Caixa Económica Montepio Geral

REPORT AND ACCOUNTS

FIRST HALF 2012

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GOVERNING BODIES

GOVERNING BODIES

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

MESA DA ASSEMBLEIA GERAL

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

BOARD OF DIRECTORS

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

INTERNAL AUDIT BOARD

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Members	Member no. 281 904-8	GABRIEL JOSÉ DOS SANTOS FERNANDES (ROC) *Economist*
	Member no. 31 269-9	JOSÉ MOREIRA VENÂNCIO *Degree in Law and Bank Accountancy*
Substitute	Member no. 51 323-6	JOSÉ GOMES HONORATO FERREIRA *Economist*
	Member no. 28 116-0	VITOR MANUEL DO CARMO MARTINS (ROC) *Economist*

GENERAL BOARD

Members	Member no. 71 464-0	MARIA MANUELA DA SILVA *Economist*
	Member no. 29 676-0	MANUEL DA COSTA BRAZ *Retired army officer*
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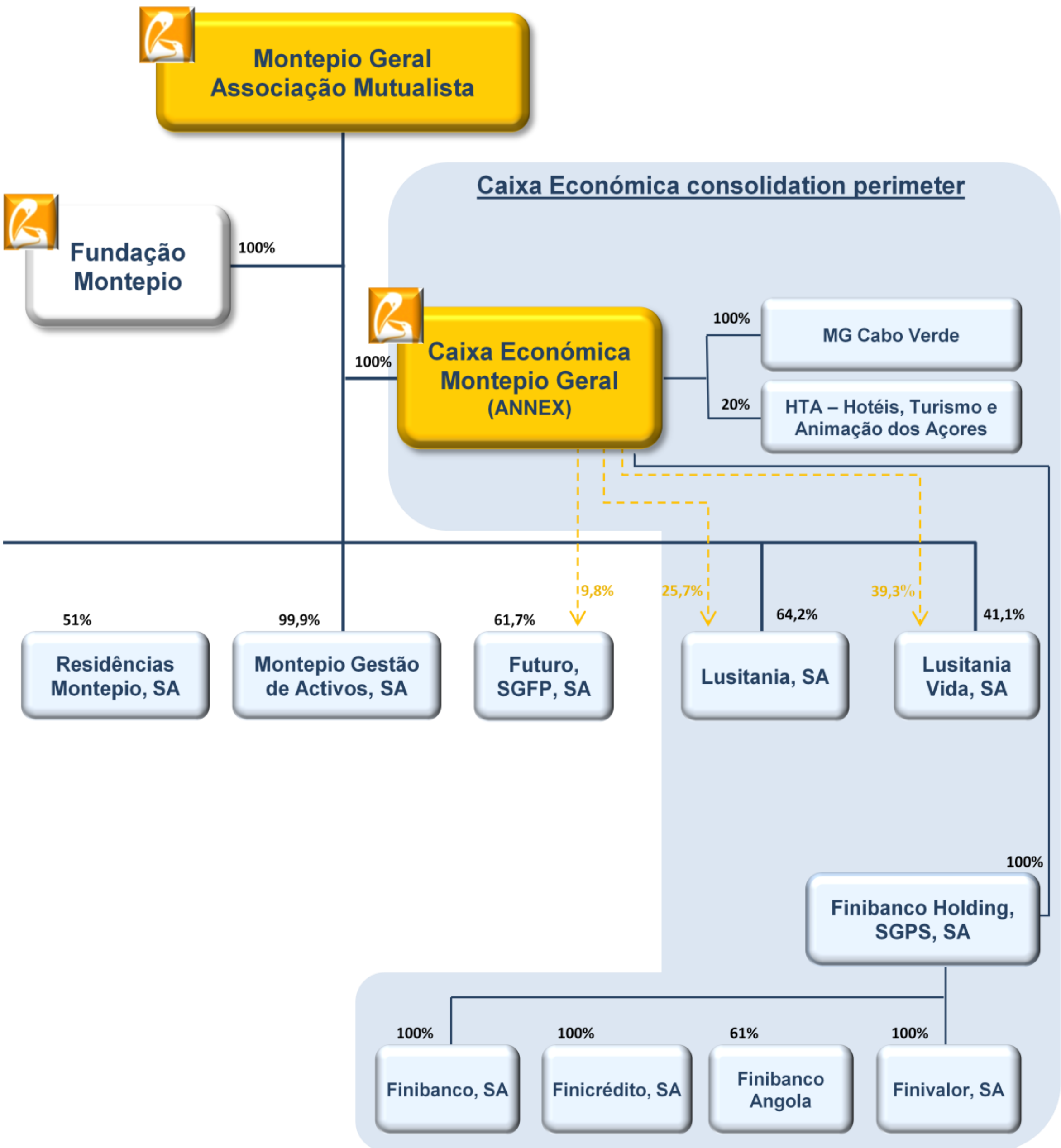
	Member no. 31 000-2	ANTÓNIO FERNANDO MENEZES RODRIGUES *Economist*
	Member no. 28 346-9	MANUEL DUARTE CARDOSO MARTINS *Retired Montepio director*
	Member no. 31 807-5	JOSÉ JOAQUIM ROSA *Degree in Bank Management*
	Member no. 37 711-3	NORBERTO DA CUNHA JUNQUEIRA FERNANDES FÉLIX PILAR *Economist*

I –REPORT

1. Consolidation perimeter and main indicators

Consolidation perimeter



In the pursuit of its goal of creating value for members, the Group's operates within the following Caixa Económica Montepio Geral (CEMG) consolidation perimeter:

- Domestic activity
  - Lusitania, Companhia de Seguros, SA (equity method consolidation)
  - Lusitania Vida, Companhia de Seguros, SA (equity method consolidation)

- HTA Hotéis, Turismo e Animação dos Açores, SA (equity method consolidation)
- Finibanco Holding, SGPS, SA (full consolidation)

– Non-domestic activity
  - Banco Montepio Cabo Verde, IFI, SA (full consolidation)
  - Finibanco Angola, SA (full consolidation)

It also includes credit securitisation vehicles Pelican Mortgages no. 1 and 2 (full consolidation) and the Montepio Arrendamento - Fundo de Investimento Imobiliário de Arrendamento Habitacional and Polaris - Fundo de Investimento Imobiliário Fechado real estate investment funds.

Main Indicators

INDICATORS	Dec. 11	Jun-11	Jun-12
BUSINESS ACTIVITY (EUR thousands)			
Net assets	21.495.390	21.679.562	20.966.605
Equity (capital, reserves and profits)	1.259.488	1.119.483	1.452.795
Credit to customers	17.410.344	17.426.767	16.960.105
Total deposits	13.608.555	12.579.081	13.650.607
PROFITABILITY			
Net profit (EUR thousands)	45.029	5.068	4.774
Banking income/ average net assets	2,65%	2,27%	2,43%
Cash flow / average net assets	1,11%	0,90%	0,91%
Pre-tax profit / average net assets (a)	0,15%	0,05%	0,09%
Pre-tax profit / average equity (a)	2,81%	0,88%	1,41%
Net profit / average net assets (ROA)	0,21%	0,05%	0,05%
Net profit / average equity (ROE)	3,87%	0,89%	0,71%
CREDIT RISK			
Ratio of credit overdue for more than 3 months	3,99%	3,25%	4,43%
Ratio of credit in default (a)	5,03%	4,75%	5,80%
Total credit impairment / credit and interest overdue for more than 3 months	111,04%	121,61%	101,72%
EFFICIENCY			
Operating costs / average net assets	1,73%	1,47%	1,61%
Operating costs / banking income *(cost to income)* (a)	66,07%	65,84%	66,27%
LIQUIDITY			
Leverage ratio (a)	122,14%	133,33%	117,85%
Assets eligible for refinancing by ECB (EUR thousands)	2.991.055	2.901.361	3.396.782
SOLVENCY			
Solvency ratio	13,56%	12,49%	13,28%
Tier 1	10,21%	9,10%	10,13%
Core Tier 1	10,21%	9,10%	10,14%
DISTRIBUTION NETWORK AND EMPLOYEES (units)			
Branches domestic network	499	503	468
Branches international network - Angola	8	6	9
Representative Offices	6	6	6
Employees - domestic activity	3.910	4.124	3.862
Employees - international activity - Angola	119	96	125

(a) In accordance with Bank of Portugal Instruction 23/2011

NOTE: June 2011 and December 2011 include data for the former Finibanco Group.

2. Overview of activity

Macroeconomic framework

After a first quarter in which global economic recovery was not exactly strong, the second quarter showed further signs of weakness. At the heart of this slowdown was the situation in the financial markets, as a result of ongoing pressure on sovereign debt on the periphery of the euro area. This spread to a number of major emerging economies, which experienced lower than expected growth. Even so, thanks to a first quarter that was slightly better than expected, in mid-July the International Monetary Fund (IMF) lowered its forecasts for growth of the world economy only slightly to 3.5% in 2012 and 3.9% in 2013. These forecasts are, however, based on two important premises. One is that there will be adequate political measures to allow the financial conditions on the periphery of the euro area to gradually improve and the other is that the emerging economies will begin to gain traction. The downside risks clearly continue to dominate, especially due to tardy or insufficient political responses, not only in Europe but also in the USA.

The United States

GDP in the USA grew at an annualised rate of less than 2% in the first half-year, while prospects at the start of the year pointed to around 3%. This lower rate was associated at first with an increase in inflationary pressure as a result of rises in prices of raw materials, especially energy, due to geopolitical causes in the Middle East. The economy was then affected by the international slowdown, mainly caused by the worsening of the European crisis and its impacts on confidence. Lower expectations resulted in business owners postponing investment decisions, and corporate investment in equipment grew at the lowest rate since the USA began its current expansion in mid-2009. The greater boost from the recovery of the real-estate market explains the economy's resilience in an adverse international scenario. Meanwhile, employment initially continued the decidedly upward trend that began in 2011. This growth was, however, boosted by unusually mild weather, which favoured more hiring, in spite of poor growth in GDP in the first quarter (+2% in annualised terms), and so employment slowed down in the second quarter. In general, the unemployment rate decreased from 8.5% at the end of 2011 to 8.2% in June. It has not fallen below 8% since early 2009, however, and is still double the rate before the recession.

Year-on-year inflation, as measured by the PCE deflator, slowed down in the second quarter. It fell from 2.4% in December 2011 to 1.5% in June 2012, mainly as a result of a drop in prices of energy and most raw materials. In the same period, core inflation (i.e. excluding food and energy) fell from 1.9% to 1.8% and since November 2008 has remained under 2%, which is the Fed's current target for the PCE deflator, favouring its expansionary measures.

Euro area

After the area's return to contraction at the end of 2011, with the economy feeling the recessionary effects of fiscal consolidation policies from most Member States, including larger countries like Italy and Spain, the start of 2012 witnessed relief in the sovereign debt crisis in Europe and tensions in the financial markets and a certain resilience in the economy. GDP stalled down the line in the first quarter, contrary to expectations at the time, supported essentially by greater vitality from Germany, which expanded 0.5%. Nonetheless, this result only postponed the economy's fall into recession, as it returned to decreases in the second quarter (-0.2%, according to the initial estimate). It was penalised mainly by Spain and Italy, with Germany once again propping up the area. The European Central Bank (ECB) expects the economy to be able to return to growth in the second half of the year (probably only in the last quarter), but with the peripheral countries still being especially penalised by the current fiscal consolidation process. The economic outlook for the area and the world in general will continue to be conditioned to developments in the sovereign debt and financial system crisis in Europe.

Reflecting the ongoing economic difficulties, the unemployment rate in the first half of the year continued the upward trend that had begun mid-2011, rising from 10.7% at the end of 2011 to 11.2% in June 2012, the highest level since the start of the series in July 1990. The labour market continued to show marked geographical differences, especially among the largest economies in the euro area. Germany's scenario was positive, while that in Spain was negative, with the highest unemployment rates since at least 1983.

The year-on-year inflation rate went down from 2.8% in December 2011 to 2.4% in June, though the core component remained unchanged at 1.6%, in line with its historical average but below the ECB's inflation target (2%). Inflationary pressure continued to be exerted particularly by consumer energy prices and increases in indirect taxes imposed by some governments as part of austerity measures, meaning that they were essentially temporary in a context of economic contraction. These actions justified the bank's lesser concern about price rises during the quarter, while it showed growing apprehension about economic growth, financial stability and the very existence of the single currency. The ECB kept the refi rate at a then all-time low of 1% (it lowered it to 0.75% in July) after two consecutive cuts in late 2011, but also went ahead with some non-conventional measures to support the financial sector and its capacity to finance the economy. This included the second three-year long-term financing operation (LTRO) and more lenient collateral requirements for financing operations.

Angola

The country had to face macroeconomic imbalances after a fall in oil prices in 2008-09. In response, the authorities implemented an IMF-supported stabilisation programme for 2009-2012. Considerable progress was made in the programme and Angola achieved a better fiscal position, a more comfortable level of foreign reserves, a more stable exchange rate and a slowdown in inflation. Furthermore the state's overdue debts to suppliers were paid and progress was made in improving fiscal transparency and the information system. Macroeconomic conditions continued to improve in 2011, though the fact that oil production fell short of expectations limited GDP growth to 3.9%. Even so, it accelerated for the second year running (+3.4% in 2010 and +2.4% in 2009). According to the IMF, in spite of the recent fall in oil prices, growth is expected to speed up to 6.8% this year, thanks to an increase in production. Energy, transport and construction are the sectors most likely to benefit from public investment programmes. Agricultural production and food prices are being affected by drought, however. For upcoming years, the IMF considers that the economy faces several challenges: i) stepping up fiscal policy in the management of oil revenue in order to reduce the economy's vulnerability to oil price fluctuations, ii) building more foreign reserves in a scenario of high external risks and iii) allowing diversification and the structural reform of the economy to foster more inclusive growth. The average inflation rate fell from 14.5% to 13.5% in 2011 thanks to a stable exchange rate. The IMF expects inflationary pressure to slow down in 2012, with inflation falling to 10.8%.

Portugal

In the first half of the year, the Portuguese economy continued to grow less than the average of its euro area partners after a counter-cyclical year in 2011 during the implementation of the Financial Assistance Programme (FAP) agreed on with the ECB, IMF and European Commission troika. The programme entailed a vast series of measures and caused a considerable reduction in domestic demand.

The start of the year was less negative than expected, with Portugal's GDP shrinking only 0.1% in the first quarter, against 1.4% in the fourth quarter of 2011, as the economy's contraction rate was the lowest in the current recession. However, in contrast to this stabilisation of activity, the fall speeded up in the 2nd quarter (-1.2%), since part of the resilience came from the positive contribution of stocks (and actual investment in fixed capital), which is expected to have been fairly negative once again, especially as activity continued to be conditioned by the effects of the strict austerity measures in the 2012 State Budget (e.g. cuts in subsidies for state employees and higher taxes). The export sector has been one of the main positive surprises in Portugal's adjustment process and the goods and services account in nominal terms is expected to show a surplus for the first time since 1943.

The final reports on the fourth evaluation of the implementation of the FAP, which were published in July, continued to give a positive assessment, with Portugal essentially fulfilling its commitments, though they do describe an exacerbation of the risks faced by the fiscal adjustment. This exacerbation is basically the result of lower taxes collected, due to a GDP profile based less on spending, meaning less tax revenue. It is also a consequence of a significant increase in unemployment. In addition to the serious problem that it poses to society and the fiscal risks involved (as it increases social assistance), it may also jeopardise commitments made.

The situation in the labour market has deteriorated and the fall in investment resulted in a rise in the unemployment rate in the first half-year. According to Statistics Portugal, it went from 14% at the end of 2011 to 15% in the second quarter of 2012, the highest since at least 1977.

Inflation, measured by year-on-year variation in the CPI, slowed down in the first half of the year, going from 3.6% in December 2011 to 2.7% in June, almost making up for the rise in 2011, which reflected commodity prices and the fiscal consolidation measures taken in 2010 and 2011. Core inflation also fell, albeit slightly less, from 2.3% last December to 1.5% in June. Inflationary pressure is still largely temporary, though it should remain strong this year due to fiscal policy measures.

Financial markets

The performance of the different market segments was volatile and inconsistent in the first six months of the year and can be divided into two separate periods. The first coincided roughly with the first quarter and witnessed an improvement in market sentiment. This was supported by political and economic developments, particularly ongoing action by the monetary authorities of the main economic blocs, such as the second ECB three-year funding operation, plus less pessimism about the financial and sovereign debt crisis thanks to the stabilisation of uncertainty about Greece after an agreement on new funding from the troika and the understanding between the government and private sector on the restructuring of the country's debt. There were also signs that the recession in the euro area was not so profound and indications of greater global growth. They were only dampened by an increase in geopolitical tension in the Middle East, with an impact on oil prices, following the sanctions imposed in Iran because of its nuclear programme.

Performance was unfavourable in the rest of the period and the improvements witnessed until then were practically reversed due to new fears about the crisis in Europe and its impact on world economic growth prospects. These new fears were caused by the situation in Spain, where the government announced that it would not be meeting fiscal targets and needed a new agreement with the European authorities, and the growing difficulties in the country's financial sector, which ended in a request for international assistance to recapitalise the banks.

The instability reached its height with the political situation in Greece, as no government could be formed after the year's first elections. New elections had to be scheduled and there was the possibility of an executive that might jeopardise the country's international commitments. Concerns were dispelled when the subsequent elections resulted in a government favourable to the troika. There were positive developments in the markets in the last week of June, thanks to preliminary meetings and the results of the European summit.

Where **benchmark government bonds** were concerned, after the relief in the pessimism as to the debt crisis in the first quarter of the year, the second quarter brought exactly the opposite, with investors once again taking refuge in lower-risk assets. This more than offset the relief in the first quarter. As a result, yields on German bunds fell two basis points for two years and 25 for 10 years to 0.124% and 1.583% respectively. In the USA two-year yields increased moderately by six basis points to 0.301%, while 10-year yields dropped a dramatic 23 points to 1.645%, as instability in the financial markets and low job creation reopened the possibility of further stimuli from the Fed.

In spite of a rather unfavourable second quarter, the first half of the year ended up relieving some investors' fears in terms of the **public debt of some peripheral countries**. Spain was the only exception, as it was the focus of the markets' concerns. The spreads of yields on 10-year bonds from most of the peripheral countries fell against those in Germany in the first half of the year. The greatest falls occurred in Greece (-889 basis points, which had been the country that suffered most in the previous year, although its spread was considerably higher than those in the other countries. Next came the spreads in Portugal (-295 basis points), while those in Ireland and Italy went down more modestly. In Italy, this reflected the fact that the second quarter witnessed increased fears as to the country's fiscal situation. Spain's spread increased 149 basis points mainly due to a penalisation in the second half of the period.

In the **interbank money market (IMM)**, the 3, 6 and 12 month Euribor rates fell to 0.653%, 0.930% and 1.213% in the first half of 2012 and the three and six-month rates were actually lower than the ECB's main reference rate, which closed at 1%, although still very far from the overnight rates (0.38%), thereby demonstrating market tensions. The dollar Libor rates went down less and were unable to reverse the upward trend that began in mid-2011. The 3, 6 and 12 month rates were 0.461%, 0.734% and 1.068%, respectively.

The performance of **shares** was also considerably affected by the crisis in Europe and so the European indexes suffered in the second quarter of the year, more than offsetting the rise in the first quarter. Indexes in the United States benefited from the favourable profit season of its companies and the greater resilience of its economy. Most of the European indexes fell, while the German DAX (+8.8%) and French CAC 40 (+1.2%) were the main exceptions, in line with their stronger economies. The Portuguese PSI-20 benchmark showed one of the worst performances (-14.5%), better only than the Spanish IBEX (-17.1%). Eurostoxx 50, the index for the 50 largest euro area companies, went down 2.2%, while Britain's FTSE-100 stabilised. The technological Nasdaq index in the United States recorded gains (+12.7%), followed by the S&P 500 (+8.3%) and industrial Dow Jones (+5.4%). The indexes' performance in the Far East was good. The Japanese Nikkei 225 rose 6.5%, while the Chinese Shanghai Composite grew most modestly, due to fears of greater than expected economic slowdown in China.

There were improvements in the **private debt** market in the period, though only in the first quarter. The Itraxx (5 years), the CDS (credit default swaps) reference index for the euro area in the Investment Grade class, went down 7 basis points to 166. Within this index, the financial companies' situation improved considerably. The Itraxx Financials went down 60 basis points to 220, although it stayed above the figure for the other sectors, reflecting fears about the financial system. The reduction in spreads was more significant in the Itraxx Cross-over (5 years), the Speculative Grade index, which is more sensitive to the economic cycle, as they fell 92 basis points to 662.

The euro depreciated against the main currencies in the **exchange market** during the period, cancelling out its appreciation in the first quarter, which resulted from the reversal of the factors that had affected it most at the end of 2011. This was the case of sovereign debt in the area, which benefited from the measures being taken to create the necessary fiscal union and increase confidence in the sustainability of the single currency and the stabilisation of uncertainty about Greece. However, in the second quarter, the single currency suffered when the possibility of Greece pulling out of the euro resurfaced, as this would cause the euro area serious problems. The euro's half-year depreciation totalled 2.4% against the US dollar and 3.5% against the pound sterling, while it appreciated 1.2% against the yen, benefiting only from the gains achieved in the first quarter.

Commodities depreciated during the period and the **Reuters/Jefferies CRB** and **S&P GSCI** composite indexes fell 6.9% and 7.1%, respectively, reflecting the downward trend in most classes. The exceptions were livestock, agricultural commodities and precious metals, as they are less cyclical and precious metals are actually counter-cyclical. Performance was not uniform in most classes in the first quarter. The exception was oil, which followed a markedly upward trend as a result of geopolitical tension, especially between Iran and the western powers because of the country's nuclear programme, which resulted in an oil embargo on Iran. This effect was reversed in the rest of the period, with growing evidence of a slowdown in the world economy due to the European crisis affecting the price of most commodities. In the second quarter, commodity prices were particularly affected by fears that the slowdown of the Chinese economy would be more accentuated than originally expected, as China is one of the main consumers of most raw materials, especially industrial metals. The price of Brent Crude went down 8.9%, while base metal prices fell 2.4%. Gold rose 2.4%, due to its active role as a refuge in time of instability.

3. Summary of Montepio Group companies' performance

Mutual activity

Montepio Associação Mutualista continued to implement its action and budget programme for 2012 in the first half year. It defines the following for 2012-2015 within the framework of our strategic guidelines:

- Fostering member loyalty and retention of capital in order to increase income per member and stabilise flows of capital by reducing extraordinary repayments
- Increasing the capital of Caixa Económica and rationalisation of our financial holding portfolio in order to ensure the harmonious development of the Group
- Increasing the number of members based on the potential of the Group's customers taking advantage of the capacities of the companies' distribution channels, boosted by the former Finibanco network
- Furthering, modernising and differentiating our range of products on the basis of their purpose of complementary benefits and protection from risks
- Increasing the capacity of our balance sheet management and internal control system in order to manage assets and liabilities as a whole, mitigate risks and preserve solvency.

Considering the above strategic guidelines, Associação Mutualista has maintained its strategy of growth, closer relations with members and greater modernisation of solutions with a view to increasing its mutual loans and its importance as a complementary response to the need for social protection, health, wellbeing and quality of life while respecting high ethical standards and criteria of social responsibility and sustainability.

At the end of June 2012 we had 517,375 members, 5.7% more than in the previous year and there was a 6.1% increase in the number of mutual loan subscriptions, thanks to greater customer loyalty and a taste for mutual solutions.

Members' savings (association revenue) grew by an impressive 31%, which demonstrates how the products offered by Associação Mutualista meet society's needs in a particularly difficult scenario.

The net assets of Associação Mutualista totalled 3 billion euros, which represented 6.1% growth, while equity, consisting of own funds, technical surpluses, reserves and profits totalled 459 million euros (up 11.3%).

The profits of Associação Mutualista rose 43.3% to 62 million euros in the first half of 2012.

Banking activity

The strategic action taken by Caixa Económica, which includes its action and budget programme for 2012, is based on Banco de Portugal guidelines and take account of the targets of deleveraging, solvency and liquidity set out in the Memorandum of Portugal's Financial Assistance Programme, as defined in the Funding & Capital Plan requested from the eight main Portuguese banking groups:

- Deleveraging of business activity by reducing total credit net of impairment and increasing customer deposits, especially retail customers and small and medium savings in view of households' greater inclination to save
- Increasing capital and the Core Tier 1 Ratio in order to meet the FAP requirements
- Attracting more members and increasing retention of their capital
- Reducing funding from the European Central Bank and financial markets by increasing deposits from retail customers
- Diversifying credit by reducing exposure to the real estate sector and increasing loans to strategic production sectors, such as micro, small and medium-sized companies in the export markets
- Developing the Montepio Group's non-domestic business, in Angola for example, where there are opportunities for growth and the creation of value
- Recovering overdue credit and improving credit risk management
- Increasing the provision of fee-generating services and support for companies
- Stepping up proactiveness in margin management with an adjusted price risk policy and adjustment of timelines for resetting credit rates at funding rates

The specialised credit business, which is conducted by Finicrédito in the CEMG Group, was particularly affected by substantial decreases in car sales in Portugal in the first half of 2012. According to data from ACAP – Associação Automóvel de Portugal, there was a year-on-year decrease of 41.5%. This reflects the difficulties experienced by domestic spending, especially in Portugal, which has 14 new vehicles per 1000 inhabitants, as opposed to the European Union average of 26.

Finicrédito did not remain untouched by this decrease, as 87% of its portfolio consists of motor finance. As a result its total portfolio of undue credit fell 10.3% against 2011.

The change in management at the start of the second quarter resulted in an alteration in business strategy. Finicrédito now acts as the Montepio Group's specialised credit business unit. Its main business areas are motor finance, plant finance, consumer credit project development and business partnerships with the Caixa Económica commercial network.

We therefore began to change the production profile in order to diversify business sources and the portfolio.

The strengthening of relations with points of sale, which are partners constituting Finicrédito's main distribution channels, helped to develop the business. It currently has business relationships with 869 points of sale.

According to data from ASFAC - Associação de institutions de Crédito Especializado, Finicrédito is important to the market, with a production share of 4.2% in the first half of 2012, consisting of 3% in credit, 10.8% in leasing and 2.4% in long-term rentals.

Insurance

Lusitania – Companhia de Seguros, SA and Lusitania Vida – Companhia de Seguros, SA are the insurance companies within the consolidation perimeter of Caixa Económica Montepio Geral.

In the first half of 2012, premiums in non-life insurance activity fell against the market to a share of 5.3%, as opposed to 6% in June 2011. There was, however, strong growth on the part of Lusitania Mar, which had a market share of 20.4% (13% in the same period last year).

Where life insurance is concerned, the Montepio Group operates through Lusitania Vida, a company that complements its loan products in benefit and savings solutions and also the products and services of Companhia de Seguros Lusitania, by selling mixed solutions that generate substantial earnings. Its market share fell to 1.3% in the first half of 2012, as opposed to 1.6% in June 2011.

Asset management

The Portuguese securities investment fund market depreciated considerably, due to the current adverse economic scenario. In June 2012, the market was down 12.98% on June 2011 and assets under management totalled 11.164 billion euros. The performance of the funds managed by Montepio Gestão de Ativos was in line with the rest of the market. There was an increase in market share (2.47% in June 2012 against 2.11% in June 2011) due to the transfer of the equity funds of Finivalor – Sociedade Gestora de Fundos Mobiliários, S.A. to Montepio Gestão de Ativos – SGFI, S.A on 28 November 2011, after approval from the CMVM. On the date of transfer, the funds were assessed by the market at around 42 million euros.

There was a reversal in the downward trend in real estate investment funds in Portugal and they showed tenuous 1.72% growth against June 2011. The funds managed by Finivalor now represented 3.69% of the market (3.51% in June 2011), having grown 7.17%. The 30 million euro capital increase at Montepio Arrendamento - Fundo de Investimento Imobiliário de Arrendamento Habitacional in December 2011 contributed considerably to this growth.

In spite of a 7.3%, decrease in the portfolio management business, the market share of Montepio Gestão de Ativos increased to 2.04% (1.8% in June 2011), due to a sharp drop in the market, reaching 18.56% year-on-year.

The amount of pension funds under management as at 30 June 2012 totalled 12.96 billion euros, which was 31.2% lower than June 2011. The total amount of pension funds under management was influenced by the partial transfer to the state of ownership of the assets of pension funds whose liability for pensions payable on 31 December 2011 was set out in the regime on replacement in the collective labour regulations in the banking sector.

In spite of the instability in the financial markets in the last year, Futuro attracted new customers in 2011, which partially offset the transfer of a set of assets under its management to Social Security (185.4 million euros). Its market share therefore rose from 6.4% in June 2011 to 8.08% in June 2012.

Montepio brand's reputation

The Montepio brand's reputation reached the highest level in the entire Portuguese financial sector in the first half of 2012. It was recognised in the RepTrak™ Pulse 2012 survey by the Reputation Institute, which assesses the corporate reputation of more than 2,500 companies in many different sectors in 41 countries. Montepio improved by 3.6 points against 2011 and went against the negative trend in the banking sector, thereby achieving first place.

In the opinion of private customers and non-customers, Montepio is the bank with the best perception of products and services, corporate governance, social responsibility and performance, all of which are among the most important dimensions for a brand's reputation.

4. Distribution channels and human resources

Distribution channels

At the end of June 2012, CEMG's domestic network had 468 branches, as opposed to 503 in June 2011. This can be explained by the closure of four branches in the second half of 2011 and 31 in January 2012.

Montepio's international representation was reinforced by nine branches in Angola (+3 than in June 2011) plus a business centre, as a result of our majority holding in Finibanco Angola, SA via do Finibanco Holding, SGPS. There are also six agencies in Portuguese communities living abroad and an international financial institution in Cape Verde.

This network was also complemented by 939 commercial promoters (898 in June 2011) and 235 assurfinance promoters from Montepio-Lusitania (231 in June 2011), who made it possible to expand the Group's area of influence and commercial service.

Montepio provided 214 business managers and 57 SME managers to assist the second sector (one-person businesses, micro-companies and SMEs) in the first half of the year.

All remote and electronic channels have helped to boost this service and efficiency of distribution. On 30 June 2012, we had a total of 1,168 Multibanco ATMs (1,043 in June 2011), representing a market share of 8.5% (2.5 p.p. up on June 2011). Our own Chave24 network had 311 ATMs (306 in June 2011).

Operations processed by the Chave24 service as opposed to branches totalled around 26% in June 2012, as in June 2011.

Accesses to Montepio's website (www.montepio.pt) continued to rise substantially and reached a monthly average of 3.5 million visits and 17.4 million page views.

The Montepio24 Particulares service, which includes Net24, Phone24, Netmóvel24 and SMS24, totalled 679,000 subscribers, a year-on-year increase of 16%, while the Montepio24 Empresas service reached 85,500 subscribers, which represented a significant 54% increase.

Our automatic payment terminals continue to play a fundamental role in attracting and retaining customers in the small-business segment and help increase the average balances in current accounts. At the end of June 2012, thanks to its ongoing commercial activity, Montepio operated 17,723 terminals (14,566 in June 2011), accounting for a market share of 6.6%.

Human resources

At the end of the first half of 2012, Caixa Económica Montepio Geral had 3,862 employees, 262 fewer than on 30 June 2011, essentially as a result of early retirements and rescission of contracts.

From a broader point of view, considering the Finibanco Holding, SGPS companies whose accounts are fully consolidated with Caixa Económica, our employees were distributed as follows:

EMPLOYEES AT CAIXA ECONÓMICA AND FINIBANCO HOLDING, SGPS

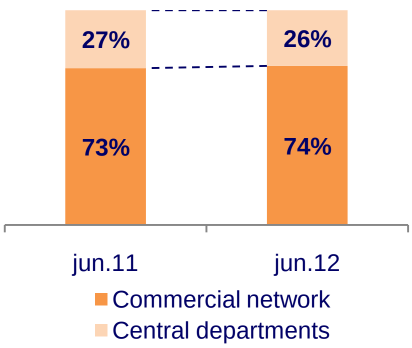
	jun.11	jun.12	Variation N.º	Variation %	Weight
Total	**4.390**	**4.144**	**-246**	**-5,6**	**100,0%**
Caixa Económica Montepio Geral	4.124	3.862	-262	-6,4	93,2%
Finibanco Holding, SGPS	266	282	16	6,0	6,8%
N.º Branches (CE)	503	468	-35	-7,0	
Nº employees / Nº Branches (CE)	8,2	8,3			

The slight increase in the number of employees at Finibanco Holding was due to the growth of Finibanco Angola, which is currently expanding its branch network. At the end of June 2012 it had 125 employees.

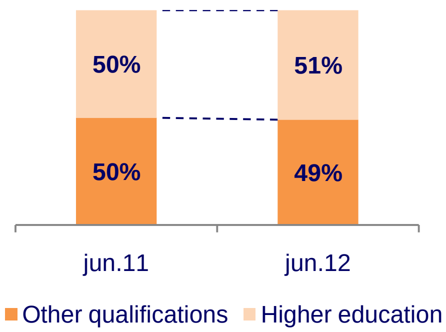
Where allocation and qualifications were concerned, 74% worked in the commercial network and 51% had higher education qualifications on 30 June 2012. These figures are slightly higher than 2011.

DISTRIBUTION OF CAIXA ECONÓMICA EMPLOYEES

By type of placement



By qualifications



Continuing our strategic policy of improving our human resources' qualification and competences, there was an increase in the number of training hours and substantial growth in participations, while the total investment in training was lower.

INVESTMENT IN TRAINING

	june 11	june 12
Nº training hours	43.146	58.831
Nº participations	3.296	10.233
Investment in training	126,5 thous.euros	90,5 thous.euros

Our human resource training plan concentrated on new courses and focused on developing skills associated with products, services and legal obligations and contributing to the growth of mutual activity. E-learning was the predominant form of training.

Courses were given in the following areas:

- Products - training on the launch and update of banking and mutual products and services;
- Regulations - mandatory training for certification of banking activity: knowledge of euro coins and notes and insurance - broker associated with accessory business;
- Processes - training in branch and banking procedures: cash recyclers, CRM and VIC: project management;
- Risk - training in the prevention and mitigation of operational and financial risks: operational risk management;
- Monitoring - training on business monitoring: investment analysis and portfolio management and Global Management Challenge 2012;
- Behaviour - training in occupational health in the service sector and sales and negotiation techniques.

5. Activity and main business areas

5.1 Products and services by segment

Considering its strategy and the current scenario, CEMG continued to aim its products and services at stepping up liquidity and deleveraging by attracting more customer savings and reducing and diversifying its credit portfolio.

After the expansion of CEMG's business portfolio as a result of the incorporation of Finibanco Holding, SGPS, SA, we developed business monitoring strategies for the private customer, corporate customer and third sector segments.

Private customers

In the first half of 2012, the main aim of our strategy for the private customer segment was to encourage saving by means of deposits and mutual loans.

Montepio pursued its goal of offering a stable, diversified range to its members and customers. Its mutual products included Montepio Capital Certo, which is exclusive to members and available in series with maturities of five and eight years. For maturities of up to four years, low-risk financial investments include Montepio Poupança Flexível deposits, the monthly Montepio Aforro Prémio and Montepio Super Poupança 2012 series and the new one-year Montepio Poupança Especial deposit advertised in the Montepio and *Star Wars*™ campaign.

Our range of online products was complemented by the Montepio Net Ganhe deposit, which is exclusively for customers using the Montepio24 Particulares service. Its main features are that it pays interest at the time of deposit, cannot be redeemed early and requires subscription to the digital statement service.

Our advertising strategy was to attract savings. Two complementary lines were created to advertise mutual products (extolling mutual values) and Caixa Económica products (in more commercial language using the partnership with the *Star Wars*™ brand).

MONTEPIO CAPITAL CERTO

The advertising campaign in February included cable TV, the press and the internet and was based on savings and protection solutions focusing on Montepio Capital Certo. It made use of advertising material from the 2011 campaign.

MONTEPIO PROTEÇÃO 5 EM 5

An advertising campaign for Montepio Proteção 5 em 5 was conducted in April and May. It included television, radio, press and the internet.

***JUNTE-SE AO LADO FORTE DA POUPANÇA* [JOIN THE STRONG SIDE OF SAVINGS]**

Taking advantage of an opportunity to do something different, a partnership between the Montepio and *Star Wars*™ brands was used and in March we conducted a campaign on the subject of savings putting over a different, striking message on the radio, internet and hoardings and in the press.

These campaigns contributed significantly to increasing our recognition and attracting savings.

CEMG's range of life and other insurances is constantly being updated in accordance with the market's needs.

There has been a considerable slowdown in demand for personal loans, which can be explained by a reduction in spending and public and private investment, especially in home-building, in view of the current market context. This reduction in the grant of new credit has made it possible to provide more support for families attempting to find solutions to the difficulties that they are currently experiencing.

Montepio has also provided households with access to mortgages on special terms in the sale of properties in its portfolio and real estate whose construction was financed by Montepio.

As a bank committed to social responsibility, we continued our partnership with Mobilidade Positiva, an organisation that promotes the integration of people with reduced mobility into society, by providing the Montepio Mais Mobilidade line of credit, which includes insurance that is exclusive in the market.

Also within the scope of responsibility and support for social development, Montepio provides a microcredit line for investment in small self-employment projects leading to social inclusion and work for their promoters.

At the end of June 2012, Montepio had a portfolio of 228,729 active cards, which was 15.2% more than at the end of 2011. We also introduced prepaid cards and 3,500 had been issued by the end of June.

Continuing our strategy of previous years, we included insurance among the products offered in order to strengthen the relationship between customers and Montepio as their main bank. The number of solutions grew 37% year-on-year to 47,677. A large proportion of this growth was due to the inclusion of Finibanco customers.

