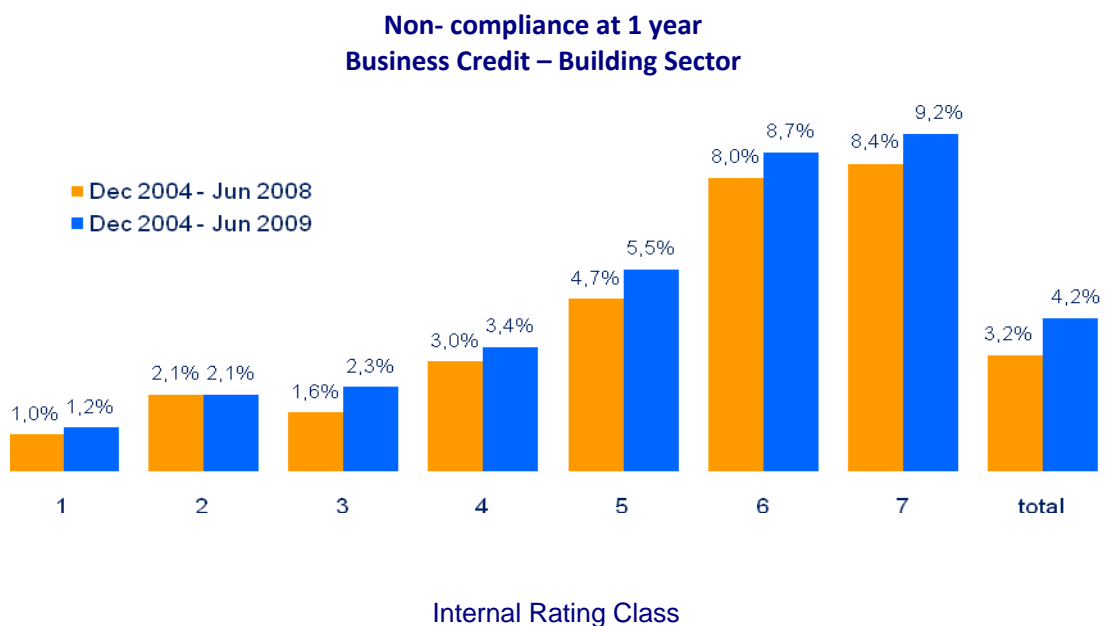
The granting of credit in the main business lines also came under closer scrutiny and corporate credit monitoring was enhanced with the drawing up of a weekly watchlist to be analysed by the Credit Council.

In addition, procedures were developed to analyse the adequacy of equity and became the basis of the reports made under the Equity Self-Assessment and Market Discipline Process.

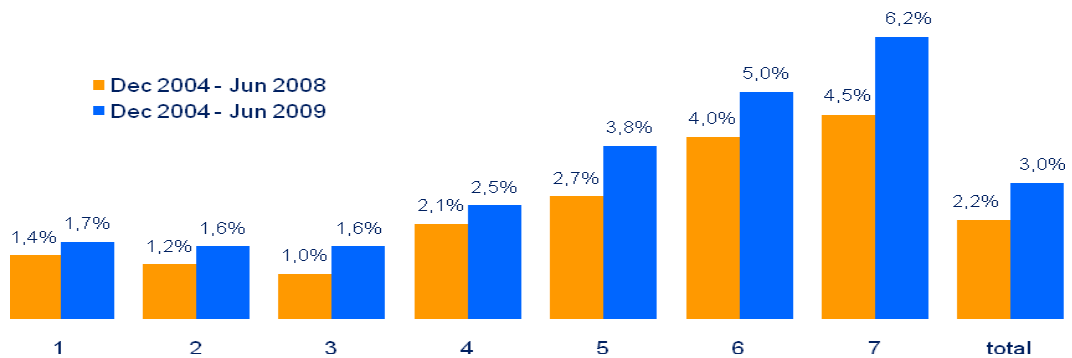
Credit Risk

In an unfavourable macroeconomic setting credit risk levels deteriorated and non-compliance rates worsened in a number of areas. The magnitudes of this effect were reduced as a consequence of the conservative investment and credit granting policies, plus the use of measurement tools and risk monitoring. The effects of the recession were also dampened by the fact that the degree of collateralisation was high as 84% of the total amount of credit granted was backed by a real guarantee.

The rate of non-compliance in the business credit portfolios rose as compared to the previous year, in particular among the highest risk classes in the building sector (which also carry the least weight in the portfolios).



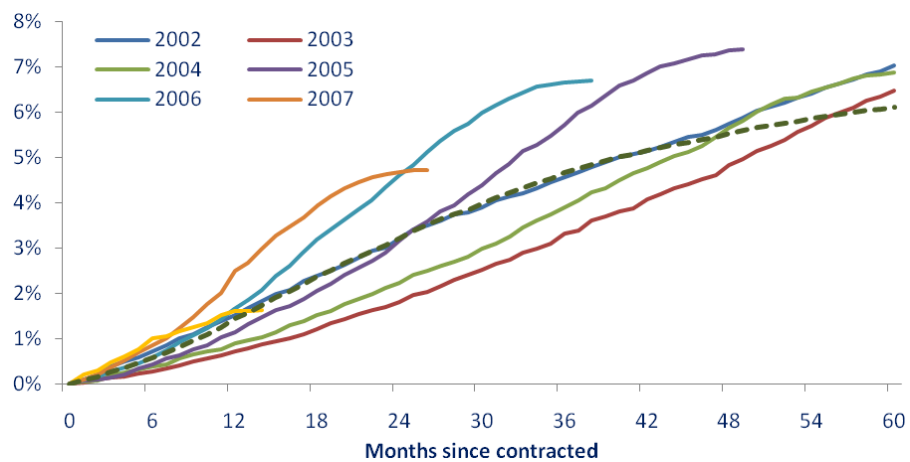
**Non-compliance at 1 year
Business Credit – Other Sectors**



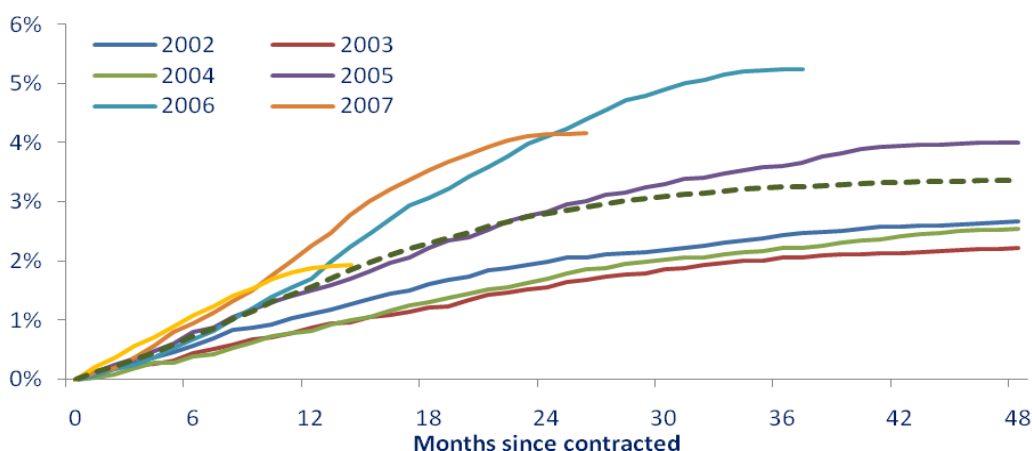
Internal Rating Class

In terms of private customer credit, notwithstanding the increase in non-compliance, it is clear that the imposing of stricter criteria provided lower non-compliance rates for credit granted in 2008, particularly housing credit.

**Non-compliance rates
Housing Credit**



Non-compliance Rates Personal Credit



Over the first half of 2009, the entire national banking business experienced a change in the non-compliance rate and a consequent deterioration in the quality of their credit portfolios. Therefore the amount of credit and interest due for the entire banking sector increased, in year-on-year terms, by 62% as at May 2009 (latest available figures in the Monetary and Financial Statistics published by the Bank of Portugal). However despite the increase in comparison with 2008, Montepio's credit and interest due totalled 560 million euros in June 2009, which is a decrease of 36.3%.

Credit and interest due over 3 months, which accounted for 84.9% of the total, stood at 475.1 million euros, which is equal to 3.2% of gross credit portfolio.

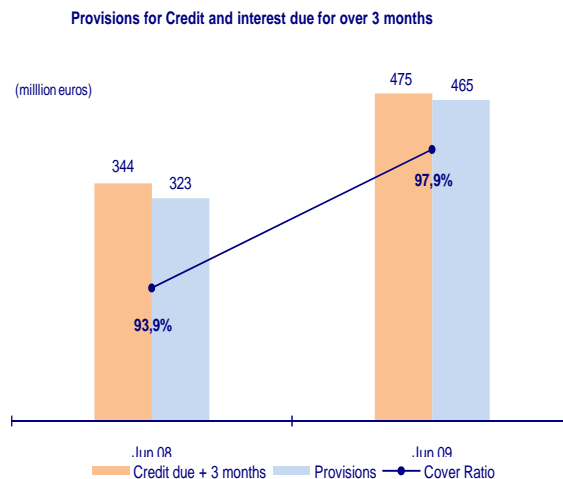
Main Credit and Interest Due Indicators – Individual Business

(Thousand euros)

Indicators	Jun 08	Dec 08	Jun 09	YoY	
				Value	%
Customer Credit (Gross)	14.604.908	14.949.067	14.819.284	214.376	1,5
Credit and Interest Due	410.766	427.336	559.925	149.159	36,3
Credit due over 3 months	343.968	350.341	475.132	131.164	38,1
Credit due over 12 months	289.708	286.536	377.474	87.766	30,3
Total Credit Provisions	322.821	386.103	465.010	142.189	44,0
General Credit Risks	99.394	101.240	100.824	1.430	1,4
Credit Due and Doubtful Debts	223.427	284.863	364.186	140.759	63,0
Ratios of Credit Due as % of Total Credit					
Credit and Interest Due over 3 months Ratio	2,36	2,34	3,21	0,85p.p.	
Credit and Interest Due over 12 months Ratio	1,98	1,92	2,55	0,57p.p.	
Non-compliance Credit Ratio (a)	2,74	2,90	3,96	1,22p.p.	
Non-compliance Credit Net of Provisions Ratio (a)	1,31	1,09	1,90	0,59p.p.	
Credit Due covered by Provisions (%)					
Credit Due over 3 months	93,85	110,21	97,87	4,02p.p.	
Credit Due over 12 months	111,43	134,75	123,19	11,76p.p.	

(a) According to BoP instruction nº16/2004.

Total credit provisions were 465.0 million euros, which represents a year-on-year rise of 142.2 million euros (+44.0%). The increase in the credit risks provision led to an improvement in the cover ratio for credit and interest due over 3 months, from 93.9% in June 2008 to 97.9% in June 2009. Credit and interest due over 12 months is covered by provisions to the tune of 123.2%, which is +11.8 b.p. in year-on-year terms.



Financial Assets Risk

Montepio's investment portfolio recorded growth of 169.5 million euros in the first half of 2009, to give a total of 997.5 million euros. This change was due in the main to the increased exposure to commercial paper (+131.7%) and fixed rate bonds (+311.9%). Bonds continued to dominate the portfolio and at the end of June they stood at 729.3 million euros, as compared to 709.6 million at the end of 2008. Variable rate bonds continued to carry the largest relative weight among investments at 64.5%. Thus the interest rate risk remained at low levels and over 80% of the bond portfolio was due to mature in less than six months.

Breakdown of Investments by Asset Type

(thousand euros)

Type of Asset	Dec 08		Jun 09		YoY	
	Value	%	Value	%	Value	%
Bonds	709.569	85,7	729.262	73,1	19.693	2,8
- Variable rate	688.794	83,2	643.697	64,5	-45.097	-6,5
- Fixed rate	20.775	2,5	85.565	8,6	64.790	311,9
Comercial paper	113.031	13,7	261.867	26,3	148.836	131,7
Shares	5.343	0,6	6.341	0,6	998	18,7
Total	827.943	100,0	997.470	100,0	169.527	20,5

Breakdown of Bonds by Time to Maturity

(thousand euros)

Term	Dec 08		Jun 09		YoY	
	Value	%	Value	%	Value	%
< 6 months	638.252	89,9	592.221	81,2	-46.031	-7,2
6 months - 1 year	6.926	1,0	17.886	2,5	10.960	158,2
1 year - 3 years	23.108	3,3	34.561	4,7	11.453	49,6
3 years - 5 years	26.302	3,7	71.756	9,8	45.454	172,8
5 years - 10 years	14.800	2,1	12.388	1,7	-2.412	-16,3
> 10 years	181	0,0	450	0,1	269	148,6
Total	709.569	100,0	729.262	100,0	19.693	2,8

The bonds in the investment portfolio continued to be a low credit risk given that they are still concentrated in investment grade bonds (98.4% in June 2009 as compared to 98.1% at the end of 2008).

Breakdown of Bonds by Rating

(thousand euros)

Rating	Dec 08		Jun 09		YoY	
	Value	%	Value	%	Value	%
AAA	70.289	9,9	48.400	6,6	-21.889	-31,1
AA+	51.119	7,2	76.065	10,5	24.946	48,8
AA	77.035	10,9	75.313	10,3	-1.722	-2,2
AA-	134.843	19,0	102.677	14,1	-32.166	-23,9
A+	79.697	11,2	101.435	13,9	21.738	27,3
A	150.150	21,2	111.018	15,2	-39.132	-26,1
A-	88.567	12,5	135.777	18,6	47.210	53,3
BBB+	25.365	3,6	44.716	6,1	19.351	76,3
BBB	10.802	1,5	10.277	1,4	-525	-4,9
BBB-	8.017	1,1	11.752	1,6	3.735	46,6
BB+	5.319	0,7	5.489	0,8	170	3,2
BB	758	0,1	1.461	0,2	703	92,7
CCC	0	0,0	35	0,0	35	-
D	2.522	0,4	1.350	0,2	-1.172	-46,5
NR	5.086	0,7	3.497	0,5	-1.589	-31,2
Total	709.569	100,0	729.262	100,0	19.693	2,8

Structural Balance Sheet Risks

The Risk Analysis and Management Department is responsible for identifying, measuring and controlling interest rate risk for Montepio's banking portfolio. The management of interest rate risk is governed by the principles recommended by the Bank for International Settlements (BIS).

According to the methodology laid down in Bank of Portugal (BoP) Instruction nº 19/2005, the impact on the Net Position of a parallel shift of \pm 200 basis points (b.p.) on the income curve is 1%.

Thus the sensitivity of Montepio's banking portfolio to interest rate risk is within the guideline limits established by the BIS in "Principles for the Management and Supervision of Interest Rate Risk".

In June 2009, the 12-month cumulative reprising gap was estimated at 2,043 million euros, which would have an impact on Financial Profit of ± 20 million euros if there were an instantaneous change in interest rates of ± 100 b.p.

Montepio's policy of suitable liquidity risk management has enabled it to match its balance sheet financing structure to the maturity of its assets, diversify its sources of finance and retain a series of high liquidity assets that allows it, for example, to resort to the European Central Bank (ECB) as an additional source of liquidity. In this context, the following actions taken over the first half of 2009 were of particular importance in regard to liquidity management:

- A new housing credit securitisation operation conducted in March in the sum of one thousand million euros;
- New senior debt issues, placed with Customers;
- 100 million euros increase in Institutional Capital approved in General Meeting and undertaken in March 2009.

According to the regular reports made to BoP, Montepio has had positive cumulative gaps for twelve consecutive months, which shows it has an adequate short-term liquidity position since these gaps reflect the cash flow position plus the debt depreciation for the period. Thus at the end of June 2009, the up to 12 months cumulative liquidity dynamic gap was 2.28 mil million euros.

Liquidity Position Dynamic gaps as at 30th June 2009

(thousand euros)

Position at reference date + Forecast value	Time Intervals				
	On sight and up to 1 week	Over 1 week na up to 1 month	Over 1 month and up to 3 months	Over 3 month and up to 6 months	Over 6 month and up to 12 months
Cumulative mismatches	2.413	3.548	3.325	2.492	2.280

Montepio has conducted stress tests that take into account the major risks. These tests were also incorporated into the Internal Capital Adequacy Assessment Process (ICAAP).

The process analysed various extreme situations of credit risk, such as changes in interest rates, liquidity and operational risk conditions, and the results confirmed that Montepio's equity is adequate.

Thus, in terms of credit risk, bearing in mind the long-term relationship between the probabilities of non-compliance in the various business segments, the GDP and short-term interest rates, and taking as the starting point the balance sheet as at 31st December 2008, we may conclude that the various adverse scenarios considered would lead to a decrease in the Solvency Ratio of 0.5 to 2.5 percentage points, which means that indicator would remain significantly above the defined minimum. These conclusions were supported by the expected change in capital ratios up to the end of 2009, taking into account the various business scenarios and sensitivity to the potential shocks, taking as a starting point the balance sheet as at 30th June.

In addition, the tests also had a moderate impact at the financial risks and balance sheet level, both in regard to profits and liquidity gaps.

Operational Risk

Operational risk consists of the risk of losses stemming from defects or flaws in internal procedures, Human Resources, systems or external factors. The operational risk management system is based on identifying, evaluating, monitoring, measuring and mitigating risks. Besides a specific unit that is dedicated to the task, the business management model is decentralised and each of the Group's companies have staff who handle the matter.

The two first stages of the Business Continuity Plan were completed in the first half of 2009, respectively the Evaluation stages (Business Impact Analysis and requirements for Business Continuity) and the Design stage (identification of installations and systems recovery options).

5. Financial and Prudential Analysis

5.1. General Balance Sheet Analysis

Despite the unfavourable market conditions, Montepio saw its assets grow by 2.7%, which represents an increase of 454.7 million euros.

(thousand euros)

	Jun 08		Dec 08		Jun 09		YoY	
	Value	%	Value	%	Value	%	Value	%
1- Net Assets	16.811.682	100,0	16.851.534	100,0	17.266.354	100,0	454.672	2,7
Cash and Deposits	322.275	1,9	369.244	2,2	212.553	1,2	-109.722	-34,0
Other Loans and Advances to Credit Institutions	358.303	2,1	166.823	0,9	650.293	3,8	291.990	81,5
Gross Customer Credit	15.116.652	89,9	15.393.813	91,5	15.204.539	88,1	87.887	0,6
Financial Assets equivalent to Instruments (1)	1.056.077	6,3	1.044.853	6,2	1.250.915	7,2	194.838	18,4
Impairment and Depreciation	-481.153	-2,8	-566.914	-3,4	-657.306	-3,8	-176.153	36,6
Other Assets	439.528	2,6	443.715	2,6	605.360	3,5	165.832	37,7
2-Liabilities and Equity	16.811.682	100,0	16.851.534	100,0	17.266.354	100,0	454.672	2,7
Resources from Central Banks and other Cred.Inst.	1.113.043	6,6	1.597.259	9,5	1.426.924	8,3	313.881	28,2
Resources from Customers and Other Loans (2)	9.165.862	54,5	9.602.683	57,1	10.129.121	58,6	963.259	10,5
Debts Securities Issued and Subord. Liabilities (3)	4.901.747	29,2	4.176.016	24,8	3.967.833	23,0	-933.914	-19,1
Fin. Liabilities associated with Transferred Assets	580.907	3,4	485.186	2,8	514.359	3,0	-66.548	-11,5
Otehr Liabilities	214.778	1,3	166.721	0,9	291.122	1,7	76.344	35,5
Equity	835.345	5,0	823.669	4,9	936.995	5,4	101.650	12,2
3 -Customer Credit/Customer Resources (%)	164,9		160,3		150,1		-14,8p,p,	

(1) = Includes fin. assets held for trading, fin. assets at fair value, fin. assets available for sale and investments held to maturity.

(2) = Includes deposits and other resources and subordinated and non-subordinated loans placed with customers.

(3) = Excludes non-subordinated and subordinated loans placed with customers.

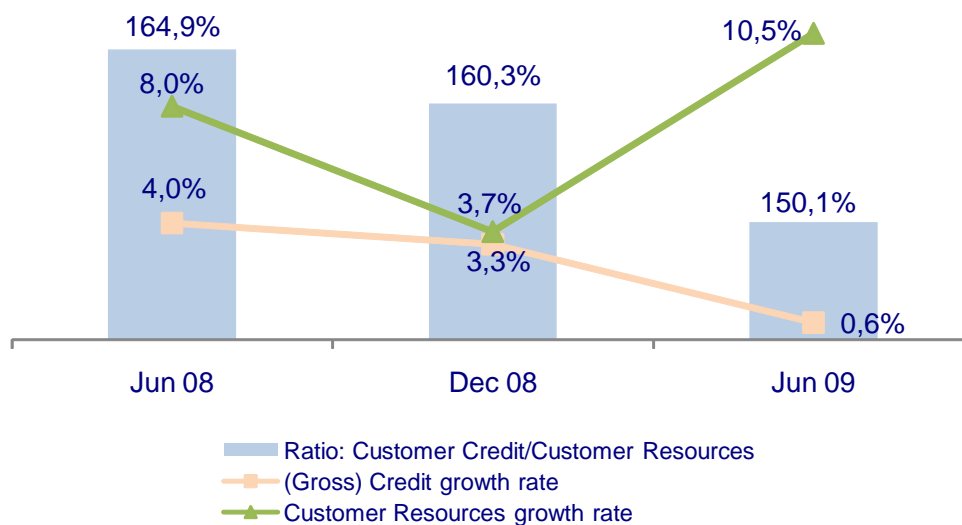
Mention must be made of the fact the positive change in the main balance sheet variables was achieved in a climate of great market uncertainty. The underlying factors were the implementation of suitable pricing management, greater scrutiny of credit operations and rigorous capital adequacy principles.

In the period under review, the assets which recorded the greatest change were Other Loans and Advances to Credit Institutions, a rise of 292 million euros (+81.5%), Financial Assets equivalent to Instruments, which increased by 194.8 million euros (+18.4%) and Customer Credit which recorded a growth of +0.6%, but which in the businesses segments made notable progress in line with the strategic guidelines calling for diversification into the strategic micro-businesses and SME segments.

Bearing in mind the instability felt in the international financial markets, marked by the shortage of liquidity and, consequently, by very large credit spreads, investments were in the main funded by financial resources of suitable maturity and by favourable adjustment of spreads to the new conditions of more favourable markets. Accordingly Central Bank and Other Credit Institution Resources increased by 313.9 million euros (+28.2%), which consisted mainly of the funding obtained from the ECB and the European Investment Bank (EIB). While Overall Customer Resources grew by 963.3 million euros(+10.5%) and, in order to reinforce

financial soundness and to respond to the greater risks, Capital was increased by 101.7 million euros (+12.2%).

Given the high spread levels in the foreign financing markets, Montepio chose not to proceed with the issuing of new loans under the EMTN (Euro Medium Term Notes) program, so the value of Debts Securities Issued and Subordinated Liabilities fell by 933.9 million euros (-19.1%). On the other hand, in order to consolidate liquidity levels and strengthen assets eligible for ECB financing, a securitisation operation was conducted in the amount of 1,000 million euros.



The resources and investment policies allowed Montepio to consolidate greater growth in Customer Resources (+10.5%), which had a noticeable impact on the improvement in the Customer Credit/Customer Resources ratio (-14.8 b.p.).

5.2. Income Statement Analysis

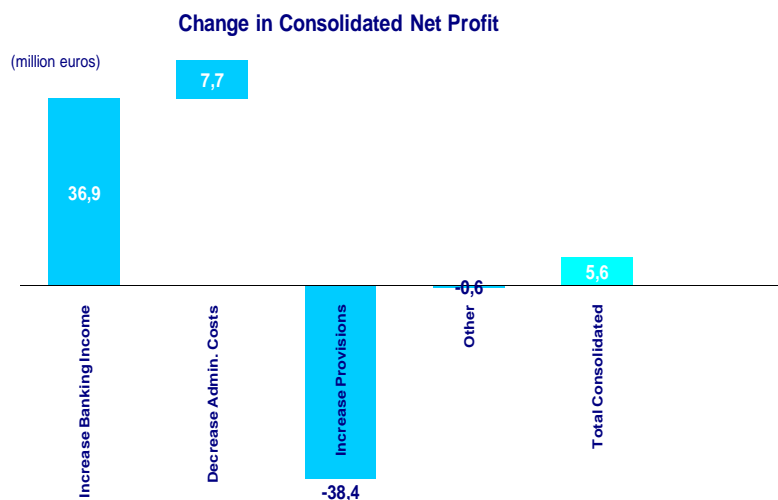
Consolidated Net Profit for the first half of the year was 29.2 million euros, which represents a year-on-year growth of 23.5%, that is +5.6 million euros as compared to June 2009.

(thousand euros)									
	Jun 08		Dec 08		Jun 09		YoY		
	Value	%	Value	%	Value	%	Value	%	
Net Interest Income	160.682	79,7	334.496	81,7	182.615	76,6	21.933	13,6	
Services and Commissions	34.687	17,2	70.984	17,3	35.326	14,8	639	1,8	
Commercial Banking Income	195.369	96,9	405.480	99,0	217.941	91,4	22.572	11,6	
Market Operations (a)	-1.591	-0,8	-16.594	-4,1	6.033	2,5	7.624	479,2	
Holdings Income	515	0,3	882	0,2	716	0,3	201	39,0	
Other Income	7.254	3,6	19.867	4,9	13.792	5,8	6.538	90,1	
Banking Income	201.547	100,0	409.635	100,0	238.482	100,0	36.935	18,3	
Staff Costs	79.045	39,2	151.260	36,9	74.979	31,4	-4.066	-5,1	
General and Administrative Expenses	42.016	20,9	85.696	20,9	37.405	15,7	-4.611	-11,0	
Amortisations	8.490	4,2	18.370	4,5	9.426	4,0	936	11,0	
Operating Costs	129.551	64,3	255.326	62,3	121.810	51,1	-7.741	-6,0	
Gross Profit	71.996	35,7	154.309	37,7	116.672	48,9	44.676	62,1	
Net Provisions and Impairment, net of reversals	49.999	69,4	123.058	79,7	88.393	75,8	38.394	76,8	
Credit	44.141		97.855		86.060		41.919	95,0	
Securities	2.698		20.248		1.374		-1.324	-49,1	
Others	3.160		4.955		959		-2.201	-69,7	
= Operating Profit	21.997	30,6	31.251	20,3	28.279	24,2	6.282	28,6	
Share of Profit of associates under the Equity Method	1.667		2.623		948		-719	-43,1	
= Consolidated Net Profit	23.664		33.874		29.227		5.563	23,5	

(a) Includes return on shares and other variable income securities, except financial holdings

Positive contributions to the change in Consolidated Net Profit came from the growth in Banking Income of 36.9 million euros (+18.3%) and from the implementation of rigorous cost management which led to a fall in Operating Costs of 7.7 million euros (-6.0%).

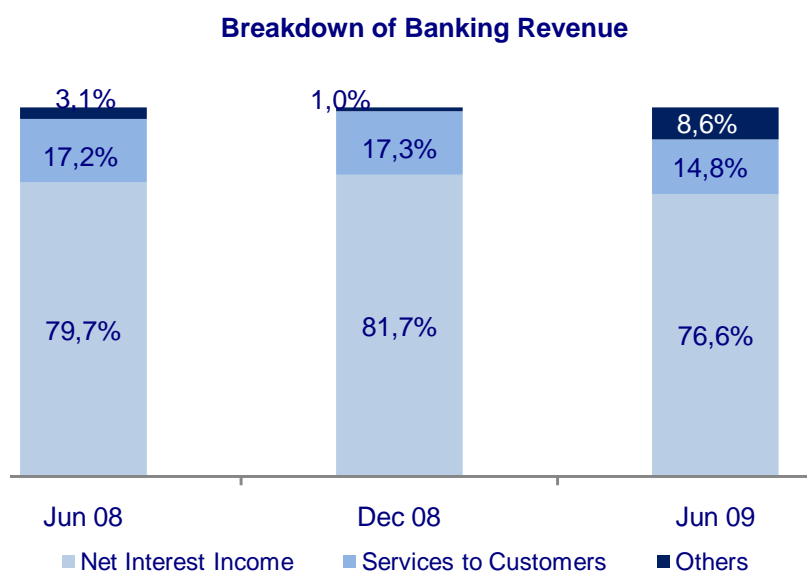
The negative effects of the economic crisis, which continued to impact on the market, were the cause of the change in Credit Impairment that increased by 38.4 million euros (+ 76.8%) as compared to the previous year. Nonetheless the very positive change in Gross Profit (+62.1%) more than compensated this setback.



Banking Income

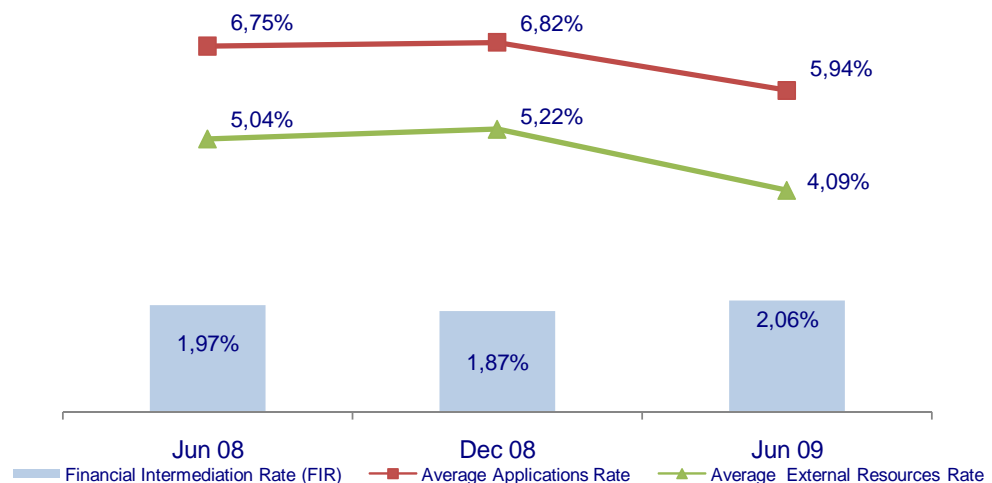
Banking Income, which stood at 238.5 million euros, had a growth of 36.9 million euros (+18.3%). That was due in the main to the positive results obtained in the Financial and Currency Markets, which recorded an increase of +7.6 million euros (+479.2%) stemming from the valuation of the swaps hedging liability and asset operations.

The greater growth in the accounts not related to interest (+36.7%) compared to that in Net Interest Income (+13.6%) was the result of the reduced dependence on Banking Income in relation to Net Interest Income, that is to say the relative weight of these items in Banking Income went from 20.3% in June 2008 to 23.4% in June 2009.



Net Interest Income

Net Interest Income totalled 182.6 million euros and recorded an increase of 21.9 million euros (+13.6%). That was due to the increase of 2.8% in turnover and to careful management of interest rates, above all on the financial liabilities side where the average external resources rate for External Resources fell by 1.13 b.p. as compared to December 2008, which was greater than the 0.8 b.p. fall in the average interest rate for Financial Investments over the same period.