CEMG's Residências Montepio continues to offer the VITALidade+ benefit programme, which affords convenient, efficient solutions. These include 24-hour home medical assistance and discounts at listed private clinics and hospitals and a 5% co-payment of medications, products and services at Holon Group pharmacies. The fifth assisted living facility, Residência Montepio Montijo (private wing) opened in April.

In the affluent segment, which requires a more hands-on relationship, our Premium managers continued to monitor and satisfy these customers' financial needs. This exclusive service continued to include monthly series of the Montepio Aforro Mais 2012 deposit and the three-month online Montepio Net Crescente deposit.

After the success of campaigns in previous years, attention was focused once again on a small star, Panda. In June, the campaign with the slogan *O teu futuro vai ser enorme. Palavra de Panda* [You've got a great future. You have Panda's word on it] was aimed at children, with the concepts of saving, team spirit and financial education featuring on television (Panda channel), radio and internet and in the press.

Corporate banking

In spite of the unfavourable scenario of economic slowdown, Montepio maintained its commitment to support companies and businesses. We continued our strategy of betting on the segment as a financial institution committed to the country's development and so consolidated our range of business products and services and expanded our customer assistance network with a view to better quality of service.

Montepio has been present in all Portuguese initiatives organised by public bodies to stimulate and support the country's companies. We currently offer 25 special lines of credit.

In the first half of 2012, public bodies continued to encourage agreements with credit institutions providing companies with access to bank finance. On the basis of shared risk, these lines of credit strengthened the relationship between Montepio and the mutual guarantee system and boosted funding for companies.

In February 2012 ***START UP LISBOA – INCUBADORA DE EMPRESAS*** was opened to promote and foster the creation of new companies via partnerships offering value-added services to incubated companies.

As co-founder of the Start-up Lisboa project, along with IPMEI and Lisbon Municipal Council, Montepio has supported entrepreneurship by creating the right conditions for the idea incubator to operate properly.

Solução Montepio Startup Lisboa was set up and we provided support in the dissemination of this financial solution for resident companies and at the events for presenting them with the keys.

As part of the Montepio Group's strategic management, in view of the current economic situation, although we focus our business activity in Portugal, one of our strategic targets is developing international business due to its increasing importance in the development of the national economy.

A vast number of Montepio products and services have contributed to fostering the internationalisation of companies, including remittances, documentary credits, finance of international operations and discounting foreign bills.

In 2012, for the first time, Montepio attended the Salão Internacional do Setor Alimentar e Bebidas (SISAB), a food and beverage fair that had more than 400 Portuguese exhibitors and over 1,200 international buyers.

In order to attract and retain customers, Montepio offers business segments integrated solutions that include daily management products and services suited to the needs of the different sub-segments for a single monthly price.

Banking for the third sector

Montepio continues to have a special calling to bring the business and third sectors closer together. We therefore pursued this activity in new projects and partnerships and consolidated its independent commercial structure. It already has 18 employees, who include Montepio dedicated account managers in permanent contact with third-sector institutions, as a special way of monitoring all ongoing initiatives.

One aspect of this activity is microcredit, through the promotion and monitoring of small, viable investment projects for people who have motivation and business acumen but experience difficulties accessing credit and the employment market. Microcrédito Montepio innovates and grows in partnerships with national, regional or local organisations with experience in social entrepreneurship and risk-sharing and also via individual monitoring before and during the grant of loans.

In order to assist third-sector institutions in the current scenario, Montepio, in partnership with the Ministry of Solidarity and Social Security, CNIS - Confederação Nacional das Instituições de Solidariedade, União das Misericórdias Portuguesas and União das Mutualidades Portuguesas, introduced a 150 million euro line of credit to be allocated on terms that enable these institutions to do their work more effectively in the current circumstances.

We also reformulated our term deposits designed exclusively for this segment and adapted maturity and interest payments to their needs.

In our ongoing partnership with *Diário Económico*, , we held two conferences on the subject of **ageing: a burden or economic opportunity** in Porto and Lisbon as part of the European Year for Active Ageing and Solidarity between Generations.

Once again, in the **Minuto Solidário** project, we helped 22 private charities produce one-minute films for broadcasting on television and the internet in 2012. As in the previous edition, three-minute films were given to the charities to help disseminate their work and raise funds.

The geographical scope of the initiative was extended to private charities in the autonomous regions (2 in Madeira and 2 in the Azores) and 22 radio programmes were also produced in addition to the films.

In June, a **workshop** entitled ***Third Sector – How to Communicate?*** was held for the presentation of the films to the 2011 charities. It was attended by more than 120 institutions.

5.2 Business activity

Mutual products

At the end of June, Montepio Geral Associação Mutualista had 517,375 members, 5.7% more than in 2011. Mutual funds totalled 2.606 billion euros, representing year-on-year growth of 5.1%. This increase reflects the fast growth rate of most mutual loans.

Of our capitalisation products, retirement capital and issues of Montepio Capital Certo series continued to dominate and represented 75.8%. Retirement savings also performed well and were 1.3% higher than the previous year, thereby demonstrating the commercial network efforts in making customers and members of working age aware of the need to save in order to boost their pensions, even in an adverse context.

MUTUAL PRODUCTS

(thousand euros)

	dec.11		june11		june12		Variation	
	Value	%	Value	%	Value	%	Value	%
Capitalisation Mutual Schemes	**1.909.008**	**77,8**	**1.940.049**	**78,2**	**2.065.780**	**79,3**	**125.731**	**6,5**
Retirement capital and Montepio Capital Certo	1.819.144	74,2	1.850.330	74,6	1.974.924	75,8	124.594	6,7
Collective schemes	8.563	0,3	8.708	0,4	8.760	0,3	52	0,6
Retirement savings	81.301	3,3	81.011	3,2	82.096	3,2	1.085	1,3
Protection Mutual Schemes	**543.257**	**22,2**	**540.232**	**21,8**	**540.169**	**20,7**	**-63**	**0,0**
TOTAL	**2.452.265**	**100,0**	**2.480.281**	**100,0**	**2.605.949**	**100,0**	**125.668**	**5,1**

Customer resources on the balance sheet

The first half of 2012 witnessed considerable competition in the price, retention and attraction of resources, though Montepio's position as a savings institution was reinforced.

Our portfolio of customer resources on the balance sheet increased 6.7% against the same period in 2011 to 14.666 billion euros. The performance in the private and small business segment was highly positive and their portfolio of deposits grew 1.334 billion euros, or 13.6%.

This growth is the fruit of our customer loyalty strategy, especially those from Finibanco, who strengthened their relationship with Montepio.

DEPOSITS AND SECURITIES PLACED WITH CUSTOMERS

(thousand euros)

	dec.11	june 11	june 12	Variation	
	Value	Value	Value	Value	%
Deposits from private customers and small businesses	**10.848.634**	**9.828.333**	**11.162.040**	**1.333.707**	**13,6**
Private customers	9.949.568	9.204.838	10.088.837	883.999	9,6
Small business owners and professionals	53.717	51.999	59.892	7.893	15,2
Non-profit organisations	845.349	571.496	1.013.311	441.815	77,3
Deposits by companies	**2.248.138**	**2.244.536**	**1.961.723**	**-282.813**	**-12,6**
Deposits from other segments	**511.783**	**506.212**	**526.844**	**20.632**	**4,1**
Securities placed with customers	**889.990**	**1.165.895**	**1.015.415**	**-150.480**	**-12,9**
TOTAL	**14.498.545**	**13.744.976**	**14.666.022**	**921.046**	**6,7**

Customer loans

Our gross customer loan portfolio totalled 16.96 billion euros. It performed as planned and fell 2.7% against the same period in 2011.

This reduction occurred in all the segments, especially in the construction sector, where it went down 18.2% against June 2011, in line with our strategic goals.

Mortgages fell by 5% against June 2011, influenced by the divestment of our loan portfolio in May 2012. There were fewer new contracts than in the first half of 2011 reflecting lower demand for home buying due to unemployment and the economic recession.

LOANS TO PRIVATE CUSTOMERS AND SMALL BUSINESSES

(thousand euros)

	dec.11	june 11	june 12	Variation	
	Value	Value	Value	Value	%
Private customers and small businesses					
Total portfolio	**10.912.153**	**10.854.221**	**10.528.255**	**-325.966**	**-3,0**
Private customers	**10.322.893**	**10.272.898**	**9.948.136**	**-324.762**	**-3,2**
of which:					
Mortgages	8.451.702	8.577.409	8.152.723	-424.686	-5,0
Individual	777.211	741.995	711.209	-30.786	-4,1
Small businesses	**589.260**	**581.323**	**580.119**	**-1.204**	**-0,2**
Memorandum items:					
Guarantees	**21.528**	**23.173**	**20.325**	**-2.848**	**-12,3**

In addition to a substantial reduction in demand for credit on the part of companies, the CEMG Group experienced a 1.7% increase in investment loans to companies for diversification. This continues to be the pillar of the work that the Group has being gradually doing to support Portuguese business in low-risk exporting segments.

In investment credit, we also provided support for SMEs in special lines of credit from public bodies aimed at growth in exports and the economy.

CREDIT TO COMPANIES

(thousand euros)

	dec.11	june 11	june 12	Variation	
	Value	Value	Value	Value	%
Corporate banking					
Total credit portfolio	**6.358.648**	**6.450.044**	**6.284.211**	**-165.833**	**-2,6**
of which:					
Construction	1.370.193	1.536.835	1.257.029	-279.806	-18,2
Investment	3.216.781	3.121.618	3.173.533	51.915	1,7
Memorandum items:					
Guarantees	432.933	434.065	431.386	-2.679	-0,6

Disintermediation resources

At the end of the first half of 2012, our disintermediation portfolio totalled 1.305 billion euros, showing a slight growth of 2.8%. This was mainly the result of the performance of medium to long-term products: real estate investment funds.

INVESTMENT AND PENSION FUNDS AND CAPITALISATION INSURANCE

(thousand euros)

	dec.11		june 11		june 12		Variation	
	Value	%	Value	%	Value	%	Value	%
Securities investment funds	**266.067**	**21,1**	**335.459**	**26,5**	**275.230**	**21,1**	**-60.229**	**-18,0**
Treasury funds	117.559	9,3	140.246	11,1	139.540	10,7	-706	-0,5
Bond funds	18.684	1,5	23.769	1,9	17.046	1,3	-6.723	-28,3
Share funds	57.400	4,6	89.378	7,0	54.442	4,2	-34.936	-39,1
Funds of funds	72.082	5,7	81.342	6,4	63.891	4,9	-17.451	-21,5
Personal equity plan funds	342	0,0	724	0,1	311	0,0	-413	-57,0
Real estate investment funds	**629.909**	**50,1**	**533.009**	**42,0**	**694.984**	**53,3**	**161.975**	**30,4**
Open pension funds	**179.559**	**14,3**	**198.434**	**15,6**	**176.704**	**13,5**	**-21.730**	**-11,0**
Capitalisation insurance	**182.735**	**14,5**	**201.999**	**15,9**	**157.591**	**12,1**	**-44.408**	**-22,0**
TOTAL	**1.258.270**	**100,0**	**1.268.901**	**100,0**	**1.304.509**	**100,0**	**35.608**	**2,8**

6. Risk management

Developments

In the first half of 2012 we continued to develop methods and procedures for identifying risks, quantifying potential underlying losses and taking measures to mitigate them.

As a result, the Risk and Internal Control Committee met regularly and reactive housing scoring models and companies' ratings were updated for implementation in the second half of 2012. We also consolidated preventive customer monitoring methods, including reviewing criteria and procedures for drafting a company credit watch list.

We also revised our methods for assigning credit limits to non-financial companies and allocated generic maximum limits per customer on the basis of their risk.

We redefined the methods for allocating financial exposure for financial companies so that the quality of the institution's credit determined the exposure limit and the maximum timeframe for operations.

At a prudential level, we continued the reporting processes set out in Pillar II – capital adequacy and Pillar III – market discipline under Basel II. Pursuant to Pillar II we reported to the Bank of Portugal the results of the Internal Capital Adequacy Assessment Process and stress and concentration risk tests, as per Bank of Portugal Instruction 5/2011.

The results point to solid levels of capital to face the most material risks and potential unfavourable developments in the main macroeconomic indicators, in line with the results in previous periods.

Pursuant to Pillar III, we issued a market discipline report detailing types and levels of risk incurred in our activity and our risk management processes, structure and organisation.

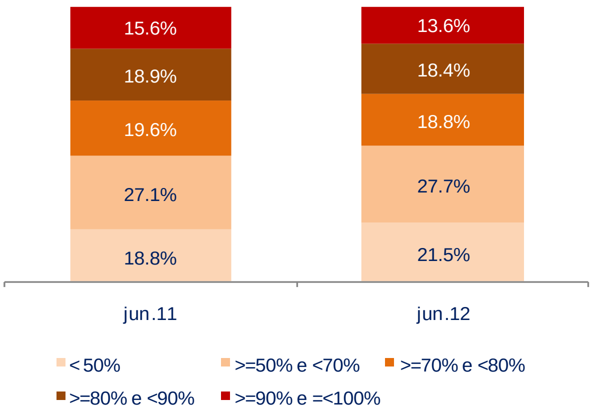
Credit risk

There was a larger degree of exposure to customers with a higher internal risk rating in the company credit segment than in the previous year. In spite of this trend, around 55% of our portfolio remains in the low or very low risk classes (1-4).

In the private customer segment, the distribution of active operations by risk class (reactive scoring) in June 2012 was similar to that of the previous year and they were concentrated in the low and medium risk classes. The average scoring class in mortgages increased slightly year on year (from 4.19 to 4.36 in a rising scale of 10 classes), while the average class in personal loans remained practically the same (going from 3.81 to 3.83 on a scale similar to that for mortgages).

There was an improvement in the LTV (loan to value) ratio, i.e. the amount of finance over the value of the guarantee. The average value of the active portfolio fell from 68.8% in June 2011 to 67.1% in June 2012, accompanied by 2-percentage point reduction in the weight of credits with an LTV of no less than 90%.

MORTGAGE PORTFOLIO BY LEVEL OF LTV



Our credit portfolio continues to be relatively protected against the credit risk thanks to the levels and types of guarantee associated with it. Credits with real guarantees represented 74.6% of the total and around 93% of them were mortgages.

Credit and interest overdue for more than three months accounted for 751.9 million euros, 86.8% of the total. The overall non-performing loan ratio was 4.43%.

MAIN INDICATORS FOR NON-PERFORMING LOANS

(thousand euros)

Indicators	dec.11	june 11	june 12	Variation	
				Value	%
Gross customer credit	**17.410.344**	**17.426.767**	**16.960.105**	**-466.662**	**-2,7**
Overdue credit and interest	**822.750**	**661.062**	**866.142**	**205.080**	**31,0**
Credit overdue more than 3 months	693.892	565.552	751.893	186.341	32,9
Impairment for Credit Risks	**770.476**	**687.759**	**764.828**	**77.069**	**11,2**
Ratio of credit overdue as a % of total credit					
Ratio of credit and interest overdue more than 3 months	3,99	3,25	4,43	1,18 p.p.	
Ration of defaulting credit (a)	5,03	4,75	5,80	1,05 p.p.	
Ratio of defaulting credit net of provisions (a)	0,65	0,85	1,37	0,52 p.p.	
Credit at risk ratios (%) (a)					
Credit at risk / total credit	8,05	6,20	8,80	2,60 p.p.	
Net credit at risk / total net credit	3,80	2,36	4,51	2,15 p.p.	
Overdue credit coverage by impairment (%)					
Credit overdue more than 3 months	111,04	121,61	101,72	-19,89 p.p.	

(a) According to Bank of Portugal Instruction 23/2011

At the end of June, credit risk impairment totalled 764.8 million euros. Coverage of the credit and interest rate balance overdue for more than three months by impairment was 101.7%.

Concentration risk

Following CEMG's diversification strategy, levels of concentration improved considerably, as reported regularly pursuant to Banco de Portugal Instruction 5/2011. Sectoral concentration fell from 17.2% to 15.5% between June 2011 and June 2012 (16% in December 2011). The weight of the construction sector decreased from 33.7% to 30.8% in our portfolio of credit to companies (31.9% in December 2011).

Where geographical concentration is concerned, the Lisbon and Porto districts still carry the most weight in our credit portfolio, in line with the population density in each. However, after the incorporation of the Finibanco, SA portfolio, exposure in Lisbon fell 1.6 p.p., between June 2011 and June 2012 to 34.6%, and in Porto it decreased 1.4 p.p. to 15.3%.

The individual concentration risk, which measures the risk of significant exposure to a single counterparty or group of related counterparties, rose from 12.9% to 13.6% between December 2011 and June 2012 in the 100 greatest exposures. This corresponded to a variation in general concentration from 0.19% to 0.2%.

Financial asset risk

The overall value of Montepio's portfolio of securities did not change significantly. The 21.6 million euro variation from December 2011 to June 2012 was due to a reduction in investment in bonds and greater investment in equities and fund units.

The credit risk of our securities portfolio remained the same as in December 2011 and continued to have a higher percentage of Portuguese government bonds.

SECURITIES PORTFOLIO BY TYPE OF ASSETS

(thousand euros)

Type of Assets	dec.11		june 12		Variation	
	Value	%	Value	%	Value	%
Bonds	1.964.388	76,3	1.793.219	69,1	-171.169	-8,7
Commercial paper	261.996	10,2	298.335	11,5	36.339	13,9
Equities and fund units	347.984	13,5	504.381	19,4	156.397	44,9
Total	**2.574.368**	**100,0**	**2.595.935**	**100,0**	**21.567**	**0,8**

BOND PORTFOLIO BY CLASS OF RATING (excluding mortgage bonds and securitisations)

(thousand euros)

Rating class	dec.11		june 12		Variation	
	Value	%	Value	%	Value	%
AAA	43.364	2,2	38.166	2,2	-5.198	-12,0
AA+	1.589	0,1	1.228	0,1	-361	-22,7
AA	24.931	1,2	6.775	0,4	-18.156	-72,8
AA-	77.578	3,9	8.651	0,5	-68.927	-88,8
A+	37.297	1,9	19.883	1,1	-17.414	-46,7
A	97.000	4,8	36.193	2,1	-60.807	-62,7
A-	62.737	3,1	116.770	6,7	54.033	86,1
BBB+	50.442	2,5	42.512	2,5	-7.930	-15,7
BBB	49.961	2,5	77.688	4,5	27.727	55,5
BBB-	27.541	1,4	28.946	1,7	1.405	5,1
BB+	1.247.924	62,3	67.804	3,9	-1.180.120	-94,6
BB	70.790	3,5	1.100.596	63,6	1.029.806	1454,7
BB-	31.347	1,6	25.674	1,5	-5.673	-18,1
B	0	0,0	31.566	1,8	31.566	-
B+	28.322	1,4	9.473	0,5	-18.849	-66,6
CCC+	5.850	0,3	0	0,0	-5.850	-
CCC	24.087	1,2	4.436	0,3	-19.651	-81,6
C	0	0,0	4.287	0,2	4.287	-
NR	121.940	6,1	110.376	6,4	-11.564	-9,5
Total	**2.002.699**	**100,0**	**1.731.023**	**100,0**	**-271.676**	**-13,6**

Liquidity risk

The liquidity risk is monitored by calculating static and dynamic liquidity mismatches, watching the performance of deposits and conducting stress tests, the results of which are submitted to the ALCO – Assets & Liabilities Committee. For prudential purposes, the supervisor is sent the monthly report set out in Bank of Portugal Instruction 13/2009 and a weekly report on finance needs and available collateral is sent to the European Central Bank (ECB).

Montepio's practices to mitigate the liquidity risk entail using diversified sources of finance favouring stable resources, maintaining highly liquid assets, making it possible to borrow from the ECB and taking measures to attract more deposits.

The value of eligible assets deposited at the ECB increased by 495.4 million euros year on year, as it went from 2.9 billion euros in June 2011 to 3.4 billion in June 2012. This increase was due basically to the Pelican Mortgages no. 6 mortgage securitisation operation and the inclusion in the pool of consumer credits and credit to companies, which became eligible for the purpose of refinancing at the ECB. There was a year-on-year reduction of 260 million euros in the use of ECB resources. It went from 2.22 billion euros on 30 June 2011 to 1.96 billion at the end of June 2012.

The combination of these two effects was reflected by a 755.4 million euro increase in the value of the pool of available funds. The ECB took advantage of the opportunity to grant three-year loans at the weighted refi rate, which ensured greater stability in funding and took pressure off weekly borrowing operations.

POOL OF ELIGIBLE ASSETS FOR REFINANCING FROM THE ECB

(thousand euros)

	dec.11		june 11		june 12		Variation	
	Value	%	Value	%	Value	%	Value	%
1 - Pool of eligible assets	2.991.055	100,0	2.901.361	100,0	3.396.782	100,0	495.421	17,1
2 - Use of pool	2.000.000	66,9	2.220.000	76,5	1.960.000	57,7	-260.000	-11,7
3 - Pool of available assets (1 - 2)	**991.055**	**33,1**	**681.361**	**23,5**	**1.436.782**	**42,3**	**755.421**	**110,9**

Again, there was little activity in the interbank money market in the first half of 2012, as in previous years. Lending and borrowing operations were mainly for short maturities. Portugal's risk continued to affect business with other jurisdictions. Montepio's position at the end of the period showed a balance of 165 million euros in holdings with other credit institutions at an average lending rate of 0.78%. The ongoing exceptional liquidity support measures by the ECB kept interbank market rates below the refi rate (1%) for the shortest maturities.

In the first half of 2012, Montepio repaid a total of 542.5 million euros of debt and issued around 161.4 million euros, all on the retail market.

In order to manage its responsibilities to the capital market and also offer its investors greater liquidity, in June Montepio successfully undertook a public securities buy-back offer involving three securitisation operations, as part of its Pelican Mortgages 1, 2 and 3 credit securitisation programme, and a senior debt issue, which represented a total nominal amount of 1.114 billion euros. It acquired 185.7 million euros.

In the first half of 2012 CEMG consolidated the deleveraging process that it began in 2008 by increasing customer deposits, especially small and medium savings while reducing its credit portfolio. This reduced the commercial gap and therefore transformation into credit of customers' deposits and resources, including securities placed with customers (leveraging ratio). In June 2012, there was a year-on-year reduction of 15.6 p.p. in the net credit to customers / total customer deposit ratio.

TRANSFORMATION OF DEPOSITS INTO CREDIT (%)

	dec.11	june 11	june 12	Variation
	Value	Value	Value	Value
Net customer credit (1) / total customer deposits (a)	**124,1**	**135,6**	**120,0**	**-15,6 p.p.**
Net customer credit (1) / total customer resources (2)	**116,5**	**124,1**	**111,8**	**-12,3 p.p.**

(a) - According to Bank of Portugal definition for Funding & Capital Plan

(1) - Includes commercial paper

(2) - Includes securities places with customers

Historically, CEMG has had dynamic positive liquidity gaps with accumulated positive mismatches for the different timeframes up to 12 months, which reflects a balanced liquidity plan. In June 2012, its dynamic accumulated liquidity mismatch up to the following 12 months plus net assets was 1.4 billion euros.

DYNAMIC LIQUIDITY POSITION GAPS AS AT 30 JUNE 2012

(million euros)

Position on reference data + Forecast Values	Maturity				
	On sight and up to 1 week	Over 1 week and up to 1 month	Over 1 month and up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 12 months
Accumulated *Mismatches*	437	204	287	334	1.424

Interest rate risk

We abide by the recommendations of the Bank for International Settlements when identifying, measuring and controlling the interest rate risk of CEMG's banking portfolio, and the ALCO – Assets & Liabilities Committee regularly monitors exposure to this risk.

At the same time, as part of prudential reporting, the supervisor is sent the six-monthly report required by Banco de Portugal Instruction 19/2005 containing information on exposure by maturity or resetting of rate and its impact on our net worth and interest margin.

In June 2012, the accumulated 12-month repricing gap was estimated at 3.37 billion euros, (3.1 billion euros in December 2011), with an expected impact on the financial margin of +37.2 million euros (+29.6 million in December 2011) in the event of an instantaneous change in interest rates of +100 basis points.

Operating risk

Operating risk consists of the risk of losses resulting from defects or failures in in-house procedures, human resources and systems or external factors.

In the first half of 2012, continuing a cycle of ongoing improvements in processes by identifying, monitoring, mitigating and reporting this type of risk were carried out. We extended the implementation of the operating risk model to other companies in the group, namely Finicrédito and Finivalor.

In terms of exposure to this risk, losses in this period fell significantly (59%) year on year while external fraud and failures in execution, delivery and management of processes accounted for the most events.

Stress tests

CEMG conducts six-monthly sensitivity analyses and stress tests for the most relevant risks in compliance with Banco de Portugal Instruction 04/2011. They are important tools in the planning of internal capital and liquidity, as they simulate adverse conditions and the institution's response capacity.

During Portugal's financial assistance programme, CEMG participated in a new stress test exercise (for the first quarter of 2012), in accordance with macroeconomic requirements and assumptions established by the Bank of Portugal. The result once again showed that CEMG has adequate capitalisation levels, even in a severe deterioration in economic and financial conditions.

In addition to the stress tests and sensitivity analyses reported to the Bank of Portugal, CEMG regularly performs stress tests, the results of which are disclosed and discussed by the ALCO. The tests provide an analytical view of CEMG's position in terms of liquidity, profits for the period and capital, when subject to adverse scenarios caused by changes in risk factors, such as interest rates, credit spreads, repayments of deposits, ECB eligible asset evaluation margins, ratings (of CEMG and counterparties), non-performing rates of portfolios and collateral. The results of the analyses show the compliance of strategies and ensure appropriate levels of solvency, liquidity and sustainability.

7. Solidity and financial analysis

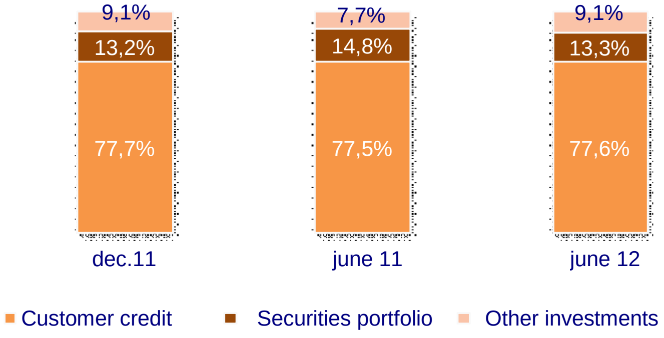
The business activity of Caixa Económica Montepio Geral (CEMG) in the first half of 2012 was conditioned by the structural adjustment of the Portuguese economy that has generated difficulties for companies and households and high levels of unemployment, by the guidelines in the Memorandum of Understanding between Portugal and the IMF, ECB and EC on deleveraging, capitalisation and liquidity and by the draft State Budget for 2012, which altered the tax status of CEMG, thereby resulting in a natural need to adapt.

Balance sheet

Assets

CEMG's consolidated net assets totalled 20.967 billion euros at the end of June 2012, 3.3% less than in 2011 (-713 million euros).

Assets Structure



Net credit to customers is the most relevant item in total assets (77.6%). There was a 531 million euro (3.2%) reduction in our portfolio to 16.261 billion euros, which demonstrated the success of efforts to reduce lending, thereby brining forward to the current half year fulfilment of the 120% deleveraging target set for 2014 in the Memorandum of Understanding underlying the FAP.

Assets were also influenced by a 420 million euro reduction in our portfolio of securities and equivalent. CEMG reduced its exposure to the Portuguese public debt, debt from other issuers and commercial paper.

Liabilities and equity

Liabilities totalled 19.514 billion euros on 30 June 2012, as opposed to 20.56 billion euros on the same date in 2011. The 921 million euro increase in customer resources, particularly in deposits from customers and credit institutions, which grew by 1.072 billion euros, shows the appropriateness of the Montepio Group's strategy to the current circumstances. Our strong policy for attracting deposits is reflected in an improvement in our leverage ratio, which went from 135.6% (June 2011) to 120%.

LIABILITIES AND EQUITY

(thousand euros)

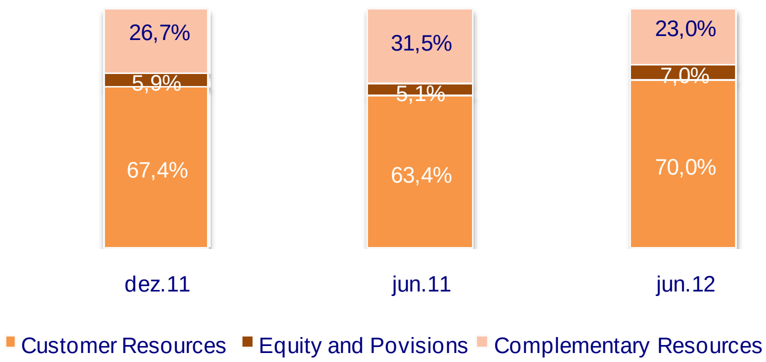
	dec.11		june 11		june 12		Variation	
	Value	%	Value	%	Value	%	Value	%
Customer resources	**14.498.545**	**67,4**	**13.744.976**	**63,4**	**14.666.022**	**70,0**	**921.046**	**6,7**
Deposits from customers and credit institutions	13.608.555	63,3	12.579.081	58,0	13.650.607	65,1	1.071.526	8,5
Securities placed with customers (cash bonds)	889.990	4,1	1.165.895	5,4	1.015.415	4,9	-150.480	-12,9
2 - Additional resources	**5.729.372**	**26,7**	**6.825.793**	**31,5**	**4.843.269**	**23,0**	**-1.982.524**	**-29,0**
Resources from credit institutions and central banks	2.544.299	11,9	2.757.346	12,7	2.450.770	11,7	-306.576	-11,1
Subordinated and unsubordinated loans and debt certificates	2.253.873	10,5	3.165.321	14,6	1.557.181	7,4	-1.608.140	-50,8
Financial liabilities associated with transferred assets	453.061	2,1	461.187	2,1	303.330	1,4	-157.857	-34,2
Other liabilities	478.139	2,2	441.939	2,1	531.988	2,5	90.049	20,4
3 - Equity and provisions	**1.267.473**	**5,9**	**1.108.793**	**5,1**	**1.457.314**	**7,0**	**348.521**	**31,4**
TOTAL LIABILITIES AND EQUITY	**21.495.390**	**100,0**	**21.679.562**	**100,0**	**20.966.605**	**100,0**	**-712.957**	**-3,3**

As we followed our chosen strategy, funding of business activity continued to come mainly from customer resources. Their weight in total liabilities and equity went up to 70% (against 63.4% in June 2011), while additional market resources went down to 23%.

Particularly important in customers' resources were deposits, at 65.1%, while cash bonds placed by the commercial network accounted for 4.9% and contributed to the stability of resources thanks to their nature as savings, as they are products with longer maturities (two to five years).

Equity and provisions increased to 1.457 billion euros at the end of 2012, as opposed to 1.109 billion euros in June 2011. Associação Mutualista raised its share capital by 100 million euros in order to maintain the solidity levels of Caixa Económica at the end of 2011.

Liabilities and Capital Structure



Analysis of return

Net profit

The CEMG Group's profit totalled 4.8 million euros, 0.3 million euros less than in the same period in 2011. In terms of current activity before tax, the CEMG Group achieved a profit of 9.54 million euros, which was 4.54 million euros more than in 2011.

INCOME STATEMENT

	dec.11		june 11		june 12		Variation	
	Value	%	Value	%	Value	%	Value	%
Net interest income	318.721	57,1	158.342	67,8	153.333	59,7	-5.009	-3,2
Net fees from customer services	94.014	16,8	43.725	18,7	48.503	18,9	4.778	10,9
Commercial banking income	**412.735**	**73,9**	**202.067**	**86,5**	**201.836**	**78,6**	**-231**	**-0,1**
Market profit/loss (a)	89.989	16,1	35.876	15,3	61.424	24,0	25.548	71,2
Return on financial holdings	737	0,1	430	0,2	338	0,1	-92	-21,4
Profit on sale of real estate for debt recovery	24.314	4,4	-1.952	-0,8	-10.258	-4,0	-8.306	425,5
Other profit/loss	30.855	5,5	-2.868	-1,2	3.355	1,3	6.223	-217,0
Banking income	**558.630**	**100,0**	**233.553**	**100,0**	**256.695**	**100,0**	**23.142**	**9,9**
Personnel costs	225.373	40,3	92.486	39,6	97.693	38,1	5.207	5,6
General and administrative expenses	115.442	20,7	48.843	20,9	57.088	22,2	8.245	16,9
Depreciation	28.270	5,1	12.442	5,3	15.321	6,0	2.879	23,1
Operating costs	**369.085**	**66,1**	**153.771**	**65,8**	**170.102**	**66,3**	**16.331**	**10,6**
Gross profit	**189.545**	**33,9**	**79.782**	**34,2**	**86.593**	**33,7**	**6.811**	**8,5**
Net provisions and impairment	**157.937**	**28,3**	**73.831**	**31,6**	**76.541**	**29,8**	**2.710**	**3,7**
Credit	143.728		58.608		38.899		-19.709	-33,6
Securities	23.048		6.771		8.996		2.225	32,9
Others	-8.839		8.452		28.646		20.194	238,9
Profit/loss from members and joint ventures	**999**		**-950**		**-515**		**435**	-45,8
= Pre-tax profit	**32.607**	**5,8**	**5.001**	**2,1**	**9.537**	**3,7**	**4.536**	**90,7**
Taxes								
Current	**-3.689**		**-3.219**		**2.439**		**5.658**	-175,8
Deferred	**18.381**		**4.256**		**1.196**		**-3.060**	-71,9
Minority interests	**-2.270**		**-970**		**1.128**		**2.098**	-216,3
= Profit/loss for the period	**45.029**	**8,1**	**5.068**	**2,2**	**4.774**	**1,9**	**-294**	**-5,8**

(a) Includes return on shares, except financial shareholdings.

The performance of commercial banking income, which grew 9.9%, contributed positively to the net profit for the period. This variation was due essentially to net fees for customer services, with 48.5 million euros (+10.9%) and market results, totalling 61.4 million euros.

On the other hand, the following negative impacts occurred:

- Our financial margin was 153.3 million euros, 3.2% less than in 2011, reflecting the sharp fall in reference interest rates
- Operating costs increased by 10.6% still influenced by the costs of integrating the former Finibanco Group, which are expected to continue until the end of 2012
- There was a 3.7%, increase in provisions and impairment against the same period in 2011 (credit impairment was positively affected by the sale of a credit portfolio in May 2012).

The levels of return achieved were in line with or slightly below those of the previous year, i.e. return on assets (ROA) was 0.05% (the same as in June 2011) and return on equity (ROE) was 0.71% (0.89% in 2011).

RETURN INDICATORS

	dec.11 Value	june 11 Value	june 12 Value	Variation Value	Variation %
Return ratios					
Return on assets (ROA)	0,21%	0,05%	0,05%	0,00 p.p.	
Return on equity (ROE)	3,87%	0,89%	0,71%	-0,18 p.p.	
Total cash-flow (EUR thousands)	**231.236**	**91.341**	**96.636**	**5.295**	**5,8**
Depreciation	12,2%	13,6%	15,9%	2,3 p.p.	
Net provisions and impairment	68,3%	80,8%	79,2%	-1,6 p.p.	
Profit/loss for the year	19,5%	5,6%	4,9%	-0,7 p.p.	

Net interest income

Net interest income totalled 153.3 million euros, which was 5 million euros (3.2%) less than in 2011.

BREAKDOWN OF NET INTEREST INCOME

(million euros)

	june 11 Average capital	june 11 Average rate	june 11 Earnings/costs	june 12 Average capital	june 12 Average rate	june 12 Earnings/costs
Financial assets	**19.902**	**5,29%**	**522**	**20.270**	**6,36%**	**641**
Customer credit	16.675	3,74%	309	17.125	4,69%	399
Other investments	3.227	5,46%	87	3.145	6,58%	103
Swaps			126			139
Financial liabilities	**19.298**	**3,81%**	**364**	**19.597**	**5,01%**	**488**
Deposits	11.575	2,33%	134	13.509	3,63%	244
Other liabilities	7.723	3,06%	117	6.088	3,74%	113
Swaps			113			131
Net Interest income		**1,60%**	**158**		**1,52%**	**153**
Euribor 3M - average for period		**1,15%**			**0,77%**	

Due to constraints arising from the market and the guidelines set out in the Memorandum of Understanding for the banking sector, especially regarding deleveraging, the business scenario was one of more selective lending and greater caution in the face of huge competition in attracting and retaining deposits. As a result there was:

- Growth in interest from financial assets to 641 million euros, 22.8% higher than in 2011, with an increase in the average rate of credit to customers to 4.69% (3.74%, in June 2011)
- An increase in interest on financial liabilities to 488 million euros, with the price of deposits being influenced by a reduction in demand deposits in the company and institutional segments as a result of a deterioration in economic and financial conditions.

Customer services

Earnings from the provision of services to customers rose 10.9% to 48.5 million euros, reflecting more vitality in the distribution networks in fee-generating business with customers. On 30 June, they represented 18.9% of total banking income.

This performance was achieved by diversification and innovation, ongoing improvements in quality standards and the excellence of our products and services.

Our strategy of continuing efforts to keep customers has resulted in greater customer loyalty and contributed to growth in CEMG's return.

Market profits

Market profits totalled 61.4 million euros, as opposed to 35.9 million euros in same period in 2011. These profits reflect CEMG's prudent, strict, relatively conservative policy in recent years.

BREAKDOWN OF MARKET PROFITS

(thousand euros)

	dec.11	june 11	june 12	Variation	
	Value	Value	Value	Value	%
Assets and liabilities measured at fair value through profit or loss	**62.138**	**26.104**	**-14.803**	**-40.907**	**-156,7**
Financial assets and liabilities held for trading	64.458	25.459	-13.894	-39.353	-154,6
Financial assets and liabilities at fair value through profit or loss	-409	-175	153	328	-187,4
Hedging derivatives	-6.612	-213	-1.440	-1.227	576,1
Other financial operations	4.701	1.033	378	-655	-63,4
Profit on sale of financial assets available for sale	**3.667**	**2.517**	**47.121**	**44.604**	**1.772,1**
Profit on exchange rate revaluation	**8.410**	**2.742**	**5.914**	**3.172**	**115,7**
Profit on sale of bonds	**-676**	**-330**	**0**	**330**	**-100,0**
Other profits	**16.266**	**4.713**	**23.017**	**18.304**	**388,4**
Return on Shares	**184**	**130**	**175**	**45**	**34,6**
TOTAL	**89.989**	**35.876**	**61.424**	**25.548**	**71,2**

Operating costs

Operating costs, which include personnel costs, administrative expenditure and depreciation for the period, totalled 170.1 million euros, as opposed to 153.8 million euros in 2011. Personnel costs accounted for 97.7 million euros, administrative expenditure 57.1 million and depreciation 15.3 million.

Our ongoing policy of meticulousness and containment of costs achieved a reduction in costs of consultancy (-0.9 million euros) and advertising (-2.3 million euros). However, in a highly competitive sector, it was necessary to increase our investment in IT, which is essential in developing and improving transaction systems and management and control processes.

In the first half of 2012, operating costs rose because of the incorporation of the Finibanco Group. The following factors contributed to the above-mentioned performance:

– Organisational alignment and training: identification and elimination of duplicated work in the different business support units and training of teams

– Optimisation of the commercial network: cost of 10 superimposed branches (to be closed in October 2012)

– Exceptional support for workers transferred to different geographical locations.

These costs will continue in the second half of 2012.

The cost-to-income ratio was 66.3%, as opposed to 65.8% at the end of June 2011. This was due to an increase in operating costs (+10.6%) higher than the growth in banking income (+9.9%).

EFFICIENCY INDICATORS

(thousand euros)

	dec.11	june 11	june 12	Variation	
	Value	Value	Value	Value	%
RATIO					
Personnel costs / banking income	40,3%	39,6%	38,1%	-1,5	p.p.
General and administrative expenses / banking income	20,7%	20,9%	22,2%	1,3	p.p.
Depreciation / banking income	5,1%	5,3%	6,0%	0,6	p.p.
Cost-to-income (operating costs / banking income)	**66,1%**	**65,8%**	**66,3%**	0,4	**p.p.**
Efficiency ratio (operating expenses / banking income)	61,0%	60,5%	60,3%	-0,2	p.p.

Depreciation totalled 15.3 million euros, representing an increase of 23.1%, essentially as a result of investments in technology that had an impact on computer hardware.

Provisions and impairment

In the first half of 2012, we made improvements in our credit recovery structures, along with some developments in the areas of information and control, in order to reduce the progression of defaults arising from the adverse situation affecting economic agents.

PROVISIONS AND IMPAIRMENT

(thousand euros)

	dec.11		june 11		june 12		Variation	
	Value	%	Value	%	Value	%	Value	%
Net provisions and impairment of credit	**143.728**	**91,0**	**58.608**	**79,4**	**38.899**	**50,8**	**-19.709**	**-33,6**
Setting up provisions and impairment	587.731		245.004		448.623		203.619	83,1
Recovering provisions and impairment	444.003		186.396		409.724		223.328	119,8
Net impairment of securities	**23.048**	**14,6**	**6.770**	**9,2**	**8.996**	**11,8**	**2.226**	**32,9**
Setting up impairment	26.131		7.702		17.825		10.123	131,4
Recovering impairment	3.083		932		8.829		7.897	847,3
Net provisions and impairment of other assets	**-8.839**	**-5,6**	**8.453**	**11,4**	**28.646**	**37,4**	**20.193**	**238,9**
Setting up provisions and impairment	32.562		8.933		46.574		37.641	421,4
Recovering provisions and impairment	41.401		480		17.928		17.448	3.635,0
Total net provisions and impairment	**157.937**	**100,0**	**73.831**	**100,0**	**76.541**	**100,0**	**2.710**	**3,7**
Setting up provisions and impairment	646.424		261.639		513.022		251.383	96,1
Recovering provisions and impairment	488.487		187.808		436.481		248.673	132,4

The following factors were relevant in the overall rise in provisions and impairment (+2.7 million euros):

- An increase in credit provisions and impairment (+203.6 million euros) to meet the higher risk in some segments
- A 2.3 million euro increase in net impairment of securities due to lower prices and deterioration in the quality of some issuers
- 20.2 million euro growth in impairment for other assets due to older properties.

Pension fund

In June 2012, the pension fund's assets totalled 484.7 million euros. The level of coverage of minimum liabilities was 120.4%. The level of coverage of total liabilities improved to 110.3%.

PENSION FUND

(thousand euros)

		dec.11	june 11	june 12
		Value	Value	Value
1	**Total liabilities**			
	Current staff	310.652	424.735	325.957
	Retired staff	116.184	264.323	113.561
	Total 1	**426.836**	**689.058**	**439.517**
2	**Non-required or deferred liabilities**			
	Exemption on financing	15.578	19.954	16.297
	Application of IAS	15.835	20.761	10.807
	Impact on mortality table	9.773	19.545	9.773
	Total 2	**41.186**	**60.260**	**36.877**
3	**Minimum liabilities to be financed (1-2)**	**385.650**	**628.798**	**402.640**
4	**Funds assets**	**447.825**	**612.755**	**484.661**
5	**Coverage of:**			
	Minimum liabilities (4/3)	116,1%	97,4%	120,4%
	Total liabilities (4/1)	104,9%	88,9%	110,3%
6	**Adjustments with impact on fund's value during the year:**			
6.1	Contributions to the fund (+)	44.075	120	7.249
6.2	Actual return on assets (+)	-22.993	-8.329	34.839
6.3	Value of Finibanco pension fund as at 1/1/2011 (+)	85.585	85.585	-
6.4	Transfer to Social Security (-)	183.910	0	1.377
6.5	Payment of pensions (-)	20.029	9.718	3.875
6.6	**Total 6 (6.1+6.2+6.3-6.4-6.5)**	**-97.272**	**67.658**	**36.836**

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

- ✓ discount rate of 5.5%
- ✓ salary growth rate of 2%
- ✓ pension growth rate of 1%
- ✓ continued use of the TV 88/90 mortality table for men and women

Solvency

At the end of June 2012 our consolidated solvency ratio was 13.28%, which was 0.79 p.p. higher than in June 2011. The Core Tier I ratio was 10.14%, representing a year-on-year increase of 1.04 p.p., which enabled us to exceed the minimum of 10% required by the authorities for the end of this year earlier than expected, as was also the case at the end of 2011.

EQUITY AND SOLVENCY RATIO

(thousand euros)

Item	dec.11	june 11	june 12	Variation	
	Value	Value	Value	Value	%
1. Total equity	**1.831.996**	**1.644.151**	**1.803.247**	**159.096**	**9,7**
(+)Institutional capital	*1.245.000*	*1.145.000*	*1.245.000*	*100.000*	*8,7*
(+) Reserves and profits	*254.790*	*232.274*	*288.995*	*56.720*	*24,4*
(-) Regulatory deductions	*121.206*	*179.554*	*156.410*	*-23.144*	*-12,9*
1.1 (=)Core Tier I capital	**1.378.584**	**1.197.720**	**1.377.584**	**179.864**	**15,0**
(+) Other capital instruments	*15.000*	*15.000*	*15.000*	*0*	*0,0*
(-) Deduction base equity	*15.081*	*14.788*	*16.572*	*1.784*	*12,1*
1.2 (=)Base equity	**1.378.503**	**1.197.932**	**1.376.012**	***178.080***	**14,9**
(+) Supplementary equity	456.670	461.025	433.415	*-27.610*	-6,0
(-) Other deductions	3.177	14.807	6.181	*-8.626*	-58,3
2. Minimum required equity	**1.080.498**	**1.052.945**	**1.086.686**	**33.741**	**3,2**
3. Assets and equivalents weighted for risk (2 x 12.5)	**13.506.227**	**13.161.816**	**13.583.573**	**421.757**	**3,2**
4. Ratios					
Solvency (1 / 3)	13,56%	12,49%	13,28%	0,79 p.p.	
Core Tier I (1.1 / 3)	10,21%	9,10%	10,14%	1,04 p.p.	
Tier I (1.2 / 3)	10,21%	9,10%	10,13%	1,03 p.p.	

8. Ratings

Caixa Económica Montepio Geral has been rated by three international rating agencies, Fitch Ratings, Moody's and DBRS.

CEMG ratings at the end of June 2012 were as follows:

Rating agency	Short term	Long term	Outlook
Fitch Ratings	**B**	**BB**	**Negative**
Moody's	**NP**	**Ba3**	**Negative**
DBRS	**R-2 (*low*)**	**BBB (*low*)**	**Negative**

9. Main risks and uncertainties for the second half of 2012

We can expect the continuation of an adverse context and considerable difficulty for financial institutions in the second half of 2012, in a framework of uncertainty and higher risk factors.

The downside risks of world economic growth for 2012 (IMF, July 2012) and the prospect of poor performance of business activity in the euro area caused by the sovereign debt crisis in the peripheral countries and uncertainty as to fulfilment of targets set in the countries' financial assistance programmes are the main risk factors.

At the same time, difficulty in achieving European consensuses on essential issues in solving the crisis, such as the issue of Eurobonds, supervision of national accounts and bank regulation models, among others, will also contribute towards increasing levels of uncertainty in Europe.

The way in which the crisis in Europe unfolds will naturally influence the Portuguese economy. Improvements in finance conditions favouring the fiscal consolidation process, external adjustment and the recovery of economic activity in Portugal will depend considerably on developments and the degree of growth in the European economy.

Efforts towards fiscal consolidation in Portugal resulting from the Financial Assistance Programme have been supported by measures aimed at reducing public expenditure, increasing tax revenue and deleveraging the economy. These measures have caused a substantial drop in economic activity due to a reduction in private and public spending and a fall in investment. This has resulted in an increase in the unemployment rate, which is expected to rise in the second half of 2012 and in 2013, the year when the economy is expected to show some signs of recovery.

Furthermore, the poor performance of European economies, especially Spain's, may compromise Portuguese exports up to the end of the year, hampering the upturn in activity, after a positive performance in the first months of 2012.

The financial markets will be particularly sensitive to economic factors and we can expect continued volatility in the share and bond markets and a reduction in EURIBOR rates in the second half of 2012 and an extended period of low interest rates.

These factors, along with the requirements placed on the financial sector in the Funding & Capital Plan and higher capital and liquidity requirements in the New Basel III Accord and other regulatory and supervisory impositions will continue to condition the business activity of credit institutions.

The requirements of deleveraging and a reduction in refinancing from the ECB set out in the FAP and the possible opening of the debt markets only at the end of 2013 can be expected to result in an ongoing reduction in credit and an increase in restrictions on liquidity and the cost of funding for credit institutions, thereby stepping up competition to attract customers' deposits and increasing capital.

At the same time, the economic recession and high unemployment will increase defaults by households and companies resulting in a rise in the cost of risk, with a direct impact on institutions' return.

In order to meet these requirements and overcome these difficulties, credit institutions, including Montepio, will have to step up their measures in the management and prevention of the credit and liquidity risk, optimisation of resources and management of margins and extraordinary measures for dealing with events that are as varied as they are difficult in the current adverse context.

II – STATEMENT OF COMPLIANCE OF FINANCIAL INFORMATION

This statement has been drafted in accordance with Securities Code (CMVM) Article 246 (1) c).

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

We confirm to the best of our knowledge and belief that

- All the individual and consolidated financial information in the accounting documents on the first six months of 2012 was prepared in accordance with applicable accounting standards and gives a true, appropriate picture of the assets and liabilities, financial situation and profits of the institution and the companies included in its consolidation perimeter.
- The report gives an accurate indication of the business, performance and position of the institution and the companies included in its consolidation perimeter, as required by law.

THE CHARTERED ACCOUNTANT

Rosa Maria Alves Mendes

THE BOARD OF DIRECTORS

António Tomás Correia - Chairman

José de Almeida Serra – Member

Rui Manuel Silva Gomes do Amaral - Member

Eduardo José da Silva Farinha - Member

Álvaro Cordeiro Dâmaso – Member

III – FINANCIAL STATEMENTS, NOTES AND AUDIT REPORTS

Consolidated and individual balance sheets and income statements

CONSOLIDATED BALANCE SHEET OF CAIXA ECONÓMICA AT 30 JUNE 2012 AND 31 DECEMBER 2011

(thousand euros)

	2012			2011
	Gross assets	Impairment and depreciation	Net assets	Net assets
ASSETS				
Cash and deposits at central banks	271 353		271 353	461 483
Deposits at other credit institutions	236 596		236 596	223 834
Financial assets held for trading	159 060		159 060	180 776
Other financial assets at fair value through profit or loss	3 667		3 667	3 606
Financial assets available for sale	2 608 079	12 144	2 595 935	2 574 368
Other loans and advances to credit institutions	332 469	79	332 390	284 232
Customer credit	17 025 762	764 828	16 260 934	16 706 626
Investments held to maturity	21 886		21 886	76 994
Hedging derivatives	1 370		1 370	1 311
Non-current assets held for sale	265 576	35 469	230 107	137 011
Investment property	44 211		44 211	0
Other tangible assets	278 035	172 239	105 796	108 657
Intangible assets	122 894	61 559	61 335	90 205
Investments in associates and subsidiaries excluded from consolidation	61 088	341	60 747	57 856
Current tax assets	2 840		2 840	2 768
Deferred tax assets	67 847		67 847	80 693
Other assets	510 568	37	510 531	504 970
TOTAL ASSETS	**22 013 301**	**1 046 696**	**20 966 605**	**21 495 390**
LIABILITIES				
Resources from central banks			1 968 212	2 003 300
Financial liabilities held for trading			68 319	79 121
Resources from other credit institutions			616 137	743 797
Resources from customers and other loans			13 819 480	13 701 919
Debt securities issued			1 938 584	2 473 112
Financial liabilities associated with transferred assets			303 330	453 061
Hedging derivatives			18 595	13 041
Provisions			4 519	7 985
Current tax liabilities			0	10
Deferred tax liabilities			1 145	36
Other subordinated liabilities			464 630	477 843
Other liabilities			310 859	282 677
TOTAL LIABILITIES			**19 513 810**	**20 235 902**
CAPITAL				
Share capital			1 245 000	1 245 000
Other capital instruments			15 000	15 000
Revaluation reserves			-125.284	-319.551
Other reserves and retained earnings			300 846	262 629
Profit for the period			4 774	45 029
Minority interests			12 459	11 381
TOTAL EQUITY			**1 452 795**	**1 259 488**
TOTAL LIABILITIES AND EQUITY			**20 966 605**	**21 495 390**

THE CHARTERED ACCOUNTANT

Rosa Maria Alves Mendes

THE BOARD OF DIRECTORS

António Tomás Correia - Chairman

José de Almeida Serra

Rui Manuel Silva Gomes do Amaral

Eduardo José da Silva Farinha

Álvaro Cordeiro Dâmaso

CONSOLIDATED INCOME STATEMENT AS AT 30 JUNE 2012 AND 2011

(thousand euros)

	2012	2011	2011 restated
Interest and similar income	643 117	524 152	524 152
Interest and similar expenses	489 784	365 810	365 810
NET INTEREST INCOME	**153 333**	**158 342**	**158 342**
Income from equity instruments	514	561	561
Income from fees and commissions	60 595	52 819	52 819
Expenses of fees and commissions	12 092	9 094	9 094
Profit on assets and liabilities measured at fair value through profit or loss	-14 803	26 104	26 104
Profit on financial assets available for sale	47 121	2 517	2 517
Profit on currency revaluations	5 914	2 742	2 742
Profit on sale of other assets	-18 594	-12 431	-12 431
Other operating profits	34 707	11 993	11 993
BANKING REVENUE	**256 695**	**233 553**	**233 553**
Personnel costs	97 693	92 486	91 267
General administrative overheads	57 088	48 843	48 843
Depreciation	15 321	12 442	12 442
Provisions net of write-backs and deletions	-3 527	519	519
Impairment of credit net of reversals and recoveries	39 633	58 628	58 628
Impairment of other financial assets net of reversals and recoveries	7 996	6 757	6 757
Impairment of other assets net of reversals and recoveries	32 439	7 927	7 927
Profit from associates and joint ventures (equity method)	- 515	- 950	- 950
PROFIT BEFORE TAX AND MINORITY INTERESTS	**9 537**	**5 001**	**6 220**
Taxes			
Current	2 439	3 219	3 219
Deferred	1 196	-4 256	-4 256
Minority interests	1 128	970	970
CONSOLIDATED PROFIT FOR THE PERIOD	**4 774**	**5 068**	**6 287**

THE CHARTERED ACCOUNTANT

Rosa Maria Alves Mendes

THE BOARD OF DIRECTORS

António Tomás Correia - Chairman

José de Almeida Serra

Rui Manuel Silva Gomes do Amaral

Eduardo José da Silva Farinha

Álvaro Cordeiro Dâmaso

INDIVIDUAL BALANCE SHEET AS AT 30 JUNE 2012 AND 31 DECEMBER 2011

(thousand euros)

	2012			2011
	Gross assets	Impairment and depreciation	Net assets	Net assets
ASSETS				
Cash and deposits at central banks	180 825		180 825	381 540
Deposits at other credit institutions	52 093		52 093	102 701
Financial assets held for trading	153 691		153 691	145 252
Other financial assets at fair value through profit or loss	3 667		3 667	3 606
Financial assets available for sale	6 884 006	42 306	6 841 700	5 821 780
Other loans and advances to credit institutions	420 843	79	420 764	370 268
Customer credit	16 317 065	688 688	15 628 377	16 200 240
Investments held to maturity	17 431		17 431	48 416
Hedging derivatives	1 315		1 315	1 184
Non-current assets held for sale	247 157	29 545	217 612	86 830
Other tangible assets	224 470	162 117	62 353	66 183
Intangible assets	140 201	31 872	108 329	110 843
Investments subsidiaries, associates and joint ventures	384 547		384 547	384 547
Current tax assets	10		10	10
Deferred tax assets	45 365		45 365	59 221
Other assets	314 501		314 501	310 278
TOTAL ASSETS	**25 387 187**	**954 607**	**24 432 580**	**24 092 899**
LIABILITIES				
Resources from central banks			1 968 212	2 003 300
Financial liabilities held for trading			95 598	101 524
Resources from other credit institutions			1 057 648	1 182 068
Resources from customers and other loans			13 313 875	13 190 639
Liabilities represented by securities			1 764 693	2 240 688
Financial liabilities associated with transferred assets			3 926 668	3 289 983
Hedging derivatives			3 052	2 444
Provisions			114 648	120 014
Other subordinated liabilities			478 210	477 247
Other liabilities			269 979	243 419
TOTAL LIABILITIES			**22 992 583**	**22 851 326**
EQUITY				
Share capital			1 245 000	1 245 000
Other capital instruments			15 000	15 000
Revaluation reserves			- 107 754	- 316 692
Other reserves and retained earnings			282 816	265 442
Profit for the period			4 935	32 823
TOTAL EQUITY			**1 439 997**	**1 241 573**
TOTAL LIABILITIES AND EQUITY			**24 432 580**	**24 092 899**

THE CHARTERED ACCOUNTANT

Rosa Maria Alves Mendes

THE BOARD OF DIRECTORS

António Tomás Correia - Chairman

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Rui Manuel Silva Gomes do Amaral

Eduardo José da Silva Farinha

Álvaro Cordeiro Dâmaso

INDIVIDUAL INCOME STATEMENT AT 30 JUNE 2012 AND 2011

(thousand euros)

	2012	2011	2011 restated
Net interest income	621 409	508 698	508 698
Net fees from customer services	482 659	360 528	360 528
NET INTEREST INCOME	**138 750**	**148 170**	**148 170**
Dividends from equity instruments	1 999	1 785	1 785
Fees and commissions income	56 162	50 066	50 066
Fees and commissions expenses	9 917	8 144	8 144
Profit on assets and liabilities at fair value through profit or loss	- 22 112	27 216	27 216
Profit on available-for-sale financial assets	35 870	2 726	2 726
Profit on currency revaluations	2 329	711	711
Profit on sale of other assets	27 087	- 2 244	- 2 244
Other operating profits	31 049	10 522	10 522
BANKING REVENUE	**261 217**	**230 808**	**230 808**
Personnel costs	92 223	89 651	88 736
General administrative overheads	51 208	45 256	45 256
Amortisation	14 201	12 040	12 040
Provisions net of adjustments	- 5 366	- 722	- 722
Adjustments for customer credit and receivables from other debtors (net of recovery of undue payments and write-offs)	83 416	56 792	56 792
Impairment of other financial assets net of reversals and recoveries	8 829	6 757	6 757
Impairment of other assets net of reversals and recoveries	9 139	7 927	7 927
PROFIT BEFORE TAX	**7 567**	**13 107**	**14 022**
Taxes	**2 632**	**0**	**0**
PROFIT AFTER TAX	**4 935**	**13 107**	**14 022**

THE CHARTERED ACCOUNTANT

Rosa Maria Alves Mendes

THE BOARD OF DIRECTORS

António Tomás Correia - Chairman

José de Almeida Serra

Rui Manuel Silva Gomes do Amaral

Eduardo José da Silva Farinha

Álvaro Cordeiro Dâmaso

Caixa Económica Montepio Geral

Interim Consolidated Financial Statements

30 June 2012 and 2011

(With Limited Review Report)

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

August 2012
This report contains 126 pages

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A.
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LIMITED REVIEW REPORT ON INTERIM CONSOLIDATED FINANCIAL INFORMATION ISSUED BY THE CMVM REGISTERED AUDITOR

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

INTRODUCTION

1 In accordance with the requirements of "Código dos Valores Mobiliários" (CVM), we hereby present our Limited Review Report, on the interim consolidated financial information for the six months period ended 30 June 2012, of **Caixa Económica Montepio Geral**, which includes the Management Report, the consolidated statement of financial position (with a total assets of 20,966,605 thousands of Euro and total equity attributable to CEMG shareholder of 1,440,336 thousands of Euro, including a net profit of 4,774 thousands of Euro) and the consolidated statement of income, cash flows, changes in equity and comprehensive income for the six months period then ended and in the corresponding notes to the financial statements.

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

RESPONSIBILITIES

3 The Board of Directors is responsible for:

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

b) the historical financial information prepared in accordance with the IAS 34 – Interim Financial Reporting and that is complete, true, current, clear, objective and lawful as established by CVM;

c) the adoption of adequate accounting policies and criteria;

d) the maintenance of an appropriate internal control system; and

e) the communication of any relevant matter that may have influenced its activity, financial position or results of all the group companies included in the consolidation.

4 Our responsibility is to verify the consolidated financial information included in the above mentioned documents, namely if 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 about whether the consolidated financial information mentioned above is free of material misstatements. Our work was performed based on the Technical Standards and Review/Audit Guidelines issued by the “Ordem dos Revisores Oficiais de Contas”, and planned in accordance with that objective and included the following procedures:

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

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

b) substantive tests on material non usual significant transactions.

6 Our work also included the verification of the consistency of the consolidated financial information contained in the Management Report with the remaining documents mentioned above.

7 We believe that our work provides a reasonable basis to issue our report on the interim 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 as at 30 June 2012, is not free of material misstatements that affect its compliance with IAS 34 - Interim Financial Reporting and that is not complete, true, current, clear, objective and lawful.

Lisbon, 17 August 2012

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (no. 189)
Represented by
Vitor Manuel da Cunha Ribeirinho (Statutory Auditor no. 1081)

FINANCIAL STATEMENTS

- NOTES TO THE FINANCIAL STATEMENTS
(Pages 5 to 126)

Caixa Económica Montepio Geral

Consolidated Income Statement
for the six months period ended at 30 June 2012 and 2011

(Amounts expressed in thousands of Euro)

	Notes	30 June 2012	30 June 2011
			Restated
Interest and similar income	3	643 117	524 152
Interest and similar expense	3	489 784	365 810
Net interest income		153 333	158 342
Dividends from equity instruments	4	514	561
Fee and comission income	5	60 595	52 819
Fee and comission expense	5	(12 092)	(9 094)
Net losses arising from assets and liabilities at fair value through profit or loss	6	(14 803)	26 104
Net gains/(losses) arising from available-for-sale financial assets	7	47 121	2 517
Net gains arising from foreign exchange differences	8	5 914	2 742
Net gains from sale of other financial assets	9	(18 594)	(12 431)
Other operating income	10	34 707	11 993
Total operating income		256 695	233 553
Staff costs	11	97 693	91 267
General and administrative expenses	12	57 088	48 843
Depreciation and amortisation	13	15 321	12 442
Total operating costs		170 102	152 552
Loans impairment	14	39 633	58 628
Other assets impairment	15	40 435	14 684
Other provisions	16	(3 527)	519
Operating profit		10 052	7 170
Share of profit of associates under the equity method	17	(515)	(950)
Profit before income tax		9 537	6 220
Current		2 439	3 219
Deferred	32	1 196	(4 256)
Profit for the period		5 902	7 257
Profit for the period attributable to			
Montepio Geral - Associação Mutualista		4 774	6 287
Non-controlling interests	45	1 128	970
		5 902	7 257

CHIEF ACCOUNTANT | THE BOARD OF DIRECTORS

Caixa Económica Montepio Geral

Statement of Comprehensive income
for the six months period ended at 30 June 2012, and 2011

(Amounts expressed in thousands of Euro)

	Notes	30 June 2012	30 June 2011
Other Comprehensive income for the period:			Restated
Fair value reserves			
Financial assets available for sale	43	194 267	(210 482)
Actuarial losses for the period		23 603	-
Deferred taxes	32	(12 759)	-
Comprehensive income recognised directly in Equity after taxes		205 111	(210 482)
Profit for the period		4 774	6 287
Total Comprehensive income for the period		209 885	(204 195)

See accompanying notes to the Interim consolidated financial statements

Caixa Económica Montepio Geral

Consolidated Balance Sheet as at 30 June 2012 and 31 December 2011

(Amounts expressed in thousands of Euro)

	Notes	30 June 2012	31 December 2011
Assets			
Cash and deposits at central banks	18	271 353	461 483
Loans and advances to credit institutions	19	236 596	223 834
Other loans and advances to credit institutions	20	332 390	284 232
Loans and advances to customers	21	16 260 934	16 706 626
Financial assets held for trading	22	159 060	180 776
Other financial assets held for trading at fair value through profit or loss	23	3 667	3 606
Financial assets available for sale	24	2 595 935	2 574 368
Hedging derivatives	25	1 370	1 311
Financial assets held to maturity	26	21 886	76 994
Investments in associated companies	27	60 747	57 856
Non current assets held for sale	28	230 107	137 011
Investment property	29	44 211	-
Property and equipment	30	105 796	108 657
Goodwill and intangible assets	31	61 335	90 205
Current income tax assets		2 840	2 768
Deferred income tax assets	32	67 847	80 693
Other assets	33	510 531	504 970
Total Assets		20 966 605	21 495 390
Liabilities			
Deposits from central banks	34	1 968 212	2 003 300
Deposits from other credit institutions	35	616 137	743 797
Deposits from customers	36	13 819 480	13 701 919
Debt securities issued	37	1 938 584	2 473 112
Financial liabilities relating to transferred assets		303 330	453 061
Financial liabilities held for trading	22	68 319	79 121
Hedging derivates	25	18 595	13 041
Provisions	38	4 519	7 985
Current income tax liabilities		-	10
Deferred income tax liabilities	32	1 145	36
Other subordinated debt	39	464 630	477 843
Other liabilities	40	310 859	282 677
Total Liabilities		19 513 810	20 235 902
Equity			
Share capital	41	1 245 000	1 245 000
Other capital instruments	42	15 000	15 000
Fair value reserves	44	(125 284)	(319 551)
Reserves and retained earnings	43 and 44	300 846	262 629
Consolidated profit for the period attributable to MGAM		4 774	45 029
Total equity attributable to MGAM		1 440 336	1 248 107
Non-controlling interests	45	12 459	11 381
Total Equity		1 452 795	1 259 488
		20 966 605	21 495 390

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

See accompanying notes to the Interim consolidated financial statements

Caixa Económica Montepio Geral

Consolidated Statement of Changes in Equity
for the six months period ended at 30 June 2012, and 2011

(Amounts expressed in thousands of Euro)

	Total equity	Share capital	Other capital instruments	General and special reserves	Fair value reserves	Reserves and retained earnings	Non-controlling interests
Balance on 31 December, 2010	997 158	800 000	-	235 400	(85 706)	47 464	-
Changes in the acconting policy of recognition of the actuarial gains/losses	(101 709)	-	-	-	-	(101 709)	-
Balance on 1 January, 2011	895 449	800 000	-	235 400	(85 706)	(54 245)	-
Other movements recognized directly in Equity:							
Changes in fair value (note 44)	(210 482)	-	-	-	(210 482)	-	-
Profit for the period	6 287	-	-	-	-	6 287	-
Total gains and losses recognized in the period	(204 195)	-	-	-	(210 482)	6 287	-
Increase in share capital (note 41)	345 000	345 000	-	-	-	-	-
Other capital instruments (note 42)	15 000	-	15 000	-	-	-	-
Non-controlling interests	9 881	-	-	-	-	-	9 881
Dividends paid (note 47)	(23 085)	-	-	-	-	(23 085)	-
Other reserves	(15 612)	-	-	-	-	(15 612)	-
Equity method	(1 765)	-	-	-	-	(1 765)	-
Transfers of reserves:							
General reserve	-	-	-	8 345	-	(8 345)	-
Special reserve	-	-	-	2 075	-	(2 075)	-
Balance on 30 June, 2012	1 020 673	1 145 000	15 000	245 820	(296 188)	(98 840)	9 881
Other movements recognised directly in Equity:							
Changes in fair value (note 44)	(23 363)	-	-	-	(23 363)	-	-
Actuarial losses for the period	65 391	-	-	-	-	65 391	-
Deferred taxes related to balance sheet changes (note 32)	48 152	-	-	-	-	48 152	-
Profit for the period	38 742	-	-	-	-	38 742	-
Total gains and losses recognized in the year	128 922	-	-	-	(23 363)	152 285	-
Increase in share capital (note 41)	100 000	100 000	-	-	-	-	-
Non-controlling interests	1 500	-	-	-	-	-	1 500
Other reserves	10 747	-	-	-	-	10 747	-
Equity method	(1 829)	-	-	-	-	(1 829)	-
Costs related to the issue of perpetual subordinated Instruments	(525)	-	-	-	-	(525)	-
Balance on 31 December, 2011	1 259 488	1 245 000	15 000	245 820	(319 551)	61 838	11 381
Other movements recognised directly in Equity:							
Changes in fair value (note 44)	194 267	-	-	-	194 267	-	-
Actuarial losses for the period	23 603	-	-	-	-	23 603	-
Deferred taxes related to balance sheet changes (note 32)	(12 759)	-	-	-	-	(12 759)	-
Profit for the period	4 774	-	-	-	-	4 774	-
Total gains and losses recognized in the period	209 885	-	-	-	194 267	15 618	-
Non-controlling interests	1 078	-	-	-	-	-	1 078
Dividends paid (note 47)	(16 584)	-	-	-	-	(16 584)	-
Other reserves	(4 818)	-	-	-	-	(4 818)	-
Equity method	4 271	-	-	-	-	4 271	-
Costs related to the issue of perpetual subordinated Instruments	(525)	-	-	-	-	(525)	-
Transfers of reserves:							
General reserve	-	-	-	6 633	-	(6 633)	-
Special reserve	-	-	-	1 641	-	(1 641)	-
Balance on 30 June, 2012	1 452 795	1 245 000	15 000	254 094	(125 284)	51 526	12 459

See accompanying notes to the Interim consolidated financial statements

Caixa Económica Montepio Geral

Consolidated Statement of Cash Flows
for the six months period ended at 30 June 2012, and 2011

(Amounts expressed in thousands of Euro)

	30 June 2012	30 June 2011
Cash flows arising from operating activities		
Interest income received	706 982	515 929
Commissions income received	53 962	52 083
Interest expense paid	(465 933)	(304 533)
Commissions expense paid	(10 349)	(8 212)
Payments to employees and suppliers	(259 491)	(123 301)
Recoveries on loans previously written off	3 258	3 008
Other payments and receivables	90 397	145 978
Taxes	-	(3 849)
	118 826	277 103
(Increase) / decrease in operating assets:		
Loans and advances to credit institutions and customers	241 864	(2352 351)
Other assets	(79 154)	(222 495)
	162 710	(2574 846)
(Increase) / decrease in operating liabilities:		
Deposits from clients	94 322	2 549 288
Deposits from credit institutions	(123 895)	(130 094)
Deposits from central banks	(40 000)	900 000
	(69 573)	3 319 194
	211 963	1 021 451
Cash flows arising from investing activities		
Dividends received	514	561
(Acquisition) / sale of trading financial assets	(52 738)	(23 391)
(Acquisition) / sale of other financial assets at fair value through profit or loss	(61)	267
(Acquisition) / sale of available for sale financial assets	163 703	(789 258)
(Acquisition) / sale of hedging derivatives	2 596	213
(Acquisition) / sale of held to maturity investments	54 568	9 160
(Acquisition) / sale of shares in associated companies	(3 841)	(80 796)
Deposits owned with the purpose of monetary control	167 298	(110 378)
Proceeds from sale of fixed assets	-	62 191
Acquisition of fixed assets	(44 211)	(3 281)
	287 828	(934 712)
Cash flows arising from financing activities		
Dividends paid	(23 085)	(23 085)
Capital increase	-	360 000
Proceeds from issuance of bonds and subordinated debt	161 442	248 011
Reimbursement of bonds and subordinated debt	(644 747)	(599 669)
Increase / (decrease) in other sundry liabilities	(3 471)	16 985
	(509 861)	2 242
Net changes in cash and equivalents	(10 070)	88 981
Cash and equivalents balance at the beginning of the period	386 072	169 994
Cash (note 18)	162 238	95 641
Loans and advances to credit institutions repayable on demand (note 19)	223 834	74 353
Cash and equivalents balance at the end of the period	376 002	258 975

See accompanying notes to the Interim consolidated financial statements

Caixa Económica Montepio Geral

Notes to the Interim Consolidated Financial Statements
30 June, 2012

1 Accounting policies

a) Basis of presentation

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

These consolidated financial statements reflect the results of the operations of the CEMG and all its subsidiaries (together referred to as the "Group") and the Group's interest in associates, for the six months period ended 30 June, 2012 and 2011.

As described in note 54, in 2010, Montepio Geral – Associação Mutualista, CEMG sole shareholder, has made an aquisition of 100% of Finibanco Holding, S.G.P.S., S.A. share capital through an Initial Public Offering (IPO) in the amount of Euro 341,250,000.

As at 31 March, 2011, Montepio Geral – Associação Mutualista sold its participation in Finibanco Holding, S.G.P.S., S.A. to CEMG. Under the change in the structure of the Group arising from this acquisition, as at 4 April, 2011, CEMG acquired a set of assets and liabilities of Finibanco, S.A. (excluding properties owned by Finibanco, SA and acquired as a result of loans and advances to costumers and a leasing portfolio (securities and real estate) in which Finibanco, S.A. is lessor and the fixed assets that materially support the operating leasing activities), and all associated liabilities and provisions. Thus, the financial statements of the CEMG with reference to December 31, 2011 include the effect of this acquisition, so this should be considered for comparison purposes.

In accordance with Regulation (EC) no. 1606/2002 from the European Parliament and the Counsel, of 19 July, 2002, and its adoption into Portuguese Law through Decree-Law no. 35/2005, of 17 February and Notice no. 1/2005 from Bank of Portugal, Group consolidated financial statements are required to be prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU"). IFRS comprise accounting standards issued by the International Accounting Standards Board ("IASB") and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body. The consolidated financial statements presented herein were approved by the Board of CEMG on 14 August, 2012. The financial statements are presented in Euro rounded to the nearest thousand.

All the references in this document relate to any normative always report to current version.

The consolidated financial statements for the six months ended 30 June, 2012 were prepared in terms of recognition and measurement in accordance with the IFRS adopted by the EU and effective on that date, and the disclosures in accordance with the requirements set by IAS 34. These financial statements also present a statement of the second quarter of 2012 with comparative figures for the second quarter of last year. The financial statements for the six months ended 30 June, 2012 do not include all information to be disclosed in annual financial statements.

During 2011, and according to one of the options allowed by IAS 19 Employee Benefits, the Group made a change in the accounting policy for recognition of actuarial gains and losses, starting to recognize the actuarial gains and losses of the year against reserves. In accordance with IAS 8, this change in accounting policy is presented for comparative purposes from 1 January 2011, recognizing in all the deferred actuarial gains and losses determined at that date in equity. Thus, the balance Reserves and retained earnings include, with effective date 1 January 2011, the restatement resulted from the referred change in the accounting policy.

Previously, the Group proceeded to the deferral of actuarial gains and losses determined in accordance with the corridor method. Under the corridor method, actuarial gains and losses not recognized that exceed 10% of the greater of the present value of the liabilities and the fair value of the Fund's assets are recorded in the income statement for the period corresponding to the estimated remaining useful life of the employees in service.

The accounting policies set out below have been applied consistently for all the entities of the Group, for all periods presented in these consolidated financial statements.

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

The preparation of the financial statements in accordance with IFRS's requires the Board of Directors to make judgments, estimates and assumptions that affect the application of the accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The issues involving a higher degree of judgment or complexity or where assumptions and estimates are considered to be significant are presented in note 1 aa).

b) Basis of Consolidation

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

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

Investment in subsidiaries

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

As from 1 January, 2010, accumulated losses are attributed to non-controlling interests in the respective proportion, implying that the Group can recognize negative non-controlling interests. Previously, when the accumulated losses of a subsidiary attributable to the non-controlling interest exceed the equity of the subsidiary attributable to the non-controlling interest, the excess is attributed to the Group and charged to the income statement as it occurs. Profits subsequently reported by the subsidiary are recognised as profits of the Group until the prior losses attributable to non-controlling interest previously recognised by the Group have been recovered.