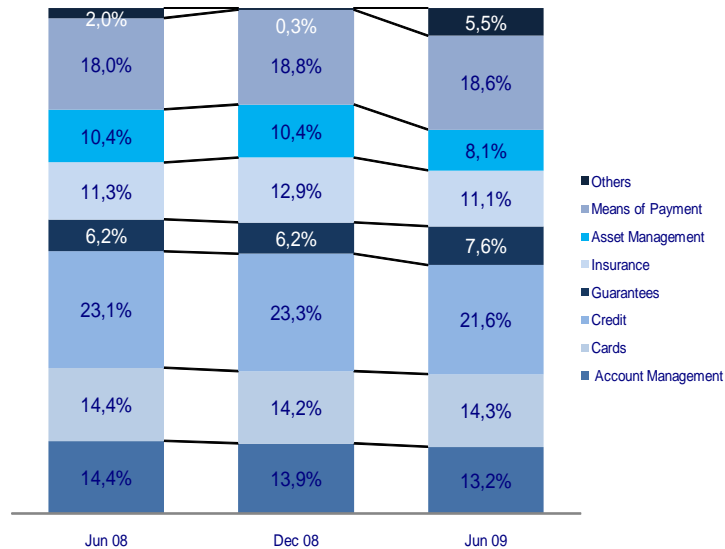


As a result of the interest rate management and the positive effect of market reference rates on the valuation of interest rate hedging instruments (Interest Rate Swaps), the Financial Intermediation Rate stood at 2.06% which represents a year-on-year increase of 0.09 b.p.

Profit on Services Provided to Customers (Commissions)

Market conditions determined the performance of the commission generating business, especially in terms of the growth in funds. On the other hand the slowdown in private customer credit, in particular housing credit, reduced income from new credit operations. Nonetheless, Montepio recorded a year-on-year growth in commission of 1.8%, due to the favourable change in services relating to Guarantees Provided and Means of Payment.

Breakdown of Commissions



5.3. Operating Costs and Efficiency

Operating Costs were 121.8 million euros, which represents a decrease of 7.7 million euros (-6.0%). The saving was possible thanks to the internal efficiency measures taken and the implementation of across the board budgetary management and cost control.

	Jun 08		Dec 08		Jun 09		YoY	
	Value	%	Value	%	Value	%	Value	%
Staff Costs	79.045	61,0	151.260	59,2	74.979	61,6	-4.066	-5,1
General and Administrative Expenses	42.016	32,4	85.696	33,6	37.405	30,7	-4.611	-11,0
Running Costs	121.061	93,4	236.956	92,8	112.384	92,3	-8.677	-7,2
Depreciation	8.490	6,6	18.370	7,2	9.426	7,7	936	11,0
Operating Costs	129.551	100,0	255.326	100,0	121.810	100,0	-7.741	-6,0
Banking Income	201.547		409.635		238.482		36.935	18,3
RATIOS								
Staff Costs / Banking Income	39,22%		36,93%		31,44%		-7,78 b.p.	
General and Administrative Expenses/Banking Income	20,85%		20,92%		15,68%		-5,17 b.p.	
Depreciation / Banking Income	4,21%		4,48%		3,95%		-0,26 b.p.	
Cost-to-Income (Operating Costs / Banking Income)	64,28%		62,33%		51,08%		-13,20 b.p.	
Efficiency ratio (Running Costs / Banking Income)	60,07%		57,85%		47,12%		-12,95 b.p.	

The largest contribution to the fall in Operating Costs was, on the one hand, General and Administrative Expenses which were down 4.6 million euros (-11.0%). On the other hand Staff Costs fell by 4.1 million euros (-5.1%) and Depreciation grew by 11.0% in year-on-year terms.

As regards General and Administrative Expenses, the areas which most contributed to the final outcome were Advertising (-85%), Travel (-24%), Consultancy (-24%) and Communications (-8.9%). As far as Staff Costs, are concerned the decrease was linked to the reduction in Social Security Charges of 7 million euros

(-28%) relating to the total contribution to the Pension Fund that was down 51%, and the decrease in Governing Bodies Remuneration of 0.5 million euros (-53%).

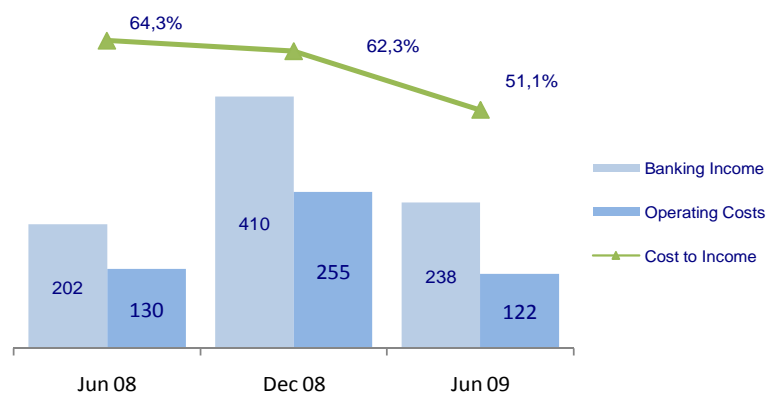
This reduction in the various components of Administrative Expenses, together with the very significant increase in Banking Income (+18.3%), led to great improvement in the efficiency and productivity indicators.

The Cost-to-Income ratio, the main performance indicator in terms of efficiency, recorded an improvement of 13.2 b.p., to stand at 51.1% in June 2009.

Of special note is the Running Costs/Banking Income ratio which was 47.1% at the end of June 2009.

From among the three items making up the Cost-to-Income calculation, the greatest contribution came from Staff Costs which improved by 7.8 b.p., since its relative weight in Banking Income went from 39.2% in June 2008 to 31.4% in June 2009.

Change in Cost-to-Income Ratio



Impairment and Provisions

Notwithstanding the measures taken to ensure a high rate of recovery and control of credit due, total Impairment and Provisions grew at a significant rate due to the financial difficulties faced by businesses and families in terms of debt repayment.

(thousand euros)

	Jun 08		Dec 08		Jun 09		YoY	
	Value	%	Value	%	Value	%	Value	%
Impairment net of Credit	44.141	88,3	97.855	79,5	86.060	97,4	41.919	95,0
Charge	174.876		426.070		220.804		45.928	26,3
Adjustments and Recoveries	130.735		328.215		134.744		4.009	3,1
Impairment net of Securities	2.698	5,4	20.248	16,4	1.374	1,5	-1.324	-49,1
Charge	2.698		20.321		1.443		-1.255	-46,5
Adjustments and Recoveries	0		73		69		69	
Impairment net of Other Assets	3.049	6,1	4.770	3,9	913	1,0	-2.136	-70,1
Charge	3.049		5.322		915		-2.134	-70,0
Adjustments and Recoveries	0		552		2		2	
Provisions net of Other Assets	111	0,2	185	0,2	46	0,1	-65	-58,6
Charge	174		248		46		-128	-73,6
Adjustments and Recoveries	63		63		0		-63	-100,0
Total Net Provisions and Impairment	49.999	100,0	123.058	100,0	88.393	100,0	38.394	76,8
Charge	180.797		451.961		223.208		42.411	23,5
Adjustments and Recoveries	130.798		328.903		134.815		4.017	3,1

Thus, total Impairment and Provisions was 88.4 million euros (+76.8%). The charge for the year for new impairment and provisions was 223.2 million euros (+23.5%) while Adjustments and Recoveries stood at 134.8 million euros (+3.1%). Impairment Net of Credit accounted for 97.4% (88.3% in June 2008) of Total Impairment and Provisions, and rose by 41.9 million euros (+95.0%). Impairment for Instruments and Other Assets recorded falls of 49.1% and 70.1%, respectively.

5.4. Profitability

Given the positive changes in the various Income Statement and Balance Sheet accounts, all Return Indicators showed improvement, in particular the Return on Assets (ROA), which stood at 0.34% (0.29% in June 2008) and Return on Equity (ROE) which stood at 6.60% (5.91% in June 2008).

	Jun 08	Dec 08	Jun 09	YoY
Profit/Average Net Assets (ROA)	0,29%	0,20%	0,34%	0,05p.p.
Profit/Average Net Equity (ROE)	5,91%	4,08%	6,60%	0,69p.p.
Banking Revenue/Average Net Assents	2,43%	2,43%	2,80%	0,37p.p.

Total cash flow was 127.0 million euros, up 54.6% on the same period last year, which was greatly due to the value of Impairment and Provisions which had a negative impact on Consolidated Net Profit and accounted for 69.6% of total cash flow.

Change in and Breakdown of Cash flow

(thousand euros)

	Jun 08		Dec 08		Jun 09		YoY	
	Value	%	Value	%	Value	%	Value	%
Total Cash-Flow	82.153	100,0%	175.302	100,0%	127.046	100,0%	44.893	54,6
Depreciation	8.490	10,3%	18.370	10,5%	9.426	7,4%	936	11,0
Net Impairment and Provisions	49.999	60,9%	123.058	70,2%	88.393	69,6%	38.394	76,8
Net Profit	23.664	28,8%	33.874	19,3%	29.227	23,0%	5.563	23,5

5.5. Prudential Analysis

In the first half of the year, Montepio improved its solvency levels and fulfilled the requirements of the supervisory bodies and, in particular, met the Bank of Portugal's recommendation as to the Tier I ratio well in advance.

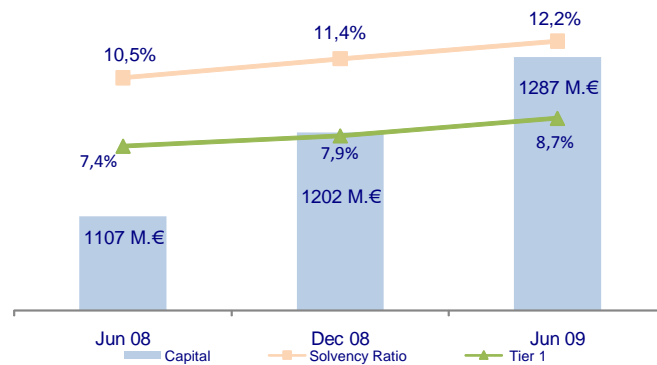
(thousand euros)

	Jun 08	Jun 09	Change	
	Value	Value	Value	%
1. Eligible Equity	1.107.372	1.287.331	179.959	16,25
<i>Institutional Capital</i>	660.000	760.000	100.000	15,15
<i>Reserves (Legal and Statutory)</i>	216.985	225.876	8.891	4,10
<i>Retained Earnings</i>	-41.120	-27.967	13.153	-31,99
<i>Base Equity Deductions</i>	-54.573	-40.188	14.385	-26,36
Base Equity	781.292	917.721	136.429	17,46
Complementary Equity	334.561	378.266	43.705	13,06
Other Deductions	-8.481	-8.656	-175	2,06
2. Minimum Required Equity	841.442	844.247	2.805	0,33
3. Ratios				
Solvency	10,53%	12,20%	1,67 p.p.	
Tier 1 (BoP recommendation: 8% from 30 Sept. 09 onwards)	7,43%	8,70%	1,27 p.p.	
Fixed Assets (max. limit: 100%)	10,74%	10,29%	-0,45 p.p.	

The Solvency Ratio, on a consolidated basis, rose to 12.2% and was up 1.67 b.p. on the same period last year.

The Tier I ratio was 8.70% (the figure recommended by the Bank of Portugal is 8%, as from 30th September 2009) which is an increase of 1.27 b.p., as compared to June 2008.

Trend in Solvency Ratio



5.6. Pension Fund

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

- Discount rate of 5.75%;
- Salary growth rate of 3.0%;
- Pensions growth rate of 2.0%;
- Mortality table TV 88/90, for men and women.

(thousand euros)

	Jun 08	Dec 08	Jun 09	YoY	
	Value	Value	Value	Value	%
1 Total Recognised liabilities	510.824	514.212	535.846	25.022	4,9
2 Non-funded liabilities	74.153	78.216	75.060	907	1,2
3 Minimum liabilities to be covered	436.671	435.996	460.786	24.115	5,5
4 Value of fund	433.286	436.148	453.416	20.130	4,6
5 Degree of cover					
Minimum liabilities (4/3)	99,22%	100,00%	98,40%		-0,82.p.p.
Total liabilities (4/1)	84,82%	84,82%	84,62%		-0,2p.p.
6 Changes to fund:					
6.1 Contributions received (+)	12.203	36.648	12.076	-127	-1,0
6.2 Effective return of assets (+)	-15.104	-29.217	13.412	28.516	188,8
6.3 Costs (-)	97	114	93	-4	-4,1
6.4 Pensions pay (-)	6.618	14.070	8.127	1.509	22,8
6.5 Changes to fund in period (6.1+6.2-6.3-6.4)	-9.616	-6.753	17.268	26.884	-279,6

As at 30th June 2009, the fund was worth 453.4 million euros and recorded a year-on-year change of 20.1 million euros (+4.6%), which represented a level of financing for minimum liabilities of 98.4%. The change in the Value of the Fund was 17.3 million euros, as compared to 31st December 2008, and the item that most penalised that value was Pensions Paid, which grew by 22.8% in year-on-year terms.

6. Ratings

Montepio is evaluated annually for rating purposes by two of the most prestigious rating agencies in the world, Moody's and Fitch Ratings. They awarded the following ratings:

Rating Agency	Short-term	Long-term	Outlook
Fitch Ratings	F2	A-	Stable
Moody's	P-1	A2	Stable

The usual annual rating review meetings were held in May with the aforesaid agencies.

In the second half of the year, in August, Fitch Ratings confirmed the ratings already awarded for the Short-term ("F2") and the Long-term ("A-"), and also retained the stable Outlook. According to the Agency these ratings reflect the relatively low risk of Montepio's mortgage portfolio, its firm capital base, reasonable rates of return and improved liquidity.

7. Main Risks and Uncertainties in the Second Half of the Year

Despite some recent signs that suggest it will be less severe, the second half of 2009 is not expected to see the end of the economic crisis, which according to the forecasts of a number of national and international bodies will still be felt in 2010. It is believed that the economy will recover slowly and with some difficulty, and future growth is expected to be low.

High risks remain due to the uncertain value of many real and financial assets, to the prolonging of the Financial Institution deleverage adjustment process, to the increase in unemployment versus increased indebtedness, to possible social tension and to the imbalance in public accounts. These risks raise questions about the rate of recovery, despite the important efforts made by monetary and budgetary policies. The economic recession penalises the growth of businesses in various fields, in particular credit, given the rise in non-compliance and the consequent increase in provisions. This was Montepio's main concern and management priority, given the historic nature of its business and credit's contribution to the make up of its assets. That means there is an even greater need to generate sufficient cash flow to guarantee acceptable rates of return, even after setting aside the provisions the climate requires.

Although reference interest rates are expected to be stable until the end of the year, the approach the ECB adopts and its reflection in the Euribor rates that are the benchmarks for the various credit operations, is one of the most important factors in the trend of revenue and also of direct and indirect financial costs, of deposits, and of debt instruments. It is equally decisive in the return on the interest rate hedging operations (in general, Interest Rate Swaps) associated with those debt issues.

In the beginning of the second half of the year there was a gradual restoring of financial market operating conditions, reflected in the gradual take up of debt issues, coupled with the gradual reduction in spreads, although they were substantially higher than in the period prior to the subprime crisis. In this context and in line with its policy of prudent liquidity management and not exposing itself to high prices, Montepio decided to undertake a debt issue after a two-year interval. Taking advantage of this window of opportunity, in July, Montepio issued and placed 1000 million euros in 3-year Mortgage Bonds, in accordance with its financing plan. The operation was well received by the international market and demand outstripped supply 2.5 times, which gave rise to a price 105 bps above the Mid-Swap rate, below the initial reference price. This was due to investors recognising Montepio's soundness and its strict management of its financing sources.

Other risks and uncertainties are to be found in the impact of the heightened competition in the banking business, in a context of decreasing demand that could lead to major difficulties in suitably adjusting spreads to the degree of risk of credit operations, without compromising competitiveness and market share. It is expected that the efficient pricing management for asset and liability operations and the improved cost of funding, as well as the gradual increased penetration of the diversification segments will provide for sustained growth in Financial Profit.

VI – COMPLIANCE STATEMENT

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

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

We state that to the best of our knowledge it is our conviction that:

- All the individual and consolidated financial information contained in the accounting documents for the first half of 2009 was drawn up in accordance with the applicable accounting standards, and provides a true and fair view of the Institution's assets, liabilities, financial situation and profit;
- The half-year management report faithfully describes the changes in the Institution's business, performance and position and contains a description of the main risks and prospects, in accordance with the legal requirements.

Lisbon, 6 August 2009

HEAD OF ACCOUNTING
Armindo Marques Matias

BOARD OF DIRECTORS
António Tomás Correia - *Chairman*

José de Almeida Serra

Rui Manuel Silva Gomes do Amaral

Eduardo José da Silva Farinha

VII – FINANCIAL STATEMENTS, NOTES TO THE ACCOUNTS AND AUDIT REPORTS

BALANCE SHEETS AND INCOME STATEMENTS

CONSOLIDATED BALANCE SHEET OF CAIXA ECONÓMICA AS AT 30 JUNE 2009 AND 31 DECEMBER 2008

(thousand euros)

	2009		2008
	Gross Asset	Impairment and Depreciation	Net Asset
ASSETS			Net Asset
Cash and Deposits at Central Banks	88 951		88 951
Loans and Advances to credit institutions repayable on demand	123 602		123 602
Financial Assets held for trading	66 212		66 212
Other financial assets at fair value through profit or loss	3 939		3 939
Financial assets available for sale	1 140 824	26 338	1 114 486
Other loans and advances to credit institutions	650 293	61	650 232
Loans and advances to customers	15 204 539	462 829	14 741 710
Held to maturity Investments	39 940		39 940
Hedging derivatives	11 215		11 215
Non-current assets held for sale	121 798	24 780	97 018
Other tangible assets	191 397	103 383	88 014
Intangible assets	51 654	36 442	15 212
Investments in associated companies and others	20 032		20 032
Other assets	209 264	3 473	205 791
TOTAL ASSETS	17 923 660	657 306	17 266 354
LIABILITIES			
Deposits from central banks	800 122		800 122
Financial liabilities held for trading	22 016		22 016
Deposits from other credit institutions	626 802		626 802
Deposits from customers and other loans	9 009 861		9 009 861
Debt securities issued	4 705 223		4 705 223
Financial liabilities associated with transferred assets	514 359		514 359
Hedging derivatives	3 827		3 827
Provisions	1 714		1 714
Other subordinated liabilities	381 870		381 870
Other liabilities	263 565		263 565
TOTAL LIABILITIES	16 329 359		16 329 359
EQUITY			
Capital	760 000		760 000
Revaluation reserves	- 48 456		- 48 456
Other reserves and retained earnings	196 224		196 224
Profit for the period	29 227		29 227
TOTAL EQUITY	936 995		936 995
TOTAL LIABILITIES AND EQUITY	17 266 354		17 266 354

Lisbon, 6 August 2009

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

CONSOLIDATED INCOME STATEMENT AS AT 30 JUNE 2009 AND 2008

(thousand euros)

	2009	2008
Interest and similar income	492 659	539 576
interest and similar expense	310 044	378 894
NET INTEREST INCOME	182 615	160 682
Dividends from equity instruments	716	515
Fee and commission income	41 525	40 634
Fee and commission expense	6 199	5 947
Profit on assets and liabilities valued at fair value	4 542	- 2 289
Profit on financial assets available for sale	440	- 20
Profit on currency revaluation	1 051	718
Profit on sale of other assets	315	697
Other operating income	13 477	6 557
BUSINESS PROFIT	238 482	201 547
Staff costs	74 979	79 045
General and administrative expenses	37 405	42 016
Depreciation	9 426	8 490
Provisions net of adjustments	46	111
Impairment on credit net of reversals and recoveries	86 060	44 141
Impairment on other financial assets net of reversals and recoveries	1 374	2 698
Impairment on other assets net of reversals and recoveries	913	3 049
Profit from associated companies and joint ventures (net worth)	948	1 667
CONSOLIDATED PROFIT FOR THE PERIOD	29 227	23 664

Lisbon, 6 August 2009

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

INDIVIDUAL BALANCE SHEET AS AT 30 JUNE 2009 and 31 DECEMBER 2008

(thousand euros)

	2009			2008
	Gross Asset	Impairment and Depreciation	Net Asset	Net Asset
ASSETS				
Cash and deposits at central banks	88 951		88 951	254 742
Loans and advances to credit institutions repayable on demand	105 680		105 680	92 125
Financial assets held for trading	65 968		65 968	56 899
Other financial assets at fair value through profit or loss	3 939		3 939	4 031
Financial assets available for sale	3 073 375	32 578	3 040 797	1 886 107
Loans and advances to credit institutions	650 293	61	650 232	166 781
Loans and advances to customers	14 856 523	364 187	14 492 336	14 724 822
Held to maturity investments	39 940		39 940	39 912
Hedging derivatives	11 215		11 215	7 045
Non-current assets held for sale	121 798	24 780	97 018	92 312
Other tangible assets	191 283	103 373	87 910	85 847
Intangible assets	51 654	36 442	15 212	14 776
Investments in associated companies and joint ventures	30 597		30 597	30 626
Other assets	168 543	3 474	165 069	103 354
TOTAL ASSETS	19 459 759	564 895	18 894 864	17 559 379
LIABILITIES				
Deposits from central banks	800 122		800 122	852 803
Financial liabilities held for trading	21 900		21 900	35 886
Deposits from other credit institutions	913 596		913 596	1 073 122
Deposits from customers and other loans	8 730 627		8 730 627	8 009 242
Debt securities issued	4 351 165		4 351 165	4 670 942
Financial liabilities associated with transferred assets	2 369 129		2 369 129	1 450 122
Hedging derivatives	3 827		3 827	1 801
Provisions	102 538		102 538	102 908
Other subordinated liabilities	381 870		381 870	386 872
Other liabilities	255 771		255 771	118 385
TOTAL LIABILITIES	17 930 545		17 930 545	16 702 083
EQUITY				
Capital	760 000		760 000	660 000
Revaluation reserves	-47.800		-47.800	- 39 660
Other reserves and retained earnings	221 668		221 668	201 645
Profit for the period	30 451		30 451	35 311
TOTAL EQUITY	964 319		964 319	857 296
TOTAL LIABILITIES AND EQUITY	18 894 864		18 894 864	17 559 379

Lisbon, 6 August 2009

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

INDIVIDUAL INCOME STATEMENT AS AT 30 JUNE 2009 AND 2008

(thousand euros)

	2009	2008
Interest and similar income	525 247	550 593
Interest and similar expense	343 174	390 300
NET INTEREST INCOME	182 073	160 293
Dividends from equity instruments	2 484	1 585
Fee and commission income	41 525	40 634
Fee and commission expense	6 199	5 947
Profit on assets and liabilities valued at fair value	4.826	-2.415
Profit on financial assets available for sale	440	- 20
Profit on currency revaluation	1 034	749
Profit on sale of other assets	315	697
Other operating income	13 477	6 557
BANKING INCOME	239 975	202 133
Staff costs	74 343	79 044
General and administrative expenses	37 364	41 990
Depreciation for the period	9 424	8 490
Provisions net of adjustments	- 370	2 522
Adjustments for sums associated with customer credit and other debtors (net of increases and write-offs)	86 476	41 730
Impairments on other financial assets net of reversals and recoveries	1 374	2 698
Impairments on other assets net of reversals and recoveries	913	3 049
PROFIT	30 451	22 610

Lisbon, 6 August 2009

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

VII – FINANCIAL STATEMENTS, NOTES TO THE ACCOUNTS AND AUDIT REPORTS

NOTES TO THE ACCOUNTS AND LIMITED REVIEW REPORTS

Caixa Económica Montepio Geral

Interim Consolidated Financial Statements

30 June 2009 and 2008

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



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

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

INTRODUCTION

1. In accordance with the Stock Exchange Code (“Código dos Valores Mobiliários” or “CVM”), we present our Limited Review Report, on the interim consolidated financial information for the six months period ended 30 June 2009 of **Caixa Económica Montepio Geral (CEMG)**, which includes: in the Report of the Board of Directors, the Consolidated Balance Sheet (which shows total assets of 17,266,354 thousands of Euro and Shareholders’ Equity of 936,995 thousands of Euro, including a net profit of 29,227 thousands of Euro) the Consolidated Statements of income, of comprehensive income, of cash flows and of changes in equity for the six months period then ended and the corresponding notes to the accounts.
2. The amounts included in the interim financial statements and in the additional financial information were derived from the accounting records.

RESPONSIBILITIES

3. The Board of Directors is responsible for:
 - a) the preparation of the consolidated financial statements that present fairly, in all material respects, the consolidated financial position of CEMG and its subsidiaries, the consolidated results of its operations, its comprehensive income and its cash flows;
 - b) Maintaining historical financial information prepared in accordance with IAS 34 – Interim Financial Reporting which is complete, true, current, clear, objective and lawful as required by the (“CVM”);
 - c) the adoption of adequate accounting policies and criteria;
 - d) maintaining an appropriate system of internal control; and
 - e) the communication of any relevant fact that may have influenced their activity, financial position or results.
4. Our responsibility is to verify the consolidated 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 CVM, in order to issue a professional and independent report based on our work.

SCOPE

5. The work that we have performed was conducted with the objective of obtaining a moderate level of assurance that the financial information mentioned above is free of material misstatements. Our work was performed based on the technical standards and review/audit guidelines issued by the “Ordem dos Revisores Oficiais de Contas” (the Portuguese Institute of Chartered Accountants), and planned in accordance with that objective and included the following procedures:
 - a) mainly, inquiries and analytical procedures performed to review:
 - the reliability of the assertions included in the interim consolidated financial information;
 - the adequacy of the accounting policies adopted, considering the circumstances and the consistency of their application;
 - the application of the going concern principle;
 - the presentation of the interim consolidated financial information;
 - if the interim consolidated financial information is complete, true, current, clear, objective and lawful; and
 - b) substantive tests on material non current transactions.
6. Our review also included the verification that the interim consolidated financial information included in the Interim Report of the Board of Directors is consistent with the remaining documents mentioned above.
7. We consider that our work provides a reasonable basis to issue our report on the interim consolidated financial information.

CONCLUSION

8. Based on our review, which was performed with the objective of obtaining moderate assurance, nothing has come to our attention that causes us to believe that the interim consolidated financial information for the six months period ended 30 June 2009, is not free of material misstatements that affects its compliance with the IAS 34 – Interim Financial Reporting and that is not complete, true, current, clear, objective and lawful.

Lisbon, 7 August 2009

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A.
represented by

Sílvia Cristina de Sá Velho Corrêa da Silva Gomes
(Statutory Auditor no. 1131)

FINANCIAL STATEMENTS

- *NOTES TO THE FINANCIAL STATEMENTS*
(*Pages 4 to 97*)

Caixa Económica Montepio Geral

Consolidated Income Statement for the six months period ended at 30 June 2009 and 2008

(Amounts expressed in thousands of Euro)

	Notes	30 June 2009	30 June 2008
Interest and similar income	3	492,659	539,576
Interest and similar expense	3	310,044	378,894
Net interest income		182,615	160,682
Dividends from equity instruments	4	716	515
Fee and commission income	5	41,525	40,634
Fee and commission expense	5	(6,199)	(5,947)
Net gains/(losses) arising from assets and liabilities at fair value through profit or loss	6	4,542	(2,289)
Net gains/(losses) arising from available-for-sale financial assets	7	440	(20)
Net gains arising from foreign exchange differences	8	1,051	718
Net gains from sale of other financial assets		315	697
Other operating income	9	11,737	4,946
Total operating income		236,742	199,936
Staff costs	10	74,979	79,045
General and administrative expenses	11	37,405	42,016
Depreciation and amortisation	12	9,426	8,490
Total operating expenses		121,810	129,551
Loans impairment	13	84,320	42,530
Other assets impairment	14	2,287	5,747
Other provisions	15	46	111
Operating profit		28,279	21,997
Share of profit of associates under the equity method	16	948	1,667
Profit for the period		29,227	23,664

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

Caixa Económica Montepio Geral

Consolidated Statement of Comprehensive Income for the six months period ended at 30 June 2009 and 2008

(Amounts expressed in thousands of Euro)

	Note	<u>30 June 2009</u>	<u>30 June 2008</u>
Fair value reserves			
Available-for-sale financial instruments	39	<u>(56,204)</u>	<u>(23,717)</u>
Profit for the period		<u>29,227</u>	<u>23,664</u>
Total comprehensive income for the period		<u><u>(26,977)</u></u>	<u><u>(53)</u></u>

Caixa Económica Montepio Geral

Consolidated Balance Sheet as at 30 June 2009 and 31 December 2008

(Amounts expressed in thousands of Euro)

	Notes	30 June 2009	31 December 2008
Assets			
Cash and deposits at central banks	17	88,951	254,742
Loans and advances to credit institutions repayable on demand	18	123,602	114,502
Other loans and advances to credit institutions	19	650,232	166,781
Loans and advances to customers	20	14,741,710	15,009,892
Financial assets held for trading	21	70,039	59,118
Other financial assets at fair value through profit or loss	22	3,939	4,031
Available-for-sale financial assets	23	1,114,486	918,562
Hedging derivatives	24	10,092	7,727
Held-to-maturity investments	25	39,940	39,912
Investments in associated companies and others	26	20,032	16,813
Property and equipment	27	88,014	85,950
Intangible assets	28	15,212	14,776
Other assets	29	300,105	158,728
		<u>17,266,354</u>	<u>16,851,534</u>
Liabilities			
Deposits from central banks	30	800,122	852,803
Deposits from other credit institutions	31	626,802	744,456
Deposits from customers	32	9,009,861	8,330,340
Debt securities issued	33	4,705,223	5,061,487
Financial liabilities held for trading	21	25,843	37,692
Hedging derivatives	24	569	1,234
Provisions	34	1,714	1,668
Other subordinated debt	35	381,870	386,872
Other liabilities	36	777,355	611,313
		<u>16,329,359</u>	<u>16,027,865</u>
Equity			
Share capital	37	760,000	660,000
Fair value reserves	39	(56,204)	(48,064)
Other reserves and retained earnings	38 and 39	203,972	177,859
Profit for the period		29,227	33,874
		<u>936,995</u>	<u>823,669</u>
		<u>17,266,354</u>	<u>16,851,534</u>

Obligations and future commitments (Note 40)

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

Caixa Económica Montepio Geral

Consolidated Statement of Cash Flows for the six months period ended at 30 June 2009 and 2008

(Amounts expressed in thousands of Euro)

	30 June 2009	30 June 2008
<i>Cash flows arising from operating activities</i>		
Interest income received	528,409	483,297
Commission income received	41,455	40,725
Interest expense paid	(307,629)	(307,659)
Commission expense paid	(5,571)	(5,056)
Payments to employees and suppliers	(108,310)	(112,216)
Recovered from charged-off loans	1,741	1,611
Other payments and receivables	152,032	(21,450)
	<u>302,127</u>	<u>79,252</u>
<i>(Increase) / decrease in operating assets</i>		
Loans and advances to credit institutions and customers	(294,966)	(23,129)
Other assets	(143,440)	(14,917)
	<u>(438,406)</u>	<u>(38,046)</u>
<i>(Increase) / decrease in operating liabilities</i>		
Deposits from clients	695,089	(334,802)
Deposits from credit institutions	(963,392)	7,227
Deposits from central banks	800,000	450,000
	<u>531,697</u>	<u>122,425</u>
	<u>395,418</u>	<u>163,631</u>
<i>Cash flows arising from investing activities</i>		
Dividends received	716	515
(Acquisition) / sale of trading financial assets	(21,504)	(9,954)
(Acquisition) / sale of other financial assets at fair value through profit or loss	92	207
(Acquisition) / sale of available-for-sale financial assets	(205,438)	(59,893)
(Acquisition) / sale of hedging derivatives	(2,145)	(1,203)
(Acquisition) / sale of held to maturity investments	63	(13,827)
(Acquisition) / sale of shares in associated companies	29	938
Deposits owned with the purpose of monetary control	147,411	87,633
Proceeds from sale of fixed assets	479	-
Acquisition of fixed assets	(11,966)	(10,117)
	<u>(92,263)</u>	<u>(5,701)</u>
<i>Cash flows arising from financing activities</i>		
Dividends paid	(11,272)	(25,757)
Proceeds from issuance of share capital	100,000	25,000
Proceeds from issuance of bonds and subordinated debt	(141,253)	146,546
Reimbursement of bonds and subordinated debt	(248,060)	(267,000)
Increase / (decrease) in other (sundry) liabilities	(11,850)	13,157
	<u>(312,435)</u>	<u>(108,054)</u>
Net changes in cash and equivalents	(9,280)	49,876
Cash and equivalents balance at the beginning of the period	<u>204,402</u>	<u>177,629</u>
Cash (note 17)	89,900	86,799
Loans and advances to credit institutions repayable on demand (note 18)	<u>114,502</u>	<u>90,830</u>
Cash and equivalents balance at the end of the period	<u><u>195,122</u></u>	<u><u>227,505</u></u>

Caixa Económica Montepio Geral

Consolidated Statement of Changes in Equity for the six months period ended at 30 June 2009 and 2008

(Amounts expressed in thousands of Euro)

	<u>Total equity</u>	<u>Share capital</u>	<u>General and special reserves</u>	<u>Other reserves</u>	<u>Fair value reserves</u>	<u>Retained earnings</u>
Balance on 1 January 2008	835,733	635,000	200,825	5,506	(7,973)	2,375
Other movements recognised directly in Equity:						
Changes in fair value	(15,744)	-	-	-	(15,744)	-
Dividends paid	(25,758)	-	-	-	-	(25,758)
Increase in share capital	25,000	25,000	-	-	-	-
Equity method	(5,089)	-	-	(3,511)	-	(1,578)
Profit for the period	23,664	-	-	-	-	23,664
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total gains and losses recognised in the period	837,806	660,000	200,825	1,995	(23,717)	(1,297)
Reserves constitution						
General reserve	-	-	12,949	-	-	(12,949)
Special reserve	-	-	3,211	-	-	(3,211)
Balance on 30 June 2008	837,806	660,000	216,985	1,995	(23,717)	(17,457)
Reserves of fair value	(24,347)	-	-	-	(24,347)	-
Profit for the period	10,210	-	-	-	-	10,210
Balance on 31 December 2008	<u>823,669</u>	<u>660,000</u>	<u>216,985</u>	<u>1,995</u>	<u>(48,064)</u>	<u>(7,247)</u>
Other movements recognised directly in Equity:						
Changes in fair value (Note 39)	(8,140)	-	-	-	(8,140)	-
Increase in share capital (Note 37)	100,000	100,000	-	-	-	-
Dividends paid (Note 41)	(11,272)	-	-	-	-	(11,272)
Equity method	3,511	-	-	7,749	-	(4,238)
Profit for the period	29,227	-	-	-	-	29,227
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total gains and losses recognised in the period	936,995	760,000	216,985	9,744	(56,204)	6,470
Reserves constitution						
General reserve	-	-	7,125	-	-	(7,125)
Special reserve	-	-	1,766	-	-	(1,766)
Balance on 30 June 2009	<u>936,995</u>	<u>760,000</u>	<u>225,876</u>	<u>9,744</u>	<u>(56,204)</u>	<u>(2,421)</u>

Caixa Económica Montepio Geral

Notes to the Interim Consolidated Financial Statements **30 June 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 from 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 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.