As from 1 January, 2010, on a step acquisition process resulting in the acquisition of control the revaluation of any participation previously acquired is booked against the profit and loss account, when goodwill is calculated. On a parcial disposal resulting in loss of control over a subsidiary, any participation retained is revalued at market value on the sale date and the gain or loss resulting from this revaluation is booked against the income statement.

Investments in associates

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

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

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

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

Goodwill

The record of the costs directly related with a subsidiary acquisition is recognized directly in the income statement.

All the positive goodwill that results of the acquisitions is recognized as an asset and booked at its acquisition cost, not being amortized.

Goodwill arising on the acquisition of subsidiaries and associates is defined as the difference between the cost of acquisition and the total or corresponding share of the fair value of the net assets acquired, depending on the option taken.

Negative goodwill arising on an acquisition is recognized directly in the income statement in the year the business combination occurs.

The recoverable amount of the goodwill in subsidiaries is assessed annually, regardless of the existence of any impairment triggers. Impairment losses are recognized in the income statement. The recoverable amount is determined based on the value in use of the assets, calculated using valuation methodologies supported by discounted cash flow techniques, considering market conditions, the time value of money and the business risks.

Goodwill is no longer adjusted due to changes in the initial estimate of the contingent purchase price and the difference is booked in the income statement, or reserves, if applicable.

Purchases and diluition of non-controlling interests

The acquisition of the non-controlling interests that does not impact the control position of a subsidiary is accounted as a transaction with shareholders and, therefore, is not recognized additional goodwill resulting from this transaction. The difference between the acquisition cost and the book value or fair value of non-controlling interests acquired is recognized directly in reserves. On this basis, the gains and losses resulting from the sale of non-controlling interests, that does not impact the control position of a subsidiary, are always recognized against reserves.

The gains and losses resulting from the dilution or sale of a financial position in a subsidiary, with loss of control, are recognized by the Group in results for the year.

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

Special Purpose Entities („SPEs")

The Group fully consolidates SPEs resulting from securitization operation with assets from Group entities (as referred in note 50), when the substance of the relation with those entities indicates that the Group exercises control over its activities, independently of the percentage of the equity held. Besides these SPEs resulting from securitization operations, no additional SPEs have been consolidated considering that they do not meet the criteria established on SIC 12 as described below.

The evaluation of the existence of control is determined based on the criteria established by SIC 12, which can be analysed as follows:

- The activities of the SPE, in substance, are being conducted on behalf of the Group, in accordance with the specific needs of the Group‟s business, in order to obtain benefits from these activities;

- The Group has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an "autopilot" mechanism; the Group has delegated these decision-making powers;

- The Group has the rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks inherent to the activities of the SPE;

- The Group retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

Investment fund management

The Group manages the assets held by investment funds for which the participation units are held by third parties. The financial statements of these entities are not consolidated by the Group, except when the Group has the control over these investment funds, namely when it holds more than 50% of the participation units.

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

Investments in foreign subsidiaries and associates

The financial statements of the foreign subsidiaries and associates of the Group are prepared in their functional currency, defined as the currency of the primary economic environment in which they operate or the currency in which the subsidiaries obtain their income or finance their activity. In the consolidation process, assets and liabilities, including goodwill, of foreign subsidiaries are converted into euro at the official exchange rate at the balance sheet date. The goodwill existing on these investments is valued against reserves.

Regarding the investments in foreign operations that are consolidated in the Group accounts under the full consolidation, proportional consolidation or equity methods, for exchange differences between the conversion to Euro of the opening net assets at the beginning of the year and their value in Euro at the exchange rate ruling at the balance sheet date for consolidated accounts are charged against consolidated reserves. The exchange differences from hedging instruments related with foreign operations are eliminated from profit and loss in the consolidation process against the exchange differences booked in reserves resulting from those investments. Whenever the hedge is not fully effective, the ineffective portion is accounted against profit and loss of the year.

The income and expenses of these subsidiaries are converted to Euro at an aproximate rate of the rates ruling at the dates of the transactions. Exchange differences from the conversion to Euro of the profits and losses for the reporting period, arising from the difference between the exchange rate used in the income statement and the exchange rate prevailing at the balance sheet date, are recognised in reserves - exchange differences.

On disposal of investments in foreign subsidiaries for which there is loss of control, exchange differences related to the investment in the foreign operation and to the associated hedge transaction previously recognised in reserves, are transferred to profit and loss as part of the gains or loss arising from the disposal.

Transactions eliminated on consolidation

Intragroup balances and any unrealized gains and losses arising from intragroup transactions, are eliminated in the preparation of the consolidated financial statements. Unrealized gains and losses arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

c) Loans and advances to customers

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

The derecognition of these assets occurs in the following situations: (i) the contractual rights of the Group have expired; or (ii) CEMG transferred substantially all the associated risks and rewards.

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

Impairment

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

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

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

(i) Individually assessed loans

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

- Group’s aggregate exposure to the customer and the existence of overdue loans;

- The viability of the customer’s business and capability to generate sufficient cash flow to service their debt obligations in the future;

- The existence, nature and estimated value of the collaterals;

- A significant downgrading in the client rating;

- The assets available on liquidation or insolvency;

- The ranking of all creditor claims;

- The amount and timing of expected receipts and recoveries.

Impairment losses are calculated by comparing the present value of the expected future cash flows, discounted at the original effective interest rate of the loan, with its current carrying value and the amount of any loss is charged in the income statement. The carrying amount of impaired loans is reduced through the use of an allowance account. For loans with a variable interest rate, the discount rate used corresponds to the effective annual interest rate, which was applicable in the period that the impairment was determined.

Individual loans that are not identified as having an objective evidence of impairment are grouped on the basis of similar credit risk characteristics, and assessed collectively.

(ii) Collective assessment

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

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

- in respect of losses which have been incurred but have not yet been reported („IBNR") on loans for which no objective evidence of impairment is identified (see section (i)).

The collective impairment loss is determined considering the following factors:

- historical loss experience in portfolios of similar risk characteristics;

- knowledge of the current economic and credit conditions and its impact on the historical losses level; and

- the estimated period between a loss occurring and a loss being identified.

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

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

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

d) Financial instruments

(i) Classification, initial recognition and subsequent measurement

1) Financial assets and liabilities at fair value through profit and loss

1a) Financial assets held for trading

The financial assets and liabilities acquired or issued with the purpose of sale or re-acquisition on the short term, namely bonds, treasury bills or shares or that are part of a financial instruments portfolio and for which there is evidence of a recent pattern of short-term profit taking or that can be included in the definition of derivative (except in the case of a derivative classified as hedging) are classified as trading. The dividends associated to these portfolios are accounted in gains arising on trading and hedging activities.

The interest from debt instruments are recognized as interest margin.

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

1b) Other financial assets and liabilities at fair value through profit and loss ("Fair Value Option")

The Group has adopted the Fair Value Option for certain own bond issues, loans and time deposits that contain embedded derivatives or with related hedging derivatives. The variations of the CEMG's credit risk related with financial liabilities accounted under the Fair Value Option are disclosed in "Net gains / (losses) arising from assets and liabilities at fair value through profit or loss".

The designation of the financial assets and liabilities at fair value through profit and loss by decision of the entity is performed whenever at least one of the requirements is fulfilled:

- the assets and liabilities are managed, evaluated and reported internally at its fair value;

- the designation eliminates or significantly reduces the accounting mismatch of the transactions;

- the assets and liabilities include derivatives that significantly change the cash-flows of the original contracts (host contracts).

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

2) Financial assets available for sale

Financial assets available for sale held with the purpose of being maintained by the Group, namely bonds, treasury bills or shares, are classified as available for sale, except if they are classified in another category of financial assets. The financial assets available for sale are initially accounted at fair value, including all expenses or income associated with the transactions. The financial assets available for sale are subsequently measured at fair value. The changes in fair value are accounted for against fair value reserves until they are sold or an impairment loss exists. In the sale of the financial assets available for sale, the accumulated gains or losses recognised as fair value reserves are recognised under Net gains / (losses) arising from available for sale financial assets. Interest income from debt instruments is recognised in Net interest income based on the effective interest rate, including a premium or discount when applicable. Dividends are recognised in the income statement when the right to receive the dividends is attributed.

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

- Equity instruments: (i) above 30% devaluation against the purchase price or (ii) the market value below the acquisition cost for a period exceeding 12 months;

- Debt instruments: where there is objective evidence of events that impact on the recoverable value of future cash flows of these assets.

In the sale of the financial assets available for sale, the accumulated gains or losses recognized as fair value reserves are recognized under Net gains / (losses) arising from available for sale financial assets. Interest income from debt instruments is recognized in Net interest income based on the effective interest rate, including a premium or discount when applicable. Dividends are recognized in the income statement when the right to receive the dividends is attributed.

3) Financial assets held-to-maturity

Financial assets held-to-maturity include non-derivative financial assets with fixed or determinable payments and fixed maturity, that the Group has the intention and capacity to maintain until the maturity of the assets and that were not included in the category of financial assets at fair value through profit and loss or financial assets available for sale. These financial assets are initially recognized at fair value and subsequently measured at amortized cost. The interest is calculated using the effective interest rate method and recognized in Net interest income. The impairment losses are recognized in profit and loss when identified.

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

4) Other financial liabilities

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

These financial liabilities are initially recognized at fair value and subsequently at amortised cost. The related transaction costs are included in the effective interest rate. The interest calculated at the effective interest rate is recognized in net interest income.

The financial gains or losses calculated at the time of the repurchase of other financial liabilities are recognized as Net gains/ (losses) arising from trading and hedging activities when occurred.

(ii) Transfers between categories

The Group transfers financial assets not derivates with fixed or determinable payments and defined maturities, from financial assets available for sale to the category of financial assets held to maturity, as long as the intention and ability to hold these financial assets to maturity were considered.

These transfers are performed by based on the fair value of transferred assets, determined on the date of transfer. The difference between this fair value and nominal value is recognized in the income statement until maturity, based on the effective interest rate method. The fair value reserve existing on the date of transfer is also recognized in the results based on the effective interest rate method.

Transfers to (i) financial assets held to maturity category can only be performed provided as long as the intention and ability to hold these financial assets to maturity were considered and to (ii) category of loans and advances to customers, where it is intention and ability to hold these financial assets in the foreseeable future and are not traded in an active market.

There were no transfers between portfolios in 2011 and in the six months period ended 30 June 2012.

(iii) Impairment

An assessment is made at each balance sheet date as to whether there is any objective evidence of impairment, namely circumstances where an adverse impact on estimated future cash flows of the financial asset or group of financial assets can be reliably estimated or based on a significant or prolonged decrease in the fair value, below the acquisition cost.

If an available for sale asset is determined to be impaired, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit or loss) is removed from fair value reserves and recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurred after the impairment loss was recognized in the profit or loss, the impairment loss is reversed through the income statement. The impairment losses recognized in equity instruments classified as available for sale, when reversed, are recognized against fair value reserves.

(iv) Embedded derivatives

Embedded derivatives should be accounted for separately as derivatives if the economic risks and benefits of the embedded derivative are not closely related to the host contract, unless the hybrid (combined) instrument is not initially measured at fair value with changes through profit and loss. Embedded derivatives are classified as trading and recognized at fair value with changes through profit and loss.

e) Derivatives hedge accounting

(i) Hedge accounting

The Group designates derivatives and non-financial instruments to hedge its exposure to interest rate and foreign exchange risk, resulting from financing and investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative hedging instruments are stated at fair value and gains and losses on re-measurement are recognized in accordance with the hedge accounting model adopted by the Group. A hedge relationship exists when:

- at the inception of the hedge there is formal documentation of the hedge;

- the hedge is expected to be highly effective;

- the effectiveness of the hedge can be reliably measured;

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

- for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative financial instrument is used to hedge foreign exchange arising from monetary assets or liabilities, no hedge accounting model is applied. Any gain or loss associated to the derivative and to changes in foreign exchange risk related with the monetary items are recognized through profit and loss.

(ii) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedge instruments are recognized in profit and loss, together with changes in the fair value attributable to the hedged risk of the asset or liability or group of assets and liabilities. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative gains and losses recognized until the discontinuance of the hedge accounting are amortized through profit and loss over the residual period of the hedged item.

(iii) Cash flow hedge

In a hedge relationship, the effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity - cash flow hedge reserves. Any gain or loss relating to the ineffective portion of the hedge is immediately recognized in profit and loss when occurred.

Amounts accumulated in equity are reclassified to profit and loss in the periods in which the hedged item will affect profit or loss.

In case of hedging variability of cash-flows, when the hedge instrument expires or is disposed or when the hedging relationship no longer meets the criteria for hedge accounting, or when the hedge relation is revoked, the hedge relationship is discontinued on a prospective basis.

Therefore, the fair value changes of the derivative accumulated in equity until the date of the discontinued hedge accounting can be:

- Deferred over the residual period of the hedged instrument; or

- Recognized immediately in results, if the hedged instrument is extinguished.

In the case of a discontinued hedge of a forecast transaction, the change in fair value of the derivative recognized in equity at that time remains in equity until the forecasted transaction is ultimately recognized in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit and loss.

(iv) Hedge effectiveness

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

(v) Hedge of a net investment in a foreign operation

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in equity. The gain or loss relating to the ineffective portion is immediately recognized in the income statement. Gains and losses accumulated in equity related to the investment in a foreign operation and to the associated hedge operation are included in the income statement on the disposal of the foreign operation as part of the gain or loss from the disposal.

f) Reclassifications between financial instruments categories

In October 2008, the IASB issued a change to IAS 39 – Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7: Financial Instruments Disclosures). This change allowed an entity to transfer Financial assets from Financial assets at fair value through profit and loss – trading to Financial assets available for sale, to Loans and Receivables - Loans represented by securities or to financial assets held-to-maturity, as long as the requirements described in the Standard are met, namely:

- If a financial asset, at the date of reclassification present the characteristics of a debt instrument for which there is no active market; or

- When there is some event that is uncommon and highly improbable that will occur again in the short term, that is, the event can be classified as a rare circumstance.

For the six months period ended 30 June 2012, and 2011, the Group did not perform any reclassifications between financial instruments categories.

Transfer of financial assets recognized in the category of Financial assets available-for-sale to Loans and receivables - Loans represented by securities and Financial assets held-to-maturity are permitted.

Transfers from and to Financial assets and financial liabilities at fair value through profit and loss ("Fair value option") are prohibited.

g) Derecognition

The Group derecognizes financial assets when all rights to future cash flows have expired. In a transfer of assets, derecognition can only occur either when risks and rewards have been substantially transferred or the Group does not maintain control over the assets.

The Group derecognizes financial liabilities when these are discharged, cancelled or extinguished.

h) Equity instruments

An instrument is classified as an equity instrument when there is no contractual obligation at settlement to deliver cash or another financial asset to another entity, independently from its legal form, showing a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to an equity instruments issuance are recognized in equity as a deduction to the amount issued. Amounts paid or received related to sales or acquisitions of equity instruments are recognized in equity, net of transaction costs.

Income from equity instruments (dividends) are recognized when the right to receive this income is established and are deducted to equity.

i) Securities borrowing and repurchase agreement transactions

(i) Securities borrowing

Securities lent under securities lending arrangements continue to be recognized in the balance sheet and are measured in accordance with the applicable accounting policy. Cash collateral received in respect of securities lent is recognized as a financial liability. Securities borrowed under securities borrowing agreements are not recognized. Cash collateral placements in respect of securities borrowed are recognized under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognized on an accrual basis over the period of the transactions and are included in interest income or expense (net interest income).

(ii) Repurchase agreements

The Group performs acquisition/sale of securities under reselling/repurchase agreements of securities substantially equivalent in a future date at a predetermined price ('repos'/'reverse repos'). The securities related to reselling agreements in a future date have not been recognized on the balance sheet. The amounts paid are recognized in loans and advances to customers or loans and advances to credit institutions. The receivables are collateralized by the related securities. Securities sold through repurchase agreements continue to be recognized in the balance sheet and are revaluated in accordance with the applicable accounting policy. The amounts received from the proceeds of these securities are considered as deposits from customers and deposits from credit institutions.

The difference between the acquisition/sale and reselling/repurchase conditions is recognized on an accrual basis over the period of the transaction and is included in interest income or expenses.

j) Non-current assets held for sale and discontinued operations

Non-current assets, groups of non-current assets held for sale (groups of assets together and related liabilities that include at least a non current asset) and discontinued operations are classified as held for sale when it is intention to sell the referred assets and liabilities, the referred assets are available for immediate sale and its sale is highly probable.

The Group also classifies as non-current assets held for sale those non-current assets or groups of assets acquired exclusively with a view to its subsequent disposal, that are available for immediate sale and its sale is highly probable.

Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is performed in accordance with the applicable IFRS. After their reclassification, these assets or disposal groups are measured at the lower of their cost and fair value less costs to sell.

Discontinued operations and the subsidiaries acquired exclusively with the purpose to sell in the short term are consolidated until the disposal.

The Group also classifies as non-current assets held for sale the investments arising from recovered loans that are measured initially by the lower of its fair value net of expenses and the loan's carrying amount on the date that the recovery occurs or the judicial decision is formalized.

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

The subsequent accounting of these assets is determined based on the lower of the carrying amount and the corresponding fair value net of expenses. In case of unrealized losses, these should be recognized as impairment losses against results.

k) Finance and operacional lease

The Group 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 the Group 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 recognized in the income statement on a straight-line basis over the lease term.

Costs, including the depreciation, incurred in earning the lease income are recognized on a straight-line basis over the lease term as interest income. The initial direct costs incurred by the lessor, such as negotiating and securing leasing arrangements Initial direct costs incurred by lessor in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognized 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 q).

The Group 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 installments. Installments comprise (i) an interest charge, which is recognized in the income statement and (ii) the amortisation of principal, which is deducted from liabilities. Financial charges are recognized 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 installments charged to customers is recorded as interest income, while amortisation of principal, also included in the installments, 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.

l) Interest income and expense

Interest income and expense for financial instruments measured at amortised cost are recognized in the interest income or expenses (net interest income) through the effective interest rate method. The interest related to financial assets available for sale calculated at the effective interest rate method are also recognized on the net interest income as well as those from assets and liabilities at fair value through profit and loss.

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

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument (example: early payment options) but without considering future impairment losses. The calculation includes all fees paid or received considered as included in the effective interest rate, transaction costs and all other premiums or discounts directly related with the transaction except for assets and liabilities at fair value through profit and loss.

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

Specifically regarding the accounting policy for interest on overdue loans portfolio the following aspects are considered:

- Interest income for overdue loans with collaterals is accounted for as income up to the limit of the valuation of the collateral valued on a prudent basis. This income is registered against results in accordance with IAS 18, assuming that there is a reasonable probability of recoverability; and

- The interests accrued and not paid for overdue loans for more than 90 days that are not covered by collaterals are writen-off and are recognized only when they are received, in accordance with IAS 18, on the basis that its recoverability is considered to be remote.

For derivative financial instruments, except those classified as hedging instruments of interest rate risk, the interest component is not separated from the changes in the fair value and is classified under Net gains / (losses) from trading and hedging activities. For hedging derivatives of interest rate risk and those related to financial assets or financial liabilities recognized in the Fair Value Option category, the interest component of the changes in their fair value is recognized under interest income or expense (Net interest income).

m) Fee and commission income

Fees and commissions are recognized according to the following criteria:

- Fees and commissions which are earned as services are provided are recognized in income over the period in which the service is being provided;

- Fees and commissions that are earned on the execution of a significant act are recognized as income when the service is completed.

- Fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognized in Net interest income.

n) Insurance and reinsurance brokerage services

CEMG is duly authorized by the Portuguese Insurance Institute (Instituto de Seguros de Portugal) to provide insurance brokerage services, in the Insurance Brokerage Services area, in accordance with the article 8, paragraph a), subparagraph i) of Decree-Law 144/2006 of July 31, operating in the life and non life insurance brokerage areas.

In the insurance brokerage services area, CEMG sells insurance contracts. As remuneration for the insurance brokerage services rendered, CEMG receives commission for brokering insurance contracts, which is defined in agreements/protocols established between CEMG and the Insurers.

Commission received for insurance brokerage services refer to:

- Commission that includes a fixed and a variable component. The fixed component is calculated by applying a predetermined rate over the amounts of subscriptions made through CEMG and a variable component calculated based on predetermined criteria, total annual fees being the sum of the fees calculated monthly;

- Commission for participation in the results of insurance, which are calculated annually and paid by the insurer in the beginning of the year following that to which they refer (up to January 31).

- Commission received for insurance brokerage services are recognized in an accruals basis. Fees paid in a different period from that to which it relates is recorded as a receivable in the caption “Other assets” by corresponding entry to “Commissions received - for insurance brokerage services”.

CEMG does not collect insurance premiums on behalf of Insurers, or receive or pay funds relating to insurance contracts. Thus, there are no other assets, liabilities, income or expenses to be recognized relating to the insurance brokerage services rendered by CEMG, other than those already disclosed.

o) Fiduciary activities

Assets held in the scope of fiduciary activities are not recognized in the Group financial statements. Fees and commissions arising from this activity are recognized in the income statement in the year to which they relate.

p) Property and equipment

Property and equipment are stated at acquisition cost less accumulated depreciation and impairment losses. Subsequent costs are recognized as a separate asset only when it is probable that future economic benefits will result for the Group. All other repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

The Group performs impairment testing whenever events or circumstances indicate that the book value exceeds the highest between the value in use and the fair value less costs to sell, being the difference charged to the profit and loss.

Depreciation is calculated on a straight-line basis, over the following periods which correspond to their estimated useful life:

	Number of years
Premises	50
Expenditure on freehold and leasehold buildings	10
Other fixed assets	4 to 10

Whenever there is an indication that a fixed tangible asset might be impaired, its recoverable amount is estimated and an impairment loss shall be recognized if the net value of the asset exceeds its recoverable amount.

The recoverable amount is determined as the highest between the fair value less costs to sell and its value in use calculated based on the present value of future cash-flows estimated to be obtained from the continued use of the asset and its sale at the end of the useful life.

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

q) Investment property

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

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

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

r) Intangible Assets

Software

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

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

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

s) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months" maturity from the balance sheet date, including cash and deposits with banks. Cash and cash equivalents exclude restricted balances with central banks.

t) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Group has a legally enforceable right to offset the recognized amounts and the transactions are intended to be settled on a net basis.

u) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the respective functional currency of the operation at the foreign exchange rate at the reporting date. Foreign exchange differences arising on translation are recognized in the profit and loss.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into the respective functional currency of the operation at the foreign exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the respective functional currency of the operation at the foreign exchange rate at the date that the fair value was determined against profit and loss, except for financial assets available-for-sale, for which the difference is recognized against equity.

v) Employee benefits

Defined benefit plans

The Group 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), for employees engaged until 1 March, 2009. The new admissions, since that date, are covered by the social security general scheme.

To cover its responsibilities, the Group makes annual contributions to the pension fund, managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A.

The Group net obligation in respect of pension plans (defined benefit pensions plan) is calculated on an annual basis at 31 December of each year.

From 1 January 2011, the Group employees were integrated in the General Social Security Scheme which now covers their maternity, paternity, adoption and pension benefits. However, the Group remains liable for those benefits as concern illness, disability and life insurance (Decree-Law no. 1-A/2011, of 3 January).

The contributive rate is 26.6% divided between 23.6% supported by the employer and 3% supported by the employees, replacing the Banking Social Healthcare System („Caixa de Abono de Família dos Empregados Bancários") which was extinguished by the decree law referred above. As a consequence of this amendment the capability to receive pensions by the actual employees are covered by the General Social Security Scheme regime, considering the service period between 1 January 2011 and the retirement age. CEMG supports the remaining difference for the total pension assured in "Acordo Colectivo de Trabalho".

Following the approval by the Government of the Decree-Law 127/2011, which was published on 31 December, an agreement between the Government, the Portuguese Banking Association and the Banking Labour Unions was established that regulated the transfer of the liabilities related with pensions currently being paid to pensioners and retirees, to the Social Security.

This agreement established that the responsibilities to be transferred relate to the pensions in payment as at 31 December, 2011 at fixed amounts (discount rate 0%) in the component established in the „Instrumento de Regulação Colectiva de Trabalho (IRCT)" of the retirees and pensioners. The responsibilities related with the increase in pensions as well as any other complements, namely, contributions to the Health System (SAMS), death benefit and death before retirement benefit continue to be under the responsibility of the Financial Institutions and being financed through the corresponding Pensions funds. The Decree-Law also establishes the terms and conditions under which the transfer was made by setting a discount rate of 4% to determine the liabilities to be transferred.

The Group opted at the IFRS transition date, as at 1 January, 2004, for the retrospective application of IAS 19, performing the recalculation of the pension obligations and the corresponding actuarial gains and losses which will be deferred under the corridor method as defined in IAS 19.

According to one of the options allowed by IAS 19 Employee Benefits, the Group decided in 2011 to change the accounting policy for recognition of actuarial gains and losses, starting to recognize the actuarial gains and losses of the year against reserves. In accordance with IAS 8, this change in accounting policy is presented for comparative purposes from 1 January 2010, recognizing in that date all the deferred actuarial gains and losses in equity.

The calculation is made using the projected unit credit method and following actuarial and financial assumptions in line with the parameters required by IAS 19.

Previously, the Group proceeded to the deferral of actuarial gains and losses determined in accordance with the corridor method. Under the corridor method, actuarial gains and losses not recognized that exceed 10% of the greater of the present value of the liabilities and the fair value of the Fund's assets are recorded in the income statement for the period corresponding to the estimated remaining useful life of the employees in service.

The current services cost plus the interest cost on the unwinding of the Pension liabilities less the expected return on the Plan assets are recorded in operational costs.

The Group net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted in order to determine its present value, using a discount rate determined by reference to interest rates of high-quality corporate bonds that have maturity dates approximating the terms of the Group obligations. The net obligations are determined after the deduction of the fair value of the assets of the Pension Plan.

Employee benefits, other than pension plans, namely post retirement health care benefits and benefits for the spouse and sons for death before retirement are also included in the benefit plan calculation.

Costs arising from early retirements are recognized in the income statement on the year in which the early retirement is approved and announced.

Gains and losses for the year are recognized against reserves in the year they occur.

The funding policy of the Plan is to make annual contributions by the Group so as to cover the projected benefits obligations, including the non-contractual projected benefits. The minimum level required for the funding is 100% regarding the liability with pensioners and 95% regarding the employees in service.

Health Benefits

For the banking employees it is ensured by the Group medical care by the Health System (SAMS), autonomous entity that is managed by the respective Union.

SAMS provides to its beneficiaries, services and / or reimbursement of expenses of medical care, diagnostic tests, medications, hospitalizations and surgeries, according to their financial resources and internal regulation.

They are compulsory contributions to SAMS made by the Group, the amount corresponding to 6.50% of total actual remuneration of the employees, including, among others, the holiday pay and Christmas bonus.

The measurement and recognition of obligations of the Group with health benefits attributable to employees at retirement age are carried out similarly to pension liabilities.

Variable staff and board of director's remunerations

In accordance with IAS 19 - Employee benefits, variable remuneration (bonus) when assigned to employees and management bodies are accounted for in the year to which they relate.

w) Income taxes

Until 31 December, 2011, CEMG was a entity free from Income Tax Code (IRC), in accordance with subparagraph a) n. 1 of Article 10 of the IRC. This exemption has been recognized by Order of 3 December 1993, the Secretary of State for Fiscal Issues and confirmed by Law no. 10-B/96 of March 23, approving the State Budget for 1996.

With effect from 1 January 2012, CEMG is subject to the regime established by the Income Tax Code ("IRC"). Additionally, deferred taxes resulting from the temporary differences between the accounting net income and the net income accepted by the Tax Authorities for Income Taxes calculation are accounted for, whenever there is a reasonable probability that those taxes will be paid or recovered in the future.

Income tax on the income for the year comprises current and deferred tax effects. Income tax is recognized in the income statement, except to the extent that it relates to items recognized directly to reserves in which case it is recognized in reserves. Deferred taxes arising from the revaluation of financial assets available for sale and cash flow hedging derivatives are recognized in shareholder's equity and are recognized in the profit and loss in the year the results that originated the deferred taxes are recognized.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxes are calculated in accordance with the liability method based on the balance sheet, considering temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes using the tax rates approved or substantially approved at balance sheet date and that is expected to be applied when the temporary difference is reversed.

Deferred taxes assets are recognized to the extent when it is probable that future taxable profits will be available to absorb deductible temporary differences for taxation purposes (including reportable taxable losses).

The Group as established in IAS 12, paragraph 74, compensates the deferred tax assets and liabilities if, and only if: (i) has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

x) Segmental reporting

Since 1 January 2009, the Group adopted the IFRS 8 – Operational Segments for purposes of disclosure of financial information by operating segments (see note 51).

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

The results of the operating segments are periodically reviewed by Management, for decisions taking purposes. The Group prepares on a regular basis, financial information regarding the operating segments, which is reported to the Management.

A geographical segment is 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.

For business management purposes, the Group considers the following operating segments: (i): Operational: Retail Banking, Companies and Others segments, and (ii) geographical segments: Portugal and International area (Angola and Cabo Verde)

y) Provisions

Provisions are recognized when (i) the Group has a present obligation (legal or resulting from past practices or published policies that imply the recognition of certain responsibilities), (ii) it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation as a result of past events and (iii) a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reverted through profit and loss in the proportion of the payments that are not probable.

The provisions are derecognized through their use for the obligations for which they were initially accounted or for the cases that the situations were not already observed.

z) Accounting estimates and judgments in applying accounting policies

IFRS set forth a range of accounting treatments and require the Board of Directors and management to apply judgment and make estimates in deciding which treatment is most appropriate. The most significant of these accounting policies are discussed in this section in order to improve understanding of how their application affects the Group reported results and related disclosure.

Considering that in some cases there are several alternatives to the accounting treatment chosen by management, the Group reported results would differ if a different treatment was chosen. The Board of Directors believes that the choices made are appropriate and that the financial statements present the Group‘s financial position and results fairly in all material aspects.

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

Impairment of available for-sale financial assets

The Group determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decrease in the fair value below its acquisition cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the volatility in the prices of the financial assets.

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

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

Impairment losses on loans and advances to customers

The Group reviews its loan portfolios to assess impairment losses on a regularly basis, as described in note 1 c).

The evaluation process in determining whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgments. The probability of default, risk ratings, value of associated collaterals recovery rates and the estimation of both the amount and timing of future cash flows, among other things, are considered in making this evaluation.

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

Fair value of derivatives

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

Consequently, the use of a different model or of different assumptions or judgments in applying a particular model could result in different financial results for a particular period.

Held-to-maturity investments

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

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

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

Securitizations and special purpose entities (SPE)

The Group sponsors the formation of SPE primarily for asset securitization transactions for liquidity purposes and/or capital management.

Therefore, the securitization operations Pelican Mortgages No. 3, Aqua SME No. 1, Pelican Mortgages No. 4, Aqua Mortgage No. 1, Pelican Mortgages No. 5, Aqua Finance No. 3 e Pelican SME were not derecognized in the Groups financial statements.

The Group derecognized the following SPE which also resulted from operations of securitization: Pelican Mortgages No. 1 e 2. For these SPE, the Group concluded that the main risks and the benefits were transferred, as CEMG does not hold detain any security issued by the SPE, that are exposed to the majority of the residual risks, neither is exposed to the performance of the credit portfolios.

Income taxes

Significant interpretations and estimates are required in determining the worldwide amount for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Different interpretations and estimates would result in a different level of income taxes, current and deferred, recognized in the year.

The Portuguese Tax Authorities are entitled to review the Group and its subsidiaries determination of its annual taxable earnings, for a period of four years or six years in case there are tax losses brought forward. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law which for its probability, the Board of Directors considers that there is no relevant material effect at the level of the Financial Statements.

Pension and other employee’s benefits

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

Changes in these assumptions could materially affect these values.

Goodwill impairment

Goodwill recoverable amount recognised as an asset of the Group is revised annually regardless the existence of impairment losses.

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

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

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

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

The amount of this account is comprised of:

	Jun 2012 Euro '000	**Jun 2011 Euro '000**
Net interest income	153,333	158,342
Net gains arising from assests and liabilities at fair value through profit and loss and available-for-sale financial assets	32,318	28,621
	185,651	186,963

3 Net interest income

The amount of this account is comprised of:

	Jun 2012			Jun 2011		
	Assets / liabilities at amortized cost and available-for-sale Euro '000	Assets / liabilities at fair value through profit or loss Euro '000	Total Euro '000	Assets / liabilities at amortized cost and available-for-sale Euro '000	Assets / liabilities at fair value through profit or loss Euro '000	Total Euro '000
Interest and similar income:						
Interest from loans and advances	321,570		321,570	251,530	-	251,530
Interest from other assets	1,504	-	1,504	4,951	-	4,951
Interest from deposits with banks	2,156	-	2,156	1,046	-	1,046
Interest from available-for-sale finacial assets	167,493		167,493	130,694	-	130,694
Interest from held-to-maturity financial assets	659	-	659	1,133	-	1,133
Interest from hedging derivates	1,303	-	1,303	1,632	-	1,632
Interest from available for trading financial assets	0	137,738	137,738	-	124,604	124,604
Other interest and similar income	10,694	-	10,694	8,562	-	8,562
	505,379	137,738	643,117	399,548	124,604	524,152
Interest and similar expense:						
Interest from deposits	243,943	-	243,943	133,835	-	133,835
Interest from securities issued	36,370	-	36,370	45,751	-	45,751
Interest from loans	2,366	-	2,366	4,387	-	4,387
Interest from other funding	14,375	-	14,375	20,089	-	20,089
Interest from hedging derivates	2,233	-	2,233	1,218	-	1,218
Interest from available for trading financial assets	0	128,564	128,564	-	112,020	112,020
Other interest and similar expense	61,933	-	61,933	48,510	-	48,510
	361,220	128,564	489,784	253,790	112,020	365,810
Net interest income	144,159	9,174	153,333	145,758	12,584	158,342

The balance Interest from loans and advances includes the amount of Euro 11,198,000 (30 June 2011: Euro 9,033,000) related to commissions and other gains / losses which are accounted for under the effective interest method, as referred in the accounting policy described in note 1 c).

The balance Interest from deposits with banks includes the amount of Euro 3,685,000, related to the accountig of interests on time deposits with rising rates.

4 Dividends from equity instruments

This caption in the amount of Euro 514,000 (30 June 2011: Euro 561,000) is related to dividends from available-for-sale financial assets.

5 Net fees and commissions income

The amount of this account is comprised of:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Fee and commission income:		
From banking services	46,704	41,258
From transactions order by third parties	6,122	4,673
From insurance brokerage services	3,185	3,375
From commitments to third parties	3,970	3,477
Other fee and commission income	614	36
	60,595	52,819
Fee and commission expense:		
From banking services rendered by third parties	9,410	7,700
From transactions with securities	212	243
Other fee and commission expense	2,470	1,151
	12,092	9,094
Net fee and commission income	48,503	43,725

At June 30, 2012 and 2011, commissions received on insurance brokerage services or reinsurance is made up as follows:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Non-life insurance:		
Mortgage	1,008	1,067
Consumer	58	77
Other	428	409
	1,494	1,553
Life insurance:		
Mortgage	609	622
Consumer	389	554
Other	693	646
	1,691	1,822
	3,185	3,375

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

The amount of this account is comprised of:

	Jun 2012			Jun 2011		
	Gains Euro '000	Losses Euro '000	Total Euro '000	Gains Euro '000	Losses Euro '000	Total Euro '000
Assets and liabilities held for trading						
Bonds and other fixed income securities issued by other entities	-	-	-	151	-	151
Shares	881	1,694	(813)	270	265	5
Investment fund units	261	297	(36)	2	19	(17)
	1,142	1,991	(849)	423	284	139
Derivative financial instruments						
Exchange rate contracts	40,279	40,925	(646)	141,563	141,920	(357)
Interest rate contracts	925,603	928,196	(2,593)	241,118	279,649	(38,531)
Credit default contracts	2,062	1,470	592	1,425	1,616	(191)
Others	38,723	34,447	4,276	50,836	24,410	26,426
	1,006,667	1,005,038	1,629	434,942	447,595	(12,653)
	1,007,809	1,007,029	780	435,365	447,879	(12,514)
Other financial assets at fair value through profit or loss						
Bonds and other fixed income securities issued by other entities	153	-	153	-	175	(175)
	153	-	153	-	175	(175)
Financial liabilities						
Deposits from other credit institutions	75	34	41	600	76	524
Deposits from customers	436	100	336	896	403	493
Debt securities issued	-	-	-	15	-	15
Other Subordinated debt	220,038	221,477	(1,439)	11,131	11,344	(213)
Others	11,727	26,401	(14,674)	42,436	4,462	37,974
	232,276	248,012	(15,736)	55,078	16,285	38,793
	1,240,238	1,255,041	(14,803)	490,443	464,339	26,104

The balance Financial liabilities – other, includes fair value changes related with changes in own credit risk (spread) changes from financial liabilities at fair value through profit or loss.

In accordance with the accounting policies followed by the Group, financial instruments are initially recognized at fair value. The best evidence of the fair value of the instrument at inception is deemed to be the transaction price. However, in particular circumstances, the fair value of a financial instrument at inception, determined based on a valuation techniques, may differ from the transaction price, namely due to the existence of a built-in fee, originating a day one profit.

The Group recognizes in the income statement the gains arising from the built-in fee (day one profit), generated, namely, on the trading of derivative and foreign exchange financial products, considering that the fair value of these instruments at inception and on subsequent measurements is determined only based on observable market data and reflects the Group access to the wholesale market.

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

The amount of this account is comprised of:

	Jun 2012			Jun 2011		
	Gains Euro '000	Losses Euro '000	Total Euro '000	Gains Euro '000	Losses Euro '000	Total Euro '000
Bonds and other fixed income securities						
Issued by public entities	773	351	422	4,716	2,788	1,928
Issued by other entities	45,979	246	45,733	11,595	11,160	435
Shares	19	21	(2)	57	1	56
Other variable income securities	975	7	968	105	7	98
	47,746	625	47,121	16,473	13,956	2,517

The balance Bonds and other fixed income securities - Issued by other entities includes the amount of Euro 30,424,000, resulting from a set of repurchase transactions undertaken by CEMG in order to manage its capital funding structure, namely the repurchase of bonds (Pelican Mortgage n. 3, Euro Medium Term Notes and covered bonds), as described in note 37.

8 Net gains/(losses) from foreign exchange differences

The amount of this account is comprised of:

	Jun 2012			Jun 2011		
	Gains Euro '000	Losses Euro '000	Total Euro '000	Gains Euro '000	Losses Euro '000	Total Euro '000
Foreign exchange differences	24,065	18,151	5,914	45,906	43,164	2,742

This account is comprised of the results from foreign exchange differences of monetary assets and liabilities in foreign currency in accordance with note 1 u).

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

The amount of this account is comprised of:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Sale of properties	(11,775)	(12,046)
Other	(6,819)	(385)
	(18,594)	(12,431)

The balance Sale of properties includes the amount of Euro 11,775,000 (30 June, 2011: Euro 12,046,000) related with gains on the sale of non-current assets available for sale and Land and building for own use, as referred in note 28.

The balance Other includes the amount of Euro 6,695,000, related to the full recognition of software program as an expense of the period, as described in note 31.

10 Other operating income

The amount of this account is comprised of:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Operating income:		
Income from services	3,632	3,129
Expenses reimbursement	4,301	3,086
Profits arising from deposits on demand	8,212	3,683
Profits arising from the pre-paid cards negotiation	19	-
Repurchase debt	23,822	8,505
Other	5,295	2,373
	45,281	20,776
Operating costs:		
Indirect taxes	2,768	869
Donations and quotizations	157	178
Contributions to the Deposit Guarantee Fund	1,548	1,078
Other	6,101	6,658
	10,574	8,783
Other net operating income	34,707	11,993

The balance Repurchase debt is calculated in accordance with note 1 d) and it refers to the repurchase of covered bonds and Euro Medium Term Notes.

As at 30 June 2012, the gains arising from the repurchase of covered bonds are in the amount of Euro 536,000 (30 June 2011: Euro 2,601,000) and the gains arising from the repurchase of Euro Medium Term Notes are in the amount of Euro 23,286,000 (30 June 2011: Euro 5,904,000).

The caption Specific contribution for the Banking Sector is estimated according to the terms of the Decree-Law 55-A/2010 that is not eligible as a tax cost. As at 30 June 2012, CEMG recognized as cost expense for the year the amount of Euro 2,116,000 (30 June 2011: Euro 502,000), included in balance Operating costs - Indirect taxes.

11 Staff costs

The amount of this account is comprised of:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Remunerations	70,279	62,055
SAMS constributions	3,628	2,592
Mandatory social security charges	16,137	15,791
Other charges with the pension fund	5,406	9,388
Other staff costs	2,243	1,441
	97,693	91,267

The caption Other charges with the pensions fund includes the amount of Euro 1,377,000 related to the impact in the income statement of the responsibilities with retirees and pensioners transferred to the General Social Security Scheme ('GSSS'), as referred in note 48. The referred impact corresponds to the effect of the recalculation of the liabilities based on the actuarial assumptions set by the Portuguese State, in the scope of the transfer.

The referred balance also includes the amount of Euro 878,000 related to costs with early retirements during the year.

12 General and administrative expenses

The amount of this account is comprised of:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Rents	16,752	12,339
Specialised services		
IT services	5,998	5,723
Independent work	3,076	2,558
Other specialised services	10,684	7,228
Advertising	2,221	4,047
Communications	5,728	5,108
Water, electricity and fuel	3,054	2,654
Maintenance and related services	2,546	2,585
Transportation	1,653	1,524
Insurance	1,128	1,152
Travel, hotel and representation costs	1,122	837
Consumables	708	1,310
Training costs	123	132
Other supplies and services	2,295	1,646
	57,088	48,843

The balance Rents, includes the amount of Euro 12,526,000 (30 June 2011: Euro 7,959,000) related to rents paid regarding buildings used by CEMG as leaser.

13 Depreciation and amortisation

The amount of this account is comprised of:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Intangible assets:		
Software	5,949	3,774
Other intangible assets	270	426
	6,219	4,200
Other tangible assets:		
Land and buldings	2,096	2,098
Equipment:		
Furniture	1,274	892
Office equipment	64	25
Computer equipment	3,980	3,456
Interior installations	178	32
Motor vehicle	73	11
Security equipment	613	1,130
Operational lease - Renting	732	550
Other tangible assets	92	48
	9,102	8,242
	15,321	12,442

14 Loans impairment

The amount of this account is comprised of:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Overdue loans and advances to customers:		
Charge for the period net of write-back	43 157	61 649
Recovery of loans and interest charged-off	(3 258)	(3 008)
	39 899	58 641
Other loans and advances to credit institutions:		
Charge for the period	50	103
Write-back for the period	(316)	(116)
	(266)	(13)
	39 633	58 628

15 Other assets impairment

The amount of this account is comprised of:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Impairment for non-current assets available for sale:		
Charge for the period	18,504	7,927
Write-back for the period	(12,577)	-
	5,927	7,927
Impairment for securities:		
Charge for the period	17,825	7,703
Write-back for the period	(8,829)	(946)
	8,996	6,757
Intagible assets impairment		
Charge for the period	26,512	-
Other assets impairment:		
Write-back for the period	(1,000)	-
	40,435	14,684

The balance Impairment for non-current assets available for sale – Write-back for the period, includes the effect of the sale of the properties accounted for non-current assets held for sale, as described in note 28.

The intangibles assets impairment refers to the charged impairment for revaluation and consolidation differences (Goodwill), as described in note 30.

16 Other provisions

The amount of this account is comprised of:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Provisions for liabilities and charges:		
Charge for the period	1,507	894
Write-back for the period	(5,034)	(375)
	(3,527)	519

17 Share of profit of associates under the equity method

The contribution of the associated companies accounted for under the equity method is as follows:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Lusitania, Companhia de Seguros, S.A.	(1,315)	(2,207)
Lusitania Vida, Companhia de Seguros, S.A.	999	1,048
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	(175)	(181)
Iberpartners Cafés - S.G.P.S., S.A.	(33)	-
Prio Foods SGPS, S.A.	(320)	-
Prio Energie SGPS, S.A.	329	390
	(515)	(950)

18 Cash and deposits at central banks

This balance is analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Cash	139,406	162,238
Bank of Portugal	131,947	299,245
	271,353	461,483

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 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 2012, these deposits have earned interest at an average rate of 1%.

19 Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

	Jun 2012 Euro '000	**Dec 2011 Euro '000**
Credit institutions in Portugal	183,935	129,806
Credit institutions abroad	15,394	24,671
Amount due for collection	37,267	69,357
	236,596	223,834

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

20 Other loans and advances to credit institutions

This balance is analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Loans and advances to credit institutions in Portugal:		
Deposits	1,135	1,135
Loans	19,947	19,836
Short term deposits	71,994	65,002
Other loans and advances	3,002	-
	96,078	85,973
Loans and advances to credit institutions abroad:		
Deposits	41,811	39,054
Short term deposits	90,108	30,001
Other loans and advances	104,472	129,549
	236,391	198,604
	332,469	284,577
Impairment for credit risks over credit institutions	(79)	(345)
	332,390	284,232

The main loans and advances to credit institutions in Portugal, as at 30 June 2012, bear interest at an average annual interest rate of 0.96% (31 December 2011: 1.35%).

Loans and advances to credit institutions abroad bear interest at international market rates where CEMG operates.

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

	Jun 2012 Euro '000	Jun 2011 Euro '000
Impairment for credit risks over credit institutions		
Balance on 1 January	345	50
Charge for the period	50	103
Write-back for the period	(316)	(116)
Transfers	-	99
Balance on 30 June	79	136

The balance Transfers corresponds of amounts transferred from Finibanco, S.A. in the acquisition by CEMG on 31 March 2011.

21 Loans and advances to customers

This balance is analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Domestic loans:		
Corporate:		
Loans	1,987,364	1,789,310
Commercial lines of credits	1,836,393	1,953,428
Finance leases	380,384	418,396
Discounted bills	149,813	163,129
Factoring	108,233	146,496
Overdrafts	66,266	61,844
Other loans	1,476,816	1,718,592
Retail:		
Mortgage loans	8,776,410	8,978,144
Finance leases	105,965	95,486
Consumer and other loans	1,191,962	1,262,037
	16,079,606	16,586,862
Foreign loans:		
Corporate:	59,904	50,817
Overdrafts	14,215	11,498
	16,153,725	16,649,177
Correction of asset values subject to hedge operations	5,895	5,175
Overdue loans and interest		
Less than 90 days	114,249	128,858
More than 90 days	751,893	693,892
	866,142	822,750
	17,025,762	17,477,102
Impairment for credit risks	(764,828)	(770,476)
	16,260,934	16,706,626

As at 30 June 2012, the balance Loans and advances to customers (net of impairments losses) includes the amount of Euro 240,661,000 (31 December 2011: Euro 254,148,000) related to securitised loans following the consolidation of securitisation vehicles (see note 51), according to note 1 b). The liabilities related to these securitisations are booked under debt securities issued (see note 37).

The CEMG realized operations conducted under the Programme for the Issuance of CEMG Mortgage Bonds:

- June 2012: Cancellation of Euro 53,300,000;
- November 2011: Issue of Euro 300,000,000, term: 5 years, an interest rate; 2.28%;
- October 2011: Cancellation of Euro 291,700,000;
- November 2010: Issue of Euro 500,000,000, term: 5 years; an interest rate; 4.08%;
- December 2009: Issue of Euro 1,000,000,000; term: 7 years, an interest rate; 2.17%; and
- July 2009: Issue of Euro 708,300,000; term: 3 years, an interest rate; 3.25%.

As at 30 de June 2012, the balance Mortgage includes the amount of Euro 3,258,435,000 (31 December, 2011: Euro 2,277,166,000) related with loans objected of securitization and, in accordance with note 1b), related to loans subject of securitization, which according to note 1 b), were not subject to derecognition. This amount is also recorded under the item Financial liabilities relating to transferred assets.

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

The fair value of the portfolio of loans to customers is presented in note 48.

As at 30 June 2012, the balance Overdue loans for more than 90 days includes loans and advances to costumers from which the responsibility with the former debtor has been extinguished, in the amount of Euro 1,535,000 (31 December 2011: Euro 1,533,000). These amounts correspond to loans overdue for more than three years for which the contractual obligation with the former debtor has been extinguished due to the acquisition in court auction bankruptcy or acquisition through foresale but for which there are still pending legal actions.

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

The analysis of Loans and advances to customers, by maturity date and type of credit as at 30 June 2012, 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	61,564	2,384,211	10,144,646	454,855	13,045,276
Other guarantee loans	114,831	1,097,516	312,994	161,129	1,686,470
Unsecured loans	295,121	699,841	433,834	217,699	1,646,495
Public sector loans	822	11,782	41,990	865	55,459
Foreign loans	11,223	60,317	2,579	4,087	78,206
Financial leases	4,688	123,803	357,858	27,507	513,856
	488,249	4,377,470	11,293,901	866,142	17,025,762

The analysis of Loans and advances to customers, by maturity date and type of credit as at 31 December 2011, 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	61,404	2,618,510	10,294,201	550,424	13,524,539
Other guarantee loans	118,734	1,142,802	314,377	100,565	1,676,478
Unsecured loans	386,316	657,856	432,695	148,622	1,625,489
Public sector loans	1,607	11,004	42,331	539	55,481
Foreign loans	21,738	36,270	625	2,602	61,235
Financial leases	21,231	174,478	318,173	19,998	533,880
	611,030	4,640,920	11,402,402	822,750	17,477,102

The balance Financial leases, by the period to maturity as at 30 June 2012, is analysed as follows:

	Financial leases			
	Due within 1 year Euro '000	**1 year to 5 years Euro '000**	**Over 5 years Euro '000**	**Total Euro '000**
Outstanding rents	18,078	169,673	378,436	566,187
Outstanding interests	(1,371)	(33,127)	(114,637)	(149,135)
Residual values	32,664	19,757	16,876	69,297
	49,371	156,303	280,675	486,349

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

	Financial leases			
	Due within 1 year Euro '000	1 year to 5 years Euro '000	Over 5 years Euro '000	Total Euro '000
Outstanding rents	67,252	269,609	209,930	546,791
Outstanding interest	(13,793)	(35,764)	(44,962)	(94,519)
Residual values	14,090	26,244	21,276	61,610
	67,549	260,089	186,244	513,882

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

	Jun 2012 Euro '000	Dec 2011 Euro '000
Asset-backed loans	454,855	550,424
Other guaranteed loans	161,129	100,565
Unsecured loans	217,699	148,822
Public sector loans	865	539
Foreign loans	4,087	2,402
Financial lease	27,507	19,998
	866,142	822,750

The impairment for credit risks is analysed as follows:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Impairment for credit risk:		
Balance on 1 January	770,476	521,811
Charge for the period net from write-back	43,157	61,649
Loans charged-off	(141,277)	(81,982)
Transfers	92,472	186,281
Balance on 30 June	764,828	687,759

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

In accordance with CEMG's policy, interest on overdue loans for a period over 90 days not covered by asset-backed guarantees, is only recorded as income when received.

If the impairment loss decreases in a subsequent period to its initial accounting and this decrease can be objectively associated to an event that occurred after the recognition of the loss, the impairment in excess is reversed through profit and loss.

In compliance with note 1 c), loans and advances to customers are charged-off when there are no expectations, from an economic point of view, of recovering the loan amount and for collateralized loans, when the funds arising from the execution of the respective collaterals was already received. This charge-off is carried out for loans that are fully provided.

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

	Jun 2012 Euro '000	**Dec 2011 Euro '000**
Asset-backed loans	530,077	621,351
Other guareteed loans	108,202	48,818
Unsecured loans	126,549	100,307
	764,828	770,476

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

	Jun 2012 Euro '000	**Dec 2011 Euro '000**
Asset-backed loans	114,906	38,024
Other guaranteed loans	14,213	1,142
Unsecured loans	12,158	3,899
	141,277	43,065

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

The recovered loans and overdue interest, performed during the period of 1 January to 30 June 2012 and during 1 January to 30 June 2011, includes the amount of Euro 3,258,000 and Euro 3,008,000, related with the recovery of asset-backed loans, as referred in note 14.

As at 30 June 2012 and 31 December 2011, the impairment detail, according to note 1 c), is as follows:

	Jun 2012						
	Impairment in an individual basis		Impairment in a portfolio basis		Total		
	Loan Value Euro '000	Impairment Euro '000	Loan Value Euro '000	Impairment Euro '000	Loan Value Euro '000	Impairment Euro '000	Loans net from impairment Euro '000
Loans to companies	5,224,675	392,378	2,165,787	182,527	7,390,462	574,905	6,815,557
Loans to costumers - Housing	99,343	2,584	8,425,928	100,025	8,525,271	102,609	8,422,662
Loans to costumers - Others	137,316	9,131	972,713	78,183	1,110,029	87,314	1,022,715
	5,461,334	404,093	11,564,428	360,735	17,025,762	764,828	16,260,934

	Dec 2011						
	Impairment in an individual basis		Impairment in a portfolio basis		Total		
	Loan Value Euro '000	Impairment Euro '000	Loan Value Euro '000	Impairment Euro '000	Loan Value Euro '000	Impairment Euro '000	Loans net from impairment Euro '000
Loans to companies	1,774,825	322,250	5,407,324	232,856	7,182,149	555,106	6,627,043
Loans to costumers - Housing	949	118	9,142,629	135,784	9,143,578	135,902	9,007,676
Loans to costumers - Others	50,174	8,900	1,101,201	70,568	1,151,375	79,468	1,071,907
	1,825,948	331,268	15,651,154	439,208	17,477,102	770,476	16,706,626

The Group's credit portfolio, which includes loans to customers, also have the guarantees granted and commitments to third parties, is splitted between impaired credit and credit not impaired is analysed as follows:

	Jun 2012 Euro '000	**Dec 2011 Euro '000**
Total of loans	17,536,813	17,981,937
Loans and advances to customers with impairment		
Individually significant		
Gross amount	5,560,141	1,955,040
Impairment	(404,093)	(331,269)
Net book amount	5,156,048	1,623,771
Parametric analysis		
Gross amount	2,542,843	2,910,094
Impairment	(335,505)	(385,741)
Net book amount	2,207,338	2,524,353
Loans and advances to customers without impairment	9,433,829	13,116,803
Impairment (IBNR)	(25,230)	(53,466)
	9,408,599	13,063,337
	16,771,985	17,211,461

The Group is applying physical collaterals and financial guarantees as instruments to mitigate the credit risk. The physical collaterals are mainly mortgages on residential buildings for the mortgage portfolio and other mortgages on other types of buildings related to other types of loans. In order to reflect the market value, these collaterals are regularly reviewed based on independent and certified valuation entities or through the application of evaluation coefficients that reflect the market trends for each specific type of building and geographical area. The financial guarantees are reviewed based on the market value of the respective assets, when available, with the subsequent application of haircuts that reflect the volatility of their prices.

22 Financial assets and liabilities held for trading

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

	Jun 2012 Euro '000	Dec 2011 Euro '000
Financial assets held for trading:		
Securities		
Shares	11,276	5,415
Derivatives		
Derivatives financial instruments with positive fair value	128,111	130,115
Loans and other receivables	19,673	45,246
	159,060	180,776
Financial liabilities held for trading:		
Derivatives financial instruments with negative fair value	68,319	79,121

The trading portfolio is recorded at fair value trough profit or loss, in accordance with note 1 d). 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.

In 2012, Euro 18,900,000 were transferred from the balance of Loans and advances to customers, that previously were in the balance Finacial assets held for trading, as described in note 57.

As referred in IFRS 7, financial assets held for trading and available for sale are valued in accordance with the following fair value measurement levels:

- Level 1: financial instruments measured in accordance with quoted market prices or providers.

- Level 2: financial instruments measured in accordance with internal valuation techniques based on observable market inputs.

- Level 3: financial instruments measured in accordance with valuation techniques based on inputs not based on observable data that have significant impact in the instruments valuation.

The financial assets and liabilities held for trading are valued in accordance with market prices or providers and with internal valuation techniques based on observable market inputs. Therefore, accordingly with the hierarchy of the valuation sources, as referred in IFRS 7 these instruments are classified in the levels 1 and 2.

The book value of the assets and liabilities at fair value through profit or loss as at 30 June 2012 is as follows:

		Jun 2012						
		Derivative			Related Asset/Liability			
Derivate	Related financial asset/ liability	Notional Euro '000	Fair value Euro '000	Changes in the fair value in the year	Fair value Euro '000	Changes in the fair value in the year	Book value Euro '000	Reimbursement amount at maturity date Euro '000
Interest rate swap	Securities issued	933,236	2,651	(7,522)	65,687	153,820	229,100	229,100
Interest rate swap	Deposits	1,800,800	30,183	10,225	17,133	1,227	711,760	711,760
Interest rate swap	Deposits from customers	346,885	13,653	(18)	(17,020)	2,572	101,148	101,148
Interest rate swap	Titularization	9,867,332	(11,630)	(3,882)	(678)	-	-	-
Interest rate swap	Covered bonds	11,690,653	14,612	8,737	1,973	(7,187)	655,000	655,000
Interest rate swap	Jet Fuel	116,724	29	29	-	3,488	25,000	25,000
Currency swap	Debt issued	836,735	523	238	-	-	-	-
CIRS	-	3,078	122	(72)	-	-	-	-
Future options	-	42,980	270	292	-	-	-	-
Options	Time deposits and other deposits	343,700	257	259	-	-	-	-
Credit Default Swaps	-	64,414	(2,558)	512	-	-	-	-
Other	-	-	11,680	-	-	-	-	-
		26,046,537	59,792	8,798	67,095	153,920	1,722,008	1,722,008

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

		Dec 2011						
		Derivative			Related Asset/Liability			
Derivate	Related financial asset/ liability	Notional Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Book value Euro '000	Reimbursement amount at maturity date Euro '000
Interest rate swap	Securities issued	1,061,936	10,172	(15,207)	(89,648)	(53,425)	315,750	315,750
Interest rate swap	Deposits	1,872,000	22,250	3,673	15,906	1,952	753,397	753,397
Interest rate swap	Deposits from customers	348,767	13,671	1,408	(19,592)	(16,835)	247,368	247,368
Interest rate swap	Titularization	10,070,419	(10,734)	(8,591)	-	-	-	-
Interest rate swap	Covered bonds	9,242,912	5,875	(12,148)	6,509	14,126	708,300	708,300
CIRS	-	1,158,319	(19)	1,173	-	-	-	-
Currency swap	Debt issued	9,072	194	62	-	-	-	-
Future options	-	84,752	(22)	(21)	-	-	-	-
Options	Time deposits and other deposits	87,762	(2)	(755)	-	-	-	-
Credit Default Swaps	-	81,093	(3,071)	(2,334)	-	-	-	-
		24,017,032	38,314	(32,740)	(86,825)	(54,182)	2,024,815	2,024,815

The analysis of financial instruments held for trading, by maturity date as at 30 June 2012, is as follows:

	Jun 12					
	Notionals with remainig term				Fair value	
	Due within 3 months Euro '000	3 months to 1 year Euro '000	Over 1 year Euro '000	Total Euro '000	Assets Euro '000	Liabilities Euro '000
Interest rate contracts:						
Interest rate swaps	2,689,892	437,722	21,631,094	24,758,708	121,020	71,400
Options	3,514	19,966	320,220	343,700	4,826	4,569
Exchange rate contracts						
Currency swaps	836,735	-	-	836,735	1,183	660
Index contracts:						
Index futures	42,980	-	-	42,980	270	-
Credit default contracts:						
Credit default swaps	10,000	17,500	36,914	64,414	812	3,370
Other	-	-	-	-	-	(11,680)
	3,583,121	475,188	21,988,228	26,046,537	128,111	68,319

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

	Dec 2011					
	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	Assets Euro '000	Liabilities Euro '000
Interest rate contracts:						
Interest rate swaps	22,945	1,982,770	20,599,393	22,605,108	119,906	77,783
Options	-	2,800	84,961	87,761	8,482	8,484
Exchange rate contracts:						
Interest rate swaps	322,044	471	-	322,515	454	169
Index contracts:						
Index futures	84,752	-	-	84,752	-	22
Credit default contracts						
Credit default swaps	-	-	81,093	81,093	1,273	4,343
Other	-	-	-	-	-	(11,680)
	429,741	1,986,041	20,765,447	23,181,229	130,115	79,121

The fair value of the derivatives financial instruments includes, the valuation of the embedded derivatives separated from the host contract in accordance with note 1 d) in the amount of Euro 6,913,000 (31 December 2011: Euro 7,331,000).

23 Other financial assets at fair value through profit or loss

The balance Other financial assets at fair value through profit or loss amounts in Euro 3,667,000 (31 December 2011: Euro 3,606,000), which is fully composed by fixed income bonds and other securities of other issuers.

The Group's choice of naming these assets at fair value through profit and loss, according to IAS 39 and note 1 d), can be observed in the planed strategy of the Group's management, considering that (i) these financial assets are managed and evaluated in a fair value basis and/or (ii) that these assets are holding embedded derivative instruments.

Other financial assets and liabilities held for trading at fair value through profit or loss are measured in accordance with internal valuation techniques considering mainly observable market inputs. In accordance with the hierarchy of the valuation sources, as referred in IFRS 7, these instruments are classified in level 1.

As at 30 June 2012 and 31 December 2011, securities portfolio included in the balance Other financial assets at fair value through profit or loss is found quoted with a maturity greater than 1 year.

24 Financial assets available for sale

This balance is analysed as follows:

	Jun 2012				
		Fair value reserve			
	Cost [(1)] Euro '000	Positive Euro '000	Negative Euro '000	Impairment losses Euro '000	Book value Euro '000
Fixed income securities:					
Issued by public entities:					
Portuguese	1,183,268	2,616	(68,279)	-	1,117,605
Foreign	128,071	3,411	(17,647)	-	113,835
Issued by other entities:					
Portuguese	222,998	1,292	(9,582)	-	214,708
Foreign	385,393	1,646	(36,922)	(2,049)	348,068
Commercial paper	298,335	-	-	(998)	297,337
Variable income securities:					
Shares in companies					
Portuguese	12,763	14	(129)	(6,411)	6,237
Foreign	8,403	247	(109)	(2,520)	6,021
Investment fund units	494,132	3,262	(5,104)	(166)	492,124
	2,733,363	12,488	(137,772)	(12,144)	2,595,935

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

	Dec 2011				
		Fair value reserve			
	Cost [(1)] Euro '000	Positive Euro '000	Negative Euro '000	Impairment losses Euro '000	Book value Euro '000
Fixed income securities:					
Issued by public entities:					
Portuguese	1,392,089	1,935	(243,498)	-	1,150,526
Foreign	147,206	2,164	(2,848)	(19,309)	127,213
Issued by other entities:					
Portuguese	279,251	756	(22,366)	-	257,641
Foreign	486,842	896	(55,681)	(2,049)	430,008
Commercial paper	261,996	-	-	(998)	260,998
Variable income securities:					
Shares in companies:					
Portuguese	12,700	70	(74)	(6,195)	6,501
Foreign	8,047	313	(381)	(1,416)	6,563
Investment fund units	335,903	830	(1,667)	(148)	334,918
	2,924,034	6,964	(326,515)	(30,115)	2,574,368

As referred in note 1 d), the portfolio of assets available-for-sale are presented at market value with fair value changes accounted for against fair value reserves, as referred in note 43. CEMG assesses periodically whether there is objective evidence of impairment losses on the available-for-sale financial assets, following the judgment criteria's described in note 1 z).

The Balance Variable income securities - Investment fund units includes the amount of Euro 217,826,000 (31 December 2011: Euro 221,463,000) that correspondes to 24,913,185 participation units of "CA Imobiliário – Fundo Especial de Investimento Imobiliário Aberto (FEII)".

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

	Jun 2012 Euro '000	Jun 2011 Euro '000
Impairment for securities		
Balance on 1 January	30,115	19,172
Charge for the period	17,825	7,703
Write-back for the period	(8,829)	(946)
Charged-off impairment	(16,170)	(9,295)
Regularizations	(10,797)	-
Transfers	-	1,265
Balance on 30 June	12,144	17,899

As described in note 1 d), the portfolio of financial assets available for sale are presented net of the total fair value reserve and impairment. The total fair value reserve for financial assets available for sale is negative and amounts to Euro 125,284,000 (31 December 2011: Euro 319,551,000) and impairment amounts to Euro 12,144,000 (31 December 2011: Euro 30,115,000).

The Group recognizes impairment on financial assets available for sale when there is a prolonged or significant drop in its fair value or when there is an expected impact on future cash flows of the assets. This assessment involves judgment, in which the Group takes into account among other factors, the volatility of stock prices.

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

- Equity instruments: (i) above 30% devaluation against the purchase price or (ii) the market value below the acquisition cost for a period exceeding 12 months;

- Debt instruments: where there is objective evidence of events that impact on the recoverable value of future cash flows of these assets.

The evolution of the debt crisis of the Euro zone countries associated with the macro economic developments in Greece, which has contributed to a deterioration of economic and financial situation of the Greek State and the inability to access markets which implies that the solvency of the country immediately remains dependent on continued support from the EU and the IMF.

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

	Jun 2012			Dec 2011		
	Quoted Euro '000	Unquoted Euro '000	Total Euro '000	Quoted Euro '000	Unquoted Euro '000	Total Euro '000
Fixed income securities:						
Issued by public entities						
Portuguese	1,117,605	-	1,117,605	1,150,526	-	1,150,526
Foreign	113,835	-	113,835	127,213	-	127,213
Issued by other entities						
Portuguese	188,543	26,165	214,708	257,641	-	257,641
Foreign	342,068	6,000	348,068	430,008	-	430,008
Commercial paper	-	297,337	297,337	-	260,998	260,998
Variable income securities:						
Shares in companies						
Portuguese	990	5,247	6,237	1,087	5,414	6,501
Foreign	5,657	364	6,021	6,245	318	6,563
Investment fund units	491,810	314	492,124	334,918	-	334,918
	2,260,508	335,427	2,595,935	2,307,638	266,730	2,574,368

25 Hedging derivatives

This balance is analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Assets		
Interest rate swaps	1,370	1,311
Liabilities		
Interest rate swaps	18,595	13,041

Hedging derivatives are measured in accordance with internal valuation techniques considering mainly observable market inputs. In accordance with the hierarchy of the valuation sources, as referred in IFRS 7 these derivatives are classified in level 2.

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

The Group performs periodical effectiveness tests of the hedging relationships.

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

	Jun 2012 Euro '000	Dec 2011 Euro '000
Deposits from other credit institutions	41	343
Debt securities issued	-	15
Deposits from customers	-	371
	41	729

The analysis of the hedging derivatives portfolio by maturity date, as at 30 June 2012 is as follows:

	Jun 2012							
	Notionals within 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	-	23,000	492,000	515,000	-	(153)	(17,072)	(17,225)
	-	23,000	492,000	515,000	-	(153)	(17,072)	(17,225)

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

	Dec 2011							
	Notionals within 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 derivates with interest rate risk:								
Interest rate swap	-	-	515,000	515,000	-	-	(11,730)	(11,730)
	-	-	515,000	515,000	-	-	(11,730)	(11,730)

26 Held-to-maturity investments

This balance is analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Fixed income securities		
Bonds issued by Portuguese public entities	6,313	37,419
Bonds issued by foreign public entities	15,573	39,575
	21,886	76,994

The Group assessed, with reference to 30 June 2012, the existence of objective evidence of impairment on its held-to-maturity investments portfolio and no events with impact on the recoverable amount of the future cash flows associated with those investments were identified.

The held-to-maturity investments, as at 30 June 2012 are analysed as follows:

Issue	Issue date	Maturity date	Interest rate	Book value Euro '000
OT - Setembro_98/23-09-2013	May, 1998	September, 2013	Fixed rate 5.450%	99
OT - Outubro 05/15-10-2015	July, 2005	October, 2015	Fixed rate 3.350%	6,164
Netherlands Government 05/2015	June, 2005	July, 2015	Fixed rate 3.250%	5,093
Republic of Austria 04/15-07-2015	May, 2004	July, 2015	Fixed rate 3.500%	2,053
Belgium Kingdom 05/28-09-2015	March, 2005	September, 2015	Fixed rate 3.750%	2,027
Buoni Poliennali Del Tes. 05/2015	May, 2005	August, 2015	Fixed rate 3.750%	1,995
BT AOTNBT423D10	July, 2011	July, 2012	Fixed rate 7,350%	4,404
OT Cabo Verde - Mar_10/01-03-2013	March, 2010	March, 2013	Fixed rate 5,740%	51
				21,886

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

During the first semester of 2012 and during 2011, CEMG did not transfer to or from this assets category.

27 Investments in associated companies and other

This balance is analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Investments in associated companies and other		
Prio Foods S.G.P.S., S.A.	17,906	18,320
Lusitania, Companhia de Seguros, S.A.	17,080	17,745
Lusitania Vida, Companhia de Seguros, S.A.	15,920	12,274
Prio Energy S.G.P.S., S.A.	5,401	4,790
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3,462	3,686
Iberpartners Cafés S.G.P.S., S.A.	978	1,041
	60,747	57,856

The financial information concerning associated companies, as at 30 June 2012 and 31 December 2011, is presented in the following table:

	Assets Euro '000	Liabilities Euro '000	Equity Euro '000	Income Euro '000	Profit/ (Loss) for the year Euro '000	Acquisition cost Euro '000
30 June 2012						
Lusitania, Companhia de Seguros, S.A.	534,150	467,566	66,584	107,394	(5,129)	23,566
Lusitania Vida, Companhia de Seguros, S.A.	491,238	450,769	40,469	24,582	2,539	9,530
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	46,474	29,164	17,310	3,286	(876)	3,200
Iberpartners Cafés S.G.P.S., S.A.	3,940	1,506	2,434	-	(114)	1,000
Prio Foods S.G.P.S., S.A.	277,677	233,583	44,094	20,679	(1,598)	21,018
Prio Energy S.G.P.S., S.A.	170,005	144,649	25,356	113,624	1,647	4,300
31 December 2011						
Lusitania, Companhia de Seguros, S.A.	555,295	486,117	69,178	252,503	(2,438)	23,566
Lusitania Vida, Companhia de Seguros, S.A.	493,069	461,871	31,198	47,459	5,372	9,530
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	47,709	29,277	18,432	7,991	(895)	3,200
Iberpartners Cafés S.G.P.S., S.A.	4,891	1,430	3,461	121	77	1,000
Prio Foods S.G.P.S., S.A.	290,622	240,066	50,556	68,073	(5,687)	21,018
Prio Energy S.G.P.S., S.A.	143,743	123,821	19,922	304,595	4,025	4,300

	Percentage held		Book value		Share profit of associates	
	Jun 2012 %	Dec 2011 %	Jun 2012 Euro'000	Dec 2011 Euro'000	Jun 2012 Euro'000	Dec 2011 Euro'000
Lusitania, Companhia de Seguros, S.A.	25.65%	25.65%	17,080	17,745	(1,315)	(626)
Lusitania Vida, Companhia de Seguros, S.A.	39.34%	39.34%	15,920	12,274	999	2,114
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	20%	20%	3,462	3,686	(175)	(179)
Iberpartners Cafés S.G.P.S., S.A.	29.41%	29.41%	978	1,041	(33)	23
Prio Foods S.G.P.S., S.A.	20%	20%	17,906	18,320	(320)	(1,138)
Prio Energy S.G.P.S., S.A.	20%	20%	5,401	4,790	329	805

The changes in the balance Investments in associates and other is analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Initial balance	57,856	37,060
Acquisitions	-	24,461
Sales	-	-
Share of profit of associates	(515)	999
Share of profit of associates	4,271	(3,594)
Dividens received	(865)	(1,070)
Final balance	60,747	57,856

28 Non-current assets held for sale

This balance is analysed as follows:

	Jun 2012 Euro '000	**Dec 2011 Euro '000**
Investments arising from recovered loans	265,576	168,102
Impairment for non-current assets held for sale	(35,469)	(31,091)
	230,107	137,011

The assets included in this balance are accounted for in accordance with the note 1 j).

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

In November and December 2011, CEMG sold a set of assets referred above to CA Imobiliário – Fundo Especial de Investimento Imobiliário Aberto (FEII) and Fundo Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH), both investment funds. Considering the nature of the transaction the assets were derecognized. These assets were accounted by Euro 148,557,000, net from impairment, originating a gain of Euro 22,741,000 and a write-back of impairment of Euro 39,498,000, at 31 December 2011.

According to CEMG's expectation, these assets are available for sale in a period less than 2 year and CEMG as a strategy for its sale. This balance includes buildings and other assets for which CEMG has already established contracts for the sale in the amount of Euro 29,009,000 (31 December 2011: Euro 22,591,000).

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

	Jun 2012 Euro '000	**Jun 2011 Euro '000**
Impairment for non-current assets held for sale		
Balance on 1 January	31,091	38,872
Charges for the period	18,504	7,927
Write-back for the period	(12,577)	-
Transfers	(1,549)	-
Balance on 30 June	35,469	46,799

29 Investment properties

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

30 Property and equipment

This balance is analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Cost:		
Land and buildings:		
For own use	36,799	36,699
Leasehold improvements in rented buildings	70,146	67,688
Equipment:		
Furniture	20,812	20,921
Office equipment	3,314	3,364
Computer equipment	88,978	85,661
Interior installations	24,990	23,382
Motor vehicles	5,109	5,126
Security equipment	9,867	9,846
Other equipment	5	5
Works of art	2,831	2,755
Assets in operacional lease	9,679	9,561
Assets in finance lease	38	38
Other tangible assets	2,429	2,406
Work in progress	3,039	5,858
	278,036	273,310
Accumulated depreciation:		
Charge for the period	(9,102)	(18,440)
Accumulated charge for the previous periods	(163,138)	(146,213)
	(172,240)	(164,653)
	105,796	108,657

31 Intangible assets

This balance is analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Custo:		
Software	58,380	68,961
Revaluation and consolidation differences (Goodwill)	53,024	53,024
Other intangible assets	11,380	13,286
Other intangible assets in progress	110	707
	122,894	135,978
Accumulated depreciation:		
Charge for the period	(6,219)	(9,830)
Accumulated charge for the previous periods	(28,828)	(35,943)
Impairment for intangible assets	(26,512)	-
	(61,559)	(45,773)
	61,335	90,205

In 2012, CEMG proceeded to the full recognition of software programs as expense of the period, with a book value of Euro 6,695,000, as described in note 9.

This intangible asset does not have finite useful life, so that, as referred in accounting policy described in note 1 b), its recoverable amount is annually reviewed, regardless of the existence of impairment signs.

In accordance with IAS 36 the recoverable amount of goodwill should be the greater between its value on use (the present value of the future cash flows expected from its use) and its fair value less costs to sell. Based on these criteria, the Group made valuations to their investments for which there is goodwill recorded which considered among other factors:

(i) an estimate of future cash flows generated by each entity;

(ii) an expectation of potential changes in the amounts and timing of cash flows;

(iii) the time value of money;

(iv) a risk premium associated with the uncertainty by holding the asset;

(v) other factors associated with the current situation of financial markets.

The valuations were based on reasonable and sustainable assumptions representing the best estimate of the Board of Directors on the economic conditions that affect each entity, the budgets and the latest projections approved by the Board of Directors for those entities and their extrapolation to future periods. The assumptions made for these assessments may vary with the change in economic conditions and in the market.