The interim consolidated financial statements as at and for the six months period ended at 30 June 2009 were prepared in accordance with the IFRS effective and adopted by the EU until 30 June 2009. These interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) – IAS 34 Interim Financial Reporting and do not include all the information required in the preparation of a complete set of consolidated financial statements which will be prepared for the year ending 31 December 2009.

The accounting policies used by CEMG in the preparation of these interim consolidated financial statements as at and for the six months period ended at 30 June 2009, are consistent with those used for the preparation of the annual financial statements for the year ended at 31 December 2008.

In the first semester of 2009, the CEMG adopted:

- the amendments to IAS 1 – Presentation of Financial Statements, which requires financial information to be presented in the financial statements based on the nature of the underlying transactions and introduces the statement of “comprehensive income”. Following this amendment, the CEMG presented the Statement of Comprehensive Income for the period of six months ended at 30 June 2009 and 2008;

- the amendments to IAS 16 – Property, Plant and Equipment, to IAS 19 – Employee benefits, to IAS 23 – Borrowing Costs, to IAS 28 – Investments in Associates, to IAS 32 – Financial Instruments: presentation – puttable financial instruments and obligations arising on liquidation, to IAS 38 – Intangible Assets, to IAS 39 – Financial Instruments: recognition and measurement – eligible hedged items and to IAS 40 – Investment property. The adoption of these amendments had no significant impact on the consolidated financial statements of the CEMG;
- IFRS 8 – Operating segments, which sets out the requirements for disclosures of information about an entity’s operating segments.

During the year of 2008, CEMG adopted the amendments to IAS 39 – Financial Instruments: Recognition and Measurement, and IFRS 7 - Financial Instruments: Disclosures, regarding the reclassification of financial assets between categories, published by IASB in October 2008. Resulting from these amendments, CEMG has adapted its accounting policy regarding reclassifications between categories. CEMG does not expect any impact from the adoption of these amendments.

Additionally, CEMG also adopted in 2008 the IFRIC 14 – IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction. The adoption of these interpretations had no significant impact in the financial statements of CEMG.

These consolidated financial statements are expressed in thousand of Euro, except when indicated, and have been prepared under the historical cost convention, as modified by the revaluation of derivative contracts, financial assets and financial liabilities at fair value through profit or loss, available-for-sale financial assets, and recognised financial assets and liabilities that are hedged, in a fair value hedge, in respect of the risk that is hedged.

The preparation of the interim consolidated financial statements in conformity with IFRS requires the CEMG to make judgments, estimates and assumptions that affect the application of the accounting policies and reported amounts of assets 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 6 August 2009.

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%. Subsidiaries are fully consolidated from the date on which control is transferred to CEMG until the date that control ceases.

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

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. Investments in associated companies are consolidated by the equity method, since the date CEMG acquires significant influence until the date it ceases.

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

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")

CEMG consolidates certain special purpose entities ("SPE"), specifically created to accomplish a narrow and well defined objective, when the substance of the relationship with those entities indicates that they are controlled by CEMG, and independently of the percentage of the equity held.

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 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;
- 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.

(iv) Hedge effectiveness

For each hedge relation in order to be classified as such according to IAS 39, effectiveness has to be demonstrated. As such the CEMG performs prospective tests at the beginning date of the operations and retrospective tests in order to demonstrate in each reporting period the effectiveness, showing that the changes in the fair value of the hedging instrument are neutralized by the changes in the hedged item for the risk covered. Any ineffectiveness is recognised immediately in the income statement.

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 ranking of all creditor claims;
- the amount and timing of expected receipts and recoveries.

When loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit risk characteristics for the purpose of evaluating the impairment on a portfolio basis (collective assessment). Loans that are assessed individually and found to be impaired are not included in a collective assessment for impairment.

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

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

ii) Collective assessment

Loans which 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 some time in the future. 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.

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.

1.6 Other financial assets

i) Classification

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

Financial assets at fair value through profit or loss

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

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 brought hedged on an economical basis, in order to eliminate an accounting mismatch; or
- Such financial assets contain an embedded derivative.

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

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.

Other financial liabilities

The other financial liabilities are all financial liabilities that are not accounted as financial liabilities at fair value through profit and loss. This category includes money market transactions, deposits from customers and from other financial institutions, issued debt, and other transactions.

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.

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.

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. Financial instruments held by CEMG in this circumstances, are included in the available-for-sale financial assets portfolio and correspond to capital instruments emitted by unquoted entities which weren't identify recently transactions in market. Nevertheless, CEMG make a detailed analysis of this instruments with the purpose of identify eventual losses for imparity, concerning to economic and financial performance and to their capacity of compulsory with their responsibilities.

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.

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.

The securities given up with a loan agreement are not derecognized from balance, being classified and valued in conformity with the accountable policy referred in note 1.6.

1.8 Financial liabilities

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

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

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

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

- Such financial liabilities are bring hedged on an economical basis, in order to eliminate an accounting mismatch; or
- Such financial assets contain an embedded derivative.

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

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

If 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. CEMG obtains regular evaluations for assets arising out of recovered loans, provided by experts.

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:

	<u>Number of years</u>
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 which is based on the net present value of future cash flows arising from the continuing use and ultimate disposal of the asset.

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 between three to six years.

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

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

1.13 Leases

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

Operating leases

- As lessee

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

- As lessor

Assets leased out are recorded in the balance sheet, according to the nature of the asset.

Lease income from operating leases is recognised in the income statement on a straight-line basis over the lease term.

Costs, including the depreciation, incurred in earning the lease income are recognised on a straight-line basis over the lease term as interest income. The initial direct costs incurred by 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, 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 through profit or loss of the Funds assets.

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 – Employee benefits.

This method establishes that the actuarial gains and losses accumulated at the beginning of the period 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 to amortise the actuarial gains and losses during a 24 year period. The actuarial gains and losses accumulated 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 Fund 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 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 - Employee benefits, variable remunerations (bonus) payment to employees and to the Board of Directors, are recognised in the income statement in the year 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 reporting date and adjusted to reflect the best estimate, being reverted through profit and loss in the proportion of the payments that are probable.

The provisions are derecognised through their use, for the obligations for which they were initially accounted.

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 the loan portfolio the following aspects are considered:

- Interest income for loans with collaterals are accounted for as income up to the limit of the valuation of the collateral valued on a prudent basis. This income is registered against results in accordance with IAS 18, assuming that there is a reasonable probability of recoverability; and
- The recognition of interest for loans overdue for more than 90 dias, that are not covered by collaterals is stopped and are recognized only when they are received. Since, in accordance with IAS 18, its recoverability is considered to be remote.

For derivative financial instruments, except for those classified as hedging instruments of interest rate risk and 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. A broader description of the accounting policies employed by CEMG is shown in notes 1.1 to 1.21 to the consolidated financial statements.

Because in many cases there are other alternatives to the accounting treatment chosen by management, the CEMG's reported results would differ if a different treatment were chosen. The Board of Directors believes that the choices made by it are appropriate and that the consolidated financial statements present the CEMG's financial position and results fairly in all material respects.

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

Impairment of available-for-sale financial assets

CEMG determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost or when it has identified an event with impact on the estimated future cash flows of the assets. This determination requires judgement based on all available relevant information, including the normal volatility of the financial instruments prices.

Considering the high volatility of markets, the CEMG has considered the following parameters when assessing the existence of impairment losses:

- (i) Equity securities: declines in market value above 30% in relation to the acquisition cost (20% in June 2008) or market value below the acquisition cost for a period longer than twelve months (six months in June 2008);
- (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 financial instruments

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 impairments testes made by CEMG. The use of different assumptions and estimates would result in the determination of the fair value of this portfolio with a corresponding entry in 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 employee benefits

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

Changes in these assumptions could materially affect these values.

2 Net interest income and net gains arising from assets and liabilities at fair value through profit or loss and available-for-sale financial assets

IFRS require separate disclosure of net interest income and net gains arising from assets and liabilities at fair value through profit or loss and available-for-sale financial assets, as presented in notes 3, 6 and 7. This required disclosure, however, does not take into account that net interest and 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:

	Jun 2009 Euro '000	Jun 2008 Euro '000
Net interest income	182,615	160,682
Net gains arising from assets and liabilities at fair value through profit or loss and available-for-sale financial assets	4,982	(2,309)
	<u>187,597</u>	<u>158,373</u>

3 Net interest income

This balance is analysed as follows:

	Jun 2009			Jun 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
<i>Interest and similar income:</i>						
Interest from loans and advances	333,081	-	333,081	420,813	-	420,813
Interest from other assets	1,182	-	1,182	9,876	-	9,876
Interest from deposits with banks	1,188	-	1,188	3,157	-	3,157
Interest from available-for- sale financial assets	34,025	-	34,025	33,123	-	33,123
Interest from held-to-maturity financial assets	754	-	754	852	-	852
Interest from hedging derivatives	2,837	-	2,837	4,018	-	4,018
Interest from financial assets held for trading	-	115,695	115,695	-	63,708	63,708
Other interest and similar income	3,897	-	3,897	4,029	-	4,029
	<u>376,964</u>	<u>115,695</u>	<u>492,659</u>	<u>475,868</u>	<u>63,708</u>	<u>539,576</u>
<i>Interest and similar expense:</i>						
Interest from deposits	112,125	-	112,125	138,787	-	138,787
Interest from securities issued	72,375	-	72,375	126,553	-	126,553
Interest from loans	4,720	-	4,720	7,569	-	7,569
Interest from other funding	14,548	-	14,548	10,879	-	10,879
Interest from hedging derivatives	2,197	-	2,197	4,596	-	4,596
Interest from financial liabilities held for trading	-	93,613	93,613	-	73,064	73,064
Other interest and similar expense	10,466	-	10,466	17,446	-	17,446
	<u>216,431</u>	<u>93,613</u>	<u>310,044</u>	<u>305,830</u>	<u>73,064</u>	<u>378,894</u>
Net interest income	<u>160,533</u>	<u>22,082</u>	<u>182,615</u>	<u>170,038</u>	<u>(9,356)</u>	<u>160,682</u>

4 Dividends from equity instruments

This caption in the amount of Euro 716,000 (30 June 2008: Euro 515,000) is related to dividends from available-for-sale financial assets.

5 Net fee and commission income

The amount of this account is comprised of:

	Jun 2009 Euro '000	Jun 2008 Euro '000
<i>Fee and commission income:</i>		
From banking services	29,147	28,274
From guarantees granted	3,472	2,769
From transactions to third parties	4,479	5,096
Other fee and commission income	4,427	4,495
	<u>41,525</u>	<u>40,634</u>
<i>Fee and commission expense:</i>		
From banking services rendered by third parties	5,752	5,539
From transactions with securities	218	168
Other fee and commission expense	229	240
	<u>6,199</u>	<u>5,947</u>
Net fee and commission income	<u><u>35,326</u></u>	<u><u>34,687</u></u>

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

This balance is analysed as follows:

	Jun 2009			Jun 2008		
	Gains	Losses	Total	Gains	Losses	Total
	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000
Assets and liabilities held for trading						
Bonds and other fixed income securities						
Issued by public entities	25	-	25	70	118	(48)
Issued by other entities	567	1	566	14	133	(119)
Shares	565	23	542	130	475	(345)
	1,157	24	1,133	214	726	(512)
Derivative financial instruments						
Exchange rate contracts	64,927	63,649	1,278	1,952	1,944	8
Interest rate contracts	166,738	152,278	14,460	75,908	87,700	(11,792)
Credit default contracts	4,684	4,207	477	3,472	3,322	150
Others	14,061	27,522	(13,461)	39,089	29,502	9,587
	250,410	247,656	2,754	120,421	122,468	(2,047)
	251,567	247,680	3,887	120,635	123,194	(2,559)
Other financial assets at fair value through profit or loss						
Securities						
Bonds and other fixed income securities						
Issued by other entities	-	-	-	221	336	(115)
	-	-	-	221	336	(115)
Hedging derivatives						
Financial liabilities						
Other loans and advances to credit institutions	433	646	(213)	2,025	929	1,096
Deposits from customers	165	686	(521)	1,315	946	369
Debt securities issued	933	1,688	(755)	477	2,760	(2,283)
Other liabilities	22,842	20,698	2,144	21,779	20,576	1,203
	24,373	23,718	655	25,596	25,211	385
	275,940	271,398	4,542	146,452	148,741	(2,289)

7 Net gains/(losses) arising from available-for-sale financial assets

The amount of this account is comprised of:

	Jun 2009			Jun 2008		
	Gains	Losses	Total	Gains	Losses	Total
	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000
Bonds and other fixed income securities						
Issued by public entities	55	1	54	173	12	161
Issued by other entities	462	47	415	37	69	(32)
Shares	10	26	(16)	-	48	(48)
Other variable income securities	2	15	(13)	91	192	(101)
	529	89	440	301	321	(20)

8 Net gains from foreign exchange differences

The amount of this account is comprised of:

	Jun 2009			Jun 2008		
	Gains	Losses	Total	Gains	Losses	Total
	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000
Foreign exchange differences	20.894	19.843	1.051	37.970	37.252	718

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

9 Other operating income

The amount of this account is comprised of:

	Jun 2009 Euro '000	Jun 2008 Euro '000
<i>Other operating income:</i>		
Income from services	1,931	1,962
Reimbursement of expenses	751	904
Profits arising from deposits on demand management	3,934	4,469
Repurchased debt	6,742	-
Other operating income	1,639	882
	<u>14,997</u>	<u>8,217</u>
<i>Other operating expense:</i>		
Indirect taxes	76	38
Donations and quotizations	151	138
Contributions to the Deposit Guarantee Fund	874	943
Other operating expense	2,159	2,152
	<u>3,260</u>	<u>3,271</u>
Other net operating income	<u>11,737</u>	<u>4,946</u>

10 Staff costs

The amount of this account is comprised of:

	Jun 2009 Euro '000	Jun 2008 Euro '000
Remunerations	54,243	52,029
SAMS contributions	3,159	3,136
Mandatory social security charges	3,887	3,929
Pension costs	11,794	18,503
Other staff costs	1,896	1,448
	<u>74,979</u>	<u>79,045</u>

The health-care benefits – SAMS include the amount of Euro 352,721 (30 June 2008: Euro 285,827) related to the health-care net periodic benefit cost, which was determined based on the actuarial valuation performed (see note 43).

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

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

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

	Boards of Directors	Other key Management personnel	Total
	Euro '000	Euro '000	Euro '000
Salaries and other short-term benefits	744	2,395	3,139
Pension costs and health-care benefits (SAMS)	381	81	462
Variable remunerations	5	610	615
	<u>1,130</u>	<u>3,086</u>	<u>4,216</u>

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

As at 30 June 2009 and 2008, the loans granted by CEMG to its key management personnel, amounted to Euro 5,801,000 and Euro 5,039,000, respectively.

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

	Jun 2009	Dec 2008
Management	129	128
Managerial staff	521	569
Technical staff	648	520
Specific categories	150	162
Administrative	1,411	1,472
Staff	78	80
	<u>2,937</u>	<u>2,931</u>

11 General and administrative expenses

The amount of this account is comprised of:

	Jun 2009 Euro '000	Jun 2008 Euro '000
Rents	12,078	11,825
Specialised services		
Information technology services	1,954	1,376
Outsourcing	1,951	1,728
Other specialised services	6,639	7,821
Advertising	838	5,428
Communications	3,748	4,334
Water, electricity and fuel	1,778	1,975
Maintenance and related services	2,002	1,401
Transportation	1,723	1,514
Insurance	1,575	1,278
Travel, hotel and representation costs	597	828
Consumables	709	894
Training costs	447	459
Other supplies and services	1,366	1,155
	<u>37,405</u>	<u>42,016</u>

12 Depreciation and amortisation

The amount of this account is comprised of:

	Jun 2009 Euro '000	Jun 2008 Euro '000
<i>Intangible assets:</i>		
Software	<u>3,899</u>	<u>3,640</u>
<i>Other tangible assets:</i>		
Land and buildings	1,633	1,630
Equipment		
Furniture	309	299
Office equipment	49	56
Computer equipment	2,588	1,801
Interior installations	648	912
Motor vehicles	6	9
Security equipment	96	61
Operational lease - Renting	198	82
	<u>5,527</u>	<u>4,850</u>
	<u>9,426</u>	<u>8,490</u>

13 Loans impairment

The amount of this account is comprised of:

	Jun 2009 Euro '000	Jun 2008 Euro '000
Overdue loans and advances to customers:		
Charge for the period	220,757	174,769
Write-back for the period	(134,715)	(130,621)
Recovery of loans and interest charged-off	(1,741)	(1,611)
	<u>84,301</u>	<u>42,537</u>
Other loans and advances to credit institutions		
Charge for the period	49	107
Write-back for the period	(30)	(114)
	<u>19</u>	<u>(7)</u>
	<u>84,320</u>	<u>42,530</u>

14 Other assets impairment

The amount of this account is comprised of:

	Jun 2009 Euro '000	Jun 2008 Euro '000
Impairment for investments arising from recovered loans:		
Charge for the period	915	3,049
Write-back for the period	(2)	-
	<u>913</u>	<u>3,049</u>
Impairment for securities:		
Charge for the period	1,443	2,698
Write-back for the period	(69)	-
	<u>1,374</u>	<u>2,698</u>
	<u>2,287</u>	<u>5,747</u>

15 Other provisions

The amount of this account is comprised of:

	Jun 2009 Euro '000	Jun 2008 Euro '000
Provision for liabilities and charges:		
Charge for the period	46	174
Write-back for the period	-	(63)
	<u>46</u>	<u>111</u>

16 Share of profit of associates under the equity method

The contribution of the associated companies accounted for under the equity method to CEMG's profit is as follows:

	Jun 2009 Euro '000	Jun 2008 Euro '000
Lusitania, Companhia de Seguros, S.A.	199	641
Lusitania Vida, Companhia de Seguros, S.A.	745	1,057
Norfin – Soc. Gestora de Fundos Invest. Imob., S.A.	113	104
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	(109)	(135)
	<u>948</u>	<u>1,667</u>

17 Cash and deposits at central banks

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Cash	71,520	89,900
Bank of Portugal	<u>17,431</u>	<u>164,842</u>
	<u>88,951</u>	<u>254,742</u>

The balance Bank of Portugal includes mandatory deposits intended to satisfy legal minimum cash requirements. According to the European Central Bank Regulation (CE) no. 2818/98, of 1 December 1998, minimum cash requirements kept as deposits with the Bank of Portugal earn interest, and correspond to 2% of deposits and debt certificates maturing in less than 2 years, excluding deposits and debt certificates of institutions subject to the European System of Central Banks' minimum reserves requirements.

As at 30 June 2009, these deposits have earned interest at an average rate of 1.71% (31 December 2008: 4.14%).

18 Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
In credit institutions in Portugal	18,040	22,451
In credit institutions abroad	15,911	48,875
Amounts due for collection	89,651	43,176
	<u>123,602</u>	<u>114,502</u>

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

19 Other loans and advances to credit institutions

This balance is analysed as follows

	Jun 2009 Euro '000	Dec 2008 Euro '000
Loans and advances to credit institutions in Portugal		
In central banks	250,000	-
Deposits	246	590
Short term deposits	14,202	14,372
Other loans and advances	40,110	26,385
	<u>304,558</u>	<u>41,347</u>
Loans and advances to credit institutions abroad		
Deposits	105	110
Short term deposits	300,000	120,337
Other loans and advances	45,630	5,029
	<u>345,735</u>	<u>125,476</u>
	650,293	166,823
Impairment for credit risks over credit institutions	(61)	(42)
	<u>650,232</u>	<u>166,781</u>

The main loans and advances to credit institutions in Portugal, as at 30 June 2009, bear interest at an average annual interest rate of 0.49% (31 December 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:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Due within 3 months	649,943	155,539
3 months to 6 months	-	9,394
6 months to 1 year	-	1,190
Over 5 years	245	590
Undetermined	105	110
	<u>650,293</u>	<u>166,823</u>

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

	Jun 2009 Euro '000	Jun 2008 Euro '000
<i>Impairment for credit risks</i> <i>over credit institutions:</i>		
Balance on 1 January	42	45
Charge for the period	49	107
Write-back for the period	(30)	(114)
Balance on 30 June	<u>61</u>	<u>38</u>

20 Loans and advances to customers

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Domestic loans:</i>		
Corporate		
Loans	1,135,738	1,053,448
Commercial lines of credits	2,523,033	2,617,830
Finance leases	170,353	144,270
Discounted bills	115,130	139,958
Factoring	57,287	54,169
Overdrafts	5,687	6,907
Other loans	645,235	814,634
Retail		
Mortgage loans	9,172,392	9,320,901
Finance leases	30,967	27,283
Consumer and other loans	788,625	786,963
	<u>14,644,447</u>	<u>14,966,363</u>
<i>Foreign loans:</i>		
Corporate		
Overdrafts	167	114
	<u>14,644,614</u>	<u>14,966,477</u>
<i>Overdue loans and interest:</i>		
Less than 90 days	84,793	76,995
More than 90 days	475,132	350,341
	<u>559,925</u>	<u>427,336</u>
	15,204,539	15,393,813
Impairment for credit risks	(462,829)	(383,921)
	<u>14,741,710</u>	<u>15,009,892</u>

As at 30 June 2009, this balance includes an amount of Euro 2,369,581,000 (31 December 2008: Euro 1,451,019,000) related to securitised loans, according with the accounting policy 1.5, that weren't object of derecognition.

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 application of this criteria resulted in an increase in the amount of overdue loans recognized in the balance sheet, in the amount of Euro 27,952,000 approximately.

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 5,197,000 (31 December 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 only the amount of variable interest rate contracts.

The analysis of Loans and advances to customers, by maturity date and type of credit as at 30 June 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	428,194	2,254,534	9,925,895	452,349	13,060,972
Other guarantee loans	542,337	190,099	147,521	47,380	927,337
Unsecured loans	383,356	225,455	288,544	57,292	954,647
Public sector loans	2,178	354	54,660	456	57,648
Foreign loans	167	-	-	-	167
Finance leases	54	88,251	113,015	2,448	203,768
	1,356,286	2,758,693	10,529,635	559,925	15,204,539

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 loans	25	454	56,195	342	57,016
Foreign loans	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 30 June 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	38,643	101,196	84,734	224,573
Outstanding interest	(6,413)	(15,973)	(17,945)	(40,331)
Residual values	683	7,462	8,933	17,078
	<u>32,913</u>	<u>92,685</u>	<u>75,722</u>	<u>201,320</u>

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
	<u>27,619</u>	<u>71,743</u>	<u>72,191</u>	<u>171,553</u>

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

	Jun 2009 Euro '000	Dec 2008 Euro '000
Asset-backed loans	452,349	363,590
Other guaranteed loans	47,380	18,782
Unsecured loans	57,292	42,528
Public sector loans	456	342
Finance leases	2,448	2,094
	<u>559,925</u>	<u>427,336</u>

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

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Corporate:</i>		
Construction / Production	131,416	88,952
Investment	48,824	33,682
Other short term loans	55,946	28,032
Other loans	3,904	620
<i>Retail:</i>		
Mortgage loans	256,926	226,752
Consumer credit	8,777	4,969
Other loans	27,863	21,331
<i>Public sector</i>	456	390
<i>Other segments</i>	25,813	22,608
	<u>559,925</u>	<u>427,336</u>

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

	Jun 2009 Euro '000	Jun 2008 Euro '000
<i>Impairment for credit risk:</i>		
Balance on 1 January	383,921	298,047
Charge for the period	220,757	174,769
Write-back for the period	(134,715)	(130,621)
Loans charged-off	(7,134)	(23,508)
Balance on 30 June	<u>462,829</u>	<u>318,687</u>

In compliance 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.

The table below shows the analysis of the overdue loans and interest and the impairment for credit risk as at 30 June 2009:

	Classes of overdue loans and interest					Total Euro '000
	Due within 3 months Euro '000	3 to 6 months Euro '000	6 to 12 months Euro '000	1 to 3 years Euro '000	Over 3 years Euro '000	
	Secured overdue loans	68,399	28,114	54,060	238,233	
Impairment	614	2,819	13,272	135,876	99,233	<u>251,814</u>
Unsecured overdue loans	17,105	6,776	7,997	16,493	8,921	<u>57,292</u>
Impairment	4,738	1,822	5,266	16,493	8,921	<u>37,240</u>
Total overdue loans	85,504	34,890	62,057	254,726	122,748	<u><u>559,925</u></u>
Total impairment for overdue loans	5,352	4,641	18,538	152,369	108,154	289,054
Total impairment for overdue loans and for other credit risks	101,083	1,102	6,244	55,081	10,265	<u>173,775</u>
Total impairment for credit risks	106,435	5,743	24,782	207,450	118,419	<u><u>462,829</u></u>

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

	Jun 2009 Euro '000	Dec 2008 Euro '000
Asset-backed loans	387,272	307,037
Other guaranteed loans	32,727	17,785
Unsecured loans	42,830	59,099
	<u>462,829</u>	<u>383,921</u>

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

	Jun 2009 Euro '000	Jun 2008 Euro '000
Asset-backed loans	3,667	14,602
Other guaranteed loans	1,383	5,012
Unsecured loans	2,084	3,894
	<u>7,134</u>	<u>23,508</u>

The loans charge-off performed during first semester of 2009 is related with write-offs.

The analysis of recovered loans and overdue interest, performed during 1 January and 30 June 2009, and during 2008, amounts to Euro 1,741,000 and Euro 4,324,000, respectively, related with asset-backed loans recovered, as referred in note 13.

The fair values of collaterals related to the loan portfolios, is analysed as follows:

	Jun 2009 Euros '000	Dec 2008 Euros '000
<i>Loans and advances to customers with impairment:</i>		
Individually significant:		
Securities and other financial assets	78,911	87,878
Home mortgages	5,749	5,074
Other real estate	1,969,763	2,262,535
Other guarantees	4,917	12,769
	2,059,340	2,368,256
Parametric analysis:		
Securities and other financial assets	51,638	27,287
Home mortgages	2,441,779	2,297,683
Other real estate	1,164,877	638,349
Other guarantees	36,807	11,469
	3,695,101	2,974,788
<i>Loans and advances to customers without impairment:</i>		
Securities and other financial assets	445,756	471,790
Home mortgages	13,738,462	13,387,574
Other real estate	4,066,747	4,622,961
Other guarantees	84,482	84,403
	18,335,447	18,566,728
	24,089,888	23,909,772

21 Financial assets and liabilities held for trading

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

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Financial assets held for trading:</i>		
Securities		
Shares	1,495	1,200
Bonds	3,077	3,172
	<u>4,572</u>	<u>4,372</u>
Derivatives		
Derivatives financial instruments with positive fair value	65,467	54,746
	<u>70,039</u>	<u>59,118</u>
<i>Financial liabilities held for trading:</i>		
Derivatives		
Derivatives financial instruments with negative fair value	25,843	37,692
	<u>25,843</u>	<u>37,692</u>

The trading portfolio is recorded at fair value through 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 at 30 June 2009 and 31 December 2008, these portfolio assets are quoted.