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

Besides the Business Plan revaluation, to be completed during the second semester of 2012, the Board of Directors conclude for the need to reflect in the consolidated financial statements as at 30 June 2012, a prudent perspective compared to the results of the referred revaluation. Based on the above, it was accounted, as at 30 June 2012, an impairment of the total value of the goodwill associated with the participation of ex-Finibanco Group, in the amount of Euro 26,512,000.

32 Taxes

With effect from 1 January 2012, CEMG is subject to the regime established by the Income Tax Code ("IRC"). Therefore, and based on the applicable law, the temporary differences between accounting income and the results accepted for tax purposes of IRC, whenever there is a reasonable that such taxes will be paid or recovered in the future, according to the accounting policy 1v) are eligible for the recognition of deferred taxes.

Deferred income tax assets and liabilities as at 30 June 2012 and 31 December 2011 are analysed as follows:

	Assets		Liabilities		Net	
	Jun 2012 Euro '000	Dec 2011 Euro '000	Jun 2012 Euro '000	Dec 2011 Euro '000	Jun 2012 Euro '000	Dec 2011 Euro '000
Financial instruments	6,319	18,630	-	(1)	6,319	18,629
Other tangible assets	165	961	(702)	-	(537)	961
Provisions	28,690	36,089	(367)	13	28,323	36,102
Employee benefits	9,484	8,460	(76)	(48)	9,408	8,412
Property impairment	1,323	-	-		1,323	-
Tax losses carried forward	21,866	16,553	-	-	21,866	16,553
Deferred tax assets / (liabilities)	**67,847**	**80,693**	**(1,145)**	**(36)**	**66,702**	**80,657**

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

Deferred taxes related to the losses carried forward are recognized only if the existence of future taxable profits is probable. The uncertainty of the recoverability of the tax losses carried forward is considered in the deferred tax assets calculation.

As at 30 June 2012, the changes related to deferred tax assets were recognized in income statement and reserves in the amount of Euro 1,196,000 negative and Euro 12,759,000 negative, respectively.

The deferred tax recognized in Reserves – Other comprehensive income, includes the the actuarial gains/losses also recognized in this balance, as decribed in note 49 – Employee benefits.

Net deferred tax assets changes, besides the fact that CEMG, is now subject to Income Tax Code (“IRC”), as decribed in the note 1 x), includes the deferred tax expenses for the year recognized in the profit and loss account, as well as the changes recognized in reserves and retained earnings, namely the impact resulting from the changes, in accordance with the IAS 19, of the accounting policy for the recognition of actuarial gains and losses related with pension and post employment benefits, for the year and for previous years and unrealised gains and losses resulting from the revaluation of financial assets available for sale recognized in Equity.

As at 30 June 2012, the amount of unrecognized temporary differences that resulted in a deferred tax asset in the amount of Euro 212,971,000 (31 December 2011: Euro 236,883,000).That differences recognized is dependent of the CEMG generate future taxable income ability.During the second semester of 2012, the Board of Directors will analyse the adittional information received from the competent Tax Authorities about the clarifications requested by CEMG, and will conclude the analysis about the future recoverability of not recongnized temporary differences and depending on the evaluation of these aspects, conclude about the eventual recording of deferred taxes not yet recognized.

Deferred tax assets and liabilities are presented on a net basis where, pursuant to applicable regulation, CEMG can offset current tax assets to current tax liabilities and when the assets and deferred tax liabilities relate to taxes on income released by the same taxation authority.

33 Other assets

This balance is analysed as follows:

	Jun 2012 Euro '000	**Dec 2011 Euro '000**
Recoverable subsidies from Portuguese Government	10,456	9,724
Other debtors	138,520	185,852
Other accrued income	12,906	11,903
Prepayments and deferred costs	13,078	8,000
Sundry debtors	335,608	290,528
	510,568	506,007
Impairment for other assets	(37)	(1,037)
	510,531	504,970

The balance Recoverable subsidies from the Portuguese Government, in the amount of Euro 10,456,000 (31 December 2011: Euro 9,724,000), 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 2012 and 31 December 2011, the balance Recoverable subsidies from the Portuguese Government is analysed as follows:

	Jun 2012 Euro '000	**Dec 2011 Euro '000**
Recoverable subsidies from the Portuguese Government unliquidated	2,166	2,111
Subsidies unclaimed	3,789	3,157
Overdue subsidies unclaimed	4,501	4,460
	10,456	9,728

The balance Other debtors, includes, as at 30 June 2012, the amount of Euro 61,805,000 (31 Decemebr 2011: Euro 61,597,000) related with sundry values from loans and advances to costumers from which the responsibility with the former debtor has been extinguished, pending settlement. Additionally, this balance also includes the amount of Euro 24,091,000 related with receivables from the society "Hefesto Sociedade de Titularização de Créditos, S.A.", for the sale of overdue loans and andvances to customers performed as at 30 June 2012. This operation did not generate any gains or losses for the Group, since it was performed at the book value.

As at 30 June 2012, the balance Sundry debtors includes the amount of Euro 84,023,000 (31 December 2011: Euro 78,209,000) related to transactions with securities, recorded on trade date and pending settlement, in accordance with note 1 d), pending settlement. This balance also includes the amount of Euro 45,144,000 (31 December 2011: Euro 20,989,000) related to the obligations with retirement benefits financed in excess by the Fund. Additionally, this balance accounts the amount fo Euro 140,165,000 (31 December 2011: Euro 163,512,000) related with receivables from securitizes and desrecognized credits, as described in notes 1 b) and 51.

The changes in the impairment for other assests are analysed as follows:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Impairment for other assets:		
Balance on 1 January	1.037	3.473
Write-back for the period	(1.000)	-
Loans charged-off for the period	-	(3.473)
Transfers	-	37
Balance on 30 June	37	37

34 Deposits from central banks

As at 30 June 2012, this balance in amount of Euro 1,968,212,000 (31 December 2011: Euro 2,003,300,000) is related to deposits obtained in the European System of Central Banks and is covered by securities from the portfolio of financial assets available for sale.

35 Deposits from other credit institutions

This balance is analysed as follows:

	Jun 2012			Dec 2011		
	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 institution in Portugal	5,029	25,830	30,859	12,804	83,586	96,390
Deposits from credit institutions abroad	51,198	534,080	585,278	37,954	609,453	647,407
	56,227	559,910	616,137	50,758	693,039	743,797

36 Deposits from customers

This balance is analysed as follows:

	Jun 2012			Dec 2011		
	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	132,452	2,052,509	2,184,961	101,500	2,512,744	2,614,244
Time deposits (*)	-	11,407,102	11,407,102	-	10,815,437	10,815,437
Saving accounts (*)	-	202,518	202,518	-	248,293	248,293
Other resources	4,068	3,698	7,766	8,039	-	8,039
Adjustments arising from hedging operations	17,133	-	17,133	15,906	-	15,906
	153,653	13,665,827	13,819,480	125,445	13,576,474	13,701,919

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

In the terms of the law "Portaria" no. 180/94, of 15 December, the deposit guarantee fund was established to guarantee the reimbursement of funds deposited in credit institutions. The criteria to calculate the annual contributions to the referred fund are defined annually by instruction of Bank of Portugal.

As at 30 June 2012, this balance includes the amount of Euro 785,775,000 (31 December 2011: Euro 794,197,000) related to deposits recognized on the balance sheet at fair value through profit or loss.

37 Debt securities issued

This balance is analysed as follows:

	Jun 2012 Euro '000	**Dec 2011 Euro '000**
Euro Medium Term Notes	687,532	1,314,250
Bonds	577,244	452,505
Covered Bonds	673,808	706,357
	1,938,584	2,473,112

The fair value of the debts securities issued is presented in note 48.

As at 30 June 2012, this balance includes the amount of Euro 967,586,000 (31 December 2011: Euro 1,100,266,000) related to debt securities issued recognized at the balance sheet at fair value through profit or loss.

During the first semester of 2012, CEMG proceeded to the issue of Euro 161,442,000 (31 December 2011: Euro 263,011,000) of bonds, and repaid Euro 644,747,000 (31 December 2011: Euro 1,390,073,000).

Under the Issuance of covered bonds program, which maximum amount is 5,000 millions of Euro, CEMG proceed to the emissions which totalized 2,155 millions of Euro.The main characteristics, as at 30 June 2012, of these issues are as follows:

Description	Nominal value Euro '000	Book value Euro '000	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody´s/Fitch/Dbrs)
Covered Bonds	1,000,000	1,000,000	December 2009	December 2016	Quarterly	1.41%	Baa3/BBB-
Covered Bonds	655,000	655,000	July 2009	July 2012	Annual	3.25%	Baa3/BBB-
Covered Bonds	500,000	500,000	November 2010	November 2015	Quarterly	3.20%	Baa3/BBB-
	2,155,000	2,155,000					

The covered bonds are guaranteed by a cover assets pool, comprised of mortgage credit assets and limited classes of other assets, that the issuer of mortgage covered bonds shall maintain segregated and over which the holders of the relevant covered bonds have a statutory special creditor privilege. These conditions are set up in Decree-Law no. 59/2006, Notices no. 5/2006, no. 6/2006, no. 7/2006 and no. 8/2006 of Bank of Portugal and Instruction no. 13/2006 of Bank of Portugal.

The amount of credits that collateralize these emissions, as at 30 June 2012, is higher than Euro 2,974,585,000 (31 December 2011: EUR 2,977,917,000), in 31 December, 2011, according with note 21.

The change occurred in debt securities issued during the first semester of 2012 is analyzed as follows:

	Balance on 1 January Euro '000	Issues Euro '000	Repayments Euro '000	Net Repurchase Euro '000	Other movements [(a)] Euro '000	Balance on 30 June Euro '000
Euro Medium Term Notes (EMTN)	1,314,250	-	(558,568)	(81,669)	13,519	687,532
Bonds	452,505	161,442	(32,879)	-	(3,824)	577,244
Covered bonds	706,357	-	(53,300)	15,600	5,151	673,808
	2,473,112	161,442	(644,747)	(66,069)	14,846	1,938,584

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

In accordance with note 1 d), debt issued repurchased by CEMG is derecognized from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognized in the income statement.

The change occurred in debt securities issued during the six months period ended 30 June 2012 is analyzed as follows:

Issue	Issue date	Maturity date	Interest rate	Book value Euro '000
OBRIGS CX-MG CAPITAL CERTO 2016-11ªSER	Jan.2012	Dec.2016	Semi annual fixed rate of 5.56% (3rd and 4th semester a rate of 5.88%, 5th and 6th semester a rate of 4.5%, 7th and 8th semester a rate of 6.68% and 9th and10th semester a rate of 5.75%)	2,500
OBRIGS CX-MG CAPITAL CERTO 2016-12ªSER	Jan.2012	Dec.2016	Semi annual fixed rate of 5.2140% (3rd and 4th semester a rate of 6.0265%, 5th and 6th semester a rate of 6.8390%, 7th and 8th semester a rate of 7.6515% and 9th and10th semester a rate of 11.7140%)	4,000
OBRIGS CX-MG CAPITAL CERTO 2012/17-1ªSER	Jan.2012	Feb.2017	Semi annual fixed rate of 5.21% (2nd semester a rate of 5.21%, 3rd and 4th semester a rate of 6.035%, 5th and 6th semester a rate of 6.8610%, 7th and 8th semester a rate of 7.6860% and 9th and 10th semester a rate of 10.162%)	5,650
OBRIGS CX-MG CAPITAL CERTO 2012/17-2ªSER	Feb.2012	Mar.2017	Annual fixed rate of 4.8333% (2nd year a rate of 5.6667%, 3rd year a rate of 6.50%, 4th year a rate of 7.3333% and 5th year a rate of 9.8333%)	9,750
OBRIGS CX-MG CAPITAL CERTO 2012/17-3ªSER	Mar.2012	Mar.2017	Annual fixed rate of 4.6247% (2nd year a rate of 4.9539%, 3rd year a rate of 5.2830%, 4th year a rate of 5.6122% and 5th year a rate of 6.5997%)	30,000
OBRIGS CX-CRPC-2012/20-1ªSER	Mar.2012	Mar.2020	Annual fixed rate of 5.25% (2nd year a rate of 5.25%, 3º and 4th year a rate of 6%, 5th year a rate of 6.75% and 6th,7th and 8th year a rate of Max(6.25% ; Min(IPC+2% ; 9.15%))	4,400
OBRIGS CX-MG CAPITAL CERTO 2012/17-4ªSER	Apr.2012	May 2017	Annual fixed rate of 4.75% (2nd year a rate of 4.80%, 3rd year a rate of 5.10%, 4th year a rate of 5.40% and 5th year a rate of 6.35%)	68,000
OBRIGS CX-MG CAPITAL CERTO 2012/17-5ªSER	May 2012	Jun.2017	Annual fixed rate of 6.3897% (2nd year a rate of6.8874%, 3rd year a rate of 8.8782%, 4th year a rate of 9.6247% and 5th year a rate of 13.6063%)	8,700
OBRIGS CX-MG CAPITAL CERTO 2012/20-2ªSER	May 2012	Jun.2020	Annual fixed rate of 7.05% (2nd and 3rd year a rate of 8.2583%, 4th year a rate of 9.7083%, 5th year a rate of 10.7250%, 6th year a rate of 7.4750%, 7th year a rate of 8.30% and 8th year a rate of 11.1583%)	600
OBRIGS CX-MG Partic Junho-Junho 2012/14	Jun.2012	Jun.2014	Annual fixed rate of 4.50% (2nd year a rate of 5.0%)	923
OBRIGS CX-MG TAXA FIXA JUNHO 2012/2014	Jun.2012	Jun.2014	Semi annual rate of 4.50% (2nd semester a rate of 4.50%, 3rd and 4th semester a rate of 5.00%)	21,919
OBRIGS CX-MG CAPITAL CERTO 2012/2017-6ªSER	Jun.2012	Jun.2017	Annual fixed rate of 6.52% (2nd year a rate of 7.27%, 3rd year a rate of 8.02%, 4th year a rate of 9.27% and 5th year a rate of 12.77%)	5,000
				161,442

As at 30 June 2012, for the bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 0.5% and 7.05%.

38 Provisions

This balance is analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Provisions for liabilities and charges	4,519	7,985

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

	Jun 2012 Euro '000	Jun 2011 Euro '000
Provisions for liabilities and charges		
Balance on 1 January	7,985	1,311
Charged for the period	1,507	894
Write-back for the period	(5,034)	(375)
Charged-off for the period	-	(203)
Transfers	61	2,683
Balance on 30 June	4,519	4,310

As at 30 June 2012, the balance Write-back for the period includes the amout of Euro 3,800,000 of write-backed provisions related with the sale process of the associated company "Finibanco Vida – Companhia de Seguros de Vida, S.A. to "Mapfre – Seguros Gerais, S.A..

As at 30 June 2011, the balance Transfers corresponde to values transferred from Finibanco Holding S.G.P.S., S.A. and its associates in the scope of the acquisition held by CEMG on March 31, 2011.

39 Other subordinated debt

As at 30 June 2012, this balance in the amount of Euro 464,630,000 (31 December 2011: Euro 477,843,000) refers to Bonds with fixed maturity date, and with a residual reimbursement over 5 years.

As at 30 June 2012 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
CEMG/06	Apr.2006	Apr.2016	50 000	Euribor 3 months+0.45%	50,131
CEMG/08	Feb.2008	Feb.2018	150 000	Euribor 6 months+0.13%	151,189
CEMG/08	Jun.2008	Jun.2018	28 000	Euribor 12 months+0.10%	28,031
CEMG/08	Jul.2008	Jul.2018	150 000	Euribor 6 months+0.13%	151,653
FNB 08/18 1ª/2ª Série	Dec.2008	Dec.2018	10 363	Euribor 6 months+0.15% (v)	9,964
FNB Rendimento Garantido 05/13	May.2005	May 2013	410	Interval (1.90%;4.50%) (iii)	413
FNB Rendimento Seguro 05/15	Jun.2005	Jun.2015	238	6.25%*VN Min.(quotation) (iv)	236
FNB Grandes empresas 07/16_ 1ª	May 2007	May 2016	6 450	Max.(0;6.0%*(1-n/5)) (i)	4,769
FNB Grandes empresas 07/16_	Jun.2007	Jun.2016	30 250	Max.(0;6.0%*(1-n/5)) (i)	21,039
FNB Indices estratégicos07/17 1ª	May 2007	Jun.2015	14 947	6.25%*VN Min.(quotation) (ii)	13,399
FNB Indices estratégicos07/17 2ª/3ª	Jun.2007	Jun.2015	39 000	Euribor 6 months+0.5% (ii)	33,747
Obrig. Caixa Sub. Finicrédito	Nov.2007	Nov.2017	17 346	Basic rate+0.9%(barrier level)	17,346
					481,917
				Corr. Liability value	(17,287)
					464,630

References:

(i) - The following cupons will be paid, on the year end of each year (May 9, to the 1st série and Junho 20, to the 2nd and 3rd series):

Coupon	Interest rate/ range
1st Coupon	5.50%
2nd Coupon	5.50%
3rd Coupon	Max [0; 6.0% * (1-n/3)]
4th Coupon	Max [0; 6.0% * (1-n/4)]
5th Coupon	Max [0; 6.0% * (1-n/5)]
6th Coupon	Max [0; 6.0% * (1-n/6)]
7th Coupon	Max [0; 6.0% * (1-n/7)]
8th Coupon	Max [0; 6.0% * (1-n/8)]
9th Coupon	Max [0; 6.0% * (1-n/9)]

Notes:

where, *n* is the accumulated number of reference entities in which a credit event has occurred.

If a merge between two or more reference entities had occur and if a credit event occur in the merged entity, it will be accounted many credit events as the number of merged companies.

(ii) - The payment will be annually and it will be equal:

Coupon	Interest rate/ range
1st year	5.5% * notional
2nd year	5.5% * notional
3rd and following	6.25% * notional if Min (SDk/SD0-SXk/SX0; HSk/HS0- SXk/SX0) > Barrier k ***

*** if not = 0%, where:

Barrier 3 = Barrier to be applied on 3rd coupon = 0%;
Barrier 4 = Barrier to be applied on 4th coupon = 1%;
Barrier 5 = Barrier to be applied on 5th coupon = 2%;
Barrier 6 = Barrier to be applied on 6th coupon = 3%;
Barrier 7 = Barrier to be applied on 7th coupon = 4%;
Barrier 8 = Barrier to be applied on 8th coupon = 5%;
Barrier k = Barrier to be applied on kth coupon:
SDk – Closing of Eurostoxx Select Dividend Index (Bloomberg: SD3E) on the observation date K (K=1 to 6)
SD0 – Closing of Eurostoxx Select Dividend Index (Bloomberg: SD3E) on the starting date
SXk – Closing of Eurostoxx50 Total Return Index (Bloomberg: SX5T) on the observation date K (K=1 to 6)
SX0 – Closing of Eurostoxx50 Total Return Index (Bloomberg: SX5T) on the starting date
HSk – Closing of HS60 Europe Index (Bloomberg: HS60EU) on the observation date K (K=1 to 6)
HS0 – Closing of HS60 Europe Index (Bloomberg: HS60EU) on the starting date

(iii) - The payment will be semiannual, with a minimum of 1% and a maximum of 5%, and it will be calculated according with the following formula (annual rate):

n/N * 5% + m/N * 1%

where:
n is the number of working days of the respective period in which Euribor 6 months will be in the fixed range;
m is the number of working days of the respective period in which Euribor 6 months will be outside the fixed range;
N is the number of working days of the respective period.

Note:
Range is defined on the following table for each coupon:

Period	Coupon date	Range
1st semester	09-Nov-05	09-Nov-2005
2nd semester	09-May-2006	09-May-2006
3rd semester	09-Nov-06	09-Nov-2006
4th semester	09-May-2007	09-May-2007
5th semester	09-Nov-07	09-Nov-2007
6th semester	09-May-2008	09-May-2008
7th semester	09-Nov-08	09-Nov-2008
8th semester	09-May-2009	09-May-2009
9th semester	09-Nov-09	09-Nov-2009
10th semester	09-May-2010	09-May-2010
11th semester	09-Nov-10	09-Nov-2010
12th semester	09-May-2011	09-May-2011
13th semester	09-Nov-11	09-Nov-2011
14th semester	09-May-2012	09-May-2012
15th semester	09-Nov-12	09-Nov-2012
16th semester	09-May-2013	09-May-2013

(iv) - The payment will be semiannual, with a minimum of 1% and a maximum of 5%, and it will be calculated according with the following formula (annual rate):

n/N * 5% +m/N * 1%

where:
n is the number of working days of the respective period in which Euribor 6 months will be in the fixed range;
m is the number of working days of the respective period in which Euribor 6 months will be outside the fixed range;
N is the number of working days of the respective period.

Note:
Range is defined on the following table for each coupon:

Period	Coupon date	Range
1st semester	09-Dec-2005	[1.60; 2.75%]
2nd semester	09-Jun-2006	[1.60; 3.00%]
3rd semester	09-Dec-2006	[1.60; 3.25%]
4th semester	09-Jun-2007	[1.60; 3.50%]
5th semester	09-Dec-2007	[1.60; 3.50%]
6th semester	09-Jun-2008	[1.70; 3.75%]
7th semester	09-Dec-2008	[1.70; 3.75%]
8th semester	09-Jun-2009	[1.70; 4.00%]
9th semester	09-Dec-2009	[1.80; 4.00%]
10th semester	09-Jun-2010	[1.80; 4.25%]
11th semester	09-Dec-2010	[1.80; 4.25%]
12th semester	09-Jun-2011	[1.80; 4.50%]
13th semester	09-Dec-2011	[1.90; 4.50%]
14th semester	09-Jun-2012	[1.90; 4.50%]
15th semester	09-Dec-2012	[1.90; 4.50%]
16th semester	09-Jun-2013	[1.90; 4.50%]
17th semester	09-Dec-2013	[2.00; 4.50%]
18th semester	09-Jun-2014	[2.00; 4.50%]
19th semester	09-Dec-2014	[2.00; 4.50%]
20th semester	09-Jun-2015	[2.00; 4.50%]

(v) - The payment will be semiannual and the first coupon will be fixed:

Coupon	Interest rate/ Range
1st coupon	6.50% (annual rate)
between 2nd and 10th cc	Euribor 6M + 1.50% (annual rate)
11th and following	Euribor 6M + 1.75% (annual rate)

Other subordinated debt portfolio is recorded at fair value, in accordance with note 48.

As at 30 June 2012, the effective interest rate range of the subordinated debt bears postponed interest every three and six months is set between 1% and 5%.

40 Other liabilities

This balance is analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Creditors:		
Suppliers	11,732	13,880
Other creditors	73,689	95,213
Public sector	19,482	18,032
Holiday pay and subsidies	31,079	38,672
Other administrative cost payable	2,598	269
Deferred income	880	759
Securities transactions pending settlement	58,700	752
Other sundy liabilities	112,699	115,100
	310,859	282,677

The caption Other sundry liabilities corresponds to balances of banking and financial transactions pending settlement.

41 Share capital

On 29 de March 2011, following the General Assembly deliberation, CEMG increased the share capital of Caixa Económica Montepio Geral in the amount of Euro 345,000,000, by cash transfer. On 28 de December 2011, 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 1,245,000,000, totally subscribed by "Montepio Geral – Associação Mutualista", and is fully paid.

42 Other capital instruments

This caption includes the issuance of Euro 15,000,000 occurred in the first quarter of 2010 Perpetual Subordinated Securities Interest conditioners made by Finibanco, SA, and in connection with the acquisition of Finibanco Holding, SGPS, S.A. and its subsidiaries spent to integrate the responsibilities CEMG.

Payment

Subject to the payment of interest limitations described below, the payment will be paid semiannually on 2 February and 2 August of each year, beginning on 2 August, 2010 and will be equal to:

1st ao 4th coupon: 7.00%;

5th coupon and following: Euribor 6M + 2.75%, with a minimum of 5%.

Payment interest limitations

The Issuer will be prevented from making interest payment:

– And even the extent of competition in which the sum of the amount payable by the interest this issue with the amount of dividends paid or deliberate and guaranteed payments relating to any preference shares that are likely to be issued, exceed Distributable Funds of the Issuer, or

– Is in compliance with the Regulatory capital requirements regulamentation or the extent and up to competition in its payment implies that is in default with that Regulamentation.

The Issuer is also prevented from proceeding to the interest payment if, in the Board of Directors or the Bank of Portugal opinion, this payment endanger the comply of Regulatory capital requirements regulamentation.

The impediment to proceed to the Interest Payment may be total or partial.

Interest non-payment on any date excludes the issuer of the interest payment related to this date in a future time.

It is considered distributable funds in a determinated year the algebraic sum, with reference to the previous year, the retained earnings with any other amount which may be distributable and profit or loss, net of reserve requirements, statutory and legal, but before the deduction of the amount of any dividends on ordinary shares or other securities subject to these, for that exercise.

Reimbursement

These values are perpetual securities and are only refundable under the terms of early repayment provided below.

By agreement of Bank of Portugal, the issuer may reimburse, in whole or in part, from the 10th date of payment of interest, including (5th year).

In case of continued occurrence of an Event of Disqualification as Core Capital, even before the expiration of five years from its issuance, and in agreement with Bank of Portugal, these Securities are redeemable at the option of the Issuer, at any time.

In the disqualification event as Core Capital is defined as a change in any legal document or its official interpretation implies these securities values may no longer be classified as Core Capital of the Issuer.

43 General and special reserves

The general and special reserves are charged under the scope of Decree-Law no. 136/79, of 18 May. The general reserve is charged to cover any risk and extraordinary losses or depreciation.

Under the Portuguese regulations, the general reserve should be charged, at least, in a minimum of 20% of the profit for the year. The limit of general reserve is 25% of total deposits. This reserve is not available for distribution and it can be used to improve future income performances or to increase capital.

The special reserve is charged to cover losses from current operations. Under the Portuguese regulations, the special reserve should be charged, at least, in a minimum of 5% of the profit for the year. This reserve is not available for distribution and it can be used to improve income performances or to increase capital.

The variation of the general and special reserves balance is analysed in note 44.

44 Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

	Jun 2012 Euro '000	**Dec 2011 Euro '000**
Other comprehensive income:		
Fair value reserves		
Available-for-sale financial instruments	(125,284)	(319,551)
Reserves and retained earnings:		
General reserve	185,934	179,301
Special reserve	68,160	66,519
Other reserves	16,466	7,840
Retained earnings	30,286	8,969
	300,846	262,629

As described in notes 1, 49 and 58, the caption Retained earnings includes, with effect from 1 January 2010, the effect of correction of Euro 86,316,000 arising from the Board of Directors decision to change the accounting policy relating to recognition of actuarial deviations.

The fair value reserve represents the potential gains and losses on financial assets available for sale net of impairment losses recognized in the income statement and / or in prior years in accordance with note 1 d).

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

	Balance on 1 January Euro '000	Reavaluation Euro '000	Acquisition Euro '000	Sales Euro '000	Impairment recognized in the period Euro '000	Balance on 30 June Euro '000
Fixed income securities:						
Bonds issued by Portuguese entities	(241,563)	155,231	(5,414)	26,084	-	(65,662)
Bonds issued by foreign entities	(684)	(17,628)	(15,550)	317	19,309	(14,236)
Bonds issued by other entities						
Portuguese	(21,610)	12,308	81	931	-	(8,290)
Foreign	(54,785)	10,503	(926)	9,932	-	(35,276)
	(318,642)	160,414	(21,809)	37,264	19,309	(123,464)
Variable income securities:						
Shares in companies						
Portuguese	(4)	108	(3)	-	(216)	(115)
Foreign	(68)	1,296	(9)	23	(1,104)	138
Investments fund units	(837)	(2,271)	1,170	113	(18)	(1,843)
	(909)	(867)	1,158	136	(1,338)	(1,820)
	(319,551)	159,547	(20,651)	37,400	17,971	(125,284)

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

	Balance on 1 January Euro '000	Reavaluation Euro '000	Aquisitions Euro '000	Sales Euro '000	Impairment in profit and loss Euro '000	Balance on 31 December Euro '000
Fixed income securities:						
Bonds issued by Portuguese entities	(28,302)	(157,628)	(55,976)	343	-	(241,563)
Bonds issued by Foreign entities	(4,103)	21,674	558	496	(19,309)	(684)
Bonds issued by other entities:						
Portuguese	(12,855)	(12,699)	(116)	472	3,588	(21,610)
Foreign	(40,529)	(33,819)	(3,367)	3,131	19,799	(54,785)
	(85,789)	(182,472)	(58,901)	4,442	4,078	(318,642)
Variable income securities:						
Shares in companies						
Portuguese	159	5,818	(48)	(17)	(5,916)	(4)
Foreign	(46)	440	(11)	18	(469)	(68)
Investment fund units	(30)	(416)	(236)	(64)	(91)	(837)
	83	5,842	(295)	(63)	(6,476)	(909)
	(85,706)	(176,630)	(59,196)	4,379	(2,398)	(319,551)

The fair value reserve can be analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Amortised cost of available-for-sale financial assets	2,733,363	2,924,034
Accumulated impairment recognised	(12,144)	(30,115)
Amortised cost of available-for-sale financial assets, net impairment	2,721,219	2,893,919
Fair value of available-for-sale financial assets	2,595,935	2,574,368
Net/ unrealised gains/(losses) recognised in the fair value reserve	(125,284)	(319,551)

45 Non-controlling interests

This balance is analysed as follows:

	Balance Sheet		Income Statement	
	Jun 2012 Euro '000	Dec 2011 Euro '000	Jun 2012 Euro '000	Jun 2011 Euro '000
Finibanco Angola, S.A.	12,459	11,381	1,128	970

The movements of this balance are analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Initial balance	11,381	-
Exchange differences	(50)	1,463
Dividends	-	(2,044)
Other	-	8,781
	11,331	8,200
Goodwill arising on consolidation and revaluation	-	912
Net income attributable to non-controlling interests	1,128	2,269
Final balance	12,459	11,381

46 Obligations and future commitments

Obligations and future commitments are analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Guarantees granted	511,051	504,835
Guarantees received	31,925,499	32,544,520
Commitments to third parties	1,460,757	1,565,408
Commitments from third parties	43,537	44,545
Securitised loans	678,390	264,299
Deposits held for safekeeping on behalf of costumers	5,456,327	5,367,132
	40,075,561	40,290,739

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

	Jun 2012 Euro '000	Dec 2011 Euro '000
Guaranteed granted		
Guaranteed	499,520	501,475
Open documentary credits	6,663	3,360
Guarantees and compensations	4,868	-
	511,051	504,835

	Jun 2012 Euro '000	Dec 2011 Euro '000
Commitments to third parties:		
Irrevocable commitments		
Irrevocable credit lines	181,195	218,033
Securities subscription	330,950	330,950
Annual contribution to the Guarantee Deposits Fund	25,314	25,314
Potencial obligation with the Investors' Indemnity System	2,316	2,316
Revocable commitments		
Revocable credit lines	920,982	988,795
	1,460,757	1,565,408

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

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

The commitments, revocable and irrevocable, represent contractual agreements for credit concession with CEMG clients which, in general, are contracted by fixed periods or with other expiring requisites and, normally, apply for the payment of a commission. Substantially, all commitments of credit concession in force require clients to maintain certain requisites which are verified at the time of the respective formalization.

Notwithstanding the particular characteristics of these contingent liabilities and commitments, the analysis of these operations follows the same basic principles of any one another commercial operation, namely the solvency of the underlying client and business, being that CEMG requires these operations to be adequately covered by collaterals when needed. Considering that is expected that the majority of these contingent liabilities and commitments expire without having being used, the indicated amounts do not represent necessarily future cash-flow needs.

As at 30 June 2012 and 31 December 2011, 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 2012 and 31 December 2011, 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.

47 Distribution of profit

On 29 March, 2012, following the General Assembly deliberation, CEMG distributed to Montepio Geral – Associação Mutualista in the amount of Euro 16,584,000 (31 December 2011: Euro 23,085,000).

48 Fair value

Fair value is based on market prices, whenever these are available. If market prices are not available, as it happens regarding many products sold to clients, fair value is estimated through internal models based on cash-flow discounting techniques.

Cash flows for the different instruments sold are calculated according with its financial characteristics and the discount rates used include both the interest rate curve and the current conditions of the pricing policy in CEMG.

Therefore, the fair value obtained is influenced by the parameters used in the evaluation model that, necessarily have some degree of judgement and reflect exclusively the value attributed to different financial instruments. However, it does not consider prospective factors, like the future business evolution.

Under these conditions, the values presented cannot be understood as an estimate of the economic value of CEMG.

CEMG determines the fair value of its financial assets and liabilities in accordance with the following hierarchy:

1 Quoted market prices – this category includes financial assets with available quoted market prices in official markets and with dealer prices, quotations provided by entities that usually provide transaction prices for these assets/liabilities traded in active markets

2 Valuation models based on observable market information – consists on the use of internal valuation techniques, namely discounted cash flow models and option pricing models that imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instrument. Notwithstanding, CEMG uses observable market data such as interest rate curves, credit spreads, volatility and market indexes. Includes also instruments with dealer price quotations but which are not traded in active markets.

3 Valuation models based on non-observable market information – consists on the use of internal valuation models or quotations provided by third parties but which imply the use of non-observable market information.

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

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

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

- *Other loans and advances to credit institutions, Amounts owed to other credit institutions from 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 installments occur in the contractually defined dates.

  The discount rate used reflects the current conditions applied by CEMG in identical instruments for each of the different maturities. The discount rate includes the market rates for the residual maturity date (rates from the monetary market or from the interest rate swap market, at the end of the year).

- *Financial assets held for trading (except derivatives), Financial liabilities held for trading (except derivatives) and Available-for-sale financial assets*

  These financial instruments are accounted at fair value. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

  Interest rates are determined based on information disseminated by the suppliers of content financial - Reuters and Bloomberg - more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar source but regarding interbank money market. The interest rate curve obtained is calibrated with the values of interest rate short-term futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are used in the projection of the non-deterministic cash flows such as indexes.

When optionality is involved, the standard templates (Black-Scholes, Black, Ho and others) considering the volatility areas applicable are used. Whenever there are no references in the market of sufficient quality or that the available models do not fully apply to meet the characteristics of the financial instrument, it is applied specific quotations supplied by an external entity, typically a counterparty of the business.

In case of shares not listed, they are recognized at historical cost when there is no available market value and it is not possible to determine reliably its fair value.

- *Financial assets held to maturity*

These financial instruments are accounted at amortized cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

- *Hedging and trading derivatives*

All derivatives are recorded at fair value.

In the case of those who are quoted in organized markets is used its market price. As for derivatives traded "over the counter", apply the numerical methods based on techniques of discounted cash flow valuation models and considering options including changing market interest rates applicable to the instruments concerned, and where necessary, their volatility.

Interest rates are determined based on information disseminated by the suppliers of content financial - Reuters and Bloomberg - more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar source but regarding interbank money market. The interest rate curve obtained is calibrated with the values of interest rate short-term futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods.

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 installments occur in the contractually defined dates. The discount rate used reflects the current conditions applied by CEMG in similar instruments for each of the homogeneous classes of this type of instrument and with similar maturity. The discount rate includes the market rates for the residual maturity date (rates from the monetary market or from the interest rate swap market, at the end of the year) and the spread used at the date of the report, which was calculated from the average production of the last three months of the year.

As at 30 June 2012, the average discount rate was 6.11% (31 December 2011: 6.26%), assuming the projection of variable rates according to the evolution of the forward rates implicit in the interest rate curves. The calculations also include the credit risk spread.

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

  Considering the short maturity of these financial instruments, the conditions of the existing portfolio are similar to current conditions used by CEMG. Therefore, the amount in the balance sheet is a reasonable estimate of its fair value.

- *Deposits from customers*

  The fair value of these financial instruments is calculated by discounting the expected principal and interest future cash flows, considering that payments occur in the contractually defined dates. The discount rate used reflects the current conditions applied by CEMG in identical instruments with a similar maturity.

  The discount rate includes the market rates of the residual maturity date (rates of monetary market or the interest rate swap market, at the end of the year) and the spread of CEMG at the date of the report, which was calculated from the average production of the last three months of the year.

  As at 30 June 2012, the average discount rate was of 3.01% (31 December 2011: 4.1%).

- *Debt securities issued and Subordinated debt*

  For these financial instruments, fair value was calculated for the components that are not yet reflected on CEMG's balance sheet. For the fixed interest rate instruments for which CEMG applies a hedge-note, the fair value regarding the interest rate risk is already accounted for.

  In fair value calculation, the other risk components were also considered, apart from the interest rate risk. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted by associated factors, predominantly the credit risk and trading margin, the latter only in the case of issues placed for non institutional customers of CEMG.

  As original reference, CEMG applies the curves resulting from the interest rate swaps markets for each specific currency. The credit risk (credit spread) is represented by an excess from the curve of interest rate swaps established specifically for each term and class of instruments based on the market prices on equivalent instruments.

  For own emissions placed among non institutional costumers of CEMG, it was added one more differential (trade spread), which represents the margin between the financing cost in the institutional market and the cost obtained by distributing the respective instrument in the commercial network owned.