As at 30 June 2009, the analysis of the portfolio of securities held for trading by the period to maturity is as follows:

	Jun 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
<i>Variable income securities:</i>					
Shares in companies:					
Portuguese	-	-	-	753	753
Foreign	-	-	-	742	742
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,495</u>	<u>1,495</u>
<i>Fixed income securities:</i>					
Bonds					
Issued by other entities	200	498	2,379	-	3,077
	<u>200</u>	<u>498</u>	<u>2,379</u>	<u>1,495</u>	<u>4,572</u>

As at 31 December 2008, the analysis of the portfolio of securities held for trading by the period to maturity is as follows:

	Dec 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
<i>Variable income securities:</i>					
Shares in companies:					
Portuguese	-	-	-	14	14
Foreign	-	-	-	1,186	1,186
	-	-	-	1,200	1,200
<i>Fixed income securities:</i>					
Bonds					
Issued by other entities	-	1,666	1,506	-	3,172
	-	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 30 June 2009, is as follows:

Jun 2009								
Derivative	Related financial asset / liability	Derivative			Related asset / liability			
		Notional Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Book value Euro '000	Reimbursement amount at maturity date Euro '000
Interest rate swap	Securities issued	630,000	17,554	(8,901)	12,186	10,517	315,000	315,000
Interest rate swap	Deposits	752,252	2,936	(1,886)	962	24	86,800	86,800
Interest rate swap	Deposits from customers	1,336,129	17,675	(11,262)	14,534	1,211	721,927	721,927
Interest rate swap	Titularization	5,803,728	2,472	1,559	-	-	-	-
Currency interest rate swap	Debt issued	386,285	(376)	(2,426)	-	1,128	-	-
Futures	-	63	10	(12)	-	-	-	-
Options	Time deposits and other deposits	79,876	(50)	22	-	-	-	-
Credit default swaps	-	83,075	(596)	335	-	-	-	-
		<u>9,071,408</u>	<u>39,625</u>	<u>(22,571)</u>	<u>27,682</u>	<u>12,880</u>	<u>1,123,727</u>	<u>1,123,727</u>

The book value of the assets and liabilities at fair value through profit or loss as at 31 December 2008, is as follows:

Dec 2008								
Derivative	Related financial asset / liability	Derivative			Related asset / liability			
		Notional Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Book value Euro '000	Reimbursement 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	-	-	-	-
		<u>4,611,790</u>	<u>17,054</u>	<u>(33,295)</u>	<u>14,803</u>	<u>36,465</u>	<u>1,448,619</u>	<u>1,448,619</u>

The analysis of financial instruments held for trading, by maturity date as at 30 June 2009, is as follows:

Jun 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	426,852	809,900	7,315,357	8,552,109	64,148	23,681
Options	4,319	10,409	65,148	79,876	434	484
Exchange rate contracts:						
Interest rate swaps	350,943	35,342	-	386,285	211	418
Index contracts:						
Index futures	63	-	-	63	10	-
Credit default contracts:						
Credit default swaps	2,500	1,000	79,575	83,075	664	1,260
	<u>784,677</u>	<u>856,651</u>	<u>7,460,080</u>	<u>9,101,408</u>	<u>65,467</u>	<u>25,843</u>

The analysis of financial instruments held for trading, by maturity date as at 31 December 2008, is as follows:

	Dec 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 1.4 in the amount of Euro 3,103,000 (31 December 2008: Euro 5,333,000).

22 Other financial assets at fair value through profit or loss

This balance in the amount of Euro 3,939,000 (31 December 2008: 4,031,000) is totally composed by bonds and other fixed income securities from other issuers.

In light of IAS 39, the CEMG designated these 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.

As at 30 June 2009 and 31 December 2008, the securities portfolio included in financial assets at fair value through profit and loss is quoted and with a maturity greater than 1 year.

23 Available-for-sale financial assets

This balance is analysed as follows:

	Jun 2009				Book value Euro '000
	Cost ⁽¹⁾ Euro '000	Fair value reserve		Impairment losses Euro '000	
		Positive Euro '000	Negative Euro '000		
<i>Fixed income securities:</i>					
Issued by public entities:					
Portuguese	20,035	223	-	-	20,258
Foreign	998	-	(43)	-	955
Issued by other entities:					
Portuguese	149,107	556	(2,430)	(884)	146,349
Foreign	722,637	1,308	(56,206)	(20,118)	647,621
Commercial paper	285,358	-	-	(998)	284,360
<i>Variable income securities:</i>					
Shares in companies:					
Portuguese	5,452	142	(31)	(321)	5,242
Foreign	2,326	566	-	(788)	2,104
Investment fund units	11,116	261	(550)	(3,230)	7,597
	1,197,029	3,056	(59,260)	(26,339)	1,114,486

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

	Dec 2008				Book value Euro '000
	Cost ⁽¹⁾ Euro '000	Fair value reserve		Impairment losses Euro '000	
		Positive Euro '000	Negative Euro '000		
<i>Fixed income securities:</i>					
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
<i>Variable income securities:</i>					
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 1.6, the portfolio of available-for-sale financial assets is presented at market value with fair value changes accounted for against fair value reserves, as referred in note 39.

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

	Jun 2009 Euro '000	Jun 2008 Euro '000
<i>Impairment for securities:</i>		
Balance on 1 January	24,987	4,813
Charge for the period	1,443	2,698
Charged-off	(69)	-
Write-back for the period	(22)	-
Balance on 30 June	<u>26,339</u>	<u>7,511</u>

During the first semester of 2009 and as referred in note 1.6, impairment losses were recognised in the amount of Euro 1,351,000 (31 December 2008: Euro 20,174,000), related to fixed income securities as a result of a prolonged decrease in the share price.

The analysis of the available-for-sale financial assets by maturity date, as at 30 June 2009, is as follows:

	Jun 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
<i>Fixed income securities:</i>					
Issued by public entities:					
Portuguese	-	-	20,258	-	20,258
Foreign	-	-	955	-	955
Issued by other entities:					
Portuguese	-	11,561	134,788	-	146,349
Foreign	27,343	114,619	495,091	10,568	647,621
Commercial paper	252,941	31,419	-	-	284,360
	<u>280,284</u>	<u>157,599</u>	<u>651,092</u>	<u>10,568</u>	<u>1,099,543</u>
<i>Variable income securities:</i>					
Shares in companies:					
Portuguese	-	-	2,756	2,486	5,242
Foreign	-	-	-	2,104	2,104
Investment fund units	-	-	-	7,597	7,597
	<u>-</u>	<u>-</u>	<u>2,756</u>	<u>12,187</u>	<u>14,943</u>
	<u>280,284</u>	<u>157,599</u>	<u>653,848</u>	<u>22,755</u>	<u>1,114,486</u>

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2008, is as follows:

	Dec 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
<i>Fixed income securities:</i>					
<i>Issued by public entities:</i>					
Portuguese	-	-	-	4	4
Foreign	-	-	1,038	-	1,038
<i>Issued by other entities:</i>					
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
	<u>130,537</u>	<u>107,011</u>	<u>649,713</u>	<u>16,883</u>	<u>904,144</u>
<i>Variable income securities:</i>					
<i>Shares in companies:</i>					
Portuguese	-	-	2,757	2,463	5,220
Foreign	-	-	-	1,436	1,436
Investment fund units	-	1,852	-	5,910	7,762
	<u>-</u>	<u>1,852</u>	<u>2,757</u>	<u>9,809</u>	<u>14,418</u>
	<u>130,537</u>	<u>108,863</u>	<u>652,470</u>	<u>26,692</u>	<u>918,562</u>

CEMG recognises impairment on available-for-sale financial assets when there is a significant or prolonged decrease in its fair value or when there is an impact on expected future cash flows of the assets. This valuation involves 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 in 2008, the following factors were taken into consideration in determining the existence of impairment:

- Equity instruments: (i) decreases more than 30% (20% in June 2008) against the purchase price; or (ii) the market value below the purchase price for a period exceeding 12 months (6 months in June 2008);
- Debt instruments: when there is objective evidence of events with impact on recoverable value of future cash flows of these assets.

As referred in the accounting policy 1.6, the available-for-sale financial assets portfolio is presented net of fair value reserve and impairment losses in the amount of Euro 56,204,000 and Euro 24,988,000 (31 December 2008: Euro 48,064,000 and Euro 24,987,000), respectively.

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

	Jun 2009			Dec 2008		
	Quoted Euro '000	Unquoted Euro '000	Total Euro '000	Quoted Euro '000	Unquoted Euro '000	Total Euro '000
<i>Fixed income securities:</i>						
Issued by public entities:						
Portuguese	20,258	-	20,258	4	-	4
Foreign	955	-	955	1,038	-	1,038
Issued by other entities:						
Portuguese	31,017	115,332	146,349	31,227	34,123	65,350
Foreign	581,729	65,892	647,621	700,597	-	700,597
Commercial paper	-	284,360	284,360	-	137,155	137,155
<i>Variable income securities:</i>						
Shares in companies:						
Portuguese	434	4,808	5,242	166	5,054	5,220
Foreign	1,806	298	2,104	1,278	158	1,436
Investment fund units	6,145	1,452	7,597	7,762	-	7,762
	642,344	472,142	1,114,486	742,072	176,490	918,562

24 Hedging derivatives

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Asset:</i>		
Interest rate swap	5,829	4,759
Currency interest rate swap	4,263	2,968
	10,092	7,727
<i>Liability:</i>		
Interest rate swap	488	1,008
Currency interest rate swap	81	226
	569	1,234

CEMG uses derivatives to hedge interest rate risks. The accounting method depends on the nature of the hedged risk, namely if CEMG is exposed to fair value changes, variability in cash-flows or highly probable forecast transactions.

CEMG performs periodical effectiveness tests of the hedging relationships.

The adjustment performed to the assets and liabilities which includes hedged items is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Deposits from other credit institutions	2,637	(1,510)
Debt securities issued	3,938	(796)
Deposits from customers	919	897
	7,494	(1,409)

The analysis of the hedging derivatives portfolio by maturity date, as at 30 June 2009 is as follows:

	Jun 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	-	84,000	183,000	267,000	-	4,983	3,948	8,931
Currency interest rate swap	-	35,118	-	35,118	-	592	-	592
	-	119,118	183,000	302,118	-	5,575	3,948	9,523

The analysis of the hedging derivatives portfolio by maturity as at, 31 December 2008 is as follows:

	Dec 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 30 June 2009, the fair value hedge relationships present the following features:

Jun 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	Securities	Interest rate	63,000	32	(32)	-	-
	Deposits from customers	Interest rate	84,000	1,683	(1,683)	919	423
Interest rate swaps	Deposits	Interest rate	120,000	3,627	(3,470)	2,637	213
Interest rate swaps	EMTN	Interest rate	-	-	3,593	-	-
Currency interest rate swaps	Debt issued	Interest rate	35,118	4,181	(1,439)	3,938	927
			302,118	9,523	3,031	7,494	1,563

(1) Attributable to the hedged risk.

(2) Includes accrued interest.

As at 31 December 2008, the fair value hedge relationships present the following features:

Dec 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.

Changes in the fair value of the hedged items mentioned above and of the respective hedging derivatives are recognised in the income statement under net gains/ (losses) arising from assets and liabilities at fair value through profit or loss.

25 Held-to-maturity investments

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Fixed income securities:</i>		
Bonds issued by Portuguese public entities	24,840	24,977
Bonds issued by foreign public entities	15,100	14,935
	<u>39,940</u>	<u>39,912</u>

The fair value of held-to-maturity investments is presented in note 42.

CEMG assessed, with reference to 30 June 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 30 June 2009 are analysed as follows:

Issue	Issue date	Maturity date	Interest rate	Euro '000
OT – Setembro 98/2013	May 1998	September 2013	Fixed rate of 5.450%	99
OT – Julho 99/2009	January 1999	July 2009	Fixed rate of 3.950%	6,377
OT – Junho 02/2012	February 2002	June 2012	Fixed rate of 5.000%	102
OT – Maio 00/2010	January 2000	May 2010	Fixed rate of 5.850%	6,286
OT – Junho 01/2011	March 2001	June 2011	Fixed rate of 5.150%	1,034
OT – Outubro 05/2015	July 2005	October 2015	Fixed rate of 3.350%	6,164
OT – Abril 05/2011	November 2005	April 2011	Fixed rate of 3.200%	4,778
Buoni Poliennali Del Tes.06/2011	March 2006	March 2011	Fixed rate of 3.500%	2,976
Netherlands Government 05/15	June 2005	July 2015	Fixed rate of 3.250%	5,028
Republic of Austria 04/15	July 2004	June 2015	Fixed rate of 3.500%	2,035
Belgium Kingdom 05/15	March 2005	September 2015	Fixed rate of 3.750%	2,045
Buoni Poliennali Del Tes.05/2015	May 2005	August 2015	Fixed rate of 3.750%	2,007
Buoni Poliennali Del Tes.05/2010	January 2005	January 2010	Fixed rate of 3.000%	1,009
				<u>39,940</u>

As at 30 June 2009 and 31 December 2008, the analysis of held-to-maturity investments by the period of maturity is as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Due within 3 months	6,377	-
3 months to 1 year	7,295	6,280
1 year to 5 years	8,989	16,631
Over 5 years	17,279	17,001
	<u>39,940</u>	<u>39,912</u>

26 Investments in associated companies and others

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Investments in associated companies and others - Unquoted:</i>		
Lusitania, Companhia de Seguros, S.A.	8,516	6,668
Lusitania Vida, Companhia de Seguros, S.A.	8,633	7,091
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	2,464	2,572
Norfin – Soc. Gestora de Fundos Invest. Imob., S.A.	419	454
Germont - Empreendimentos Imobiliários, S.A.	-	28
	<u>20,032</u>	<u>16,813</u>

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

	Asset Euro '000	Liability Euro '000	Equity Euro '000	Income Euro '000	Profit / (Loss) for the year Euro '000	Acquisition cost Euro '000
30 June 2009						
Lusitania, Companhia de Seguros, S.A.	272,877	240,433	32,444	61,297	756	10,816
Lusitania Vida, Companhia de Seguros, S.A.	451,991	430,047	21,944	10,851	1,895	9,530
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	53,445	41,126	12,319	3,849	(543)	3,200
Norfin - Soc. Gestora de Fundos Invest. Imob., S.A.	4,901	667	4,234	2,570	1,138	50
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	
	Jun 2009	Dec 2008	Jun 2009	Dec 2008	Jun 2009	Dec 2008
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A, (IFI)	100%	100%	7,001	7,001	517	619
Lusitania, Companhia de Seguros, S.A,	26.25%	26.25%	8,516	6,668	199	628
Lusitania Vida, Companhia de Seguros, S.A,	39.34%	39.34%	8,633	7,091	745	1,906
HTA - Hotéis, Turismo e Animação dos Açores, S.A,	20%	20%	2,464	2,572	(109)	(102)
Norfin - Soc, Gestora de Fundos Invest, Imob,, S.A,	9.9%	9.9%	419	454	113	191
Germont - Empreendimentos Imobiliários, S.A,	-	28.9%	-	28	-	-

The movement in this balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Inicial balance	16,813	20,188
Acquisitions	-	29
Alienations	(29)	-
Share of profit of associates	948	2,623
Fair value reserve from associates	3,511	(5,089)
Dividends received	(1,211)	(938)
Final balance	<u>20,032</u>	<u>16,813</u>

27 Property and equipment

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Cost:</i>		
Land and buildings:		
For own use	63,515	63,515
Leasehold improvements in rented buildings	30,898	30,730
Work in progress	139	120
Equipment:		
Furniture	10,476	10,331
Office equipment	2,076	2,125
Computer equipment	47,401	43,406
Interior installations	26,948	26,696
Motor vehicles	676	676
Security equipment	3,520	3,202
Works of art	985	478
Assets in operational lease	2,713	2,226
Other tangible assets	32	31
Work in progress	2,018	495
	<u>191,397</u>	<u>184,031</u>
<i>Accumulated depreciation:</i>		
Charge for the period	(5,302)	(1,499)
Accumulated charge for the previous periods	(98,081)	(96,582)
	<u>(103,383)</u>	<u>(98,081)</u>
	<u><u>88,014</u></u>	<u><u>85,950</u></u>

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

	Jun 2009				
	Balance on 1 January Euro '000	Acquisitions/ Charges Euro '000	Disposals Euro '000	Adjustment/ Transfers Euro '000	Balance on 30 June Euro '000
<i>Cost:</i>					
Land and buildings:					
For own use	63,515	-	-	-	63,515
Leasehold improvements in rented buildings	30,730	425	-	(257)	30,898
Work in progress	120	44	-	(25)	139
Equipment:					
Furniture	10,331	291	(146)	-	10,476
Office equipment	2,125	23	(72)	-	2,076
Computer equipment	43,406	3,999	(4)	-	47,401
Interior installations	26,696	227	-	25	26,948
Motor vehicles	676	-	-	-	676
Security equipment	3,202	332	(14)	-	3,520
Works of art	478	507	-	-	985
Assets in operational lease	2,226	516	(29)	-	2,713
Other tangible assets	31	1	-	-	32
Work in progress	495	1,266	-	257	2,018
	<u>184,031</u>	<u>7,631</u>	<u>(265)</u>	<u>-</u>	<u>191,397</u>
<i>Accumulated depreciation:</i>					
Land and buildings:					
For own use	14,830	500	-	-	15,330
Leasehold improvements in rented buildings	19,785	1,133	-	-	20,918
Equipment:					
Furniture	7,436	309	(134)	-	7,611
Office equipment	1,923	49	(72)	-	1,900
Computer equipment	32,171	2,588	-	-	34,759
Interior installations	18,384	648	-	-	19,032
Motor vehicles	661	6	-	-	667
Security equipment	2,615	96	(13)	-	2,698
Assets in operational lease	276	198	(6)	-	468
	<u>98,081</u>	<u>5,527</u>	<u>(225)</u>	<u>-</u>	<u>103,383</u>

The Property and equipment movements, during the year of 2008, are analysed as follows:

	Dec 2008				Balance on 31 December Euro '000
	Balance on 1 January Euro '000	Acquisitions/ Charges Euro '000	Disposals Euro '000	Adjustment/ Transfers Euro '000	
<i>Cost:</i>					
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
Works of art	474	4	-	-	478
Assets in operational					
lease	775	1,451	-	-	2,226
Other tangible assets	31	-	-	-	31
Work in progress	1,374	4,655	-	(5,534)	495
	<u>177,508</u>	<u>15,349</u>	<u>(8,826)</u>	<u>-</u>	<u>184,031</u>
<i>Accumulated depreciation:</i>					
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
	<u>96,582</u>	<u>10,218</u>	<u>(8,719)</u>	<u>-</u>	<u>98,081</u>

28 Intangible assets

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Cost:</i>		
Software	48,363	44,988
Assets advances	3,291	2,331
	<u>51,654</u>	<u>47,319</u>
<i>Accumulated amortisation:</i>		
Charge for the period	(3,899)	(8,152)
Accumulated charge for the previous periods	(32,543)	(24,391)
	<u>(36,442)</u>	<u>(32,543)</u>
	<u>15,212</u>	<u>14,776</u>

The Intangible assets movements, during the first semester 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 30 June Euro '000
<i>Cost:</i>					
Software	44,988	3,777	-	(402)	48,363
Assets advances	2,331	558	-	402	3,291
	<u>47,319</u>	<u>4,335</u>	<u>-</u>	<u>-</u>	<u>51,654</u>
<i>Accumulated amortisation:</i>					
Software	<u>32,543</u>	<u>3,899</u>	<u>-</u>	<u>-</u>	<u>36,442</u>

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
<i>Cost:</i>					
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
	<u>38,010</u>	<u>9,485</u>	<u>-</u>	<u>(176)</u>	<u>47,319</u>
<i>Accumulated amortisation:</i>					
Software	<u>24,391</u>	<u>8,152</u>	<u>-</u>	<u>-</u>	<u>32,543</u>

29 Other assets

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Investments arising from recovered loans	121,798	116,180
Recoverable subsidies from the Portuguese Government	18,949	20,468
Other debtors	92,475	17,279
Other accrued income	6,751	6,442
Prepayments and deferred costs	1,915	1,541
Sundry debtors	86,471	24,159
	<u>328,359</u>	<u>186,069</u>
Impairment for investments arising from recovered loans	(24,781)	(23,868)
Impairment from recoverable subsidies	(3,473)	(3,473)
	<u>300,105</u>	<u>158,728</u>

In accordance with 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 delivery the asset and the respective irrevocable power of attorney issued by the customer in the name of CEMG; or (ii) the adjudication of the assets as a result of a judicial process of guarantees execution, accounted with the title of adjudication or following the adjudication request after the record of the first (payment pro-solvency).

The balance Investments arising from recovered loans includes the amount of Euro 115,399,000 (31 December 2008: Euro 109,774,000) related to buildings recovered related with overdue amounts. The referred buldings are recognised in accordance with accounting policy 1.9.

As at 30 June 2009 and 31 December 2008, the balances of CEMG's responsibilities related to pension benefits included on Sundry debtors, are analysed as follows:

	Jun 2009 Euros '000	Dec 2008 Euros '000
Project benefit obligations	535,846	514,212
Value of the Pension Fund	(453,416)	(436,148)
	82,430	78,064
 Actuarial losses		
Corridor	53,585	51,421
Amount in excess of the corridor	30,360	29,268
	83,945	80,689
	(1,515)	(2,625)

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

The balance Recoverable subsidies from the Portuguese Government, in the amount of Euro 18,949,000 (31 December 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 30 June 2009 and 31 December 2008, the balance Recoverable subsidies from the Portuguese Government is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Recoverable subsidies from the Portuguese Government unliquidated	6,381	4,194
Subsidies unclaimed	7,201	9,219
Overdue subsidies unclaimed	5,367	7,055
	18,949	20,468

As at 30 June 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.

The movements of the impairment of the investments arising out from recovered loans are analysed as follows:

	Jun 2009 Euro '000	Jun 2008 Euro '000
<i>Impairment for investments arising from recovered loans:</i>		
Balance on 1 January	23,868	19,397
Impairment for the period	915	3,049
Write-back for the period	(2)	-
Balance on 30 June	24,781	22,446

30 Deposits from central banks

As at 30 June 2009, this balance includes the amount of Euro 800,122,000 (31 December 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.

	Jun 2009 Euro '000	Dec 2008 Euro '000
Up to 3 months	800,122	751,544
3 to 6 months	-	101,259
	800,122	852,803

31 Deposits from other credit institutions

This balance is analysed as follows:

	Jun 2009			Dec 2008		
	Non interest bearing	Interest bearing	Total	Non interest bearing	Interest bearing	Total
	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000
Deposits from credit institutions in Portugal	-	65,177	65,177	-	106,829	106,829
Deposits from credit institutions abroad	4,121	557,504	561,625	4,772	632,855	637,627
	4,121	622,681	626,802	4,772	739,684	744,456

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

	Jun 2009 Euro '000	Dec 2008 Euro '000
Due within 3 months	18,068	210,021
3 months to 6 months	-	53,109
6 months to 1 year	91,850	116
1 year to 5 years	297,805	306,446
Over 5 years	211,890	172,340
	<u>619,613</u>	<u>742,032</u>
Adjustments arising from hedging operations	7,189	2,424
	<u><u>626,802</u></u>	<u><u>744,456</u></u>

32 Deposits from customers

This balance is analysed as follows:

	Jun 2009			Dec 2008		
	Non interest bearing	Interest bearing	Total	Non interest bearing	Interest bearing	Total
	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000
Deposits repayable on demand	1,938,204	-	1,938,204	1,877,502	-	1,877,502
Time deposits (*)	-	6,521,125	6,521,125	-	5,770,374	5,770,374
Saving accounts (*)	-	548,458	548,458	-	681,025	681,025
Other items	193	-	193	177	-	177
Adjustments arising from hedging operations	1,881	-	1,881	1,262	-	1,262
	<u>1,940,278</u>	<u>7,069,583</u>	<u>9,009,861</u>	<u>1,878,941</u>	<u>6,451,399</u>	<u>8,330,340</u>

Observations: (*) Deposits for which the embedded derivative was separate from the host contract, in accordance with note 24 and accounting policy 1.4.

As at 30 June 2009, this balance includes the amount of Euro 128,800,000 (31 December 2008: Euro 210,869,000) related to deposits recognised on the balance sheet at fair value through profit or loss.

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

The balance Deposits from customers, analysed by the period of maturity, is as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Deposits repayable on demand</i>	1,938,204	1,877,502
<i>Time deposits and saving accounts:</i>		
Due within 3 months	1,622,392	1,328,202
3 months to 6 months	3,034,358	3,048,990
6 months to 1 year	858,207	1,018,856
1 year to 5 years	-	966,310
Over 5 years	1,554,626	89,041
	<u>9,007,787</u>	<u>8,328,901</u>
Adjustments arising from hedging operations	1,881	1,262
	<u>9,009,668</u>	<u>8,330,163</u>
<i>Other items:</i>		
Due within 3 months	193	177
	<u>9,009,861</u>	<u>8,330,340</u>

33 Debt securities issued

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Euro Medium Term Notes	3,878,234	4,096,489
Bonds	826,989	964,998
	<u>4,705,223</u>	<u>5,061,487</u>

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

During the first semester of 2009, the CEMG issued Euro 34,650,000 (31 December 2008: Euro 149,700,000) of securities, and was reimbursed Euro 248,060,000 (31 December 2008: Euro 703,427,000).

As at 30 June 2009 and 31 December 2008, the analysis of debt securities issued outstanding by period to maturity is as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Due within 6 months	967,254	188,762
6 months to 1 year	2,698,427	988,412
1 year to 5 years	358,354	3,094,029
Over 5 years	654,329	773,236
	4,678,364	5,044,439
Adjustments arising from hedging operations	26,859	17,048
	4,705,223	5,061,487

The emissions occurred in the first semester of 2009 are as follows:

Issue	Issue date	Maturity date	Interest rate	Jun 2009 Euros '000
Obr. caixa – Capitais de Reforma de Prazo Certo – Fevereiro 2009-2014	Feb. 2009	Feb. 2014	Annual fixed rate of 3.8% (2 nd to 5 th year Euribor 3m + 0.84%)	15,000
Obr. caixa – Capitais de Reforma de Prazo Certo – Março 2009-2014	Mar. 2009	Mar. 2014	Annual fixed rate of 3.5% (2 nd to 5 th year Euribor 3m + 0.80%)	19,000
Obr.caixa –Montepio Taxa Fixa 3 Anos – 25/05/2012	May 2009	May 2012	Annual fixed rate 2% (2 nd year fixed rate of 3% and 3 rd year fixed rate of 4%)	650
				34,650

The fair value of the debts securities issued are presented in note 42.

This balance includes the amount of Euro 1,055,173,000 (31 December 2008: Euro 1,448,619,000) related to debt securities issued recognised at the balance sheet at fair value through profit or loss.

As at 30 June 2009, for the bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 3.102% and 6.417 %.

The reimbursements of bonds in first semester of 2009 are analysed as follows:

Issue	Issue date	Maturity date	Interest rate	Reimbursement amount Euro '000
<i>Euro Medium Term Notes:</i>				
Obrigações CEMG - 2004	Mar. 04	Mar. 09	Floating rate	10,360
Obrigações CEMG - 2007	Mar. 07	Mar. 09	Floating rate	50,000
				60,360
<i>Bonds:</i>				
MG Aforro 2006 – 1ª série	Feb. 06	Feb. 09	Floating rate	40,000
MG Aforro 2006 – 2ª série	Feb. 06	Feb. 09	Floating rate	17,000
MG Aforro especial –3 anos –Fev/06	Feb. 06	Feb. 09	Floating rate	9,000
MG Aforro 2006 – 3ª série	Mar. 06	Mar. 09	Floating rate	17,000
MG Aforro 2006 – 4ª série	Mar. 06	Mar. 09	Floating rate	23,000
MG Aforro 2006 – 5ª série	Apr. 06	Apr. 09	Floating rate	20,000
MG Aforro 2006 – 6ª série	May 06	May 09	Floating rate	20,000
MG Commodities	May 06	May 09	Annual fixed rate of 3.75%	4,700
MG Valor Imobiliário	May 06	May 09	Annual fixed rate of 1%	2,000
MG Aforro 2006 – 7ª série	Jun. 06	Jun. 09	Floating rate	25,000
Obr. caixa – Montepio Portugal Dinâmico	Apr. 07	Apr. 09	Annual fixed rate of 3.35%	10,000
				187,700
				248,060

The Debt securities issued with reimbursement date during the second semester of 2009 amount to Euro 727,876,000.

34 Provisions

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Provisions for general banking risks	1,130	1,084
Provisions for liabilities and charges	584	584
	<u>1,714</u>	<u>1,668</u>

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

	Jun 2009 Euro '000	Jun 2008 Euro '000
<i>Provisions for general banking risks:</i>		
Balance on 1 January	1,084	898
Charge for the period	46	174
Write-back for the period	-	(63)
Balance on 30 June	<u>1,130</u>	<u>1,009</u>

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

	Jun 2009 Euro '000	Jun 2008 Euro '000
<i>Provisions for liabilities and charges:</i>		
Balance on 1 January	584	838
Loans charge-off	-	(207)
Balance on 30 June	<u>584</u>	<u>631</u>

35 Other subordinated debt

As at 30 June 2009, this balance in the amount of Euro 381,870,000 (31 December 2008: Euro 386,872,000) is composed by bonds with fixed maturity date and with a residual reimbursement over 5 years.

As at 30 June 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
<i>Bonds with fixed maturity date:</i>					
CEMG/06	Apr. 2006	Apr. 2016	50,000	Euribor 3 months + 0.45%	50,108
CEMG/08	Feb. 2008	Feb. 2018	150,000	Euribor 6 months + 0.13%	150,033
CEMG/08	Jun. 2008	Jun. 2018	28,000	Euribor 12 months + 0.10%	29,483
CEMG/08	Jul. 2008	Jul. 2018	150,000	Euribor 6 months + 0.13%	152,246
					381,870

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

As at 30 June 2009, the effective interest rate range of the other subordinated debt bears postponed interest every three and six months is set between 2.96% and 6.42%.

36 Other liabilities

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Creditors:		
Suppliers	12,012	8,067
Other creditors	105,191	35,523
Public sector	8,921	10,393
Financial liabilities associated with transferred assets	514,359	485,187
Holiday pay and subsidies	20,274	19,826
Other administrative costs payable	76	450
Deferred income	607	647
Securities transactions pending settlement	78,058	6,154
Other sundry liabilities	37,857	45,066
	777,355	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 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.

39 Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Other comprehensive income</i>		
Fair value reserves		
Financial assets available-for-sale	(56,204)	(48,064)
<i>Reserves and retained earnings:</i>		
General reserve	163,320	156,197
Special reserve	62,554	60,788
Other reserves	7,751	1,995
Retained earnings	(29,653)	(41,121)
	<u>203,972</u>	<u>177,859</u>

The balance Other comprehensive income includes income and expenses that, according to IFRS, are recognised in equity.

The gross movements in Fair value reserves for available-for-sale financial instruments, during the first semester of 2009 and 2008 concerns to the revaluation reserves of the period.

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

The movements of this balance during the first semester of 2009, are analysed as follows:

	Balance on 1 January Euro '000	Revaluation Euro '000	Acquisitions Euro '000	Sales Euro '000	Impairment recognised in the period Euro '000	Balance on 30 June Euro '000
<i>Fixed income securities:</i>						
Bonds issued by						
Portuguese entities	(38)	(5)	223	-	-	180
Bond issued by other						
entities:						
Portuguese	(2,187)	644	357	7	(695)	(1,874)
Foreign	(45,581)	(11,209)	692	1,628	(429)	(54,899)
	<u>(47,806)</u>	<u>(10,570)</u>	<u>1,272</u>	<u>1,635</u>	<u>(1,124)</u>	<u>(56,593)</u>
<i>Variable income securities:</i>						
Shares in companies:						
Portuguese	(23)	228	(5)	1	(230)	(29)
Foreign	-	544	140	-	22	706
Investment fund units	(235)	(39)	-	5	(19)	(288)
	<u>(258)</u>	<u>733</u>	<u>135</u>	<u>6</u>	<u>(227)</u>	<u>389</u>
	<u><u>(48,064)</u></u>	<u><u>(9,837)</u></u>	<u><u>1,407</u></u>	<u><u>1,641</u></u>	<u><u>(1,351)</u></u>	<u><u>(56,204)</u></u>

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
<i>Fixed income securities:</i>						
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)
	<u>(8,761)</u>	<u>(21,992)</u>	<u>(370)</u>	<u>(868)</u>	<u>(15,815)</u>	<u>(47,806)</u>
<i>Variable income securities:</i>						
Shares in companies:						
Portuguese	-	37	(23)	-	(37)	(23)
Foreign	(30)	762	-	30	(762)	-
Investment fund units	818	2,902	(50)	(694)	(3,211)	(235)
	<u>788</u>	<u>3,701</u>	<u>(73)</u>	<u>(664)</u>	<u>(4,010)</u>	<u>(258)</u>
	<u><u>(7,973)</u></u>	<u><u>(18,291)</u></u>	<u><u>(443)</u></u>	<u><u>(1,532)</u></u>	<u><u>(19,825)</u></u>	<u><u>(48,064)</u></u>

The fair value reserve can be analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Amortised cost of available-for-sale financial assets	1,197,029	991,613
Accumulated impairment recognised	(26,339)	(24,987)
Amortised cost of available-for-sale financial assets, net impairment	1,170,690	966,626
Fair value of available-for-sale financial assets	1,114,486	918,562
Net unrealised gains / (losses) recognised in the fair value reserve	(56,204)	(48,064)

40 Obligations and future commitments

Obligations and future commitments are analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Guarantees granted	453,509	431,209
Guarantees received	29,501,132	30,265,782
Commitments to third parties	1,196,441	1,377,791
Commitments from third parties	19,503	20,791
Securitised loans	357,321	389,662
Securities and other items held for safekeeping on behalf of customers	5,509,607	5,510,251

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

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Guarantees granted:</i>		
Guarantees	447,080	428,782
Open documentary credits	6,429	2,427
	453,509	431,209

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

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Commitments to third parties:</i>		
Irrevocable commitments		
Term deposits contracts	2,757	2,756
Irrevocable credit lines	254,165	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	916,481	1,071,125
	1,196,441	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 are collateralised. As it is expected that the majority of these operations will mature without any use of funds, these amounts do not represent necessarily future cash out-flows.

The balance Potential obligation with the Investors' Indemnity System, 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 11,272,000 (31 December 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.

The main methods and assumptions used in estimating the fair value for the assets and liabilities of the CEMG are presented as follows:

- *Cash and deposits at central banks, Loans and advances to credit institutions repayable on demand and Deposits from other credit institutions*

Considering the short maturity of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

- *Other loans and advances to credit institutions, Amounts owed to other credit institutions from Inter-bank Money Market transactions and Assets with repurchase agreements*

The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates.

The discount rate used reflects the current conditions applied by CEMG in identical instruments for each of the different maturities.

- *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.

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.

- *Hedging 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. For 30 June 2009, the average discount rate was 2.73% and for 31 December 2008 was 3.29%. The calculation also includes the credit risk spread.

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

Considering the short maturity of these financial instruments, the conditions of the existing portfolio are similar to current conditions used by the 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 used reflects the actual rates of CEMG to this type of funds and with similar residual maturity date. For 30 June 2009, average discount rate was of 0.96% and for 31 December 2008 was 2.74%.

- *Debt securities issued and Other 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 internal models based on cash-flow discounting techniques, using the interest rate curve adjusted by associated factors, predominantly the credit risk and trading margin, the latter only in the case of issues placed for non-institutional customers of CEMG.

As at 30 June 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 and CZK used to determine the fair value of the financial assets and liabilities of CEMG:

	Euro	United States Dollar	Pound Sterling	Czech Koruna
1 day	1.048%	0.949%	1.050%	2.163%
7 days	1.095%	0.967%	1.094%	2.212%
1 month	1.176%	1.112%	1.314%	2.360%
2 months	1.344%	1.256%	1.469%	2.496%
3 months	1.550%	1.036%	1.627%	2.532%
6 months	1.291%	2.035%	1.930%	2.491%
9 months	1.666%	1.952%	2.274%	2.948%
1 year	1.874%	1.476%	2.405%	2.647%
2 years	2.788%	2.878%	3.833%	3.456%
3 years	3.354%	3.618%	4.336%	3.933%
5 years	4.002%	4.187%	4.485%	3.945%
7 years	4.316%	4.404%	4.479%	4.347%
10 years	4.458%	4.553%	4.105%	4.786%
15 years	4.461%	4.250%	4.102%	4.414%
20 years	3.732%	4.098%	4.100%	4.209%
30 years	3.994%	4.164%	4.129%	4.295%

- *Exchanges and exchanges volatilities*

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:

Exchange	Volatility (%)						
	Jun 2009	Dec 2008	1 month	3 months	6 months	9 months	1 year
EUR/USD	1.4134	1.3917	12.60	13.12	13.60	13.73	13.80
EUR/GBP	0.8521	0.9525	10.70	10.90	11.20	11.20	11.35
EUR/CHF	1.5265	1.4850	4.77	4.40	4.15	4.10	4.02
EUR/JPY	135.51	126.14	15.40	16.10	16.45	16.75	17.00

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

	Jun 2009								
	Trading Euro '000	Designated at fair value through 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
<i>Financial assets:</i>									
Cash and deposits at central bank	-	-	-	88,951	-	-	-	88,951	88,951
Loans and advances to credit institutions repayable on demand	-	-	-	123,602	-	-	-	123,602	123,602
Loans and advances to credit institutions	-	-	-	650,232	-	-	-	650,232	650,232
Loans and advances to customers	-	-	-	14,741,710	-	-	-	14,741,710	14,000,954
Financial assets held for trading	70,039	-	-	-	-	-	-	70,039	70,039
Other financial assets at fair value through profit or loss	-	3,939	-	-	-	-	-	3,939	3,939
Available-for-sale financial assets	-	-	-	-	1,114,486	-	-	1,114,486	1,114,486
Hedging derivatives	10,092	-	-	-	-	-	-	10,092	10,092
Held-to-maturity investments	-	-	39,940	-	-	-	-	39,940	39,940
Investments in associated companies and others	-	-	-	-	-	-	20,032	20,032	20,032
	<u>80,131</u>	<u>3,939</u>	<u>39,940</u>	<u>15,604,495</u>	<u>1,114,486</u>	<u>-</u>	<u>20,032</u>	<u>16,863,023</u>	<u>16,122,267</u>
<i>Financial liabilities:</i>									
Deposits from central banks	-	-	-	-	-	800,122	-	800,122	800,122
Deposits from other credit institutions	-	-	-	-	-	626,802	-	626,802	626,802
Deposits from customers	-	-	-	-	-	9,009,861	-	9,009,861	9,139,597
Debt securities issued	-	-	-	-	-	4,705,223	-	4,705,223	5,871,772
Financial liabilities held for trading	25,843	-	-	-	-	-	-	25,843	25,843
Hedging derivatives	569	-	-	-	-	-	-	569	569
Other Subordinated debt	-	-	-	-	-	381,870	-	381,870	338,703
	<u>26,412</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,523,878</u>	<u>-</u>	<u>15,550,290</u>	<u>16,846,575</u>

Caixa Económica Montepio Geral
Notes to the Interim Consolidated
Financial Statements
30 June 2009

Dec 2008

	Trading Euro '000	Designated at fair value through 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
<i>Financial assets:</i>									
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 through 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	39.912
Investments in associated companies and others	-	-	-	-	-	-	16.813	16.813	16.813
	<u>66.845</u>	<u>4.031</u>	<u>39.912</u>	<u>15.545.917</u>	<u>918.562</u>	<u>-</u>	<u>16.813</u>	<u>16.592.080</u>	<u>16.984.260</u>
<i>Financial liabilities:</i>									
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	367.676
	<u>38.926</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15.375.98</u>	<u>-</u>	<u>15.414.884</u>	<u>15.492.439</u>

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.,

In the first semester of 2009, CEMG recognise as pension costs the amount of Euro 13,094,000 (31 December 2008: 38,082,000).

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

	Jun 2009				Jun 2008			
	Pension plans	Death subsidy	Health – care benefits	Total	Pension plans	Death subsidy	Health-care benefits	Total
	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000
Service cost	7,491	211	353	8,055	9,886	566	286	10,738
Interest cost	13,834	193	757	14,784	13,381	219	792	14,392
Expected return on plan assets	(11,734)	(163)	(642)	(12,539)	(10,810)	(177)	(639)	(11,626)
Actuarial gains and losses depreciation	673	-	-	673	-	-	-	-
Early retirements	2,121	-	-	2,121	5,818	-	-	5,818
Net benefit cost	12,385	241	468	13,094	18,275	608	439	19,322

44 Related parties transactions

As at 30 June 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,	3,848	5,740	9,588
Lusitania Vida Companhia de Seguros, S.A,	10,534	11,250	21,784
HTA - Hotéis, Turismo e Animação dos Açores, S.A,	115	-	115
SIBS - Sociedade Interbancária de Serviços, S.A,	6	-	6
MG Gestão de Activos Financeiros - S.G.F.I.M., S.A,	44,487	-	44,487
Futuro - Sociedade Gestora de Fundo de Pensões, S.A,	134,109	-	134,109
Norfin - Sociedade Gestora de FIM, S.A,	1,398	-	1,398
Bolsimo – Gestão Imobiliária, Lda.	2,174	-	2,174
	196,671	16,990	213,661

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
	<u>62,762</u>	<u>16,740</u>	<u>79,502</u>

As at 30 June 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,	72	2,194	2,266
Lusitania Vida Companhia de Seguros, S,A,	123	2,333	2,456
SIBS - Sociedade Interbancária de Serviços, S,A,	2	5,696	5,698
MG Gestão de Activos Financeiros - - S,G,F,I,M,, S,A,	2	1,387	1,389
Futuro - Sociedade Gestora de Fundo de Pensões, S,A,	-	1,493	1,493
Norfin - Sociedade Gestora de FIM, S,A,	-	208	208
	<u>199</u>	<u>13,311</u>	<u>13,510</u>

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,	229	1,520	1,749
Lusitania Vida Companhia de Seguros, S,A,	-	2,972	2,972
HTA - Hotéis, Turismo e Animação dos Açores, S,A,	1	-	1
SIBS - Sociedade Interbancária de Serviços, S,A,	3	11,792	11,795
MG Gestão de Activos Financeiros - - S,G,F,I,M,, S,A,	5	1,997	2,002
Futuro - Sociedade Gestora de Fundo de Pensões, S,A,	9	1,734	1,743
Norfin - Sociedade Gestora de FIM, S,A,	6	185	191
	<u>253</u>	<u>20,200</u>	<u>20,453</u>

45 Asset securitisation

As at 30 June 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. 5. The referred agreement consists in a mortgage credit transfer for a period of 52 years, without revolving 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 30 June 2009, the securitisation operations are presented as follows:

<u>Issue</u>	<u>Settlement date</u>	<u>Currency</u>	<u>Asset transferred</u>	<u>Amount</u>
Pelican Mortgages No. 1	December 2002	Euro	Mortgage credit	650,000,000
Pelican Mortgages No. 2	September 2003	Euro	Mortgage credit	700,000,000
Pelican Mortgages No. 3	March 2007	Euro	Mortgage credit	750,000,000
Pelican Mortgages No. 4	May 2008	Euro	Mortgage credit	1,000,000,000
Pelican Mortgages No. 5	March 2009	Euro	Mortgage credit	1,000,000,000
				<u>4,100,000,000</u>

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

	<u>Jun 2009</u>	<u>Dec 2008</u>
	<u>Euro '000</u>	<u>Euro '000</u>
Pelican Mortgages No. 1	130,627	142,875
Pelican Mortgages No. 2	226,694	246,788
	<u>357,321</u>	<u>389,663</u>

As at 30 June 2009, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bonds issued	Issued amount Euro	Current amount Euro	Maturity date	Rating		
					Fitch	Moody's	S&P
Pelican Mortgages No. 1	Class A	211,058,614	86,261,149	2037	AAA	Aaa	n.a.
	Class B	16,250,000	16,250,000	2037	AAA	A2	n.a.
	Class C	22,750,000	22,750,000	2037	BBB+	Baa2	n.a.
	Class D	3,250,000	3,250,000	2037	n.a.	n.a.	n.a.
Pelican Mortgages No. 2	Class A	422,069,596	186,381,070	2036	AAA	Aaa	AAA
	Class B	17,500,000	17,500,000	2036	AAA	A1	AA-
	Class C	22,750,000	22,750,000	2036	A-	Baa2	BBB
	Class D	5,600,000	5,600,000	2036	n.a.	n.a.	n.a.
Pelican Mortgages No. 3	Class A	701,315,365	434,172,439	2054	AAA	Aaa	AAA
	Class B	14,250,000	11,209,718	2054	AA-	Aa2	AA-
	Class C	12,000,000	9,439,762	2054	A-	A3	A
	Class D	6,375,000	5,014,874	2054	BBB	Baa3	BBB
	Class E	7,361,334	-	2054	BBB-	n.a.	BBB-
	Class F	4,125,000	4,125,000	2054	n.a.	n.a.	n.a.
Pelican Mortgages No. 4	Class A	832,000,000	764,382,397	2056	AAA	Aaa	n.a.
	Class B	55,500,000	55,500,000	2056	AA	Aa	n.a.
	Class C	60,000,000	60,000,000	2056	A-	A-	n.a.
	Class D	25,000,000	25,000,000	2056	BBB	Bbb	n.a.
	Class E	27,500,000	27,500,000	2056	BB	Bb	n.a.
	Class F	28.600,000	28,600,000	2056	n.a.	n.a.	n.a.
Pelican Mortgages No. 5	Class A	750,000,000	736,819,108	2061	AAA	n.a.	n.a.
	Class B	195,000,000	195,000,000	2061	BBB-	n.a.	n.a.
	Class C	27,500,000	27,500,000	2061	B	n.a.	n.a.
	Class D	27,500,000	27,500,000	2061	n.a.	n.a.	n.a.
	Class E	4.500.000	4,500,000	2061	n.a.	n.a.	n.a.
	Class F	23.000.000	23,000,000	2061	n.a.	n.a.	n.a.

46 Segmental reporting

Given the nature of its activity and clients, CEMG is focused under one business segment.

CEMG offers a wide range of banking activities and financial services in Portugal and Cabo Verde.

Geographical Segments

Aimed at the strategy of development, CEMG operates with special emphasis in the Portuguese and Cabo Verde markets. Considering this, the geographical segments include Portugal and Cabo Verde. The segment Portugal reflects, essentially, the activities carried by Caixa Económica Montepio Geral. The segment Cabo Verde includes the business carried by Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S,A, (IFI).

As at 30 June 2009 the net contribution of the two major geographic segments is analysed as follows:

Income Statement	Portugal	Cabo Verde	Adjustments	Consolidated
	Euro '000	Euro '000	Euro '000	Euro '000
Interest and similar income	492,663	6,296	(6,300)	492,659
Interest and similar expense	310,590	5,754	(6,300)	310,044
Net interest income	182,073	542	-	182,615
Dividends from equity instruments	1,273	-	(557)	716
Fee and commissions income	41,525	-	-	41,525
Fee and commissions expense	(6,199)	-	-	(6,199)
Net gains arising from assets and liabilities at fair value through profit or loss	4,540	2	-	4,542
Net gains arising from available-for-sale financial assets	440	-	-	440
Net gains arising from foreign exchange differences	1,034	17	-	1,051
Net gains from sale of other financial assets	315	-	-	315
Other operating income	11,738	(1)	-	11,737
Total operating income	237,281	18	(557)	236,742
Staff costs	74,979	-	-	74,979
General and administrative expenses	37,364	41	-	37,405
Depreciation and amortisation	9,424	2	-	9,426
Total operating expenses	121,767	43	-	121,810
Loans impairment	84,320	-	-	84,320
Other assets impairment	2,287	-	-	2,287
Other provisions	46	-	-	46
Total operating profit	28,319	517	(557)	28,279
Share of profit of associates under the equity method	948	-	-	948
Profit for the period	29,267	517	(557)	29,227

Balance sheet	Portugal	Cabo Verde	Adjustments	Consolidated
	Euro '000	Euro '000	Euro '000	Euro '000
Cash and deposits at central banks	88,951	-	-	88,951
Loans and advances to credit institutions repayable on demand	123,557	55	(10)	123,602
Other loans and advances to credit institutions	650,232	286,948	(286,948)	650,232
Loans and advances to customers	14,741,710	-	-	14,741,710
Financial assets held for trading	70,039	-	-	70,039
Other financial assets at fair value through profit or loss	3,939	-	-	3,939
Financial assets available-for-sale	1,114,486	-	-	1,114,486
Hedging derivatives	10,092	-	-	10,092
Held-to-maturity investments	39,940	-	-	39,940
Investments in associated companies and others	27,033	-	(7,001)	20,032
Property and equipment	87,910	104	-	88,014
Intangible assets	15,212	-	-	15,212
Other assets	300,105	-	-	300,105
Total Assets	17,273,206	287,107	(293,959)	17,266,354
Deposits from central banks	800,122	-	-	800,122
Deposits from other credit institutions	626,648	164	(10)	626,802
Deposits from customers	9,017,575	279,234	(286,948)	9,009,861
Debt securities issued	4,705,223	-	-	4,705,223
Financial liabilities held for trading	25,843	-	-	25,843
Hedging derivatives	569	-	-	569
Provisions	1,714	-	-	1,714
Other subordinated debt	381,870	-	-	381,870
Other liabilities	777,487	-	(132)	777,355
Total Liabilities	16,337,051	279,398	(287,090)	16,329,359
Share capital	760,000	7,001	(7,001)	760,000
Fair value reserves	(56,204)	-	-	(56,204)
Other reserves and retained earnings	203,092	191	689	203,972
Profit for the period	29,267	517	(557)	29,227
Total Equity	936,155	7,709	(6,869)	936,995
	17,273,206	287,107	(293,959)	17,266,354

As at 31 December 2008 the net contribution of the major geographic segments is analysed as follows:

Income Statement	Portugal	Cabo Verde	Adjustments	Consolidated
	Euro '000	Euro '000	Euro '000	Euro '000
Interest and similar income	971,277	14,921	(14,921)	971,277
Interest and similar expense	637,508	14,194	(14,921)	636,781
Net interest income	333,769	727	-	334,496
Dividends from equity instruments	1,013	-	(131)	882
Fee and commissions income	84,544	-	-	84,544
Fee and commissions expense	(13,560)	-	-	(13,560)
Net losses arising from assets and liabilities at fair value through profit or loss	(22,035)	(5)	-	(22,040)
Net gains 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 operating 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 expenses	255,277	49	-	255,326
Loans impairment	93,530	-	-	93,530
Other assets impairment	25,018	-	-	25,018
Other provisions	185	-	-	185
Total operating profit	30,163	619	(131)	31,251
Share of profit of associates under the equity method	2,623	-	-	2,623
Profit for the period	33,386	619	(131)	33,874

Balance sheet	Portugal	Cabo Verde	Adjustments	Consolidated
	Euro '000	Euro '000	Euro '000	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
Property and equipment	85,848	102	-	85,950
Intangible assets	14,776	-	-	14,776
Other assets	158,728	-	-	158,728
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
	16,858,352	328,963	(335,781)	16,851,534

47 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,

The Companies Credit Analysis Department began its activity in December 2007 with the objective to make it possible to segregate risk analysis of major operations and exposures from commercial business, in keeping with best practice and the recommendations of the Basel Committee. This step also permitted the simplification of procedures and the reinforcing of the risk role in the pricing of operations. During the first semester of 2009, the granting of credit in the main business lines also came under closer scrutiny and corporate credit monitoring was enhanced with the drawing up of a weekly watchlist to be analysed by the Credit Council.

At the regulatory level, DAGR drew up the interest rate risk reports required by Bank of Portugal Instruction no. 19/2005, as well as the liquidity static gap calculations called for the Bank of Portugal since October 2007.

In addition, procedures were developed to insure the Market Discipline and of the Equity Self-Assessment of the Internal Capital reports, in accordance with the regulation no. 10/2007 and instruction no. 15/2007 of the Bank of Portugal.

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 order to support commercial strategies, behavioural scoring models were also used.

The following map presents information related to the CEMG exposition to the credit risk:

	Jun 2009 Euros '000	Dec 2008 Euros '000
Loans and advances to credit institutions		
Repayable on demand	123,602	114,502
Other loans and advances	650,232	166,781
Loans and advances to customers	14,741,710	15,009,892
Financial assets held for trading and available for sale	1,168,087	962,062
Hedging derivatives	10,092	7,727
Financial assets held to maturity	39,940	39,912
Investments in associated companies and others	20,032	16,813
Other assets	201,173	64,875
Guarantees granted	453,509	431,209
Irrevocable commitments	256,922	283,859
Credit default swaps (notional)	47,000	94,500
	<u>17,712,299</u>	<u>17,192,132</u>

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

During the first semester of 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 30 June 2009 were Euro 26,500,000 and Euro 15,575,138, 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.

In regard to 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.

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.

Regarding the nature of the retail activity, the institution normally presents interest rate positive gaps, which by the first semester of 2009, would reach, in static terms, about Euro 924,000,000 (31 December 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 30 June 2009 and 31 December 2008:

	Jun 2009				Dec 2008			
	June	Semestral	Maximum	Minimum	December	Annual	Maximum	Minimum
	Euro '000	Average	Euro '000	Euro '000	Euro '000	Average	Euro '000	Euro '000
Interest rate								
GAP	924,031	698,115	924,031	472,200	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 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years
	3 months	Euro '000	Euro '000	Euro '000	Euro '000
30 June 2009					
Asset	13,167,312	4,442,637	73,511	541,618	108,740
Off balance sheet	83,000	30,000	246,600	59,150	15,000
Total	13,250,312	4,472,637	320,111	600,768	123,740
Liability	11,656,317	2,747,991	955,237	1,793,152	15,000
Off balance sheet	493,092	135,250	12,000	11,500	24,000
Total	12,149,409	2,883,241	967,237	1,804,652	39,000
GAP (Asset – Liability)	12,149,409	2,883,241	967,237	(1,203,884)	84,740
31 December 2008					
Asset	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
Liability	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
GAP (Asset – Liability)	1,056,797	1,258,608	(608,066)	(1,313,501)	78,450

Sensibility analysis

As at 30 June 2009 based on the interest rate gaps observed, a instantaneous variation in the interest rates by 100 bp would cause an increase in the income statement in Euro 200,000,000 (31 December 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 30 June 2009 and 31 December 2008, as well as the average balances and the income and expense for the year:

Products	Jun 2009			Dec 2008		
	Average balance for the period 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	15,184,619	4.45	335,432	15,067,514	5.59	844,039
Deposits	161,716	1.46	1,172	155,963	3.88	6,076
Securities portfolio	1,058,130	6.66	34,957	1,570,942	5.83	91,896
Inter-bank loans and advances	211,415	1.14	1,198	420,830	4.27	18,004
Other assets	-	-	-	1,922	6.03	116
Swaps	-	-	118,354	-	-	7,457
Total Assets	16,615,880		491,113	17,217,171		967,558
Liabilities						
Deposits from customers	8,496,879	2.17	112,114	8,232,516	2.71	285,291
Debt securities	5,820,433	3.37	81,063	6,395,908	5.12	282,464
Inter-bank deposits	922,408	1.98	9,048	556,073	4.23	23,979
Titularization deposits	573,391	3.68	10,452	731,292	4.52	33,151
Other liabilities	741	2.61	10	876	2.62	23
Swaps	-	-	95,811	-	-	8,182
Total liabilities	15,813,853		308,497	15,916,665		633,090

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 30 June 2009 is analysed as follows:

	Jun 2009							Total amount
	Euro	US Dollars	Sterling Pounds	Canadian Dollars	Swisse Franc	Czech Koruna	Other foreign currencies	
	Euro '000	Euro '000	Euro'000	Euro '000	Euro'000	Euro'000	Euro '000	
<i>Assets by currency</i>								
Cash and deposits at central banks	82,859	4,912	193	125	392	-	470	88,951
Loans and advances to credit institutions repayable on demand	110,411	8,744	2,314	386	1,647	-	100	123,602
Loans and advances to credit institutions	644,624	4,343	-	1,265	-	-	-	650,232
Loans and advances to customers	14,740,078	1,042	-	1	362	-	227	14,741,710
Financial assets held for trading	69,858	181	-	-	-	-	-	70,039
Other financial assets at fair value trough profit or loss	3,939	-	-	-	-	-	-	3,939
Available-for-sale financial assets	1,113,097	1,389	-	-	-	-	-	1,114,486
Hedging derivatives	9,418	-	-	-	-	674	-	10,092
Held-to-maturity investments	39,940	-	-	-	-	-	-	39,940
Investments in associated companies and others	20,032	-	-	-	-	-	-	20,032
Property and equipment	88,014	-	-	-	-	-	-	88,014
Intangible assets	15,212	-	-	-	-	-	-	15,212
Other assets	83,123	152,688	8,904	35,529	20	19,318	523	300,105
Total Assets	17,020,605	173,299	11,411	37,306	2,421	19,992	1,320	17,266,354
<i>Liabilities by currency</i>								
Deposits from central banks	800.122	-	-	-	-	-	-	800.122
Deposits from other credit institutions	618.308	8.413	5	16	2	-	58	626.802
Deposits from customers	8.939.980	45.545	6.164	17.971	200	-	1	9.009.861
Debt securities issued	4.683.782	2.123	-	-	-	19.318	-	4.705.223
Financial liabilities held for trading	25.842	1	-	-	-	-	-	25.843
Hedging derivatives	569	-	-	-	-	-	-	569
Provisions	1.715	-	-	-	-	-	-	1.715
Other subordinated debt	381.870	-	-	-	-	-	-	381.870
Other liabilities	631.396	117.243	5.242	19.319	2.219	674	1.261	777.354
Total Liabilities	16,083,584	173,325	11,411	37,306	2,421	19,992	1,320	16,329,359
Net asset / liability by currency	937,021	(26)	-	-	-	-	-	936,995
Equity	936,969	26	-	-	-	-	-	936,995
Net exposure	52	(52)	-	-	-	-	-	-

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2008 is analysed as follows:

	Dec 2008							Total amount
	Euro	US Dollars	Sterling Pounds	Canadian Dollars	Hong-Kong Dollar	Czech Koruna	Other foreign currencies	
	Euro '000	Euro '000	Euro'000	Euro '000	Euro'000	Euro'000	Euro '000	
<i>Assets by currency</i>								
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 through 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
Total Assets	16,639,817	114,276	7,982	30,754	18,549	37,433	2,723	16,851,534
<i>Liabilities by currency</i>								
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.

CEMG calculates the liquidity ratios in accordance with Regulation no. 1/2000 of Bank of Portugal, In 30 June 2009, the liquidity risk was 91.94% (31 December 2008: 102.02%).

Operational risk

To manage operational risk, there was developed and implemented a system that standardises, systematises and regulates the frequency of actions with an objective of identification, monitoring, controlling and mitigation of risk. The system is supported at organisational level by a unit within the DAGR exclusively dedicated to this task, and by representatives designated by each of the relevant departments and subsidiaries.

Capital Management and Solvency Ratio

In prudential matters, CEMG is subject to Bank of Portugal supervision that, under the capital adequacy Directive from the CE, establishes the rules to be attended by the institutions under its supervision. These rules determine a minimum solvency ratio of 8% (to be accomplished from September 2008 in accordance with circular letter no. 83/2008), as well as a minimum amount of 4% for its main component, the Tier1, in relation to the requirements of the assumed risks that institutions have to fulfil. These referential minimums can be changed in future agreements.

The capital elements of CEMG are divided into: Core Own Funds, Complementary Own Funds and Deductions, as follows:

- Core Own Funds (COF): This category includes the share capital, the eligible reserves, 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. Also, some components of the CMOF (Lower Tier II) cannot exceed 50% of the COF.

In April 2007, Bank of Portugal issued Regulation no. 4/2007, 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 complementary 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, no. 12/2005 and no. 7/2008 from the Bank of Portugal).

Therefore, as at the end of the first semester of 2009, the negative net impact in Own Funds are, calculated in consolidated basis, were Euro 40,071,528, that results from a negative impact of Euro 35,127,074 registered in accrued costs and of Euro 30,359,508 referred a excess in the corridor, compensated by a positive variation of Euro 25,415,055 that refers to unrecognized impacts of Own Funds (according to no. 4, of 13^o-A, from the Regulation no. 12/2001). The compensating value in Own Funds will decrease till their extinguish in 2014.

The capital adequacy of CEMG as at 30 June 2009 and 31 December 2008 is presented as follows:

	Jun 2009	Dec 2008
	Euro '000	Euro '000
	<hr/>	<hr/>
<i>Core own funds</i>		
Paid-up capital	760,000	660,000
Results, general and special reserves and retained earnings	196,224	209,738
Other regulatory adjustments	(63,804)	(66,045)
NIC/NCA adjustments	25,415	28,623
	<hr/>	<hr/>
	917,835	832,316
<i>Complementary own funds</i>		
Upper Tier 2	8,840	8,420
Lower Tier 2	378,000	378,000
Deductions	(8,575)	(6,879)
	<hr/>	<hr/>
	378,266	379,541
Deductions to total own funds	(8,656)	(9,507)
	<hr/>	<hr/>
<i>Total own funds</i>	1,287,444	1,202,350
	<hr/>	<hr/>
<i>Own funds requirements</i>		
Credit risk (Regulation no. 5/2007)	780,762	776,151
Market risk (Regulation no. 8/2007)	4,432	5,265
Operational risk (Regulation no. 9/2007)	59,053	59,052
	<hr/>	<hr/>
	844,247	840,468
	<hr/>	<hr/>
<i>Prudential ratios</i>		
Ratio core Tier 1	8.70%	7.92%
Solvency ratio	12.20%	11.44%

48 Subsequent Events

During July 2009, CEMG acquired a majority participation in Real Seguros, formerly detained by Sociedade Lusa de Negócios, S.A. through Lusitania Companhia de Seguros, S.A., for the amount of Euros 42,500,000, of which Euros 35,000,000 were used in the reinforcement of Real Seguros equity. The CEMG's objective is to increase productivity, efficiency and the profitability of the CEMG's companies.

Caixa Económica Montepio Geral

**Interim Individual Financial
Statements**

30 June 2009 and 2008

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



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

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

INTRODUCTION

1. In accordance with the Stock Exchange Code (“Código dos Valores Mobiliários” or “CVM”), we present our Limited Review Report on the interim individual financial information for the six months period ended 30 June 2009, of **Caixa Económica Montepio Geral (CEMG)**, which includes: the Report of the Board of Directors, the Balance Sheet (with a total assets of 18,894,864 thousands of Euro and total equity of 964,319 thousands of Euro, including a net profit of 30,451 thousands of Euro), the Statements of Income, of comprehensive income, of cash flows and of changes in equity for the six months period then ended and the corresponding notes to the accounts.
2. The amounts included in the interim financial statements and in the additional financial information were derived from the accounting records.

RESPONSABILITIES

3. The Board of Directors is responsible for:
 - a) The historical financial information prepared in accordance with the Adjusted Accounting Standards (“Normas de Contabilidade Ajustadas”) established by the Bank of Portugal based in the application of IAS 34 – Interim Financial Reporting, with the exception of the issues referred in no. 2 and 3 of the Regulation no. 1/2005 and no. 2 of the Regulation no. 4/2005 of the Bank of Portugal (“NCA’s”) which is complete, true, current, clear, objective and lawful as required by CVM;
 - b) the adoption of adequate accounting policies and criteria;
 - c) maintaining an appropriate system of internal control; and
 - d) the communication of any relevant fact that may have influenced their activity of financial position or results.
4. Our responsibility is to verify the financial information included in the above mentioned documents, namely as to whether it is compete, true, current, clear, objective and lawful as required by the CVM, in order to issue a professional and independent report based on our work.