As at 30 June 2012, the following table presents the values of the interest rates used in the clearance of the curves interest rate of major currencies, including Euro, United States Dollar and Sterling Pound used to determine the fair value of the financial assets and liabilities of CEMG:

	Currencies		
	Euro	**United States Dollar**	**Sterling Pound**
1 day	0.215%	0.305%	0.550%
7 days	0.270%	0.180%	0.550%
1 month	0.330%	0.210%	0.650%
2 months	0.430%	0.280%	0.750%
3 months	0.610%	0.380%	0.900%
6 months	0.880%	0.550%	1.250%
9 months	1.030%	1.210%	1.350%
1 year	1.170%	0.860%	1.450%
2 years	0.856%	0.550%	0.973%
3 years	0.959%	0.628%	0.998%
5 years	1.318%	0.963%	1.256%
7 years	1.645%	1.345%	1.609%
10 years	1.979%	1.747%	2.098%
15 years	2.283%	2.194%	2.098%
20 years	2.303%	2.365%	2.098%
30 years	2.281%	2.501%	2.098%

Exchange rates and volatility

We present below the exchange rates (European Central bank) at the balance sheet date and the implied volatilities (at the money) for the main currencies used on the derivatives valuation:

			Volatility (%)				
Exchange rates	**Jun 2012**	**Dec 2011**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.2590	1.2939	10.05	10.50	11.05	11.55	12.00
EUR/GBP	0.8068	0.8353	7.55	8.00	8.60	9.05	9.40
EUR/CHF	1.2030	1.2156	2.95	4.65	6.10	7.00	7.45
EUR/JPY	100.13	100.20	12.95	13.40	14.15	14.70	15.25

Concerning the exchange rates, CEMG uses in the valuation models the spot rate observed in the market at the time of the valuation.

Next table shows the decomposition of main adjustments to the financial assets and liabilities of CEMG, which are recognized at book value and fair value at 30 June 2012 and 31 December 2011:

	Jun 2012								
	Held for trading Euro '000	**fair value trough profit or loss Euro '000**	**Held-to-maturity Euro '000**	**Loans and advances Euro '000**	**Available-for--sale Euro '000**	**Others at amortised cost Euro '000**	**Other Euro '000**	**Book value Euro '000**	**Fair value Euro '000**
Financial assets:									
Cash and deposits at central bank	-	-	-	271,353	-	-	-	271,353	271,353
Loans and advances to credit institutions repayable on demand	-	-	-	236,596	-	-	-	236,596	236,596
Loans and advances to credit institutions	-	-	-	332,390	-	-	-	332,390	332,390
Loans and advances to customers	-	-	-	16,260,934	-	-	-	16,260,934	14,949,529
Financial assets held for trading	159,060	-	-	-	-	-	-	159,060	159,060
Other financial assets at fair value through profit or loss	-	3,667	-	-	-	-	-	3,667	3,667
Available-for-sale financial assets	-	-	-	-	2,595,935	-	-	2,595,935	2,595,935
Hedging derivates	1,370	-	-	-	-	-	-	1,370	1,370
Held-to maturity investments	-	-	21,886	-	-	-	-	21,886	21,962
Investments in associated companies and other	-	-	-	-	-	-	60,747	60,747	60,747
	160,430	3,667	21,886	17,101,273	2,595,935	-	60,747	19,943,938	18,632,609
Financial liabilities:									
Deposits from central banks	-	-	-	-	-	-	1,968,212	1,968,212	1,968,212
Deposits from other credit institutions	-	-	-	-	-	-	616,137	616,137	616,137
Deposits from customers	-	-	-	-	-	-	13,819,480	13,819,480	13,838,675
Debt securities issued	-	-	-	-	-	-	1,938,584	1,938,584	1,938,675
Financial liabilities relating to transferred assets	-	-	-	-	-	-	303,330	303,330	303,330
Financial liabilities held for trading	68,319	-	-	-	-	-	-	68,319	68,319
Hedging derivates	18,595	-	-	-	-	-	-	18,595	18,595
Other subordinated debt	-	-	-	-	-	-	464,630	464,630	464,630
	86,914	-	-	-	-	-	19,110,373	19,197,287	19,216,573

	Dec 2011								
	Held for trading Euro '000	**Designated at fair value trough profit or loss**	**Held-to-maturity Euro '000**	**Loans and advances Euro '000**	**Available-for--sale Euro '000**	**Others at amortised cost Euro '000**	**Others Euro '000**	**Book value Euro '000**	**Fair value Euro '000**
Financial assets:									
Cash and deposits at central banks	-	-	-	461,483	-	-	-	461,483	461,483
Loans and advances to credit institutions repayable on demand	-	-	-	223,834	-	-	-	223,834	223,834
Loans and advances to credit institutions	-	-	-	284,232	-	-	-	284,232	284,232
Loans and advances to customers	-	-	-	16,706,626	-	-	-	16,706,626	15,295,141
Financial assets held for trading	180,766	-	-	-	-	-	-	180,766	180,766
Other financial assets at fair value trough profit or loss	-	3,606	-	-	-	-	-	3,606	3,606
Available-for-sale financial assets	-	-	-	-	2,574,368	-	-	2,574,368	2,574,368
Hedging derivates	1,311	-	-	-	-	-	-	1,311	
Held-to-maturity investments	-	-	76,994	-	-	-	-	76,994	74,488
Investments in associated companies	-	-	-	-	-	-	57,856	57,856	57,856
	182,077	3,606	76,994	17,676,175	2,574,368	-	57,856	20,571,076	19,155,774
Financial liabilities:									
Deposits from central banks	-	-	-	-	-	2,003,300	-	2,003,300	2,003,300
Deposits from other credit institutions	-	-	-	-	-	743,797	-	743,797	743,797
Deposits from customers	-	-	-	-	-	13,701,919	-	13,701,919	13,720,350
Debt securities issued	-	-	-	-	-	2,473,112	-	2,473,112	2,473,113
Financial liabilities associated to transferred assets	-	-	-	-	-	453,061	-	453,061	453,061
Financial liabilities held for trading	79,121	-	-	-	-	-	-	79,121	79,121
Hedging derivates	13,041	-	-	-	-	-	-	13,041	13,041
Other subordinated debt	-	-	-	-	-	477,843	-	477,843	477,843
	92,162	-	-	-	-	19,853,032	-	19,945,194	19,963,626

49 Employee benefits

CEMG assumed the liability to pay to their employee's pensions on retirement or disability and other obligations. These liabilities comply with the terms of the 'Acordo Colectivo de Trabalho' (ACT). CEMG pension obligations are covered through the Pensions Fund managed by "Futuro - Sociedade Gestora de Fundos de Pensões, S.A.".

Following the approval by the Government of the Decree-Law no. 127/2011, which was published on 31 December, an agreement between the Government, the Portuguese Banking Association and the Banking Labour Union was established that regulated the transfer of the liabilities related with pensions currently being paid to pensioners and retirees, to the Social Security.

This agreement established that the responsibilities to be transfer relates to the pensions in payment as at 31 December 2011 at fixed amounts (discount rate 0%) in the component established in the „Instrumento de Regulação Colectiva de Trabalho (IRCT)" of the retirees and pensioners. The responsibilities related with the increase in pensions as well as any other complements namely, contributions to the Health System (SAMS), death benefit and death before retirement benefit continue to be under the responsibility of the Financial Institutions and being financed through the corresponding Pensions funds. The Decree-Law also establishes the terms and conditions under which the transfer was made by setting a discount rate of 4% to determine the liabilities to be transferred.

The responsibilities transferred were determined based on different actuarial assumptions from the assumptions used by the Group, namely the discount rate (4%). These assumptions were determined on a liquidation perspective of the responsibilities (exit value) considering that relates to a definitive and not reversible transfer, implying differences regarding the assumptions used in determining the responsibilities recognized in the financial statements prepared in accordance with the requirements defined in IAS 19 – Employee benefits.

As a consequence, the Projected benefit liabilities and the Value of the Pension Fund, as at 30 June 2012, are presented net of the amounts transferred or to be transferred. As at 30 June 2012, was made last financial settlement of the operation in the amount of Euro 1,377,000 (see note 11).

Additionally, and considering that IAS 19 – Employee benefits allows for recognition of the actuarial gains and losses directly in Equity, the Group decided to change the accounting policy related to the recognition of the actuarial gains and losses in Other Comprehensive Income. In accordance with IAS 8, this change in accounting policy is presented for comparative purposes since 1 January 2010, recognizing at that date the total amount of the deferred actuarial gains and losses in equity.

In accordance with note 1v), the Group does the calculation of pension liabilities and pension actuarial gains and losses twice a year.

According to this policy and as described in IAS 19 - Employee Benefits, CEMG evaluates the balance sheet date, and separately for each plan, the recoverability of the excess coverage of the Fund meets their pension liabilities.

During the first semester of 2012, the Group recognized as pension costs the amount of Euro 6,695,000 (30 June 2011: 11,452,000). The analysis of the cost is as follows:

	Jun 2012				Jun 2011			
	Pension plans Euro '000	Death Subsidy Euro '000	Healthcare benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death Subsidy Euro '000	Healthcare benefits Euro '000	Total Euro '000
Service cost	4,369	250	400	5,019	5,606	394	484	6,484
Interest cost	10,644	226	867	11,737	17,226	276	968	18,470
Expected return on plan assets	(11,170)	(244)	(902)	(12,316)	(16,175)	(259)	(909)	(17,343)
Actuarial gains/losses amortization	-	-	-	-	1,219	-	-	1,219
Early retirements	878	-	-	878	2,622	-	-	2,622
Resulting from the transfer to the general social healthcare system ("RGSS")	1,377	-	-	1,377	-	-	-	-
Cost for the period	6,098	232	365	6,695	10,498	411	543	11,452

The balance Costs resulting from the transfer to the General Social Security Scheme at 30 June 2012 corresponds to the impact of the transfer of the responsibilities to retired employees/ pensioners to the General Social Security Scheme.

The Group used the following actuarial assumptions used to calculate pension responsibilities with retirement pension at 30 June 2012 and 31 December 2011:

	Jun 2012	Dec 2011
Salaries increase rate	2.00%	2.00%
Pensions increase rate	1.00%	1.00%
Projected rate of return of Fund assets	5.50%	5.50%
Discount rate	5.50%	5.50%
Mortality table	TV 88/90	TV 88/90
Disability table	EVK 80	EVK 80

The projected return rate of the Plan assets was determined according with current market conditions and with the nature and return of the Pension Plan assets.

50 Related parties transactions

As at 30 June 2012, CEMG's liabilities with subsidiaries, represented or not by securities, included in the balances Deposits from customers, Other subordinated debt and Loans and advances to customers, are analysed as follows:

	Jun 2012		
Company	**Deposits from customers Euro '000**	**Other subordinated debt Euro '000**	**Loans and advances to customers Euro '000**
Lusitania, Companhia de Seguros, S.A.	6,780	13,000	7,956
Lusitania Vida, Companhia de Seguros, S.A.	18,106	3,250	-
Nova Câmbios, S.A.	-	-	401
Silvip, S.A.	2,025	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	3,385	-	1
Montepio Gestão de Activos – S.G.F.I.M., S.A.	1,127	-	-
MG Investimentos Imobiliários, S.A.	-	-	125
Bolsimo – Gestão de Activos, S.A.	153	-	-
Residências Montepio, Serviços de Saúde, S.A.	138	-	2,564
Germont – Empreendimentos Imobiliários, S.A.	-	-	19,119
NEBRA, Energias Renovables, SL	5	-	1,612
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	323	-	13
Banco Montepio Geral - Cabo Verde, Soc. Unipessoal, S.A. (IFI)	399,416	-	-
Civilcentro - Construções do Centro S.A.	-	-	2,450
Finibanco Vida - Companhia de Seguros Vida, S.A.	2,387	-	-
Finimóveis - Sociedade Imobiliária de Serviços Auxilares, S.A.	588	-	7,000
Finisegur - Sociedade Mediadora de Seguros, S.A.	764	-	-
Iberpartners Cafés - S.G.P.S., S.A.	24	-	1,458
Prio Energy S.G.P.S., S.A.	568	-	4,745
Fundo de Pensões CEMG - Gerido pela Futuro	207,606	-	-
Conselho de Administração	1,527	-	141
Montepio Geral - Associação Mutualista	551,030	438,151	-
Fundação Montepio Geral	1,281	-	-
N Seguros, S.A.	4,824	-	-
Fundo Montepio Arrendamento - Fundo de Inv. Fechado para A. H.	15,985	-	-
CA Imobiliário - Fundo Especial Investimento Imob. Aberto	7,281	-	-
Polaris - Fundo de Investimento Imobiliário Aberto	1	-	-
	1,225,324	454,401	47,585

As at 31 December 2011, CEMG's liabilities with subsidiaries, represented or not by securities, included in the balances Deposits from customers, Other subordinated debt and Loans and advances to customers, are analysed as follows:

	Dec 2011		
Company	**Deposits from customers Euro '000**	**Other subordinated debt Euro '000**	**Loans and advances to customers Euro '000**
Lusitania, Companhia de Seguros, S.A.	30,112	13,350	10,078
Lusitania Vida, Companhia de Seguros, S.A.	20,896	3,250	1
Nova Câmbios, S.A.	231	-	530
Silvip, S.A.	1,927	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	2,532	-	-
Montepio Gestão de Activos – S.G.F.I.M., S.A.	1,096	-	-
MG Investimentos Imobiliários, S.A.	3	-	120
Bolsimo – Gestão de Activos, S.A.	2,749	-	-
Residências Montepio, Serviços de Saúde, S.A.	141	-	2,463
Germont – Empreendimentos Imobiliários, S.A.	308	-	23,119
NEBRA, Energias Renovables, SL	5	-	1,570
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	109	-	13
Banco Montepio Geral - Cabo Verde, Soc. Unipessoal, S.A. (IFI)	29,526	-	-
Civilcentro - Construções do Centro S.A.	-	-	2,402
Finibanco Vida - Companhia de Seguros Vida, S.A.	284	-	-
Finimóveis - Sociedade Imobiliária de Serviços Auxilares, S.A.	300	-	-
Finisegur-Sociedade Mediadora de Seguros, S.A.	699	-	-
Iberpartners Cafés - S.G.P.S., S.A.	-	-	1,379
Prio Energy S.G.P.S., S.A.	8,235	-	5,287
Fundo de Pensões CEMG - Gerido pela Futuro	224,224	-	-
Conselho de Administração	1,578	-	302
Montepio Geral - Associação Mutualista	464,900	-	-
Fundação Montepio Geral	839	-	-
N Seguros, S.A.	7,226	-	-
Fundo Montepio Arrendamento - Fundo de Inv. Fechado para A. H.	16,543	-	-
CA Imobiliário - Fundo Especial Investimento Imobiliário Aberto	10,532	-	-
	824,995	16,600	47,264

As at 30 June 2012, CEMG's income with subsidiaries, included in the balances Interest and similar income and expense and Fee and commission, are analysed as follows:

	Jun 2012		
Companies	**Interest and similar expense Euro '000**	**Interest and similar income Euro '000**	**Fee and commission Euro '000**
Lusitania, Companhia de Seguros, S.A.	116	151	21
Lusitania Vida, Companhia de Seguros, S.A.	185	1	10
Nova Câmbios, S.A.	-	5	1
Silvip, S.A.	13	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	24	-	-
Montepio Gestão de Activos – S.G.F.I.M., S.A.	6	-	-
Residências Montepio, Serviços de Saúde, S.A.	-	17	8
Germont – Empreendimentos Imobiliários, S.A.	-	88	-
NEBRA, Energias Renovables, SL	869	-	-
Banco Montepio Geral - Cabo Verde, Soc. Unip. S.A.	120	-	-
SIBS - Sociedade Interbancária de Serviços, S.A.	-	10	-
Civilcentro - Construções do Centro S.A.	-	176	8
Finibanco Vida - Companhia de Seguros Vida, S.A.	-	-	1
Finimóveis Soc. Imob. Serviços Auxiliares, S.A.	-	69	-
Iberpartners Cafés - S.G.P.S., S.A.	-	12	-
Prio Energy S.G.P.S., S.A.	-	62	41
Fundo de Pensões CEMG - Gerido pela Futuro	1.860	12	22
Conselho de Administração	9	1	-
Montepio Geral - Associação Mutualista	2.987	37	15
Montepio Recuperação Crédito - ACE	-	39	-
N Seguros, S.A.	263	15	-
CA Imobiliário - Fundo Investimento Imob. Aberto	-	-	1
Fundo Polaris - Fundo Investimento Imob. Fechado	286	-	-
	6.738	695	128

As at 30 June 2011, CEMG's income with subsidiaries, included in the balances Interest and similar income and expense and Fee and commission income, are analysed as follows:

	Jun 2011		
Companies	**Interest and similar expense Euro '000**	**Interest and similar income Euro '000**	**Fee and commission Euro '000**
Lusitania, Companhia de Seguros, S.A.	125	1,728	1,853
Lusitania Vida, Companhia de Seguros, S.A.	4	1,858	1,862
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	-	-	-
SIBS - Sociedade Interbancária de Serviços, S.A.	-	13,618	13,618
Montepio Gestão de Activos – S.G.F.I.M., S.A.	-	865	865
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	1,421	1,421
	129	19,490	19,619

According to the principle of fair value, every transaction concerning related parties is at market prices.

51 Securitisation transactions

As at 30 June 2012, there are ten securitization transactions, seven of which originated in CEMG and two in Finibanco S.A. and one in Finicrédito – Instituição Financeira de Crédito, S.A., currently integrated into CEMG following the success of General and Voluntary Initial Public Offering on the equity representative shares of Finibanco – Holding, SGPS, S.A. and transmission of almost all assets and liabilities for CEMG.

In the following paragraphs present some additional details of these securitization transactions.

As at 19 December, 2002, Caixa Económica Montepio Geral had settled a securitisation operation with a Special Purpose Vehicle ("SPV") – Pelican Mortgages no. 1 PLC, established in Dublin. The referred agreement consists in a mortgage credit transfer for a period of 35 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 650,000,000. 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 had settled a securitisation operation with a Special Purpose Vehicle ("SPV") – Pelican Mortgages no. 2 PLC, established in Dublin. The referred agreement consists in a mortgage credit transfer for a period of 33 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 700,000,000. 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 had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 3. The referred agreement consists in a mortgage credit transfer for a period of 47 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 750,000,000. 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 14 June 2007, Finibanco S.A. had settled a current account portfolio to small and medium enterprises to Navegator – Sociedade Gestora de Fundos de Titularização de Créditos, S.A., in the amount of Euro 250,000,000 (Aqua SME no. 1). The total period of this operation is 10 years, with a revolving period of three years.

As at 20 May, 2008, Caixa Económica Montepio Geral had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 4. The referred agreement consists in a mortgage credit transfer for a period of 48 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,000,000,000. 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 9 December 2008, Finibanco S.A. had settled a mortgage credit portfolio to "Tagus – Sociedade de Titularização de Créditos, S.A." in the amount of Euro 233,000,000 (Aqua Mortage No. 1). The total period of this operation is 55 years, with a revolving period of 2 years.

As at 25 March 2009, Caixa Económica Montepio Geral had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 5. The referred agreement consists in a mortgage credit transfer for a period of 52 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,000,000,000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0564% of the referred nominal value.

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

As at 22 June 2010, Caixa Económica Montepio Geral had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage SME. The referred agreement consists in a mortgage credit transfer for a period of 26 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,167,000,000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.15% of the Asset Backed Notes.

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

The entity that guarantees the debt service (servicer) of this operations is "Caixa Económica Montepio Geral" assuming the collection and distribution of credits assigned amounts received by deposits, to Sociedades Gestoras de Fundos de Titularização de Créditos (Pelican Mortgages No. 1 PLC, Pelican Mortgages No. 2 PLC e Aqua SME n.º 1) and to Sociedades de Titularização de Créditos (Pelican Mortgages No. 3, Pelican Mortgages No. 4, Pelican Mortgages No. 5,Aqua Mortgages No. 1 and Aqua Finance No.3).

Until 31 December 2004, in accordance with accounting principles, as established by Bank of Portugal, the assets, loans and securities transfer under above transactions were derecognized. The acquired securities under these transactions were classified as financial assets held-to-maturity and provision in accordance with Notice no. 27/2000 of Bank of Portugal.

In accordance with IFRS 1, CEMG follows derecognized criteria to individual statements to all transactions occur until 1 January 2004. For the all transactions after this date, CEMG follows de guidance of IAS 39 concerning 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 2012, the securitisation operations are presented as follows:

Issue	Settlement date	Currency	Asset transferred	Amount Euro' 000
Pelican Mortgages No. 1	December 2002	Euro	Mortgage credit	650,000
Pelican Mortgages No. 2	September 2003	Euro	Mortgage credit	700,000
Pelican Mortgages No. 3	March 2007	Euro	Mortgage credit	750,000
Aqua SME *No. 1*	June 2007	Euro	Small companies	250,000
Pelican Mortgages No. 4	May 2008	Euro	Mortgage credit	1,000,000
Aqua Mortgage No. 1	December 2008	Euro	Mortgage credit	233,000
Pelican Mortgages No. 5	March 2009	Euro	Mortgage credit	1,000,000
Aqua Finance No. 3	June 2009	Euro	Consume, automobile, long term rental and leasing credit	207,000
Pelican SME	June 2010	Euro	Small companies	1,167,000
Pelican Mortgages No. 6	March 2012	Euro	Mortgage credit	1,107,000
				7,064,000

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

	Jun 2012 Euro '000	Dec 2011 Euro '000
Pelican Mortgages No.1	86,309	91,754
Pelican Mortgages No.2	164,886	172,544
	251,195	264,298

52 Segmental Reporting

During 2011, CEMG adopted IFRS 8 – Operating Segments, for the disclosure of the financial information by operating segments, using new criteria in the preparation of this information.

CEMG's consolidated activity is essentially developed in the financial sector, aiming for companies, institutions and private clients. Has its core decision centre in Portugal, which gives its privileged target market.

Products and services include the entire offer implicit to financial activity, such as deposit capitation, credit concession and financial services to companies and private and also the custody, and also the managing investment funds and life insurances through its associates of the insurance sector. Additionally, CEMG executes short and long-term investments in the capital or monetary market as a way of taking advantage of the price variations or restabilising its available financial resources.

CEMG has a network of 469 branches in Portugal and with one branch in Cabo verde, one financial institution in Angola with 9 branches, and 6 representation offices.

When evaluating the performance by business area, CEMG considers the following Operating Segments:

(1) Retail Bank, which includes the sub segments of Private, Individual Managers, Micro business and Social Charity Private Institutions;

(2) Corporate and Institutional, which includes big sized companies, medium and small companies, Financial Institutions and The Public Sector and

(3) Other Segments, which includes all the entities that are not included in the other segments, namely the operations and management referring to Securities' own Portfolio and Applications in Credit Institutions. Each segment comprises CEMG's structures that are directly or indirectly dedicated, as well as autonomous units of CEMG which activity is connected to one of the above segments.

Despite the fact that CEMG has its activity in Portugal, geographically it has some international role, developed by: (i) Finibanco Angola, S.A. and (ii) Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, SA (IFI), which by geographical criteria, results can be distinguished in Portugal (Domestic Area) from Cabo verde (International Area).

Operating segments description

In a consolidated basis, each of the segments includes income and costs related to the following activities, products, clients and structures of CEMG:

Retail Bank

This segment corresponds to all activity developed by CEMG in Portugal with private customers and small business, fundamentally originated by the branches network, agent network and electronic channels. The financial information of the segment relates to, among other products and services, mortgage loans, consumer credit, financing the clients' activity, deposits repayable on demand and term deposits, retirement plans and other insurance products to private customers, commissions over account management and electronic payments, the investment funds cross-selling and brokerage and custodian services.

Corporate and Institutional

This segment includes the activity with small, medium and big companies, through offices network and commercial structure dedicated to this segment. It also includes the institutional clients business, mostly from the financial sector and public administration. Among the products, it is emphasized cash and investments loans, commercial discount, leasing, factoring, renting, foreign operations, documentaries loans, checks, deposits, received or paid services, credit and debit cards, as well as custodian services.

Other segments

This segment includes all the activity developed supporting the main activities that are the core business of the two segments mentioned above, highlighting the CEMG's global financial management activity, the investments in instruments of capital markets (stocks and bonds), be them integrated in the negotiation portfolio, of fair value through profit and loss, available for sale or held to maturity. In this segment it is also included the impacts of the strategic decisions, the investments in minority strategic participations, the activity related to interest and exchange rate risk management, management of short and long positions of financial investments which favorites the changes in market prices, and the public or private preparation and availability of the issue of stocks, bonds and other debt instruments.

Allocation criteria of the activity and results to the operating segments

The consolidated financial information presented for each segment was prepared in accordance with the criteria followed for the preparation of internal information analyzed by the decision makers of CEMG, as required by IFRS 8 – Operating Segments.

The accounting policies applied in the preparation of the financial information related with the operating segments are consistent with the ones used in the preparation of these consolidated financial statements, which are described in note 1. The following principles were also adopted:

Measurement of profit or loss from operating segments

A CEMG uses net income before taxes as the measure of profit or loss for evaluating the performance of each operating segment.

Autonomous Operating Segments

As mentioned above, each operating unit (branches MG Cabo verde and associated entities) is evaluated separately, as these units are considered investment centers. Additionally, considering the characteristics of the business developed by these units, they are fully included in one of the operating segments, assets, liabilities, equity, income and expenses.

CEMG structures dedicated to the segment

CEMG activity comprises most of its operating segments and therefore its activity is disaggregated.

For the purpose of allocating the financial information, the following principles are used:

(i) The origin of the operation, i.e., the operation is allocated to the same segment as the commercial structure that originated it, even though, in a subsequent phase, CEMG makes a strategic decision in order to securitize some of these originated assets;

(ii) The allocation of a commercial margin to mass-products, established in a high level when the products are launched;

(iii) The allocation of a margin directly negotiated by the commercial structures with the clients for non-mass-products;

(iv) The allocation of direct costs from commercial and central structures dedicated to the segment;

(v) The allocation of indirect cost (central support and IT services) determined in accordance with specific drivers and with the Cost Based Approach (CBA) model; and;

(vi) The allocation of credit risk determined in accordance with the Notice no. 3/95 of Bank of Portugal and with the impairment model.

The transactions between the independent and autonomous units of CEMG are made at market prices; the price of the services between the structures of each unit, namely the price established for funding between units, is determined by the margins process referred above (which vary in accordance with the strategic relevance of the product and the balance between funding and lending); the remaining internal transactions are allocated to the segments in accordance with CBA without any margin from the supplier.

The interest rate risk, exchange risk, liquidity risk and others, except for credit risk, are included in the segment Others Segments.

Interest and similar income/expense

Since CEMG activities are exclusively related to the financial sector, the major income results from the difference between interest received on assets and interest paid from liabilities. This situation and the fact that the segments evaluation is based on negotiated margins or determined previously to each product, leads to the results on the intermediation activity being presented, as permitted by IFRS 8 paragraph 23, as the net value of interest under the designation of Financial Income.

Consolidated Investments under the Equity Method

Investments in associated companies consolidated under the equity method are included in Operations between Segments.

Non-current assets

Non-current assets, according to IFRS 8, include Other Tangible Assets and Intangible Assets. CEMG includes these assets on the segment in which these subsidiaries develop their business.

Post Employment Benefits

The factors that influence the amount of responsibilities and the amount of the funds' assets correspond, mainly, to external elements; it is CEMG policy not to include these factors on the performance evaluation of the operating segments, which activities relate to customers.

Domestic and International Areas

In the disclosure of financial information by geographical areas, the operating units that integrate the International Area are: (i) Finibanco Angola S.A. and Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. (IFI).

The patrimonial and financial elements related to the international area are presented in the financial statements of that unit with the respective consolidation and elimination adjustments.

Retrospective information

After 2009, including, CEMG adopted the rules of IFRS 8 / Segmental Reporting, which differ from the ones used until then in the financial statements. Consequently, the information from the year of 2008 has been reorganized and prepared for presentation, to make it consistent and comparable with the demands of IFRS 8.

The report by operating segments as at 30 June 2012 is as follows:

Income statement indicators	**Retail Euro '000**	**Corporate and Institutional Euro '000**	**Operations between segments Euro '000**	**Total Euro '000**
Interest and similar income	483,906	123,953	35,258	643,117
Interest and similar expense	368,706	84,996	36,082	489,784
Net interest income	115,200	38,957	(824)	153,333
Dividends from equity instruments	-	-	514	514
Fees and commissions income	48,273	7,574	4,748	60,595
Fees and commissions expense	(10,024)	(1,923)	(145)	(12,092)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	-	-	(14,803)	(14,803)
Net gains/(losses) arising from available-for-sale financial assets	-	-	47,121	47,121
Net gains arising from foreign exchange differences	-	-	5,914	5,914
Net gains from sale of other financial assets	-	-	(18,594)	(18,594)
Other operating income	15,481	11,256	7,970	34,707
Total operating income	168,930	55,864	31,901	256,695
Staff costs	61,459	14,399	21,835	97,693
General and administrative expenses	34,329	10,914	11,845	57,088
Depreciation and amortisation	3,512	584	11,225	15,321
Total operating costs	99,300	25,897	44,905	170,102
Total of Provisions and Impairment	48,561	19,662	8,318	76,541
Operating profit	21,069	10,305	(21,322)	10,052
Share of profit of associates under the equity method	-	-	(515)	(515)
Income before taxes and non-controlling interests	21,069	10,305	(21,837)	9,537
Current taxes	-	-	2,439	2,439
Deferred taxes	-	-	1,196	1,196
Non-controlling interests	-	-	1,128	1,128
Consolidated profit for the year	21,069	10,305	(26,600)	4,774
Net Assets	9,807,767	5,347,183	5,811,655	20,966,605
Liabilities	9,533,002	2,690,220	7,290,588	19,513,810
Investments in Associates	-	-	60,747	60,747

The report by operating segments as at 30 June 2011 is as follows:

Income statement indicators	**Retail Euro '000**	**Corporate and Institutional Euro '000**	**Operations between segments Euro '000**	**Total Euro '000**
Interest and similar income	394,392	91,276	38,484	524,152
Interest and similar expense	292,178	34,923	38,709	365,810
Net interest income	102,214	56,353	(225)	158,342
Dividends from equity instruments	-	-	561	561
Fees and commissions income	42,078	6,602	4,139	52,819
Fees and commissions expense	(7,539)	(1,446)	(109)	(9,094)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	-	-	26,104	26,104
Net gains/(losses) arising from available-for-sale financial assets	-	-	2,517	2,517
Net gains arising from foreign exchange differences	-	-	2,742	2,742
Net gains from sale of other financial assets	-	-	(12,431)	(12,431)
Other operating income	5,348	2,796	3,849	11,993
Total operating income	142,101	64,305	27,147	233,553
Staff costs	56,964	25,122	9,181	91,267
General and administrative expenses	29,371	14,838	4,634	48,843
Depreciation and amortisation	2,852	474	9,116	12,442
Total operating costs	89,187	40,434	22,931	152,552
Total of Provisions and Impairment	47,184	23,184	3,463	73,831
Operating profit	5,730	687	753	7,170
Share of profit of associates under the equity method	-	-	(950)	(950)
Income before taxes and non-controlling interests	5,730	687	(197)	6,220
Current taxes	-	-	3,219	3,219
Deferred taxes	-	-	(4,256)	(4,256)
Non-controlling interests	-	-	970	970
Consolidated profit for the period	5,730	687	(130)	6,287
Net Assets	10,004,550	5,153,721	6,521,291	21,679,562
Liabilities	8,953,114	2,209,542	9,397,423	20,560,079
Investments in Associates	-	-	58,453	58,453

CEMG develops bank activities as well as financial services in Portugal, Angola and in Cabo Verde.

Geographical Segments

CEMG operates with special emphasis in markets such as Portugal, Angola and Cabo Verde. Considering this, the geographical segments information includes Portugal and Cabo Verde, being that the segment Domestic reflects, essentially, the activities carried out by Caixa Económica Montepio Geral. The segment Internacional includes the operations developed by Finibanco Angola, S.A. and by Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. (IFI).

As at 30 June 2012, the net contribution of the main geographical segments is as follows:

Income statement indicators	**Domestic Euro '000**	**Internacional Euro '000**	**Adjustments Euro '000**	**Consolidated Euro '000**
Interest and similar income	635,659	16,754	(9,296)	643,117
Interest and similar expense	486,482	12,598	(9,296)	489,784
Net interest income	149,177	4,156	-	153,333
Dividends from equity instruments	1,134	-	(620)	514
Fees and commissions income	58,018	2,577	-	60,595
Fees and commissions expense	(12,046)	(46)	-	(12,092)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	(14,803)	-	-	(14,803)
Net gains/(losses) arising from available-for-sale financial assets	47,121	-	-	47,121
Net gains arising from foreign exchange differences	2,148	3,766	-	5,914
Net gains from sale of other financial assets	(18,594)	-	-	(18,594)
Other operating income	34,194	513	-	34,707
Total operational income	246,349	10,966	(620)	256,695
Staff costs	95,571	2,122	-	97,693
General and administrative expenses	54,588	2,500	-	57,088
Depreciation and amortisation	14,903	418	-	15,321
Total operating costs	165,062	5,040	-	170,102
Loans impairment	38,137	1,496	-	39,633
Other assets impairment	40,435	-	-	40,435
Other provisions	(3,362)	(150)	(15)	(3,527)
Operating profit	6,077	4,580	(605)	10,052
Share of profit of associates under the equity method	(515)	-	-	(515)
Income before taxes and non-controlling interests	5,562	4,580	(605)	9,537
Current taxes	989	1,450	-	2,439
Deferred taxes	1,196	-	-	1,196
Consolidated profit for the period	3,377	3,130	(605)	5,902
Profit for the period attributable to				
Montepio Geral - Associação Mutualista	4,774	-	-	4,774
Non-controlling interests	1,128	-	-	1,128
	5,902	-	-	5,902

Balance sheet indicators	**Domestic Euro '000**	**Internacional Euro '000**	**Adjustments Euro '000**	**Consolidated Euro '000**
Cash and deposits at central banks	180,828	90,525	-	271,353
Loans and advances to credit institutions repayable on demand	235,696	35,380	(34,480)	236,596
Other loans and advances to credit institutions	334,402	391,444	(393,456)	332,390
Loans and advances to customers	16,190,855	70,290	(211)	16,260,934
Financial assets held for trading	159,060	-	-	159,060
Other financial assets at fair value through profit or loss	3,667	-	-	3,667
Financial assets available-for-sale	2,595,737	198	-	2,595,935
Hedging derivatives	1,370	-	-	1,370
Held-to-maturity investments	17,431	4,455	-	21,886
Investments in associated companies and others	67,748	-	(7,001)	60,747
Current tax assets	227,362	2,745	-	230,107
Deferred tax assets	44,211	-	-	44,211
Non- current assets held for sale	105,007	789	-	105,796
Investment properties	61,335	-	-	61,335
Other tangible assets	(6,780)	9,620	-	2,840
Intangible assets	67,115	732	-	67,847
Other assets	509,248	2,025	(742)	510,531
Total Assets	20,794,292	608,203	(435,890)	20,966,605
Deposits from central banks	1,968,212	-	-	1,968,212
Deposits from other credit institutions	1,042,054	2,230	(428,147)	616,137
Deposits from customers	13,273,232	546,248	-	13,819,480
Debt securities issued	1,938,584	-	-	1,938,584
Financial liabilities associated to transferred assets	303,330	-	-	303,330
Financial liabilities held for trading	68,319	-	-	68,319
Hedging derivatives	18,595	-	-	18,595
Provisions	4,432	134	(47)	4,519
Deferred tax liabilities	1,145	-	-	1,145
Other subordinated debt	464,630	-	-	464,630
Other liabilities	291,316	20,285	(742)	310,859
Total Liabilities	19,373,849	568,897	(428,936)	19,513,810
Share capital	1,233,904	18,097	(7,001)	1,245,000
Other equity instruments	15,000	-	-	15,000
Fair value reserves	(125,284)	-	-	(125,284)
Other reserves and retained earnings	282,116	18,078	652	300,846
Profit for the period	2,247	3,132	(605)	4,774
Non-controlling interests	12,459	-	-	12,459
Total Equity	1,420,442	39,307	(6,954)	1,452,795
Total Liabilities and Equity	20,794,291	608,204	(435,890)	20,966,605

As at 30 June 2011, the net contribution of the main geographical segments is as follows:

Income statement indicators	**Domestic Euro '000**	**Internacional Euro '000**	**Adjustments Euro '000**	**Consolidated Euro '000**
Interest and similar income	518,313	12,718	(6,879)	524,152
Interest and similar expense	364,584	8,105	(6,879)	365,810
Net interest income	153,729	4,613	-	158,342
Dividends from equity instruments	1,000	-	(439)	561
Fees and commissions income	50,121	2,681	17	52,819
Fees and commissions expense	(8,918)	(176)	-	(9,094)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	26,104	-	-	26,104
Net gains/(losses) arising from available-for-sale financial assets	2,517	-	-	2,517
Net gains arising from foreign exchange differences	(1,917)	4,659	-	2,742
Net gains from sale of other financial assets	(12,431)	-	-	(12,431)
Other operating income	11,617	451	(75)	11,993
Total operational income	221,822	12,228	(497)	233,553
Staff costs	90,039	1,228	-	91,267
General and administrative expenses	47,137	1,781	(75)	48,843
Depreciation and amortisation	12,178	264		12,442
Total operating costs	149,354	3,273	(75)	152,552
Loans impairment	57,581	1,047	-	58,628
Other assets impairment	14,684	-	-	14,684
Other provisions	285	234	-	519
Operating profit	(82)	7,674	(422)	7,170
Share of profit of associates under the equity method	(950)	-	-	(950)
Income before taxes and non-controlling interests	(1,032)	7,674	(422)	6,220
Current taxes	652	2,567	-	3,219
Deferred taxes	(4,256)	-	-	(4,256)
Consolidated profit for the period	(4,636)	10,241	(422)	7,257
Profit for the period attributable to				
Montepio Geral - Associação Mutualista	6,287	-	-	6,287
Non-controlling interests	970	-	-	970
	7,257	-	-	7,257

Balance sheet indicators	**Domestic Euro '000**	**Internacional Euro '000**	**Adjustments Euro '000**	**Consolidated Euro '000**
Cash and deposits at central banks	350,924	49,867	-	400,791
Loans and advances to credit institutions repayable on demand	92,844	20,996	(893)	112,947
Other loans and advances to credit institutions	275,310	424,048	(375,328)	324,030
Loans and advances to customers	16,306,012	486,509	-	16,792,521
Financial assets held for trading	131,624	13,939	-	145,563
Other financial assets at fair value through profit or loss	3,685	-	-	3,685
Financial assets available-for-sale	2,980,812	21,774	-	3,002,586
Hedging derivatives	1,955	-	-	1,955
Held-to-maturity investments	9	2,529	-	2,538
Investments in associated companies and others	383	4,550	-	4,933
Current tax assets	48,263	51	-	48,314
Deferred tax assets	40,153	25,301	(7,001)	58,453
Non- current assets held for sale	200,634	34,434	-	235,068
Investment properties	-	19,309	-	19,309
Other tangible assets	130,588	19,876	-	150,464
Intangible assets	78,760	1,382	-	80,142
Other assets	257,709	39,377	(823)	296,263
Total Assets	20,899,665	1,163,942	(384,045)	21,679,562
Deposits from central banks	2,220,044	-	-	2,220,044
Deposits from other credit institutions	977,295	391,134	(376,221)	992,208
Deposits from customers	12,120,148	489,714	-	12,609,862
Debt securities issued	3,381,135	45,053	-	3,426,188
Financial liabilities associated to transferred assets	461,187	-	-	461,187
Financial liabilities at fair value through profit or loss	(15,853)	15,853		-
Financial liabilities held for trading	73,727	3,317	-	77,044
Hedging derivatives	1,120	-	-	1,120
Provisions	2,817	1,493	-	4,310
Deferred tax liabilities	493,346	-	-	493,346
Other subordinated debt	717	367	-	1,084
Other liabilities	252,131	22,378	(823)	273,686
Total Liabilities	19,967,814	969,309	(377,044)	20,560,079
Share capital	970,000	182,001	(7,001)	1,145,000
Other equity instruments	(30,000)	30,000	-	-
Fair value reserves	15,000	-	-	15,000
Other reserves and retained earnings	(292,073)	(4,115)	-	(296,188)
Profit for the period attributable to MG - AM	300,490	(60,190)	422	240,722
Profit for the period	(31,566)	37,056	(422)	5,068
Non-controlling interests	-	9,881	-	9,881
Total Equity	931,851	194,633	(7,001)	1,119,483
Total Liabilities and Equity	20,899,665	1,163,942	(384,045)	21,679,562

53 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.