SCOPE

5. The work that we have performed was conducted with the objective of obtaining a moderate level of assurance that the financial information mentioned above is free of material misstatements. Our work was performed based on the Technical Standards and Review/Audit Guidelines issued by the “Ordem dos Revisores Oficiais de Contas” (the Portuguese Institute of Chartered Accountants), and planned in accordance with that objective and included the following procedures:
 - a) mainly, inquiries and analytical procedures performed to review:
 - the reliability of the assertions included in the financial information;
 - the adequacy of the accounting policies adopted, considering the circumstances and the consistency of their application;
 - the application of the going concern principle;
 - the presentation of the financial information;
 - if the financial information is complete, true, current, clear, objective and lawful;
and
 - b) substantive tests on material non current transactions.
6. Our review also included the verification that the financial information included in the interim Report of the Board of Directors is consistent with the remaining documents mentioned above.
7. We consider that our work provides a reasonable basis to issue our report on the interim individual financial information.

CONCLUSION

8. Based on our review, which was performed with the objective of obtaining moderate assurance, nothing has come to our attention that causes us to believe that the interim individual financial information for the six months period ended 30 June 2009, is not free of material misstatements that affects its compliance with Adjusted Accounting Standards and that is not complete, true, current, clear, objective and lawful.

Lisbon, 7 August 2009

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A.
represented by

Sílvia Cristina de Sá Velho Corrêa da Silva Gomes
(Statutory Auditor no. 1131)

FINANCIAL STATEMENTS

- *NOTES TO THE FINANCIAL STATEMENTS*
(*Pages 4 to 87*)

Caixa Económica Montepio Geral

Income Statement for the six months period ended at 30 June 2009 and 2008

(Amounts expressed in thousands of Euro)

	Notes	30 June 2009	30 June 2008
Interest and similar income	3	525,247	550,593
Interest and similar expense	3	343,174	390,300
Net interest income		182,073	160,293
Dividends from equity instruments	4	2,484	1,585
Fee and comission income	5	41,525	40,634
Fee and comission expense	5	(6,199)	(5,947)
Net gains/(losses) arising from assets and liabilities at fair value through profit or loss	6	4,826	(2,415)
Net gains/(losses) arising from available-for-sale financial assets	7	440	(20)
Net gains arising from foreign exchange differences	8	1,034	749
Net gains from sale of other financial assets		315	697
Other operating income	9	11,737	4,946
Total operating expenses		238,235	200,522
Staff costs	10	74,343	79,045
General and administrative expenses	11	37,364	41,990
Depreciation and amortisation	12	9,424	8,490
Total operating costs		121,131	129,525
Loans impairment	13	84,320	42,480
Other assets impairment	14	2,287	5,796
Other provisions	15	46	111
Operating profit		30,451	22,610
Profit for the period		30,451	22,610

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

Caixa Económica Montepio Geral

Statement of the Comprehensive Income for the six months period ended at 30 June 2009 and 2008

(Amounts expressed in thousands of Euro)

	Note	<u>30 June 2009</u>	<u>30 June 2008</u>
Fair value reserves			
Available-for-sale financial instruments	38	(56,204)	(23,716)
Profit for the period		<u>30,451</u>	<u>22,610</u>
Total comprehensive income for the period		<u><u>(25,753)</u></u>	<u><u>(1,106)</u></u>

Caixa Económica Montepio Geral

Balance Sheet as at 30 June 2009 and 31 December 2008

(Amounts expressed in thousands of Euro)

	Notes	30 June 2009	30 June 2008
Assets			
Cash and deposits at central banks	16	88,951	254,742
Loans and advances to credit institutions repayable on demand	17	105,680	92,125
Other loans and advances to credit institutions	18	650,232	166,781
Loans and advances to customers	19	14,492,336	14,724,822
Financial assets held for trading	20	69,795	58,655
Other financial assets at fair value through profit or loss	21	3,939	4,031
Available-for-sale financial assets	22	3,040,797	1,886,107
Hedging derivatives	23	10,092	7,727
Held-to-maturity investments	24	39,940	39,912
Investments in associated companies and others	25	30,597	30,626
Property and equipment	26	87,910	85,847
Intangible assets	27	15,212	14,776
Other assets	28	259,383	193,228
		<hr/>	<hr/>
Total Assets		18,894,864	17,559,379
		<hr/> <hr/>	<hr/> <hr/>
Liabilities			
Deposits from central banks	29	800,122	852,803
Deposits from other credit institutions	30	913,596	1,073,122
Deposits from customers	31	8,730,627	8,009,242
Debt securities issued	32	4,351,165	4,670,942
Financial liabilities held for trading	20	25,726	37,643
Hedging derivatives	23	569	1,234
Provisions	33	102,538	102,908
Other subordinated debt	34	381,870	386,872
Other liabilities	35	2,624,332	1,567,317
		<hr/>	<hr/>
Total Liabilities		17,930,545	16,702,083
		<hr/> <hr/>	<hr/> <hr/>
Equity			
Share capital	36	760,000	660,000
Fair value reserves	38	(56,204)	(48,064)
Other reserves and retained earnings	37 and 38	230,072	210,049
Profit for the period		30,451	35,311
		<hr/>	<hr/>
Total Equity		964,319	857,296
		<hr/> <hr/>	<hr/> <hr/>
		18,894,864	17,559,379
		<hr/> <hr/>	<hr/> <hr/>

Obligations and future commitments (Note 39)

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

Caixa Económica Montepio Geral

Statement of Cash Flows for the six months period ended at 30 June 2009 and 2008

(Amounts expressed in thousands of Euro)

	30 June 2009	30 June 2008
<i>Cash flows arising from operating activities</i>		
Interest income received	558,630	489,239
Commission income received	40,690	39,626
Interest expense paid	(390,636)	(317,816)
Commission expense paid	(5,062)	(6,941)
Payments to employees and suppliers	(108,270)	(112,190)
Recovered from charged-off loans	1,741	1,611
Other payments and receivables	153,124	(19,802)
	<u>250,217</u>	<u>73,727</u>
<i>(Increase) / decrease in operating assets</i>		
Loans and advances to credit institutions and customers	558,831	837,151
Other assets	(71,598)	(87)
	<u>487,233</u>	<u>837,064</u>
<i>(Increase) / decrease in operating liabilities</i>		
Deposits from clients	736,505	(349,928)
Deposits from credit institutions	(655,263)	23,501
Deposits from central banks	450,000	450,000
	<u>531,242</u>	<u>123,573</u>
	<u>1,268,692</u>	<u>1,034,364</u>
<i>Cash flows arising from investing activities</i>		
Dividends received	2,484	1,585
(Acquisition) / sale of trading financial assets	(21,260)	(6,288)
(Acquisition) / sale of other financial assets at fair value through profit or loss	92	207
(Acquisition) / sale of available-for-sale financial assets	(1,164,162)	(1,059,828)
(Acquisition) / sale of hedging derivatives	(2,145)	(1,203)
(Acquisition) / sale of held to maturity financial assets	63	(13,827)
(Acquisition) / sale of shares in associated companies	29	-
Deposits owned with the purpose of monetary control	147,411	87,633
Proceeds from sale of fixed assets	486	-
Acquisition of fixed assets	(11,955)	(10,117)
	<u>(1,048,957)</u>	<u>(1,001,838)</u>
<i>Cash flows arising from financing activities</i>		
Dividends paid	(11,272)	(25,757)
Proceeds from issuance of share capital	100,000	25,000
Proceeds from issuance of bonds and subordinated debt	(53,311)	254,108
Reimbursement of bonds and subordinated debt	(248,060)	(267,000)
Increase / (decrease) in other (sundry) liabilities	(11,917)	12,471
	<u>(224,560)</u>	<u>(1,178)</u>
Net changes in cash and equivalents	(4,825)	31,348
Cash and equivalents balance at the beginning of the period	<u>182,025</u>	<u>149,463</u>
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 period	<u><u>177,200</u></u>	<u><u>180,811</u></u>

Caixa Económica Montepio Geral

Statement of Changes in Equity for the six months period ended at 30 June 2009 and 2008

(Amounts expressed in thousands of Euro)

	<u>Total equity</u>	<u>Share capital</u>	<u>General and special reserves</u>	<u>Other reserves</u>	<u>Fair value reserves</u>	<u>Retained earnings</u>
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	(15,744)	-	-	-	(15,744)	-
Dividends paid	(25,758)	-	-	-	-	(25,758)
Increase in share capital	25,000	25,000	-	-	-	-
IAS 19 adjustments	(11,194)	-	-	-	-	(11,194)
Profit for the period	22,610	-	-	-	-	22,610
Total gains and losses recognised in the period	872,958	660,000	200,808	8,404	(23,717)	27,463
Reserves constitution						
General reserve	-	-	12,837	-	-	(12,837)
Special reserve	-	-	3,210	-	-	(3,210)
Balance on 30 June 2008	872,958	660,000	216,855	8,404	(23,717)	11,416
Fair value reserves	(24,347)	-	-	-	(24,347)	-
IAS 19 adjustments	(4,016)	-	-	-	-	(4,016)
Profit for the period	12,701	-	-	-	-	12,701
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 38)	(8,140)	-	-	-	(8,140)	-
Increase in share capital (Note 36)	100,000	100,000	-	-	-	-
Dividends paid (Note 40)	(11,272)	-	-	-	-	(11,272)
IAS 19 adjustments	(4,016)	-	-	-	-	(4,016)
Profit for the period	30,451	-	-	-	-	30,451
Total gains and losses recognised in the period	964,319	760,000	216,855	8,404	(56,204)	35,264
Reserves constitution						
General reserve	-	-	7,063	-	-	(7,063)
Special reserve	-	-	1,766	-	-	(1,766)
Balance on 30 June 2009	964,319	760,000	225,684	8,404	(56,204)	26,435

Caixa Económica Montepio Geral

Notes to the Interim Individual Financial Statements **30 June 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 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 interim individual financial statements for the six months period ended at 30 June 2009 were prepared in accordance with NCA’s, which includes the IFRS adopted for use in the European Union until 30 June 2009. These interim individual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) – IAS 34 Interim Financial Reporting and do not include all the information required in the preparation of a complete set of individual financial statements which will be prepared for the year ending 31 December 2009.

The accounting policies used by CEMG in the preparation of these interim financial financial statements for the six months period ended at 30 June 2009, are consistent with those used for the preparation of the annual financial statements for the year ended at 31 December 2008.

In the first semester of 2009, CEMG adopted:

- the amendment to IAS 1 – Presentation of Financial Statements, which requires financial information to be presented in the financial statements based on the nature of the underlying transactions and introduces the Statement of comprehensive income. Following this amendment, CEMG presented the Statement of Comprehensive Income for the period of six months ended at 30 June 2009 and 2008;
- the amendments to IAS 16 – Property, Plant and Equipment, to IAS 19 – Employee benefits, to IAS 23 – Borrowing Costs, to IAS 28 – Investments in Associates, to IAS 32 – Financial Instruments: presentation – puttable financial instruments and obligations arising on liquidation, to IAS 38 – Intangible Assets, to IAS 39 – Financial Instruments: recognition and measurement – eligible hedged items and to IAS 40 – Investment property. The adoption of these amendments had no significant impact on the individual financial statements of CEMG;
- IFRS 8 – Operating segments, which sets out the requirements for disclosures of information about an entity’s operating segments.

During the year of 2008, CEMG adopted the amendments to IAS 39 – Financial Instruments: Recognition and Measurement and to IFRS 7 - Financial Instruments – Disclosures, regarding the reclassification of financial assets between categories, published by IASB in October 2008. Resulting from these amendments, CEMG has adapted its accounting policy regarding reclassifications between categories. CEMG does not expect any impact from the adoption of these amendments.

Additionally, CEMG also adopted in 2008 the IFRIC 14 – IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction. The adoption of these interpretations had no significant impact in the financial statements of CEMG.

These financial statements are expressed in thousand of Euro, except when indicated, and have been prepared under the historical cost convention, as modified by the revaluation of derivative contracts, financial assets and financial liabilities at fair value through profit or loss, available-for-sale financial assets, and recognised financial assets and liabilities that are hedged, in a fair value hedge, in respect of the risk that is hedged.

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 1.22.

These financial statements were approved in the Board of Directors meeting held on 16 July 2009.

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;
- 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) Hedged Effectiveness

For each hedge relation in order to be classified as such according to IAS 39, effectiveness has to be demonstrated. As such CEMG performs prospective tests at the beginning date of the operations and retrospective tests in order to demonstrate in each reporting period the effectiveness, showing that the changes in the fair value of the hedging instrument are neutralized by the changes in the hedged item for the risk covered. Any ineffectiveness is recognised immediately in the income statement.

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 costumers

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

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 30 January 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.

The loans charge-off is performed against the related provision for loan impairment, when these correspond to 100% of the loans amount and not loans bought at court auctions.

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 through profit or loss

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

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.

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.

Other financial liabilities

The other financial liabilities are all financial liabilities that are not accounted as financial liabilities at fair value through profit and loss. This category includes money market transactions, deposits from customers and from other financial institutions, issued debt, and other transactions.

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.

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.

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. Financial instruments held by CEMG in this circumstances, are included in the available-for-sale financial assets portfolio and correspond to capital instruments emitted by unquoted entities which weren't identify recently transactions in market. Nevertheless, CEMG make a detailed analysis of this instruments with the purpose of identify eventual losses for imparity, concerning to economic and financial performance and to their capacity of compulsory with their responsibilities.

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.

During 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.

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 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.

The securities given up with a loan agreement are recognized from balance, being classified and valued in conformity with the accountable policy referred in note 1.5.

1.7 Financial liabilities

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

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

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

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

- Such financial liabilities are bring hedged on an economical basis, in order to eliminate an accounting mismatch; or
- Such financial assets contain an embedded derivative.

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

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

If 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 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.

1.10 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:

	<u>Number of years</u>
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.

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 between three to six 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 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, through the recognition of all cumulated actuarial gains and losses accounted the balance sheet, in accordance with the previous accounting principals by recognition, through retained earnings.

In accordance with no. 2 of Regulation no. 4/2005 of the Bank of Portugal was established a deferral period for the transition impact to IAS 19 as at 1 January 2005, for IAS 19 – Employee benefits criteria.

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 2008, 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:

<u>Balances</u>	<u>Deferral period</u>
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 Funds 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 – Employee 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 to amortise the actuarial gains and losses during a 24 years. The actuarial gains and losses accumulated 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 Fund 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 - Employee benefits, variable remunerations (bonus) payment to employees and to the Board of Directors, are recognised in the income statement in the year 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 derecognised through their use, for the obligations for which they were initially accounted.

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.

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 the loan portfolio the following aspects are considered:

- Interest income for loans with collaterals are accounted for as income up to the limit of the valuation of the collateral valued on a prudent basis. This income is registred against results in accordance with IAS 18, assuming that there is a reasonable probability of recoverability; and
- The recognition of interest for loans overdue for more than 90 days, that are not covered by collaterals is stoped and are recognized only when they are received. Since, in accordance with IAS 18, its recoverability is considered to be remote.

For derivative financial instruments, except for those classified as hedging instruments of interest rate risk and 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 to IFRS 8 – Segment Reporting paragraph 4, CEMG does not disclose its segment reporting in individual base, since these individual 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 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 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 and the reduced markets liquidity, CEMG has considered the following parameters when assessing the existence of impairment losses:

- (i) Equity securities: declines in market value above 30% in relation to the acquisition cost (20% in June 2008) or market value below the acquisition cost for a period longer than twelve months (six months in June 2008);
- (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 instruments

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, taking as reference the minimum levels required by Bank of Portugal through Regulation no. 3/95.

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 would result in the determination of the fair value of this portfolio with a corresponding entry in the income statement.

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 influence the cost and liability of the pension plan.

Changes in these assumptions could materially affect these values.

2 Net interest income and net gains arising from assets and liabilities at fair value through profit or loss and available-for-sale financial assets

NCA's requires separate disclosure of net interest income and net gains arising from assets and liabilities at fair value through profit or loss and available-for-sale financial assets, as presented in notes 3, 6 and 7. 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:

	Jun 2009 Euro '000	Jun 2008 Euro '000
Net interest income	182,073	160,293
Net gains arising from assets and liabilities at fair value through profit and loss and available-for-sale financial assets	5,266	(2,435)
	<u>187,339</u>	<u>157,858</u>

3 Net interest income

The amount of this account is comprised of:

	Jun 2009			Jun 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
<i>Interest and similar income:</i>						
Interest from loans and advances	359,908	-	359,908	425,148	-	425,148
Interest from other assets	1,182	-	1,182	9,876	-	9,876
Interest from deposits	1,188	-	1,188	3,157	-	3,157
Interest from available-for-sale financial assets	34,025	-	34,025	33,123	-	33,123
Interest from held-to-maturity investments	754	-	754	852	-	852
Interest from hedging derivatives	2,837	-	2,837	4,018	-	4,018
Interest from financial assets held for trading	-	115,698	115,698	-	63,838	63,838
Other interest and similar income	9,655	-	9,655	10,581	-	10,581
	409,549	115,698	525,247	486,755	63,838	550,593
<i>Interest and similar expense:</i>						
Interest from deposits	106,369	-	106,369	132,170	-	132,170
Interest from securities issued	72,376	-	72,376	126,553	-	126,553
Interest from loans	4,720	-	4,720	7,569	-	7,569
Interest from other funding	19,311	-	19,311	15,898	-	15,898
Interest from hedging derivatives	2,197	-	2,197	4,596	-	4,596
Interest from financial liabilities held for trading	-	93,618	93,618	-	73,196	73,196
Other interest and similar expense	44,583	-	44,583	30,318	-	30,318
	249,556	93,618	343,174	317,104	73,196	390,300
Net interest income	159,993	22,080	182,073	169,651	(9,358)	160,293

4 Dividends from equity instruments

The amount of this account is comprised of:

	Jun 2009 Euro '000	Jun 2008 Euro '000
Dividends from available-for-sale financial assets	716	515
Dividends from associated companies	1,768	1,070
	<u>2,484</u>	<u>1,585</u>

5 Net fee and commission income

The amount of this account is comprised of:

	Jun 2009 Euro '000	Jun 2008 Euro '000
<i>Fee and commission income:</i>		
From banking services	29,147	28,274
From guarantees granted	3,472	2,769
From commitments to third parties	4,479	5,096
Other fee and commission income	4,427	4,495
	<u>41,525</u>	<u>40,634</u>
<i>Fee and commission expense:</i>		
From banking services rendered by third parties	5,752	5,539
From transactions with securities	218	168
Other fee and commission expense	229	240
	<u>6,199</u>	<u>5,947</u>
Net fee and commission income	<u>35,326</u>	<u>34,687</u>

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

The amount of this account is comprised of:

	Jun 2009			Jun 2008		
	Gains	Losses	Total	Gains	Losses	Total
	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000
Assets and liabilities held for trading						
Bonds and other fixed income securities						
Issued by public entities	25	-	25	70	118	(48)
Issued by other entities	567	1	566	14	133	(119)
Shares	565	23	542	130	475	(345)
	<u>1,157</u>	<u>24</u>	<u>1,133</u>	<u>214</u>	<u>726</u>	<u>(512)</u>
Derivative financial instruments						
Exchange rate contracts	64,927	63,649	1,278	1,952	1,944	8
Interest rate contracts	166,738	151,994	14,744	75,690	87,611	(11,921)
Credit default contracts	4,684	4,207	477	3,472	3,322	150
Others	14,061	27,522	(13,461)	39,089	29,502	9,587
	<u>250,410</u>	<u>247,372</u>	<u>3,038</u>	<u>120,203</u>	<u>122,379</u>	<u>(2,176)</u>
	<u>251,567</u>	<u>247,396</u>	<u>4,171</u>	<u>120,417</u>	<u>123,105</u>	<u>(2,688)</u>
Other financial assets at fair value through profit or loss						
Bonds and other fixed income securities						
Issued by other entities	-	-	-	221	336	(115)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>221</u>	<u>336</u>	<u>(115)</u>
Hedging derivatives						
Financial liabilities						
Other loans and advances to credit institutions	433	646	(213)	2,025	929	1,096
Deposits from customers	165	686	(521)	1,315	943	372
Debt securities issued	933	1,688	(755)	477	2,760	(2,283)
Other liabilities	22,842	20,698	2,144	21,779	20,576	1,203
	<u>24,373</u>	<u>23,718</u>	<u>655</u>	<u>25,596</u>	<u>25,208</u>	<u>388</u>
	<u>275,940</u>	<u>271,114</u>	<u>4,826</u>	<u>146,234</u>	<u>148,649</u>	<u>(2,415)</u>

7 Net gains/(losses) arising from available-for-sale financial assets

The amount of this account is comprised of:

	Jun 2009			Jun 2008		
	Gains	Losses	Total	Gains	Losses	Total
	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000
Bonds and other fixed income securities						
Issued by public entities	55	1	54	173	12	161
Issued by other entities	462	47	415	37	69	(32)
Shares	10	26	(16)	-	48	(48)
Other variable income securities	2	15	(13)	91	192	(101)
	529	89	440	301	321	(20)

8 Net gains from foreign exchange differences

The amount of this account is comprised of:

	Jun 2009			Jun 2008		
	Gains	Losses	Total	Gains	Losses	Total
	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000
Foreign exchange differences	18,625	17,591	1,034	36,897	36,148	749

This account is comprised of the results from foreign exchange differences of monetary assets and liabilities in foreign currency in accordance with the accounting policy 1.2.

9 Other operating income

The amount of this account is comprised of:

	Jun 2009 Euro '000	Jun 2008 Euro '000
<i>Other operating income:</i>		
Income from services	1,931	1,962
Reimbursement of expenses	751	904
Profits arising from deposits on demand management	3,934	4,469
Repurchased debt	6,742	-
Other operating income	1,639	882
	<u>14,997</u>	<u>8,217</u>
<i>Other operating expense:</i>		
Indirect taxes	76	38
Donations and quotizations	151	138
Contributions to the Deposit Guarantee Fund	874	943
Other operating expense	2,159	2,152
	<u>3,260</u>	<u>3,271</u>
Other net operating income	<u><u>11,737</u></u>	<u><u>4,946</u></u>

10 Staff costs

The amount of this account is comprised of:

	Jun 2009 Euro '000	Jun 2008 Euro '000
Remunerations	54,244	52,029
SAMS contributions	3,159	3,136
Mandatory social security charges	3,887	3,929
Pension costs	11,159	18,503
Other staff costs	1,894	1,448
	<u>74,343</u>	<u>79,045</u>

The health-care benefits – SAMS include the amount of Euro 352,721 (30 June 2008: Euro 285,827) related to the health care net periodic benefit cost, which was determined based on the actuarial valuation performed (see note 42).

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

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

The costs with salaries and other benefits attributed to CEMG key management personnel in the first semester of 2008 are presented as follows:

	Board of Directors Euro '000	Other key management personnel Euro '000	Total Euro '000
Salaries and other short-term benefits	744	2,395	3,139
Pension costs and health-care benefits (SAMS)	381	81	462
Variable remunerations	5	610	615
	<u>1,130</u>	<u>3,086</u>	<u>4,216</u>

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

As at 30 June 2009 and 2008, loans granted by CEMG to its key management personnel, amounted to Euro 5,801,000 and Euro 5,039,000, respectively.

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

	Jun 2009	Dec 2008
Management	129	128
Managerial staff	521	569
Technical staff	648	520
Specific categories	150	162
Administrative Staff	1,411	1,472
	<u>78</u>	<u>80</u>
	<u>2,937</u>	<u>2,931</u>

11 General and administrative expenses

The amount of this account is comprised of:

	Jun 2009 Euro '000	Jun 2008 Euro '000
Rents	12,077	11,822
Specialised services		
Information technology services	1,953	1,376
Outsourcing	1,939	1,715
Other specialised services	6,627	7,813
Advertising	837	5,428
Communications	3,746	4,333
Water, electricity and fuel	1,776	1,974
Maintenance and related services	2,003	1,401
Transportation	1,724	1,514
Insurance	1,576	1,279
Travel, hotel and representation costs	593	828
Consumables	703	892
Training costs	446	459
Other supplies and services	1,364	1,156
	<u>37,364</u>	<u>41,990</u>

12 Depreciation and amortisation

The amount of this account is comprised of:

	Jun 2009 Euro '000	Jun 2008 Euro '000
<i>Intangible assets:</i>		
Software	<u>3,899</u>	<u>3,640</u>
<i>Other tangible assets:</i>		
Land and buildings	1,633	1,630
Equipment:		
Furniture	311	299
Office equipment	50	56
Computer equipment	2,587	1,801
Interior installations	646	912
Motor vehicles	4	9
Security equipment	97	61
Operational lease - Renting	197	82
	<u>5,525</u>	<u>4,850</u>
	<u>9,424</u>	<u>8,490</u>

13 Loans impairment

The amount of this account is comprised of:

	Jun 2009 Euro '000	Jun 2008 Euro '000
Overdue loans and advances to customers:		
Charge for the period	220,757	174,710
Write-back for the period	(134,715)	(130,612)
Recovery of loans and interest charged-off	(1,741)	(1,611)
	<u>84,301</u>	<u>42,487</u>
Other loans and advances to credit institutions		
Charge for the period	49	107
Write-back for the period	(30)	(114)
	<u>19</u>	<u>(7)</u>
	<u>84,320</u>	<u>42,480</u>

14 Other assets impairment

The amount of this account is comprised of:

	Jun 2009 Euro '000	Jun 2008 Euro '000
Impairment for investments arising from recovered loans:		
Charge for the period	915	3,049
Write-back for the period	(2)	-
	<u>913</u>	<u>3,049</u>
Impairment for securities:		
Charge for the period	1,443	2,756
Write-back for the period	(69)	(9)
	<u>1,374</u>	<u>2,747</u>
	<u>2,287</u>	<u>5,796</u>

15 Other provisions

The amount of this account is comprised of:

	Jun 2009 Euro '000	Jun 2008 Euro '000
Provision for liabilities and charges:		
Charge for the period	46	174
Write-back for the period	-	(63)
	<u>46</u>	<u>111</u>

16 Cash and deposits at central banks

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Cash	71,520	89,900
Bank of Portugal	17,431	164,842
	<u>88,951</u>	<u>254,742</u>

The balance Bank of Portugal includes mandatory deposits intended to satisfy legal minimum cash requirements. According to the European Central Bank Regulation (CE) no. 2818/98, of 1 December 1998, minimum cash requirements kept as deposits with the Bank of Portugal earn interest, and correspond to 2% of deposits and debt certificates maturing in less than 2 years, excluding deposits and debt certificates of institutions subject to the European System of Central Banks' minimum reserves requirements.

As at 30 June 2009, these deposits have earned interest at an average rate of 1.71% (31 December 2008: 4.14%).

17 Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
In credit institutions in Portugal	119	75
In credit institutions abroad	15,912	48,875
Amounts due for collection	89,649	43,175
	<u>105,680</u>	<u>92,125</u>

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

18 Other loans and advances to credit institutions

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Loans and advances to credit institutions in Portugal		
In central banks	250,000	-
Deposits	246	590
Short term deposits	14,202	14,372
Other loans and advances	40,110	26,385
	<u>304,558</u>	<u>41,347</u>
Loans and advances to credit institutions abroad		
Deposits	105	110
Short term deposits	300,000	120,337
Other loans and advances	45,630	5,029
	<u>345,735</u>	<u>125,476</u>
	650,293	166,823
Impairment for credit risks over credit institutions	(61)	(42)
	<u><u>650,232</u></u>	<u><u>166,781</u></u>

The main loans and advances to credit institutions in Portugal, as at 30 June 2009, bear interest at an average annual interest rate of 0.49% (31 December 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:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Due within 3 months	649,943	155,539
3 months to 6 months	-	9,394
6 months to 1 year	-	1,190
Over 5 years	245	590
Undetermined	105	110
	<u>650,293</u>	<u>166,823</u>

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

	Jun 2009 Euro '000	Jun 2008 Euro '000
<i>Impairment for credit risks over credit institutions:</i>		
Balance on 1 January	42	45
Charge for the period	49	107
Write-back for the period	(30)	(114)
Balance on 30 June	<u>61</u>	<u>38</u>

19 Loans and advances to customers

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Domestic loans:</i>		
Corporate		
Loans	1,135,738	1,053,448
Commercial lines of credits	2,523,033	2,617,830
Finance leases	170,353	144,270
Discounted bills	115,130	139,958
Factoring	57,287	54,169
Overdrafts	5,687	6,907
Other loans	645,234	814,635
Retail		
Mortgage loans	8,824,377	8,936,771
Finance leases	30,967	27,283
Consumer and other loans	788,624	786,963
	<u>14,296,430</u>	<u>14,582,234</u>
<i>Foreign loans:</i>		
Corporate		
Overdrafts	167	114
	<u>14,296,597</u>	<u>14,582,348</u>
<i>Overdue loans and interest:</i>		
Less than 90 days	84,793	76,995
More than 90 days	475,132	350,341
	<u>559,925</u>	<u>427,336</u>
	14,856,522	15,009,684
Impairment for credit risks	<u>(364,186)</u>	<u>(284,862)</u>
	<u>14,492,336</u>	<u>14,724,822</u>

As at 30 June 2009, this balance includes the amount of Euro 2,370,069,000 (31 December 2008: Euro 1,450,538,000) related to securitised loans that, according with the accounting policy 1.4, were not object of derecognition.

Since 2009, following “Carta-circular” no. 15/2009 from the Bank of Portugal, the Bank only writes-off overdue loans fully provided that, after an economic analysis, are considered uncollectable since there are no perspectives of recovery. The application of this criteria resulted in an increase in the amount of overdue loans recognised in the balance sheet, in the amount of Euros 27,952,000, approximately.

The fair value of loans and advances to customers is presented in note 41.

The balance Overdue loans for more than 90 days includes the amount of Euro 5,197,000 (31 December 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 only the amount of variable interest rate contracts.

The analysis of Loans and advances to customers, by maturity date and type of credit as at 30 June 2009, is as follows:

	Loans and advances to customers				
	Due within	1 year to	Over	Undetermined	Total
	1 year	5 years	5 years		
Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	
Asset-backed loans	428,194	2,254,534	9,578,224	452,349	12,713,301
Other guarantee loans	542,337	190,099	147,521	47,380	927,337
Unsecured loans	383,356	225,455	288,198	57,292	954,301
Public sector loans	2,178	354	54,660	456	57,648
Foreign loans	167	-	-	-	167
Finance leases	54	88,251	113,015	2,448	203,768
	1,356,286	2,758,693	10,181,618	559,925	14,856,522

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
Finance 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 Finance leases, by the period to maturity as at 30 June 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	38,643	101,196	84,734	224,573
Outstanding interest	(6,413)	(15,973)	(17,945)	(40,331)
Residual values	683	7,462	8,933	17,078
	32,913	92,685	75,722	201,320

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

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

	Jun 2009 Euro '000	Dec 2008 Euro '000
Asset-backed loans	452,349	363,590
Other guaranteed loans	47,380	18,782
Unsecured loans	57,292	42,528
Public sector loans	456	342
Finance lease	2,448	2,094
	<u>559,925</u>	<u>427,336</u>

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

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Corporate:</i>		
Construction/Production	131,416	88,952
Investment	48,824	33,682
Other short term loans	55,946	28,032
Other loans	3,904	620
<i>Retail:</i>		
Mortgage loans	256,926	226,752
Consumer credit	8,777	4,969
Other loans	27,863	21,331
<i>Public Sector</i>	456	390
<i>Other segments</i>	<u>25,813</u>	<u>22,608</u>
	<u>559,925</u>	<u>427,336</u>

The movements in the impairment for credit risks is analysed as follows:

	Jun 2009 Euro '000	Jun 2008 Euro '000
<i>Impairment for credit risks:</i>		
Balance on 1 January		
Charge for the period	198,510	148,282
Write-back for the period	(112,052)	(106,595)
Transfers	-	49
Loans charged-off	(7,134)	(23,507)
Balance on 30 June	<u>364,186</u>	<u>223,426</u>

As at 30 June 2009, CEMG has a provision for general banking risks in the amount of Euro 100,824,000 (31 December 2008: Euro 101,240,000), which in accordance to NCA's is presented as a liability, as referred in note 33.

In accordance with CEMG's policy, interest on overdue loans for a period over 30 days not covered by asset-backed guarantees, is only recorded as income when received.

The table below shows the analysis of the overdue loans and advances and the impairment for credit risk as at 30 June 2009:

	Classes of overdue loans and interest					Total Euro '000
	Due within 3 months Euro '000	3 months to to 6 months Euro '000	6 months to to 12 months Euro '000	1 year to 3 years Euro '000	Over 3 Years Euro '000	
Secured overdue loans	68,399	28,114	54,060	238,233	113,827	<u>502,633</u>
Impairment	524	2,786	13,045	133,696	103,944	<u>253,995</u>
Unsecured overdue loans	17,105	6,776	7,997	16,493	8,921	<u>57,292</u>
Impairment	4,738	1,822	5,266	16,493	8,921	<u>37,240</u>
Total overdue loans	85,504	34,890	62,057	254,726	122,748	<u>559,925</u>
Total impairment for overdue loans	5,262	4,608	18,311	150,189	112,865	291,235
Total impairment for overdue loans and for other credit risks	259	1,102	6,244	55,081	10,265	<u>72,951</u>
Total impairment for credit risks	5,521	5,710	24,555	205,270	123,130	<u>364,186</u>

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

	Jun 2009 Euro '000	Dec 2008 Euro '000
Asset-backed loans	300,399	233,277
Other guaranteed loans	20,555	15,241
Unsecured loans	43,232	36,344
	<u>364,186</u>	<u>284,862</u>

In compliance 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.

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

	Jun 2009 Euro '000	Jun 2008 Euro '000
Asset-backed loans	3,667	14,601
Other guaranteed loans	1,383	5,012
Unsecured loans	2,084	3,894
	<u>7,134</u>	<u>23,507</u>

The loans charge-off performed during the first semester of 2009 are related with the provision for credit risk.

The analysis of recovered loans and overdue interest, performed during 1 January to 30 June 2009 and during 2008, related with asset-backed loans recovered, amounts to Euro 1,741,000 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:

	Jun 2009 Euros '000	Dec 2008 Euros '000
<i>Loans and advances to costumers with impairment:</i>		
Individually significant:		
Securities and other financial assets	78,911	87,878
Home mortgages	5,749	5,074
Other real estate	1,969,763	2,262,535
Other guarantees	4,917	12,769
	<u>2,059,340</u>	<u>2,368,256</u>
<i>Parametric analysis:</i>		
Securities and other financial assets	51,638	27,287
Home mortgages	2,336,991	2,193,801
Other real estate	1,164,406	638,349
Other guarantees	36,377	11,424
	<u>3,589,412</u>	<u>2,870,861</u>
<i>Loans and advances to costumers without impairment:</i>		
Securities and other financial assets	445,756	471,790
Home mortgages	12,874,200	13,481,391
Other real estate	4,065,934	4,621,677
Other guarantees	84,466	84,403
	<u>17,470,356</u>	<u>18,659,261</u>
	<u>23,119,108</u>	<u>23,898,378</u>

20 Financial assets and liabilities held for trading

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

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Financial assets held for trading:</i>		
Securities		
Shares	1,495	1,200
Bonds	3,077	3,172
	<u>4,572</u>	<u>4,372</u>
Derivatives		
Derivatives financial instruments with positive fair value	65,223	54,283
	<u>69,795</u>	<u>58,655</u>
<i>Financial liabilities held for trading:</i>		
Derivatives		
Derivatives financial instruments with negative fair value	25,726	37,643

The trading portfolio is recorded at fair value through 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 at 30 June 2009 and 31 December 2008, these portfolio assets are quoted.

The analysis of the securities portfolio held for trading by maturity as at 30 June 2009 is as follows:

	Jun 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
<i>Variable income securities:</i>					
Shares in companies					
Portuguese	-	-	-	753	753
Foreign	-	-	-	742	742
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,495</u>	<u>1,495</u>
<i>Fixed income securities:</i>					
Bonds					
Issued by other entities	200	498	2,379	-	3,077
	<u>200</u>	<u>498</u>	<u>2,379</u>	<u>1,495</u>	<u>4,572</u>

The analysis of the securities portfolio held for trading by maturity as at 31 December 2008 is as follows:

	Dec 2008				Total Euro '000
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Undetermined Euro '000	
<i>Variable income securities:</i>					
Shares in companies					
Portuguese	-	-	-	14	14
Foreign	-	-	-	1,186	1,186
	-	-	-	1,200	1,200
<i>Fixed income securities:</i>					
Bonds					
Issued by other entities	-	1,666	1,506	-	3,172
	-	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 30 June 2009, is as follows:

		Jun 2009						
Derivative	Related financial asset / liability	Derivative			Related asset / liability			
		Notional Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Book value Euro '000	Reimbursement amount at maturity date Euro '000
Interest rate swap	Securities issued	630,000	17,554	(8,901)	12,186	10,517	315,000	315,000
Interest rate swap	Deposits	752,252	2,936	(1,886)	962	24	86,800	86,800
Interest rate swap	Deposits due to customers	1,336,129	17,675	(11,262)	14,534	1,211	721,927	721,927
Interest rate swap	Titularization	5,803,728	2,344	1,275	-	-	-	-
Currency interest rate swap	Debt issued	386,285	(376)	(2,426)	-	1,128	-	-
Futures	-	63	10	(12)	-	-	-	-
Options	Time deposits and other deposits	79,876	(50)	22	-	-	-	-
Credit default swaps	-	83,075	(596)	335	-	-	-	-
		<u>9,071,408</u>	<u>39,497</u>	<u>(22,855)</u>	<u>27,682</u>	<u>12,880</u>	<u>1,123,727</u>	<u>1,123,727</u>

The book value of the assets and liabilities at fair value through profit or loss, as at 31 December 2008, is as follows:

Dec 2008								
Derivative	Related financial asset / liability	Derivative			Related asset / liability			
		Notional Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Book value Euro '000	Reimbursement 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
Futures	-	2,130	(2)	-	-	-	-	-
Options	Time deposits and other deposits	81,206	(28)	69	-	-	-	-
Credit default swaps	-	172,934	(261)	208	-	-	-	-
		<u>4,611,790</u>	<u>16,640</u>	<u>(33,295)</u>	<u>14,803</u>	<u>36,465</u>	<u>1,448,619</u>	<u>1,448,619</u>

The analysis of financial instruments held for trading, by maturity as at 30 June 2009, is as follows:

	Jun 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	426,852	809,900	7,315,357	8,552,109	63,904	23,564
Options	4,319	10,409	65,148	79,876	434	484
Exchange rate contracts:						
Interest rate swaps	350,943	35,342	-	386,285	211	418
Index contracts:						
Index futures	63	-	-	63	10	-
Credit default contracts:						
Credit default swaps	2,500	1,000	79,575	83,075	664	1,260
	<u>784,677</u>	<u>856,651</u>	<u>7,460,080</u>	<u>9,101,408</u>	<u>65,223</u>	<u>25,726</u>

The analysis of financial instruments held for trading, by maturity as at 31 December 2008, is as follows:

	Dec 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	50,717	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
	<u>413,541</u>	<u>953,389</u>	<u>3,244,860</u>	<u>4,611,790</u>	<u>54,283</u>	<u>37,643</u>

The fair value of the derivatives financial instruments includes the valuation of the embedded derivatives separated from the host contract in accordance with the accounting policy 1.3 in the amount of Euro 3,827,000 (31 December 2008: Euro 1,757,000).

21 Other financial assets at fair value through profit or loss

This balance amounts to Euro 3,939,000 (31 December 2008: Euro 4,031,000) is totally composed by bonds and other fixed income securities from other issuers.

In light of IAS 39, 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.

As at 30 June 2009 and 31 December 2008, the securities portfolio included in the financial assets at fair value through profit and loss is quoted and with a maturity greater than 1 year.

22 Available-for-sale financial assets

This balance is analysed as follows:

	Jun 2009				
	Cost ⁽¹⁾ Euro '000	Fair value reserve		Impairment losses Euro '000	Book value Euro '000
		Positive Euro '000	Negative Euro '000		
<i>Fixed income securities:</i>					
Issued by public entities:					
Portuguese	20,035	223	-	-	20,258
Foreign	998	-	(43)	-	955
Issued by other entities:					
Portuguese	2,072,810	556	(2,430)	(884)	2,070,052
Foreign	731,486	1,308	(56,206)	(26,358)	650,230
Commercial paper	285,358	-	-	(998)	284,360
<i>Variable income securities:</i>					
Shares in companies:					
Portuguese	5,592	2	(31)	(321)	5,242
Foreign	2,186	706	-	(788)	2,104
Investment fund units	11,116	261	(550)	(3,231)	7,596
	<u>3,129,581</u>	<u>3,056</u>	<u>(59,260)</u>	<u>(32,580)</u>	<u>3,040,797</u>

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

	Dec 2008				
	Cost ⁽¹⁾ Euro '000	Fair value reserve		Impairment losses Euro '000	Book value Euro '000
		Positive Euro '000	Negative Euro '000		
<i>Fixed income securities:</i>					
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
<i>Variable income securities:</i>					
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
	<u>1,965,399</u>	<u>460</u>	<u>(48,524)</u>	<u>(31,228)</u>	<u>1,886,107</u>

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

As referred in the accounting policy 1.5, the portfolio of available-for-sale financial assets is presented at market value with fair value changes accounted for against fair value reserves, as referred in note 38.

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

	Jun 2009 Euro '000	Jun 2008 Euro '000
<i>Impairment for securities:</i>		
Balance on 1 January	31,228	11,403
Charge for the period	1,443	2,756
Write-back for the period	(69)	(9)
Charged off	(22)	-
Transfers	-	20
Balance on 30 June	<u>32,580</u>	<u>14,170</u>

During the first semester of 2009 and as referred in note 1.5, impairment losses were recognised in the amount of Euro 1,352,000 (31 December 2008: Euro 19,825,000), related to fixed income securities as a result of a prolonged decrease in the share price.

The analysis of the available-for-sale financial assets by maturity, as at 30 June 2009, is as follows:

	Jun 2009				Total Euro '000
	Due within 3 months Euro '000	3 months and 1 year Euro '000	Over 1 year Euro '000	Undetermined Euro '000	
<i>Fixed income securities:</i>					
Issued by public entities:					
Portuguese	-	-	20,258	-	20,258
Foreign	-	-	955	-	955
Issued by other entities:					
Portuguese	-	11,562	2,058,490	-	2,070,052
Foreign	29,719	114,620	495,323	10,568	650,230
Commercial paper	252,941	31,419	-	-	284,360
	<u>282,660</u>	<u>157,601</u>	<u>2,575,026</u>	<u>10,568</u>	<u>3,025,855</u>
<i>Variable income securities:</i>					
Shares in companies:					
Portuguese	-	-	2,756	2,486	5,242
Foreign	-	-	-	2,104	2,104
Investment fund units	-	-	-	7,596	7,596
	-	-	<u>2,756</u>	<u>12,186</u>	<u>14,942</u>
	<u>282,660</u>	<u>157,601</u>	<u>2,577,782</u>	<u>22,754</u>	<u>3,040,797</u>

The analysis of the available-for-sale financial assets by maturity, as at 31 December 2008, is as follows:

	Dec 2008				Total Euro '000
	Due within 3 months Euro '000	3 months and 1 year Euro '000	Over 1 year Euro '000	Undetermined Euro '000	
<i>Fixed income securities:</i>					
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
	<u>130,537</u>	<u>107,011</u>	<u>1,617,258</u>	<u>16,883</u>	<u>1,871,689</u>
<i>Variable income securities:</i>					
Shares in companies:					
Portuguese	-	-	2,757	2,463	5,220
Foreign	-	-	-	1,436	1,436
Investment fund units	-	1,852	-	5,910	7,762
	<u>-</u>	<u>1,852</u>	<u>2,757</u>	<u>9,809</u>	<u>14,418</u>
	<u>130,537</u>	<u>108,863</u>	<u>1,620,015</u>	<u>26,692</u>	<u>1,886,107</u>

CEMG recognises impairment on available-for-sale financial assets when there is a significant or prolonged decrease in its fair value or when there is an impact on expected future cash flows of the assets. This valuation involves judgement, in which CEMG takes into consideration among other factors, the volatility of the prices of securities.

Thus, as a consequence of the low liquidity and significant volatility in financial markets, the following factors were taken into consideration in determining the existence of impairment:

- Equity instruments: (i) decreases more than 30% (20% in June 2008) against the purchase price; or (ii) the market value below the purchase price for a period exceeding 12 months (6 months in June 2008);
- Debt instruments: when there is objective evidence of events with impact on recoverable value of future cash flows of these assets.

As referred in the accounting policy 1.5, the available-for-sale financial assets portfolio is presented net of fair value reserve and impairment losses in the amount of Euro 56,204,000 and Euro 32,580,000 (31 December 2008: Euro 48,064,000 and Euro 31,228,000), respectively.

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

	Jun 2009			Dec 2008		
	Quoted Euro '000	Unquoted Euro '000	Total Euro '000	Quoted Euro '000	Unquoted Euro '000	Total Euro '000
<i>Fixed income securities:</i>						
Issued by public entities:						
Portuguese	20,258	-	20,258	4	-	4
Foreign	955	-	955	1,038	-	1,038
Issued by other entities:						
Portuguese	31,017	2,039,035	2,070,052	31,227	999,059	1,030,286
Foreign	581,729	68,501	650,230	700,596	2,610	703,206
Commercial paper	-	284,360	284,360	-	137,155	137,155
<i>Variable income securities:</i>						
Shares in companies:						
Portuguese	434	4,808	5,242	166	5,054	5,220
Foreign	1,806	298	2,104	1,278	158	1,436
Investment fund units	6,145	1,451	7,596	7,762	-	7,762
	642,344	2,398,453	3,040,797	742,071	1,144,036	1,886,107

23 Hedging derivatives

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Asset:</i>		
Interest rate swap	5,829	4,759
Currency interest rate swap	4,263	2,968
	10,092	7,727
<i>Liability:</i>		
Interest rate swap	488	1,008
Currency interest rate swap	81	226
	569	1,234

CEMG uses derivatives to hedge interest rate risks. The accounting method depends on the nature of the hedged risk, namely if CEMG is exposed to fair value changes, variability in cash-flows or highly probable forecast transactions.

CEMG performs periodical effectiveness tests of the hedging relationships.

The adjustment performed to the assets and liabilities, which includes hedged items, is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Deposits from other credit institutions	2,637	(1,510)
Debt securities issued	3,938	(796)
Deposits from customers	919	897
	7,494	(1,409)

The analysis of the hedging derivatives portfolio by maturity, as at 30 June 2009, is as follows:

	Jun 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	-	84,000	183,000	267,000	-	4,983	3,948	8,931
Currency interest rate swap	-	35,118	-	35,118	-	592	-	592
	-	119,118	183,000	302,118	-	5,575	3,948	9,523

The analysis of the hedging derivatives portfolio by maturity, as at 31 December 2008, is as follows:

	Dec 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 30 June 2009, the fair value hedge relationships present the following features:

Jun 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	Securities	Interest rate	63,000	32	(32)	-	-
Interest rate swap	Deposits from costumers	Interest rate	84,000	1,683	(1,683)	919	423
Interest rate swap	Deposits	Interest rate	120,000	3,627	(3,470)	2,637	213
Interest rate swap	EMTN	Interest rate	-	-	3,593	-	-
Currency interest rate swap	Debt issued	Interest rate	35,118	4,181	(1,439)	3,938	927
			<u>302,118</u>	<u>9,523</u>	<u>(3,031)</u>	<u>7,494</u>	<u>1,563</u>

(1) Attributable to the hedged risk.

(2) Includes accrued interest.

As at 31 December 2008, the fair value hedge relationships present the following features:

Dec 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)
			<u>238,405</u>	<u>6,493</u>	<u>777</u>	<u>5,931</u>	<u>3,852</u>

(1) Attributable to the hedged risk.

(2) Includes accrued interest.

Changes in the fair value of the hedged items mentioned above and of the respective hedging derivatives are recognised in the income statement under net gains / (losses) arising from assets and liabilities at fair value through profit or loss.

24 Held-to-maturity investments

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Fixed income securities:</i>		
Bonds issued by Portuguese public entities	24,840	24,977
Bonds issued by foreign public entities	15,100	14,935
	39,940	39,912

The fair value of held-to-maturity investments is presented in note 41.

CEMG assessed, with reference to 30 June 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 30 June 2009 are analysed as follows:

Issue	Issue date	Maturity date	Interest rate	Euro '000
OT - Setembro 98/2013	May 1998	September 2013	Fixed rate of 5.450%	99
OT - Julho 99/2009	January 1999	July 2009	Fixed rate of 3.950%	6,377
OT - Junho 02/2012	February 2002	June 2012	Fixed rate of 5.000%	102
OT - Maio 00/2010	January 2000	May 2010	Fixed rate of 5.850%	6,286
OT - Junho 01/2011	March 2001	June 2011	Fixed rate of 5.150%	1,034
OT - Outubro 05/2015	July 2005	October 2015	Fixed rate of 3.350%	6,164
OT - Abril 05/2011	November 2005	April 2011	Fixed rate of 3.200%	4,778
Buoni Poliennali Del Tes.06/2011	March 2006	March 2011	Fixed rate of 3.500%	2,976
Netherlands Government 05/15	June 2005	July 2015	Fixed rate of 3.250%	5,028
Republic of Austria 04/15	July 2004	July 2015	Fixed rate of 3.500%	2,035
Belgium Kingdom 05/15	March 2005	September 2015	Fixed rate of 3.750%	2,045
Buoni Poliennali Del Tes.05/2015	May 2005	August 2015	Fixed rate of 3.750%	2,007
Buoni Poliennali Del Tes.05/2010	January 2005	January 2010	Fixed rate of 3.000%	1,009
				39,940

As at 30 June 2009 and 31 December 2008, the analysis of held-to-maturity investments by the period of maturity is as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Up to 3 months	6,377	-
3 months to 1 year	7,295	6,280
1 year to 5 years	8,989	16,631
Over 5 years	17,279	17,001
	39,940	39,912

25 Investments in associated companies and others

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Investments in associated companies and others – Unquoted:</i>		
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. (IFI)	7,001	7,001
Lusitania, Companhia de Seguros, S.A.	10,816	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	50
Germont - Empreendimentos Imobiliários, S.A.	-	29
	30,597	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
30 June 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	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
				30,597
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	28.90%	1.00	29
				30,626

26 Property and equipment

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Cost:</i>		
Land and buildings:		
For own use	63,413	63,413
Leasehold improvements in rented buildings	30,898	30,730
Work in progress	139	120
Equipment:		
Furniture	10,471	10,326
Office equipment	2,075	2,125
Computer equipment	47,397	43,405
Interior installations	26,946	26,696
Motor vehicles	676	676
Security equipment	3,520	3,202
Works of art	985	478
Assets in operational lease	2,713	2,226
Other tangible assets	31	31
Work in progress	2,019	495
	<u>191,283</u>	<u>183,923</u>
<i>Accumulated depreciation:</i>		
Charge for the period	(5,297)	(1,496)
Accumulated charge for the previous periods	(98,076)	(96,580)
	<u>(103,373)</u>	<u>(98,076)</u>
	<u><u>87,910</u></u>	<u><u>85,847</u></u>

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

Jun 2009					
	Balance on 1 January Euro '000	Acquisitions/ Charges Euro '000	Disposals Euro '000	Adjustment/ Transfers Euro '000	Balance on 30 June Euro '000
<i>Cost:</i>					
Land and buildings:					
For own use	63,413	-	-	-	63,413
Leasehold improvements in rented buildings	30,730	425	-	(257)	30,898
Work in progress	120	44	-	(25)	139
Equipment:					
Furniture	10,326	286	(141)	-	10,471
Office equipment	2,125	22	(72)	-	2,075
Computer equipment	43,405	3,996	(4)	-	47,397
Interior installations	26,696	225	-	25	26,946
Motor vehicles	676	-	-	-	676
Security equipment	3,202	332	(14)	-	3,520
Works of art	478	507	-	-	985
Assets in operational lease	2,226	516	(29)	-	2,713
Other tangible assets	31	-	-	-	31
Work in progress	495	1,267	-	257	2,019
	<u>183,923</u>	<u>7,620</u>	<u>(260)</u>	<u>-</u>	<u>191,283</u>
<i>Accumulated depreciation:</i>					
Land and buildings:					
For own use	14,827	500	-	-	15,327
Leasehold improvements in rented buildings	19,785	1,133	-	-	20,918
Equipment:					
Furniture	7,433	311	(134)	-	7,610
Office equipment	1,923	50	(72)	-	1,901
Computer equipment	32,168	2,587	-	-	34,755
Interior installations	18,385	646	-	-	19,031
Motor vehicles	664	4	-	-	668
Security equipment	2,615	97	(15)	-	2,697
Assets in operational lease	276	197	(7)	-	466
	<u>98,076</u>	<u>5,525</u>	<u>(228)</u>	<u>-</u>	<u>103,373</u>

The Property and equipment movements, during the year of 2008, are analysed as follows:

	Dec 2008				
	Balance on 1 January Euro '000	Acquisitions/ Charges Euro '000	Disposals Euro '000	Adjustment/ Transfers Euro '000	Balance on 31 December Euro '000
<i>Cost:</i>					
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
Works of art	474	4	-	-	478
Assets in operational lease	775	1,451	-	-	2,226
Other tangible assets	31	-	-	-	31
Work in progress	1,373	4,656	-	(5,534)	495
	<u>177,501</u>	<u>15,248</u>	<u>(8,826)</u>	<u>-</u>	<u>183,923</u>
<i>Accumulated depreciation:</i>					
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
	<u>96,580</u>	<u>10,215</u>	<u>(8,719)</u>	<u>-</u>	<u>98,076</u>

27 Intangible assets

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Cost:</i>		
Software	48,363	44,988
Assets advances	3,291	2,331
	<u>51,654</u>	<u>47,319</u>
<i>Accumulated amortisation:</i>		
Charge for the period	(3,899)	(8,152)
Accumulated charge for the previous periods	(32,543)	(24,391)
	<u>(36,442)</u>	<u>(32,543)</u>
	<u>15,212</u>	<u>14,776</u>

The Intangible assets movements, during the first semester 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 30 June Euro '000
<i>Cost:</i>					
Software	44,988	3,777	-	(402)	48,363
Assets advances	2,331	558	-	402	3,291
	<u>47,319</u>	<u>4,335</u>	<u>-</u>	<u>-</u>	<u>51,654</u>
<i>Accumulated amortisation:</i>					
Software	<u>32,543</u>	<u>3,899</u>	<u>-</u>	<u>-</u>	<u>36,442</u>

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
<i>Cost:</i>					
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
	<u>38,010</u>	<u>9,485</u>	<u>-</u>	<u>(176)</u>	<u>47,319</u>
<i>Accumulated amortisation:</i>					
Software	<u>24,391</u>	<u>8,152</u>	<u>-</u>	<u>-</u>	<u>32,543</u>

28 Other assets

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Investments arising from recovered loans	121,798	116,180
Recoverable subsidies from the Portuguese Government	18,952	20,468
Other debtors	21,643	17,279
Other accrued income	6,750	6,442
Prepayments and deferred costs	33,025	36,669
Sundry debtors	85,469	23,531
	<u>287,637</u>	<u>220,569</u>
Impairment for investments arising from recovered loans	(24,781)	(23,868)
Impairment from recoverable subsidies	(3,473)	(3,473)
	<u>259,383</u>	<u>193,228</u>

In accordance with accounting policy 1.9, the balance Investments arising from recovered loans includes buildings and other assets resulting from the foreclosure of contracts of loans to customers, originated by (i) delivery of the assets, with option to repurchase or leasing, accounted with the celebration of the contract or the promise to delivery the asset and the respective irrevocable power of attorney issued by the customer in the name of CEMG; or (ii) the adjudication of the assets as a result of a judicial process of guarantees execution, accounted with the title of adjudication or following the adjudication request after the record of the first (payment pro-solvency).

The balance Investments arising from recovered loans includes the buildings recovered related with overdue loans in the amount of Euro 115,399,000 (31 December 2008: Euro 109,774,000). The referred buildings are recognised in accordance with the accounting policy 1.9.

As at 30 June 2009 and 31 December 2008, the balances of CEMG's responsibilities related to pension benefits included on Sundry debtors are analysed as follows:

	Jun 2009 Euros '000	Dec 2008 Euros '000
Projected benefit obligations	535,846	514,212
Value of the Pension Fund	(453,416)	(436,148)
	<u>82,430</u>	<u>78,064</u>
Actuarial losses		
Corridor	84,094	81,931
Amount in excess of the corridor	1,757	29
	<u>85,851</u>	<u>81,960</u>
	<u>(3,421)</u>	<u>(3,896)</u>

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

The balance Recoverable subsidies from the Portuguese Government, in the amount of Euro 18,952,000 (31 December 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 30 June 2009 and 31 December 2008, the balance Recoverable subsidies from the Portuguese Government is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Recoverable subsidies from the Portuguese Government unliquidated	6,381	4,194
Subsidies unclaimed	7,204	9,219
Overdue subsidies unclaimed	5,367	7,055
	<u>18,952</u>	<u>20,468</u>

As at 30 June 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 30 June 2009, the balance Prepayments and deferred costs includes an amount of Euro 31,111,000 (31 December 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 five or seven years period depending on whether it relates to obligations with health or employees benefits, respectively, as referred in the accounting policy described in note 1.14.

The movements of the impairment for investments arising out from recovered loans is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Impairment for investments arising from recovered loans:</i>		
Balance on 1 January	23,868	19,397
Impairment for the period	915	3,049
Write-back for the period	(2)	-
Balance on 30 June	<u>24,781</u>	<u>22,446</u>

29 Deposits from central banks

As at 30 June 2009, this balance includes the amount of Euro 800,122,000 (31 December 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.

	Jun 2009 Euro '000	Dec 2008 Euro '000
Up to 3 months	800,122	751,544
3 to 6 months	-	101,259
	<u>800,122</u>	<u>852,803</u>

30 Deposits from other credit institutions

This balance is analysed as follows:

	Jun 2009			Dec 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	-	65,177	65,177	-	106,829	106,829
Deposits from credit institutions abroad	4,131	844,288	848,419	4,777	961,516	966,293
	<u>4,131</u>	<u>909,465</u>	<u>913,596</u>	<u>4,777</u>	<u>1,068,345</u>	<u>1,073,122</u>

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

	Jun 2009 Euro '000	Dec 2008 Euro '000
Due within 3 months	304,863	538,686
3 months to 6 months	-	53,109
6 months to 1 year	91,850	116
1 year to 5 years	297,804	306,446
Over 5 years	211,890	172,341
	<u>906,407</u>	<u>1,070,698</u>
Adjustments arising from hedging operations	7,189	2,424
	<u>913,596</u>	<u>1,073,122</u>

31 Deposits from customers

This balance is analysed as follows:

	Jun 2009			Dec 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	1,938,204	-	1,938,204	1,877,502	-	1,877,502
Time deposits (*)	-	6,241,874	6,241,874	-	5,449,219	5,449,219
Saving accounts (*)	-	548,475	548,475	-	681,082	681,082
Other items	193	-	193	177	-	177
Adjustments arising from hedging operations	1,881	-	1,881	1,262	-	1,262
	1,940,278	6,790,349	8,730,627	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 23 and accounting policy 1.3.

As at 30 June 2009, this balance includes the amount of Euro 128,800,000 (31 December 2008: Euro 210,869,000) related to deposits recognised on the balance sheet at fair value through profit or loss.

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

The balance Deposits from customers, analysed by the period of maturity, is as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Deposits repayable on demand</i>	1,938,204	1,877,502
<i>Time deposits and saving accounts:</i>		
Due within 3 months	1,578,037	1,270,016
3 months to 6 months	2,881,881	2,902,217
6 months to 1 year	779,726	906,440
1 year to 5 years	-	962,587
Over 5 years	1,550,705	89,041
	8,728,553	8,007,803
Adjustments arising from hedging operations	1,881	1,262
	8,730,434	8,009,065
<i>Other items:</i>		
Due within 3 months	193	177
	8,730,627	8,009,242

32 Debt securities issued

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Euro Medium Term Notes	3,524,175	3,705,944
Bonds	826,990	964,998
	<u>4,351,165</u>	<u>4,670,942</u>

In the first semester of 2009, CEMG issued Euro 34,650,000 (31 December 2008: Euro 149,700,000) of securities, and was reimbursed Euro 248,060,000 (31 December 2008: Euro 703,427,000).

As at 30 June 2009 and 31 December 2008, the analysis of debt securities issued outstanding by period to maturity is as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Due within 6 months	967,254	188,762
6 months to 1 year	2,698,426	988,413
1 year to 5 years	358,354	3,094,029
Over 5 years	300,272	382,690
	<u>4,324,306</u>	<u>4,653,894</u>
Adjustments arising from hedging operations	26,859	17,048
	<u>4,351,165</u>	<u>4,670,942</u>

The emissions occurred in the first semester of 2009 are as follows:

Issue	Issue Date	Maturity Date	Interest rate	Jun 2009 Euro '000
Obr. caixa – Capitais de Reforma de Prazo Certo – Fevereiro 2009-2014	Feb. 2009	Feb. 2014	Annual fixed rate of 3.8% (2 nd to 5 th year Euribor 3m + 0.84%)	15,000
Obr. caixa – Capitais de Reforma de Prazo Certo – Março 2009-2014	Mar. 2009	Mar. 2014	Annual fixed rate of 3.5% (2 nd to 5 th year Euribor 3m + 0.80%)	19,000
Obr. caixa – Montepio Taxa Fixa 3 Anos – 25/05/2012	May 2009	May 2012	Annual fixed rate of 2% (2 nd year Fixed rate de 3% and 3 rd year Fixed rate of 4%)	650
				<u>34,650</u>

The fair value of the debts securities issued is presented in note 41.

This balance includes the amount of Euro 1,055,173,000 (31 December 2008: Euro 1,448,619,000) related to debt securities issued recognised at the balance sheet at fair value through profit or loss.

As at 30 June 2009, for the bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 3.102% and 6.417%.

The reimbursements of bonds in the first semester of 2009 are analysed as follows:

Issue	Issue date	Maturity date	Interest rate	Reimbursement amount Euro '000
<i>Euro Medium Term Notes:</i>				
Obrigações CEMG - 2004	Mar. 04	Mar.09	Floating Rate	10,360
Obrigações CEMG - 2007	Mar. 07	Mar.09	Floating Rate	50,000
				60,360
<i>Bonds:</i>				
MG Aforro 2006 – 1ª série	Feb.06	Feb.09	Floating Rate	40,000
MG Aforro 2006 – 2ª série	Feb.06	Feb.09	Floating Rate	17,000
MG Aforro especial –3 anos –Fev/06	Feb.06	Feb.09	Floating Rate	9,000
MG Aforro 2006 – 3ª série	Mar.06	Mar.09	Floating Rate	17,000
MG Aforro 2006 – 4ª série	Mar.06	Mar.09	Floating Rate	23,000
MG Aforro 2006 – 5ª série	Apr.06	Apr.09	Floating Rate	20,000
MG Aforro 2006 – 6ª série	May 06	May 09	Floating Rate	20,000
MG Commodities	May 06	May 09	Annual fixed rate of 3.75%	4,700
MG Valor Imobiliário	May 06	May 09	Annual fixed rate of 1%	2,000
MG Aforro 2006 – 7ª série	Jun.06	Jun.09	Floating Rate	25,000
Obr. caixa – Montepio Portugal Dinâmico	Apr.07	Apr.09	Annual fixed rate of 3.35%	10,000
				187,700
				248,060

The Debt securities issued with reimbursement date during the second semester of 2009 amount to Euro 727,876,000.

33 Provisions

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Provisions for general banking risks	100,824	101,240
Provisions for liabilities and charges	1,714	1,668
	102,538	102,908

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

	Jun 2009 Euro '000	Jun 2008 Euro '000
<i>Provisions for general banking risks:</i>		
Balance on 1 January	101,240	96,983
Charge for the period	22,247	26,428
Write-back for the period	(22,663)	(24,017)
Balance on 30 June	100,824	99,394

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

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

	Jun 2009 Euro '000	Jun 2008 Euro '000
<i>Provision for liabilities and charges:</i>		
Balance on 1 January	1,668	1,737
Charge for the period	46	174
Write-back for the period	-	(63)
Charged-off	-	(208)
Balance on 30 June	<u>1,714</u>	<u>1,640</u>

The provisions were accounted in accordance with the probability of occurrence of certain contingencies related with CEMG's activity.

34 Other subordinated debt

As at 30 June 2009, this balance in the amount of Euro 381,870,000 (31 December 2008: Euro 386,872,000) is composed by bounds with a fixed maturity and with a residual reimbursement over 5 years.

As at 30 June 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
<i>Bonds with fixed maturity date:</i>					
CEMG/06	Apr. 2006	Apr. 2016	50,000	Euribor 3 months + 0.45%	50,108
CEMG/08	Feb. 2008	Feb. 2018	150,000	Euribor 6 months + 0.13%	150,033
CEMG/08	Jun. 2008	Jun. 2018	28,000	Euribor 12 months + 0.10%	29,483
CEMG/08	Jul. 2008	Jul. 2018	150,000	Euribor 6 months + 0.13%	152,246
					<u>381,870</u>

The fair value of the Other subordinated debt portfolio is presented in note 41.

As at 30 June 2009, the effective interest rate range of the subordinated debt bears postponed interest every three and six months is set between 2.96% and 6.42%.

35 Other liabilities

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Creditors:		
Suppliers	12,011	8,067
Other creditors	98,854	27,809
Public sector	8,921	10,393
Financial liabilities associated with transferred assets	2,369,129	1,450,122
Holiday pay and subsidies	20,273	19,826
Other administrative costs payable	73	450
Deferred income	607	647
Securities transactions pending settlement	78,058	6,154
Other sundry liabilities	36,406	43,849
	<u>2,624,332</u>	<u>1,567,317</u>

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 44.

36 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.

37 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.

38 Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Other comprehensive Income:</i>		
Fair value reserves		
Available-for-sale financial assets	(56,204)	(48,064)
<i>Reserves and retained earnings:</i>		
General reserve	163,130	156,067
Special reserve	62,554	60,788
Other reserves	8,404	8,404
Retained earnings	(4,016)	(15,210)
	<u>230,072</u>	<u>210,049</u>

The balance Other comprehensive income includes income and expenses that, according to NCA's, are recognised in equity.

The gross movements in Fair value reserves for available-for-sale financial instruments, during the first semester of 2009 and 2008 concerns to the revaluation reserves of the period.

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

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

	Balance on 1 January Euro '000	Revaluation Euro '000	Acquisitions Euro '000	Sales Euro '000	Impairment recognised in the period Euro '000	Balance on 30 June Euro '000
<i>Fixed income securities:</i>						
Bonds issued by						
Portuguese entities	(38)	(5)	223	-	-	180
Bond issued by other						
entities:						
Portuguese	(2,187)	644	357	7	(695)	(1,874)
Foreign	(45,581)	(11,209)	692	1,628	(429)	(54,899)
	<u>(47,806)</u>	<u>(10,570)</u>	<u>1,272</u>	<u>1,635</u>	<u>(1,124)</u>	<u>(56,593)</u>
<i>Variable income securities:</i>						
Shares in companies:						
Portuguese	(23)	228	(5)	1	(230)	(29)
Foreign	-	544	140	-	22	706
Investment fund units	(235)	(39)	-	5	(19)	(288)
	<u>(258)</u>	<u>733</u>	<u>135</u>	<u>6</u>	<u>(227)</u>	<u>389</u>
	<u>(48,064)</u>	<u>(9,837)</u>	<u>1,407</u>	<u>1,641</u>	<u>(1,351)</u>	<u>(56,204)</u>

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
<i>Fixed income securities:</i>						
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)
	<u>(8,761)</u>	<u>(21,992)</u>	<u>(370)</u>	<u>(868)</u>	<u>(15,815)</u>	<u>(47,806)</u>
<i>Variable income securities:</i>						
Shares in companies:						
Portuguese	-	37	(23)	-	(37)	(23)
Foreign	(30)	762	-	30	(762)	-
Investment fund units	818	2,902	(50)	(694)	(3,211)	(235)
	<u>788</u>	<u>3,701</u>	<u>(73)</u>	<u>(664)</u>	<u>(4,010)</u>	<u>(258)</u>
	<u><u>(7,973)</u></u>	<u><u>(18,291)</u></u>	<u><u>(443)</u></u>	<u><u>(1,532)</u></u>	<u><u>(19,825)</u></u>	<u><u>(48,064)</u></u>

As at 30 June 2009, the balance Retained earnings in the amount of Euro 4,016,000 (31 December 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:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Amortised cost of available-for-sale financial assets	3,129,581	1,965,399
Accumulated impairment recognised	(32,580)	(31,228)
Amortised cost of available-for-sale financial assets, net impairment	3,097,001	1,934,171
Fair value of available-for-sale financial assets	3,040,797	1,886,107
Net unrealized gains / losses recognised in the fair value reserve	<u>(56,204)</u>	<u>(48,064)</u>

39 Obligations and future commitments

Obligations and future commitments are analysed as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
Guarantees granted	453,509	431,209
Guarantees received	29,501,132	30,265,782
Commitments to third parties	1,196,441	1,377,791
Commitments from third parties	19,503	20,791
Securitised loans	357,321	389,662
Securities and other items held for safekeeping on behalf of customers	5,509,607	5,510,251

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

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Guarantees granted:</i>		
Guarantees	447,080	428,782
Open documentary credits	6,429	2,427
	<u>453,509</u>	<u>431,209</u>

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

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Commitments to third parties:</i>		
Irrevocable commitments		
Term deposits contracts	2,757	2,756
Irrevocable credit lines	254,165	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	916,481	1,071,125
	<u>1,196,441</u>	<u>1,377,791</u>

Revocable and irrevocable commitments represent contractual agreements to extend credit to CEMG's customers (for example unused credit lines). These agreements are generally, contracted for fixed periods of time or with other expiration requisites, and usually require the payment of a commission. Substantially, all credit commitments require that clients maintain certain conditions verified at the time when the credit was granted.

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

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

The balance Potential obligation with the Investors' Indemnity System, as at 30 June 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.

40 Distribution of profit

On 31 March 2009, following the General Assembly deliberation, CEMG distributed to Montepio Geral – Associação Mutualista in the amount of Euro 11,272,000 (31 December 2008: Euro 25,758,000).

41 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.

The main methods and assumptions used in estimating the fair value for the assets and liabilities of the CEMG are presented as follows:

- *Cash and deposits at central banks, Loans and advances to credit institutions repayable on demand and Deposits from other credit institutions*

Considering the short maturity of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

- *Other loans and advances to credit institutions, Amounts owed to other credit institutions from Inter-bank Money Market transactions and Assets with repurchase agreements*

The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates.

The discount rate used reflects the current conditions applied by CEMG in identical instruments for each of the different maturities.

- *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.

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.

- *Hedging 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. For 30 June 2009, the average discount rate was 2.73% and for December 2008 was 3.29%. The calculations also include the credit risk spread.

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

Considering the short maturity of these financial instruments, the conditions of the existing portfolio are similar to current conditions used by the 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. For 30 June 2009, average discount rate was of 0.96 % and for December 2008 was 2.74%.

- *Debt securities issued and Other 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 internal models based on cash-flow discounting techniques, using the interest rate curve adjusted by associated factors, predominantly the credit risk and trading margin, the latter only in the case of issues placed for non-institutional customers of CEMG.

As at 30 June 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 and CZK used to determine the fair value of the financial assets and liabilities of CEMG:

	Currencies			
	Euro	United States Dollar	Pound Sterling	Czech Koruna
1 day	1.048%	0.949%	1.050%	2.163%
7 days	1.095%	0.967%	1.094%	2.212%
1 month	1.176%	1.112%	1.314%	2.360%
2 months	1.344%	1.256%	1.469%	2.496%
3 months	1.550%	1.036%	1.627%	2.532%
6 months	1.291%	2.035%	1.930%	2.491%
9 months	1.666%	1.952%	2.274%	2.948%
1 year	1.874%	1.476%	2.405%	2.647%
2 years	2.788%	2.878%	3.833%	3.456%
3 years	3.354%	3.618%	4.336%	3.933%
5 years	4.002%	4.187%	4.485%	3.945%
7 years	4.316%	4.404%	4.479%	4.347%
10 years	4.458%	4.553%	4.105%	4.786%
15 years	4.461%	4.250%	4.102%	4.414%
20 years	3.732%	4.098%	4.100%	4.209%
30 years	3.994%	4.164%	4.129%	4.295%

- *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:

Exchange rates	Volatility (%)						
	Jun 2009	Dec 2008	1 month	3 months	6 months	9 months	1 year
EUR/USD	1.4134	1.3917	12.60	13.12	13.60	13.73	13.80
EUR/GBP	0.8521	0.9525	10.70	10.90	11.20	11.20	11.35
EUR/CHF	1.5265	1.4850	4.77	4.40	4.15	4.10	4.02
EUR/JPY	135.51	126.14	15.40	16.10	16.45	16.75	17.00

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

Jun 2009									
	Trading	Designated at fair value through profit or loss	Held-to- maturity	Loans and advances	Available- for-sale	Others at amortised cost	Others	Carrying value	Fair value
	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000
<i>Financial assets:</i>									
Cash and deposits at central banks	-	-	-	88,951	-	-	-	88,951	88,951
Loans and advances to credit institutions repayable on demand	-	-	-	105,680	-	-	-	105,680	105,680
Loans and advances to credit institutions	-	-	-	650,232	-	-	-	650,232	650,232
Loans and advances to customers	-	-	-	14,492,336	-	-	-	14,492,336	13,760,515
Financial assets held for trading	69,795	-	-	-	-	-	-	69,795	69,795
Other financial assets at fair value through profit or loss	-	3,939	-	-	-	-	-	3,939	3,939
Available-for-sale financial assets	-	-	-	-	3,040,797	-	-	3,040,797	3,040,797
Hedging derivatives	10,092	-	-	-	-	-	-	10,092	10,092
Held-to-maturity investments	-	-	39,940	-	-	-	-	39,940	39,940
Investments in associated companies and others	-	-	-	-	-	-	30,597	30,597	30,597
	<u>79,887</u>	<u>3,939</u>	<u>39,940</u>	<u>15,337,199</u>	<u>3,040,797</u>	<u>-</u>	<u>30,597</u>	<u>18,532,359</u>	<u>17,800,538</u>
<i>Financial liabilities:</i>									
Deposits from central banks	-	-	-	-	-	800,122	-	800,122	800,122
Deposits from other credit institutions	-	-	-	-	-	913,596	-	913,596	913,596
Deposits from customers	-	-	-	-	-	8,730,627	-	8,730,627	8,860,363
Debt securities issued	-	-	-	-	-	4,351,165	-	4,351,165	4,393,065
Financial liabilities held for trading	25,726	-	-	-	-	-	-	25,726	25,376
Hedging derivatives	569	-	-	-	-	-	-	569	569
Other subordinated debt	-	-	-	-	-	381,870	-	381,870	338,703
	<u>26,295</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,177,380</u>	<u>-</u>	<u>15,203,675</u>	<u>15,331,794</u>

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	Trading Euro '000	Designated at fair value through 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
<i>Financial assets:</i>									
Cash and deposits at central banks	-	-	-	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 through 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	39,912
Investments in associated companies and others	-	-	-	-	-	-	30,626	30,626	30,626
	<u>66,382</u>	<u>4,031</u>	<u>39,912</u>	<u>15,238,470</u>	<u>1,886,107</u>	<u>-</u>	<u>30,626</u>	<u>17,265,528</u>	<u>17,630,351</u>
<i>Financial liabilities:</i>									
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
Hedging derivatives	37,643	-	-	-	-	-	-	37,643	37,643
Other subordinated debt	1,234	-	-	-	-	-	-	1,234	1,234
	<u>38,877</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,992,981</u>	<u>-</u>	<u>15,031,858</u>	<u>15,062,503</u>

42 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..

In the first semester of 2009, CEMG recognised as pension costs the amount of Euro 12,458,000 (31 December 2008: Euro 36,811,000).

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

	Jun 2009				Jun 2008			
	Pension plans	Death subsidy	Health – care benefits	Total	Pension plans	Death subsidy	Health – care benefits	Total
	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000	Euro '000
Service cost	7,491	211	353	8,055	9,886	566	286	10,738
Interest cost	13,834	193	757	14,784	13,381	219	792	14,392
Expected return on plan assets	(11,734)	(163)	(642)	(12,539)	(10,810)	(177)	(639)	(11,626)
Actuarial gains and losses								
depreciation	37	-	-	37	-	-	-	-
Early retirements	2,121	-	-	2,121	5,818	-	-	5,818
Net benefit cost	11,749	241	468	12,458	18,275	608	439	19,322

43 Related parties transactions

As at 30 June 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.	3,848	5,740	9,588
Lusitania Vida Companhia de Seguros, S.A.	10,534	11,250	21,784
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	115	-	115
SIBS - Sociedade Interbancária de Serviços, S.A.	6	-	6
MG Gestão de Activos Financeiros - S.G.F.I.M., S.A.	44,487	-	44,487
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	134,109	-	134,109
Norfin - Sociedade Gestora de FIM, S.A.	1,398	-	1,398
Bolsimo – Gestão Imobiliária, Lda.	2,174	-	2,174
	196,671	16,990	213,661

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
	62,762	16,740	79,502

As at 30 June 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.	72	2,194	2,266
Lusitania Vida Companhia de Seguros, S.A.	123	2,333	2,456
SIBS - Sociedade Interbancária de Serviços, S.A.	2	5,696	5,698
MG Gestão de Activos Financeiros - - S.G.F.I.M., S.A.	2	1,387	1,389
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	-	1,493	1,493
Norfin - Sociedade Gestora de FIM, S.A.	-	208	208
	199	13,311	13,510
	199	13,311	13,510

As at 30 June 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.	229	1,520	1,749
Lusitania Vida Companhia de Seguros, S.A.	-	2,972	2,972
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	1	-	1
SIBS - Sociedade Interbancária de Serviços, S.A.	3	11,792	11,795
MG Gestão de Activos Financeiros - - S.G.F.I.M., S.A.	5	1,997	2,002
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	9	1,734	1,743
Norfin - Sociedade Gestora de FIM, S.A.	6	185	191
	253	20,200	20,453
	253	20,200	20,453

44 Asset securitisation

As at 30 June 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, CEMG settles a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage No. 4. The referred agreement consists in a mortgage credit transfer for a period of 48 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,000,000,000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.083% of the referred nominal value.

As at 25 March 2009, Caixa Económica Montepio Geral Settles a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage No. 5. The referred agreement consists in a mortgage credit transfer for a period of 52 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,000,000,000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0564% of the referred nominal value.

The operations servicer is the CEMG, assuming the loans conceded for the operation and directed to the received values, by the use of the due deposit, for the Pelican Mortgages No. 1 PLC and the 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 30 June 2009, the securitisation operations are presented as follows:

Issue	Settlement date	Currency	Asset transferred	Amount
Pelican Mortgages No. 1	December 2002	Euro	Mortgage credit	650,000,000
Pelican Mortgages No. 2	September 2003	Euro	Mortgage credit	700,000,000
Pelican Mortgages No. 3	March 2007	Euro	Mortgage credit	750,000,000
Pelican Mortgages No. 4	May 2008	Euro	Mortgage credit	1,000,000,000
Pelican Mortgages No. 5	March 2009	Euro	Mortgage credit	1,000,000,000
				<u>4,100,000,000</u>

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

	Jun 2009 Euro '000	Dec 2008 Euro '000
Pelican Mortgages No. 1	130,627	142,875
Pelican Mortgages No. 2	226,694	246,788
	<u>357,321</u>	<u>389,663</u>

As at 30 June 2009, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bonds issued	Issued amount Euro	Current amount Euro	Maturity date	Rating		
					Fitch	Moody's	S&P
Pelican Mortgages No. 1	Class A	211,058,614	86,261,149	2037	AAA	Aaa	n.a.
	Class B	16,250,000	16,250,000	2037	AAA	A2	n.a.
	Class C	22,750,000	22,750,000	2037	BBB+	Baa2	n.a.
	Class D	3,250,000	3,250,000	2037	n.a.	n.a.	n.a.
Pelican Mortgages No. 2	Class A	422,069,596	186,381,070	2036	AAA	Aaa	AAA
	Class B	17,500,000	17,500,000	2036	AAA	A1	AA-
	Class C	22,750,000	22,750,000	2036	A-	Baa2	BBB
	Class D	5,600,000	5,600,000	2036	n.a.	n.a.	n.a.
Pelican Mortgages No. 3	Class A	701,315,365	434,172,439	2054	AAA	Aaa	AAA
	Class B	14,250,000	11,209,718	2054	AA-	Aa2	AA-
	Class C	12,000,000	9,439,762	2054	A-	A3	A
	Class D	6,375,000	5,014,874	2054	BBB	Baa3	BBB
	Class E	7,361,334	-	2054	BBB-	n.a.	BBB-
	Class F	4,125,000	4,125,000	2054	n.a.	n.a.	n.a.
Pelican Mortgages No. 4	Class A	832,000,000	764,382,397	2056	AAA	Aaa	n.a.
	Class B	55,500,000	55,500,000	2056	AA	Aa	n.a.
	Class C	60,000,000	60,000,000	2056	A-	A-	n.a.
	Class D	25,000,000	25,000,000	2056	BBB	Bbb	n.a.
	Class E	27,500,000	27,500,000	2056	BB	Bb	n.a.
	Class F	28,600,000	28,600,000	2056	n.a.	n.a.	n.a.
Pelican Mortgages No. 5	Class A	750,000,000	736,819,108	2061	AAA	n.a.	n.a.
	Class B	195,000,000	195,000,000	2061	BBB-	n.a.	n.a.
	Class C	27,500,000	27,500,000	2061	B	n.a.	n.a.
	Class D	27,500,000	27,500,000	2061	n.a.	n.a.	n.a.
	Class E	4,500,000	4,500,000	2061	n.a.	n.a.	n.a.
	Class F	23,000,000	23,000,000	2061	n.a.	n.a.	n.a.

45 Amounts owed by CEMG to subsidiary companies

As at 30 June 2009, 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)	<u>286,948</u>

46 Related party transactions

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

47 Risk management

Group Montepio Geral ("CEMG") is subject to several risks during the course of its business.

CEMG's risk management policy is designed to ensure adequate relationship at all times between its own funds and the business it carries on, and also to evaluate the risk/return profile by business line.

In this connection, monitoring and control of the main types of financial risk – credit, market, liquidity and operational – to which the CEMG's business is subject are of particular importance.

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.

The Companies Credit Analysis Department began its activity in December 2007 with the objective to make it possible to segregate risk analysis of major operations and exposures from commercial business, in keeping with best practice and the recommendations of the Basel Committee. This step also permitted the simplification of procedures and the reinforcing of the risk role in the pricing of operations. During the first semester of 2009, the granting of credit in the main business lines also came under closer scrutiny and corporate credit monitoring was enhanced with the drawing up of a weekly watchlist to be analysed by the Credit Council.

At the regulatory level, DAGR drew up the interest rate risk reports required by Bank of Portugal Instruction no. 19/2005, as well as the liquidity static gap calculations called for the Bank of Portugal since October 2007.

In addition, procedures were developed to insure the Market Discipline and of the Equity Self-Assessment of the Internal Capital reports, in accordance with the Regulation no. 10/2007 and Instruction no. 15/2007 of the Bank of Portugal.

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 order to support commercial strategies, behavioural scoring models were also used.

Following, the information related to the exposure of the CEMG to the credit risk:

	Jun 2009	Dec 2008
	Euros '000	Euros '000
Loans and advances to credit institutions		
Repayable on demand	105,680	92,125
Other loans and advances	650,232	166,781
Loans and advances to customers	14,492,336	14,724,822
Financial assets held for trading and available-for-sale	3,094,155	1,929,144
Hedging derivatives	10,092	7,727
Financial assets held to maturity	39,940	39,912
Investments in associated companies and others	30,597	30,626
Other assets	129,340	64,247
Guarantees granted	453,509	431,209
Irrevocable commitments	254,165	281,103
Credit default swaps (notional)	47,000	94,500
	<u>19,307,046</u>	<u>17,862,196</u>

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

During the first semester of 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 26,500,000 and Euro 15,575,138, 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.

In regard to 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.

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.

Regarding the nature of the retail activity, the institution normally presents interest rate positive gaps, which by the end of the first semester of 2009, would reach, in static terms, about Euro 911,399,000 (31 December 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 30 June 2009 and 31 December 2008:

	Jun 2009				Dec 2008			
	June Euro '000	Semestral 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	911,399	685,149	911,399	458,900	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 off-balance positions by repricing intervals.

	Due within 3 months Euro '000	3 to 6 months Euro '000	6 months to 1 year Euro '000	1 to 5 years Euro '000	Over 5 years Euro '000
30 June 2009					
Asset	13,167,312	4,442,637	73,511	541,619	108,741
Off balance sheet	83,000	30,000	246,600	59,150	15,000
Total	13,250,312	4,472,637	320,111	600,769	123,741
Liability	11,819,219	2,675,629	877,737	1,792,744	15,000
Off balance sheet	493,092	135,250	12,000	11,500	24,000
Total	12,312,311	2,810,879	889,737	1,804,244	39,000
GAP (Asset – Liability)	938,001	1,661,758	(569,626)	(1,203,475)	84,741
31 December 2008					
Asset	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
Liability	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 (Asset – Liability)	863,502	1,322,447	(495,589)	(1,309,849)	78,450

Sensibility analysis

As at June 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 20,000,000 (31 December 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 30 June 2009 and 31 December 2008, as well as the average balances and the income and expense for the year:

Products	Jun 2009			Dec 2008		
	Average balance for the period 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	14,818,152	5.01	368,017	14,478,792	6.05	882,724
Deposits	161,716	1.46	1,172	148,424	4.09	6,076
Securities portfolio	2,594,471	2.72	34,957	1,602,280	5.74	91,896
Inter-bank loans and advances	211,415	1.14	1,197	488,560	3.68	18,003
Other assets	-	-	-	2,217	5.24	116
Swaps	-	-	118,357	-	-	7,457
Total Assets	17,785,754		523,700	16,720,273		1,006,272
Liabilities						
Deposits from customers	8,509,399	2.41	112,655	8,291,152	2.71	286,019
Debt securities	1,976,506	4.39	43,037	7,106,555	5.47	354,300
Inter-bank deposits	922,822	1.98	9,048	551,699	4.35	23,979
Other liabilities	5,450,631	3.24	81,073	878	2.62	23
Swaps	-	-	95,815	-	-	8,182
Total liabilities	16,859,358		341,628	15,950,284		672,503

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 30 June 2009 is analysed as follows:

	Jun 2009							Total amount
	Euro	US Dollars	Sterling Pounds	Canadian Dollars	Swiss Franc	Czech Koruna	Other foreign currencies	
	Euro '000	Euro '000	Euro'000	Euro '000	Euro'000	Euro'000	Euro '000	
<i>Assets by currency</i>								
Cash and deposits at central banks	82,859	4,912	193	125	392	-	470	88,951
Loans and advances to credit institutions repayable on demand	92,489	8,744	2,314	386	1,647	-	100	105,680
Loans and advances to credit institutions	605,988	4,343	-	1,265	-	38,636	-	650,232
Loans and advances to customers	14,490,704	1,042	-	1	362	-	227	14,492,336
Financial assets held for trading	69,617	178	-	-	-	-	-	69,795
Other financial assets at fair value through profit or loss	3,939	-	-	-	-	-	-	3,939
Available-for-sale financial assets	3,039,408	1,389	-	-	-	-	-	3,040,797
Hedging derivatives	9,418	-	-	-	-	674	-	10,092
Held-to-maturity investments	39,940	-	-	-	-	-	-	39,940
Investments in associated companies and others	30,597	-	-	-	-	-	-	30,597
Property and equipment	87,910	-	-	-	-	-	-	87,910
Intangible assets	15,212	-	-	-	-	-	-	15,212
Other assets	49,144	149,456	8,214	32,729	-	19,318	523	259,384
Total Assets	18,617,225	170,064	10,721	34,506	2,401	58,628	1,320	18,894,865
<i>Liabilities by currency</i>								
Deposits from central banks	800,122	-	-	-	-	-	-	800,122
Deposits from other credit institutions	832,748	22,198	3,494	16,369	93	38,636	58	913,596
Deposits from customers	8,694,126	31,933	2,727	1,729	111	-	1	8,730,627
Debt securities issued	4,329,724	2,123	-	-	-	19,318	-	4,351,165
Financial liabilities held for trading	25,725	1	-	-	-	-	-	25,726
Hedging derivatives	569	-	-	-	-	-	-	569
Provisions	102,538	-	-	-	-	-	-	102,538
Other subordinated debt	381,870	-	-	-	-	-	-	381,870
Other liabilities	2,485,455	113,838	4,501	16,408	2,196	674	1,261	2,624,333
Total Liabilities	17,652,877	170,093	10,722	34,506	2,400	58,628	1,320	17,930,546
Net asset / liability by currency	964,348	(29)	(1)	-	1	-	-	964,319
Equity	964,293	26	-	-	-	-	-	964,319
Net exposure	55	(55)	(1)	-	1	-	-	-

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 31 December 2008 is analysed as follows:

	Dec 2008							
	Euro	US Dollars	Sterling Pounds	Canadian Dollars	Hong-Kong Dollar	Czech Koruna	Other foreign currencies	Total amount
	Euro '000	Euro '000	Euro'000	Euro '000	Euro'000	Euro'000	Euro '000	Euro '000
<i>Assets by currency</i>								
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 through 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	<u>17,380,035</u>	<u>99,593</u>	<u>4,577</u>	<u>16,590</u>	<u>18,549</u>	<u>37,443</u>	<u>2,602</u>	<u>17,559,379</u>
<i>Liabilities by currency</i>								
Deposits from central banks	852,803	-	-	-	-	-	-	852,803
Deposits from other credit institutions	957,334	69,926	3,463	14,354	9,271	18,605	169	1,073,122
Deposits from customers	7,981,150	25,252	577	2,147	-	-	116	8,009,242
Debt securities issued	4,640,910	2,156	-	-	9,271	18,605	-	4,670,942
Financial liabilities held for trading	37,499	144	-	-	-	-	-	37,643
Hedging derivatives	1,234	-	-	-	-	-	-	1,234
Provisions	102,908	-	-	-	-	-	-	102,908
Subordinated debt	386,872	-	-	-	-	-	-	386,872
Other liabilities	1,561,982	2,163	537	88	7	223	2,317	1,567,317
Total Liabilities	<u>16,522,692</u>	<u>99,641</u>	<u>4,577</u>	<u>16,589</u>	<u>18,549</u>	<u>37,433</u>	<u>2,602</u>	<u>16,702,083</u>
Net asset / liability by currency	<u>857,343</u>	<u>(48)</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>857,296</u>
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.

The mainly liquidity indicators of CEMG are analysed as follows:

	Jun 2009	Dec 2008
Liquidity ratio (%) ⁽¹⁾	89.49%	75.48%

⁽¹⁾ Liquidity ratio calculated in accordance with Regulation no. 1/2000 of Bank of Portugal

Operational risk

To manage operational risk, there was developed and implemented a system that standardises, systematises and regulates the frequency of actions with an objective of identification, monitoring, controlling and mitigation of risk. The system is supported at organisational level by a unit within the DAGR exclusively dedicated to this task, and by representatives designated by each of the relevant departments and subsidiaries.

Capital Management and Solvency Ratio

In prudential matters, CEMG is subject to Bank of Portugal supervision that, under the capital adequacy Directive from the CE, establishes the rules to be attended by the institutions under its supervision. These rules determine a minimum solvency ratio of 8% (to be accomplished from September 2008 in accordance with circular letter no. 83/2008), as well as a minimum amount of 4% for its main component, the Tier1, in relation to the requirements of the assumed risks that institutions have to fulfil. These referentials minimums can be changed in future agreements.

The capital elements of CEMG are divided into: Core Own Funds, Complementary Own Funds and Deductions, as follows:

- Core Own Funds (COF): This category includes the share capital, the eligible reserves, 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. Also, some components of the CMOF (Lower Tier II) cannot exceed 50% of the COF.

In April 2007, Bank of Portugal issued Regulation no. 4/2007, 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 a 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 IFRS in January 2005 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 the first semester of 2009, the negative net impact in Own Funds are calculated in a individual basis of the regularization of the mentioned differences, was Euro 11,469,114, that results from a negative impact of Euro 4,016,473 registered in retained earnings and Euro 32,867,696 registered in accrued costs, compensated by a positive variation of Euro 25,415,055 that refers to unrecognized impacts on Own Funds (according to no. 4, of 13^o-A, from the Regulation Instruction no. 12/2001).

The amount of Euro 32,867,696, from which Euro 8,145,345 refers to health-care benefits and Euro 1,757,094 concerning the excess related to the corridor and Euro 22,965,257 to other benefits in pensions, will be progressively taken into retained earnings till 2014. In a same way, Own Funds compensation will decrease till their extinguish in 2014. At the end, differences will be absorbed by the statuaries reserves.

The capital adequacy of CEMG as at 30 June 2009 and 31 December 2008 is presented as follows:

	Jun 2009 Euro '000	Dec 2008 Euro '000
<i>Core own funds</i>		
Paid-up capital	760,000	660,000
Results, general and special reserves and retained earnings	221,668	236,956
Other regulatory adjustments	(62,333)	(63,898)
NIC/NCA adjustments	25,415	28,623
	<hr/> 944,750	<hr/> 861,681
<i>Complementary own funds</i>		
Upper Tier 2	8,840	8,420
Lower Tier 2	378,000	378,000
Deductions	(13,673)	(13,674)
	<hr/> 373,167	<hr/> 372,746
Deductions to total own funds	(8,656)	(9,507)
<i>Total own funds</i>	<hr/> 1,309,261	<hr/> 1,224,920
<i>Own funds requirements</i>		
Credit risk (Regulation no. 5/2007)	772,725	775,786
Market risk (Regulation no. 8/2007)	4,432	5,265
Operational risk (Regulation no. 9/2007)	58,981	58,981
	<hr/> 836,138	<hr/> 840,032
<i>Prudential ratios</i>		
Ratio core Tier 1	9.04%	8.21%
Solvency ratio	12.53%	11.67%