The analysis and risk control are carried out in an integrated mode, through the Direcção de Risco ("DRI"), which includes three departments:
- Credit Risk Department: responsible for development and integration in decision-making of internal models of credit risk analysis, and reporting on Prudential Equity and internal reports on credit risk;
- Market Risk Department: ensure the examination and supervisory reporting and internal market risk, interest rate, foreign exchange and liquidity, as well as their integration into decision-making processes of the dealing room;
- Operacional Risk Department: operational risk management responsible;

"DRI" also ensures coordination with the Bank of Portugal, in the field of prudential reports, including the level of capital requirements, liquidity risk and interest rate risk.

Under the credit risk management and control have been developed several activities, including most importantly the regular realization of Committee of the Risk and Internal Control and policy delegation review of credit decision, in order to make it sensitive to the level expected risk of the client / transaction.

Additionally, was created the "Direcção de Análise de Crédito", which ensures the assessment of credit proposals from companies and individuals, as well as the assignment of internal ratings in the corporate segment.

On the regulatory and Basel II, were developed reports referred in Pillar II - Capital adequacy, and Pillar III - Market Discipline. Under Pillar II were reported to Bank of Portugal reports Process Self-Evaluation of the Capital Market ("ICAAP"), Stress Testing and Risk Concentration as Instruction no. 2/2010, Bank of Portugal. The results of the reports point to the soundness of capital levels commensurate with the risks with greater materiality and the potential adverse developments in key macroeconomic indicators. At the level of risk concentration there is a positive development in the main types of concentration - Sectorial, Geographic and Individual. Under Pillar III, was made public the report of Market Discipline, detailing the types and levels of risk incurred in the activity, as well as the processes, structure and organization of risk management.

It also ensured the participation in the work of "Programa Especial de Inspecções", under the Memorandum signed between the Portuguese State and European Central Bank, European Commission and International Monetary Fund.

This program focused on three areas of work - credit impairment calculation, capital requirements for credit risk calculation and stress testing procedures. The results were very satisfactory, confirming the adequacy of procedures adopted by CEMG.

CEMG has also been following the recommendations of the Basel Committee and follows closely the developments in the Basel III framework of liquidity management and capital assessment, having been carried out analyzes of their impact. The CEMG has also regularly participated in Quantitative Impact Studies (QIS) Basel III, developed by the Bank of Portugal in accordance with the guidelines of the European Bank Association (EBA). The documents published by the Basel Committee in late 2009, are now published in their final versions and are expected to be transposed into European directives soon.

Main types of risk

Credit – Credit risk is associated with the degree of uncertainty of the expected returns as a result of the inability either of the borrower (and the guarantor, if any) or of the issuer of a security or of the counterparty to an agreement to fulfill their obligations.

Market – Market risk reflects the potential loss inherent in a given portfolio as a result of changes in rates (interest and exchange) and/or in the prices of the various financial instruments that make up the portfolio, considering both the correlations that exist between them and the respective volatility.

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

Operational – Operational risk is the potential loss resulting from failures or inadequacies in internal procedures, persons or systems, and also the potential losses resulting from external events.

Internal organization

The Board of Directors is responsible for risk management strategy and policies, and it is advised by the Risk Analysis and Management Division in these fields, that undertake the analysis and the risk management from the standpoint of CEMG, includes the coordination of the Risk Committee and Internal Control and reporting the level of the Asset and Liability Committee ("ALCO").

The Internal Auditing Management, as support to the Board of Directors, has the main duties to assessing reports on the internal control system to be sent annually to the Bank of Portugal, to check compliance with the applicable legislation on the part of the various departments, and to identify major risk areas and submitting its conclusions to the Board of Directors.

Depending on the nature and severity of the risk, plans, programs or actions shall be drawn up, supported by information systems, and procedures shall be devised that provide a high degree or reliably as to the risk management measures defined whenever necessary.

The Dealing Room shall cooperate with the Risk Analysis and Management in order to measure and control operations and portfolio risks, as well as suitably monitor CEMG’s overall risk positions.

In terms of compliance risk, the Head of Compliance in the dependence of the Board of Directors, shall control, identify and assess the various situations that contribute to this risk, namely in terms of transactions/activities, business, products and departments.

In this context, the Internal Auditing Management shall also assess the internal control system, identifying the areas of major importance/risk, to ensure efficient governance.

Risk evaluation

Credit Risk – Retail

Credit risk models play a significant role in credit decision process. Indeed, the decision process concerning the credit portfolio depends on a group of policies based on scoring models developed to individual and business clients and the rating for the corporate sector.

Credit decisions are dependent upon risk ratings and compliance with various rules governing financial capacity and applicants' behavior. In order to support commercial strategies reactive scoring models are also used, namely in the main individual credit portfolios, such as mortgage and individual loans, distinguishing between customers and non-customers (or new customers). In the case of credit card the correspondent reactive scoring model is being reviewed. Additionally, in the individual credit portfolios, commercial performance and credit risk analysis are supported by behavior scorings.

To corporate credit are used internal rating models to medium and large companies, distinguishing construction from the other activity sectors, while for customers "Empresários em nome individual" and micro business is applied the scoring model business.

CEMG's credit risk exposure can be analyzed as follows:

	Jun 2012 **Euro '000**	**Dec 2011** **Euro '000**
Deposits with Other credit institutions	236,596	223,834
Deposits with banks	332,390	284,232
Loans and advances to customers	16,260,934	16,706,626
Financial assets held for trading	159,060	180,776
Financial assets at fair value through profit or loss	3,667	3,606
Available-for-sale financial assets	2,091,553	2,226,386
Hedging derivatives	1,370	1,311
Held-to-maturity investments	21,886	76,994
Investments in associated companies and others	60,747	57,856
Other assets	510,531	504,970
Guarantees granted	511,051	504,835
Irrevocable commitments	181,195	218,033
Credit default swaps (notionals)	64,414	81,093
	20,435,394	21,070,552

The analysis of the risk exposure by sector of activity, as at 30 June 2012, can be analysed as follows:

	Jun 2012							
Sector of activity	**Loans and advances to costumers**		**Financial assets held for trading**	**financial assets at fair value trough profit or loss**	**Available-for-sale financial assets**		**Held-to-maturity investments**	**Guarantees granted**
	Gross amount	**Impairment Euro '000**	**Gross amount**	**Gross amount**	**Gross amount**	**Impairment Euro '000**	**Gross amount Euro '000**	**Euro '000**
Agriculture	74,256	(4,908)	-	-	332	(91)	-	1,957
Mining	52,047	(2,033)	-	-	-	-	-	1,618
Food, beverage and tobacco	145,239	(8,440)	1,074	-	8,169	(230)	-	5,612
Textiles	82,414	(19,571)	-	-	-	-	-	1,894
Shoes	24,128	(6,210)	-	-	-	-	-	152
Wood and cork	54,174	(10,553)	-	-	93,048	-	-	1,805
Printing and publishing	56,146	(3,756)	-	-	-	-	-	743
Petroleum refining	584	(192)	890	-	22,846	(205)	-	-
Chemicals and rubber	107,955	(10,652)	209	-	1,043	-	-	2,760
Non-metallic minerals	51,247	(3,084)	-	-	-	-	-	2,935
Basis metallurgic industries and metallic produc	143,846	(7,460)	-	-	-	-	-	8,718
Production of machinery	48,883	(2,165)	99	-	531	(207)	-	2,048
Production of transport material	20,918	(1,775)	551	-	-	-	-	298
Other transforming material	46,583	(6,105)	235	-	38,606	(5,325)	-	1,851
Electricity, gas and water	107,042	(1,807)	482	2,641	23,953	(1,442)	-	4,982
Construction	2,316,360	(224,418)	226	-	10,976	(998)	-	225,189
Wholesale and retail	1,174,932	(107,633)	4,231	-	16,368	-	-	66,478
Tourism	349,341	(17,186)	-	-	7,160	(90)	-	12,380
Transports	194,219	(18,783)	-	-	2,340	-	-	11,324
Communications and information activities	58,702	(4,162)	977	-	24,550	(352)	-	857
Financial activities	559,478	(18,870)	148,349	1,026	899,579	(2,274)	-	64,280
Real estates activities	966,045	(62,552)	-	-	9,708	(691)	-	34,411
Services provided to companies	535,629	(20,248)	-	-	12,098	-	-	14,915
Public services	144,058	(1,503)	-	-	1,238,841	-	21,886	591
Other activities of collective services	419,496	(14,524)	-	-	-	-	-	8,218
Mortgage loans	8,529,630	(146,658)	-	-	43,939	-	-	-
Other	762,410	(39,580)	1,737	-	153,992	(239)	-	35,035
Total	17,025,762	(764,828)	159,060	3,667	2,608,079	(12,144)	21,886	511,051

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

	Dec 2011							
Sector of activity	**Loans and advances to costumers**		**Financial assets held for trading**	**Other financial assets at fair value trough profit or loss**	**Available-for-sale financial assets**		**Held-to-maturity investments**	**Guarantees granted**
	Gross amount Euro '000	**Impairment Euro '000**	**Gross amount Euro '000**	**Gross amount Euro '000**	**Gross amount Euro '000**	**Impairment Euro '000**	**Gross amount Euro '000**	**Euro '000**
Agriculture	54,402	(4,185)	60	-	442	(91)	-	1,198
Mining	46,470	(1,258)	57	-	-	-	-	1,434
Food, beverage and tobacco	136,864	(5,866)	901	-	13,899	(187)	-	3,182
Textiles	65,649	(5,510)	-	-	-	-	-	805
Shoes	20,257	(1,552)	-	-	-	-	-	125
Wood and cork	52,644	(2,161)	-	-	82,829	-	-	1,406
Printing and publishing	52,637	(3,422)	-	-	-	-	-	748
Petroleum refining	441	(16)	537	-	34,798	-	-	-
Chemicals and rubber	90,487	(6,036)	155	-	1,042	-	-	2,661
Non-metallic minerals	50,656	(2,562)	-	-	-	-	-	2,916
Basis metallurgic industries and metallic produc	138,508	(11,352)	-	-	-	-	-	9,037
Production of machinery	44,705	(2,481)	36	-	540	(121)	-	1,875
Production of transport material	19,447	(1,189)	42	-	-	-	-	298
Other transforming material	40,348	(3,408)	32	-	79,056	(5,158)	-	1,906
Electricity, gas and water	104,285	(3,245)	752	2,677	23,238	(976)	-	4,620
Construction	2,368,694	(240,536)	153	-	10,968	(998)	-	237,365
Wholesale and retail	1,046,368	(62,584)	294	-	14,146	-	-	62,648
Tourism	319,492	(12,679)	-	-	7,427	(90)	-	13,878
Transports	167,131	(8,847)	154	-	2,322	-	-	8,689
Communications and information activities	50,325	(2,552)	356	-	28,011	-	-	1,287
Financial activities	742,207	(16,441)	176,046	929	829,639	(2,254)	-	47,024
Real estates activities	985,357	(82,549)	53	-	7,692	(691)	-	28,444
Services provided to companies	332,310	(19,200)	-	-	14,520	-	-	11,937
Public services	118,627	(1,164)	-	-	1,302,154	(19,310)	76,994	583
Other activities of collective services	309,369	(8,817)	-	-	-	-	-	4,582
Mortgage loans	9,249,341	(233,698)	-	-	18,051	-	-	-
Others	870,081	(27,166)	1,148	-	133,709	(239)	-	56,187
Total	17,477,102	(770,476)	180,776	3,606	2,604,483	(30,115)	76,994	504,835

In terms of credit risk, the financial assets portfolio continued to be concentrated in investment grade

During the six months period ended 30 June 2012, the Group closed a number of credit default swaps, with a notional value of the purchase and sale contracts protection position arising at the year end Euro 21,500,000 to Euro 43,000,000, respectively.

Overall Risks and Financial Assets

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

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

Concerning risk information and analysis, regular reports are provided on the credit and market risks on the company's financial assets and those of the other members of CEMG. For the company's own portfolio, the various risk limits are defined using the Value-at-Risk ("VaR") method. There are different exposure limits such as global 'VaR' limits, by issuer, by asset type/class and rating. There are also limits of Stop Loss. Investment portfolio is mainly concentrated in bonds which as at 30 June 2012 represented 69.1% of the total's portfolio, in which stands out the sovereign debt (62%).

CEMG continuously calculates its own portfolios 'VaR', given a 10-day horizon and a 99% confidence interval, by the method of historical simulation.

Regarding the nature of the retail activity, CEMG normally presents positive interest rate gaps, that in the six months period ended 30 June 2012, reached, in static terms, Euro 42,597,000 (31 December 2011: Euro 703,718,000 positive) (considering the total of the refixing terms of the interest rates).

The following table presents the mainly indicators of these measures, as at 30 June 2012 and 31 December 2011:

	Jun 2012				Dec 2011			
	June Euro '000	Annual average Euro '000	Maximum Euro '000	Minimum Euro '000	December Euro '000	Annual average Euro '000	Maximum Euro '000	Minimum Euro '000
Interest rate Gap	42,597	42,597	42,597	42,597	703,718	366,125	703,718	28,532

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

	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	Total Euro '000
30 June 2012						
Assets	11,014,830	4,161,038	589,669	1,500,908	862,332	18,128,778
Off balance sheet	11,905,675	190,198	361,876	1,906,526	-	14,364,275
Total	22,920,505	4,351,236	951,545	3,407,434	862,332	32,493,052
Liabilities	6,318,437	1,591,453	3,914,651	6,161,923	99,815	18,086,279
Off balance sheet	12,496,468	518,841	13,740	1,335,126	-	14,364,175
Total	18,814,905	2,110,294	3,928,391	7,497,049	99,815	32,450,454
GAP (Assets – Liabilities)	4,105,600	2,240,942	(2,976,846)	(4,089,615)	762,517	42,598
31 December 2011						
Assets	12,049,591	4,714,690	458,482	1,611,503	868,944	19,703,210
Off balance sheet	11,650,184	161,029	971,660	2,053,911	-	14,836,784
Total	23,699,775	4,875,719	1,430,142	3,665,414	868,944	34,539,994
Liabilities	8,092,104	2,403,548	2,928,512	5,404,218	171,200	18,999,582
Off balance sheet	12,916,395	562,418	8,970	1,348,910	-	14,836,693
Total	21,008,499	2,965,966	2,937,482	6,753,128	171,200	33,836,275
GAP (Assets – Liabilities)	2,691,276	1,909,753	(1,507,340)	(3,087,714)	697,744	703,719

Sensibility analysis

As at June, 2012, based on the interest rate gaps observed, an instantaneous positive variation in the interest rates by 100 bp would cause an increase in the income statement in Euro 37,752,000 (31 December 2011: Euro 29,605,000).

The following table presents the average interests, in relation to the CEMG major assets and liabilities categories for the periods ended 30 June 2012 and 31 December 2011, as well as the average balances and the income and expense for the year:

	Jun 2012			Dec 2011		
Products	**Average balance for the period Euro '000**	**Average interest rate (%)**	**Income / Expense Euro '000**	**Average balance for the period Euro '000**	**Average interest rate (%))**	**Income / Expense Euro '000**
Assets						
Loans to customers	17,125,376	2.22	379,765	17,056,740	4.10	700,116
Deposits	146,026	0.39	571	171,786	1.42	2,439
Securities portfolio	2,692,533	4.27	115,014	2,803,016	6.75	189,293
Inter-bank loans and advances	305,964	0.52	1,595	277,228	3.01	8,332
Swaps	-		142,042	-		237,760
Total Assets	20,269,899		638,987	20,308,770		1,137,940
Liabilities						
Deposits from customers	13,509,031	3.61	243,943	12,273,680	2.83	347,445
Securities deposits	3,574,416	2.77	98,449	4,838,611	4.19	202,528
Interbank deposits	2,513,570	1.02	14,609	2,621,733	1.79	46,975
Other liabilities	277	0.53	1	334	0.60	2
Other interest	-		80	-		-
Swaps	-		130,797	-		258,269
Total liabilities	19,597,294		487,879	19,734,358		855,219

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 30 June 2012 is analysed as follows:

	Jun 2012							
	Euro Euro '000	**United States Dollar Euro '000**	**Sterling Pound Euro '000**	**Canadian Dollar Euro '000**	**Suisse Frank Euro '000**	**Japanese Yen Euro '000**	**Other foreign currencies Euro '000**	**Total amount Euro '000**
Assets by currency								
Cash and deposits at central banks	169,221	21,524	633	539	366	59	79,011	271,353
Loans and advances to credit institutions repayable on demand	202,126	29,764	788	470	539	1,790	1,119	236,596
Loans and advances to credit institutions	252,189	39,469	3,876	36,551	305	-	-	332,390
Loans and advances to customers	16,176,519	39,050	-	-	199	-	45,166	16,260,934
Financial assets held for trading	152,476	6,344	240	-	-	-	-	159,060
Other financial assets at fair value trought profit or loss	3,667	-	-	-	-	-	-	3,667
Available-for-sale financial assets	2,571,048	24,050	32	-	607	-	198	2,595,935
Hedging derivates	1,370	-	-	-	-	-	-	1,370
Held-to-maturity investments	21,886	-	-	-	-	-	-	21,886
Investments in associated companies and other	56,637	-	-	-	-	-	4,110	60,747
Non-current assets held for sale	229,317	111	-	-	-	-	679	230,107
Investment propeties	44,211	-	-	-	-	-	-	44,211
Property and equipment	96,261	-	-	-	-	-	9,535	105,796
Current income tax assets	60,220	-	-	-	-	-	1,115	61,335
Deferred income tax assets	93	-	-	-	-	-	2,747	2,840
Intangible assets	67,847	-	-	-	-	-	-	67,847
Other assets	134,216	231,708	8,820	48,420	2,604	2,754	82,009	510,531
Total assets	20,239,304	392,020	14,389	85,980	4,620	4,603	225,689	20,966,605
Liabilities by currency								
Deposits from central banks	1,968,212	-	-	-	-	-	-	1,968,212
Deposits from other credit institutions	492,938	89,690	3,955	29,193	310	17	34	616,137
Deposits from customers	13,522,827	148,498	7,687	31,181	2,326	-	106,961	13,819,480
Debt securities issued	1,914,200	24,384	-	-	-	-	-	1,938,584
Financial liabilities relating to transferred assets	303,330	-	-	-	-	-	-	303,330
Financial liabilities held for trading	64,765	3,554	-	-	-	-	-	68,319
Hedging derivates	18,595	-	-	-	-	-	-	18,595
Provisions	4,364	-	-	-	-	-	155	4,519
Deferred tax liabilities	1,145	-	-	-	-	-	-	1,145
Other subordinated debt	464,630	-	-	-	-	-	-	464,630
Other liabilities	77,701	126,164	2,747	25,606	1,923	4,585	72,133	310,859
Total Liabilities	18,832,707	392,290	14,389	85,980	4,559	4,602	179,283	19,513,810
Net asset/ liability by currency	1,406,597	(270)	-	-	61	1	46,406	1,452,795
Equity	1 406 597	(270)	-	-	61	1	46 406	1 452 795
Net exposure	-	-	-	-	-	-	-	-

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

	Dec 2011							
	Euro **Euro '000**	**United States Dollar** **Euro '000**	**Sterling Pound** **Euro '000**	**Canadian Dollars** **Euro '000**	**Suisse Frank** **Euro '000**	**Japanese Yen** **Euro '000**	**Other foreign currencies** **Euro '000**	**Total amount** **Euro '000**
Assets by currency								
Cash and deposits at central banks	391,008	17,515	755	401	1,278	25	50,501	461,483
Loans and advances to credit institutions repayable on demand	196,475	22,687	1,737	1,282	581	42	1,030	223,834
Loans and advances to credit institutions	276,118	8,114	-	-	-	-	-	284,232
Loans and advances to customers	16,634,939	37,520	1	-	222	434	33,510	16,706,626
Financial assets held for trading	178,365	1,823	530	58	-	-	-	180,776
Other financial assets at fair value trough profit or loss	3,606	-	-	-	-	-	-	3,606
Available-for-sale financial assets	2,543,175	2,188	31	-	573	-	28,401	2,574,368
Hedging derivatives	1,311	-	-	-	-	-	-	1,311
Held-to-maturity investments	76,994	-	-	-	-	-	-	76,994
Investments in associated companies and others	57,856	-	-	-	-	-	-	57,856
Non- current assets held for sale	134,337	-	-	-	-	-	2,674	137,011
Property and equipment	108,657	-	-	-	-	-	-	108,657
Intangible assets	88,978	-	-	-	-	-	1,227	90,205
Current tax assets	2,000	108	-	-	-	-	660	2,768
Deferred tax assets	71,895	-	-	-	-	-	8,798	80,693
Other assets	400,006	71,126	5,681	21,335	3,257	84	3,481	504,970
Total Assets	21,165,720	161,081	8,735	23,076	5,911	585	130,282	21,495,390
Liabilities by currency								
Deposits from central banks	2,003,300	-	-	-	-	-	-	2,003,300
Deposits from other credit institutions	717,140	26,448	102	44	9	-	54	743,797
Deposits from customers	13,452,212	127,710	8,446	22,430	2,570	6	88,545	13,701,919
Debt securities issued	2,470,793	2,319	-	-	-	-	-	2,473,112
Financial liabilities associated to transferred assets	453,061	-	-	-	-	-	-	453,061
Financial liabilities held for trading	78,854	267	-	-	-	-	-	79,121
Hedging derivatives	13,041	-	-	-	-	-	-	13,041
Provisions	7,697	-	-	-	-	-	288	7,985
Current tax liabilities	10	-	-	-	-	-	-	10
Deferred tax liabilities	36	-	-	-	-	-	-	36
Other subordinated debt	477,843	-	-	-	-	-	-	477,843
Other liabilities	261,702	4,749	187	603	3,298	580	11,558	282,677
Total Liabilities	19,935,689	161,493	8,735	23,077	5,877	586	100,445	20,235,902
Net asset / liability by currency	1,230,031	(412)	-	(1)	34	(1)	29,837	1,259,488
Equity	(1,259,488)	-	-	-	-	-	-	(1,259,488)
Net exposure	(29,457)	(412)	-	(1)	34	(1)	29,837	-

Liquidity risk

The purpose of liquidity management is to maintain adequate liquidity levels to meet short, medium and long term funding needs. Liquidity risk is monitored carefully, and prepared several reports for the purpose of prudential regulation and monitoring in place of ALCO Committee.

In addition, it is also carried out a follow-up of liquidity positions of a prudential point of view, calculated in the manner required by the Bank of Portugal (Instruction no. 13/2009).

Operational Risk

CEMG has implanted an Integrated Continuing Business Plan, which allows ensuring the continuity of the operations in a case of a rupture in the activity. This system is held by an organizational structure, included in the DRI and exclusively dedicated to this assignment, delegates designated by each department.

Capital Management and Solvency Ratio

In prudential matters, CEMG is subject to Bank of Portugal supervision that, under the capital adequacy Directive from the CE, establishes the rules to be attended by the institutions under its supervision. These rules determine a minimum solvency ratio in relation to the requirements of the assumed risks that institutions have to fulfil.

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

- Basic Own Funds (“BOF”): This category includes the share capital, the eligible reserves (excluding positive fair value reserves), the retained earnings, minority interest and preferential stocks. It is deducted the negative fair value reserves associated to stocks or other capital instruments, by the book value related to the Goodwill, intangible assets, deferred costs, actuarial losses and negative fair value reserves that come from obligations with retirement benefits of employees above the corridor limit of 10% of maximum between those responsibilities and assets of the pension fund. They are also deducted 50% of its value the shares above 10% in financial institutions, as well as stakes in insurers. In November 2011 came into force on Instruction 28/2011 of Bank of Portugal, with review in March 2012, which includes as a negative element of a capital base of the balance of deposits whose rate of return is 3% above the reference rate for the deposit effective on the date of renewal or establishment of such deposit. This instruction applies to deposits made or renewed after April 1, 2012.

- Complementary Own Funds (“COF”): Essentially incorporates the subordinated eligible debt, the revaluation reserves of tangible assets and 45% of the positive fair value reserve and is deducted by 50% of the book value of equity investments in banking and insurance entities, in participations higher than 10%, as well as in participations in insurance entities.

- It is deducted to the total Own Funds the non-current assets held for sale acquired in exchange for loans at more than 4 years. This value is calculated in accordance with a progressiveness method that leads that in 9 to 12 years in portfolio (considering the date of the operation), the net value of the asset, are totally deducted in the own funds.

Additionally there are several rules limiting the capital basis of CEMG. The prudential rules determine that the COF cannot exceed the COF. In addition, some components of the COF (Lower Tier II) cannot exceed 50% of the BOF.

In 2008, Bank of Portugal issued Notice no. 6/2008, which changed the rules to determine capital requirements. This notice along with the treatment given to credits and other values to receive, excluded the potential in debt securities classified as available for sale of Own Funds, in what exceeds the impact of eventual hedged operations, maintaining, however, the obligation of not consider in basis Own Funds positive re-evaluation reserves, in what exceeds the impairment which eventually had been registered, related to non realized gains in capital available for sale securities (net from taxes).

In 2011, CEMG adapted the accounting policy of Pension Fund to the changes in International Accounting Standards. Previously, it was used to rule the designated corridor rule and in December 2011 came to recognize that the whole of actuarial reserves. Despite this change to accounting, in regulatory terms there were no changes since the Instruction no. 2/2012 sets prudential treatment for this new accounting procedure, similar to that designated by rule of the corridor. Also in December 2011 was performed a partial transfer of post-employment plans from defined benefit to the control of General Social Security Scheme, whose effects on equity have been deferred to June 2012, according to Instruction no. 1/2012 of Bank Portugal.

The confirmation that an entity has an amount of own funds not below of its capital requirements assures the adequacy of its capital, reflected on a solvency ratio – represented by the percentage of total own funds to the result of 12.5 times the capital requirements. Instruction no. 3/2001 of Bank of Portugal released a recommendation in order to strengthen their Core Tier 1 ratio, in a consolidated basis, to a figure not below 10% until 31 December 2012.

The capital adequacy of CEMG as at 30 June 2012 and 31 December 2011 is presented as follows:

	Jun 2012 Euro '000	**Dec 2011 Euro '000**
Core Tier I		
Share capital	1,245,000	1,244,999
Net profit, General reserves, Special reserves and Retained earnings	288,995	254,790
Other regulatory adjustments	(156,410)	(121,206)
	1,377,585	**1,378,583**
Basic own funds		
Other capital instruments	15,000	15,000
Deduction to basic own funds	(16,572)	(15,081)
	1,376,013	**1,378,502**
Complementary own funds		
Upper Tier 2	9,990	8,950
Lower Tier 2	439,997	462,802
Deduction to complementary own funds	(16,572)	(15,081)
	433,415	**456,672**
Deduction to total own funds	(6,181)	(3,177)
Total owned funds	**1,803,247**	**1,831,997**
Own funds requirements		
Credit risk	1,011,336	1,004,835
Market risk	4,107	4,420
Operational risk	71,243	71,243
	1,086,686	**1,080,498**
Ratios		
Core Tier 1	10.14%	10.21%
Tier 1	10.13%	10.21%
Solvency	13.28%	13.56%

54 Sovereign debt of European Union countries subject to bailout

As at 30 June 2012, the exposure of CEMG to sovereign debt of European Union countries subject to bailout is as follows:

Issuer/ Portfolio	Book value Euro '000	Fair value Euro '000	Fair value reserves Euro '000	Impairment Euro '000	Interest rate Average %	Maturity average Years	Fair value measurement levels
Portugal							
Financial assets available for sale	1,117,554	1,117,554	(65,663)	-	3.89%	2.17	1
Held to maturity financial assets	6,262	5,526	-	-	3.38%	3.26	n.a.
	1,123,816	1,123,080	(65,663)	-			
Greece							
Financial assets available for sale	2,623	2,623	(15,555)	-	2.00%	22.94	1
Ireland							
Financial assets available for sale	11,840	11,840	1,858	-	4.60%	3.80	1
	1,138,279	1,137,543	(79,360)				

As at 31 December 2011, the exposure of CEMG to sovereign debt of European Union countries subject to bailout is as follows:

Issuer/ Portfolio	Book value Euro '000	Fair value Euro '000	Fair value reserves Euro '000	Impairment Euro '000	Interest rate Average %	Maturity average Years	Fair value measurement levels
Portugal							
Financial assets available for sale	1,150,482	1,150,482	(241,563)	-	4.35%	2.21	1
Held to maturity financial assets	37,419	34,299	-	-	4.72%	1.03	n.a.
	1,187,901	1,184,781	(241,563)	-			
Greece							
Financial assets available for sale	33,507	33,507	-	(19,309)	4.22%	0.37	1
Ireland							
Financial assets available for sale	11,032	11,032	1,051	-	4.60%	4.30	1
	1,232,440	1,229,320	(240,512)	(19,309)			

For the public debt of Portugal, Greece and Ireland do not have occurred in the six months period ended June 30, 2012 no reclassifications between portfolios.

The evolution of the European Union sovereign debt crisis and specifically the economic and political environment in Greece have contributed to the continuous deterioration of economic and financial situation of Greece and the incapacity to obtain funds from the capital markets, which implies that the short term solvency of the country is dependent on the continuous support by EU and IMF.

Considering this environment, as at 31 December 2011, the balance Impairment for securities corresponds to the impairment recognised on Greek sovereign debt during 2011. Impairment was determined considering the terms of the agreement established between the Greek state and the private sector, related with the restructuring of the Greek sovereign debt (GGB's). The key terms for private sector involvement (PSI) in the above mentioned restructuring, are as follows:

a) Holders of GGBs exchanged their existing GGB's for:

- New GGBs with a face amount equal to 31.5% of the par amount of the old GGBs;

- Notes issued by the European Financial Stability Facility (EFSF) with a face amount equal to 15% of par of the old GGBs. The notes will bear a market rate of interest and mature within 24 months;

b) The new GGBs have the following key terms:

- Initial annual coupons of 2% increasing to 3% and then 4.3%;

- Repayment of principal in 20 annual installments commencing on the 11th anniversary of the issue date with final maturity in 2042;

- Aggregated collective action clauses;

- Listing on the Athens stock Exchange;

- Issues ruled by English law; and

- Detachable GDP-linked securities entitling the holder to an additional annual coupon of 1% if specified GDP targets are met.

For the purposes of determining impairment the Group considered the terms and conditions of the PSI and also paragraph AG 84 of IAS 39 that considers reasonable that, for the portfolio of assets held to maturity when, for practical reasons, there are relevant uncertainties regarding the estimate of future cash-flows, impairment can be determined based on observable market prices.

Considering the available information regarding the new bonds, the fair value corresponded on 31 December 2011, to approximately 23% of the book value of the old GGB.

The PSI is part of European Union Euro 130 billion bailout package for Greece which requires parliamentary approval of Eurozone countries.

CEMG acepted the reestructuring and the transaction was setled in 12 March 2012.

It is noteworthy that on the sale that occurred in the second quarter of 2012, CEMG used the existing provisions.

Relatively with exposure to other countries at the bailout, CEMG Board of Directors also believes that at this date there is no objective evidence of impairment.

55 Subsidiaries acquisition

During 2010, Montepio Geral – Associação Mutualista, CEMG sole shareholder, has made an aquisition of 100% of Finibanco Holding, S.G.P.S., S.A. share capital through an Initial Public Offering (IPO) in the amount of Euro 341,250,000.

As at March 31, 2011, Montepio Geral – Associação Mutualista disposed the participation held on Finibanco Holding, S.G.P.S, S.A. to CEMG, for the amount of Euro 341,250,000. From that date, CEMG owns a participation of 100% on Finibanco Holding S.G.P.S., S.A..

The acquisition of Finibanco Holding by CEMG allowed complete the level of services provided in the financial sector through the acquisition of a participation in Finibanco, S.A. (universal bank), Finicrédito, S.A. (specialized credit financial institution), Finibanco Angola (universal bank in Angola) and Finivalor (Asset management - Investment Funds).

That acquisition also allows the complementarily of commercial networks and entry into markets which CEMG was not present.

The acquisition value by CEMG to Montepio Geral – Associação Mutualista was totally made by cash transfer.

The fair value of the assets and liabilities acquired is analysed as follows:

	Dec 2011 Euro '000
Cash and deposits at central banks	129,508
Loans and advances to credit institutions repayable on demand	46,380
Financial assets held for trading	30,650
Other financial assets at fair value through profit or loss	9,848
Financial assets available-for-sale	425,136
Other loans and advances to credit institutions	108,035
Loans and advances to customers	2,605,954
Non-current assets held for sale	41,368
Investment property	20,186
Other tangible assets	81,867
Intangible assets	6,130
Investments in associated companies and others	24,876
Current tax assets	2,572
Deferred tax assets	35,486
Other assets	97,525
Deposits from central banks	(410,016)
Financial liabilities held for trading	(20,337)
Other financial liabilities at fair value through profit or loss	(117,345)
Deposits from other credit institutions	(286,279)
Deposits from customers	(2,327,514)
Debt securities issued	(1,840)
Financial liabilities associated to transferred assets	(115,095)
Provisions	(2,506)
Current income tax liabilities	(269)
Deferred income tax liabilities	(19,937)
Other subordinated debt	(11,108)
Other liabilities	(45,995)
Other capital instruments	(15,000)
Other reserves and retained earnings	(4,054)
	288,226

The goodwill recognized in intangible assets and submitted to annual impairment tests, as described in accounting police 1 b) is analysed as follows:

	Dec 2011 Euro '000
Total amount paid by CEMG	341,250
Fair value of assets and liabilities acquired	288,226
	53,024

The loans advances to customers acquired, corresponds to a gross amount of Euro 2,835,838,000, with impairment losses in the amount of Euro 191,338,000, and a net increase in the fair value, which includes the effect on the fixed rate component of a part of the portfolio, and the level of statutory provisions associated with an asset backed portfolio that rises to Euro 86,790,000.

The presented goodwill results essentially of the complementarily of commercial networks and the presence of the Finibanco Group in markets which CEMG was not present, such as in Portugal, or in Angola.

CEMG incurred in associated costs with the transaction in the amount of Euro 564,000, which corresponds essentially to costs related with consulting in legal matters, tax, and accountability in the scope of the transaction.

56 Subsidiary companies

As at 30 June 2012, the companies under full consolidation in the Group are presented as follows:

Subsidiary Company	**Head of office**	**Share Capital**	**Activity**	**% Held**
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, SA (IFI)	Praia	Euro 7,000,000	Banking	100.00%
Finibanco Holding, SGPS, S.A.	Porto	Euro 175,000,000	Holding company	100.00%
Finibanco S.A.	Porto	Euro 180,000,000	Banking	100.00%
Finicrédito, S.A.	Porto	Euro 30,000,000	Finance lease	100.00%
Finivalor, S.A	Porto	Euro 1,550,000	Investment fund management	100.00%
Montepio Recuperação de crédito ACE	Lisboa	-	Services	93.00%
Finibanco Angola, S.A.	Luanda	AOA 1,332,000,000	Banking	61.04%

As at 30 June 2011, the companies included in the consolidated accounts under the equity method are as follows:

Subsidiary Company	Head of office	Share Capital	Activity	% Held
Lusitania Vida, Companhia de Seguros, S.A.	Lisboa	Euro 20,000,000	Insurance	39.34%
Iberpartners Cafés S.G.P.S., S.A.	Lisboa	Euro 3,400,000	Holding company	29.41%
Lusitania, Companhia de Seguros, S.A.	Lisboa	Euro 26,000,000	Insurance	25.65%
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	Ilha de São Miguel	Euro 10,000,000	Hotels with restaurants	20.00%
Prio Foods S.G.P.S., S.A.	Oliveira de Frades	Euro 5,000,000	Holding company	20.00%
Prio Energy S.G.P.S., S.A.	Oliveira de Frades	Euro 13,700,000	Holding company	20.00%

The presented percentage reflects the economic interest of the Group.

In addition, and in accordance with SIC 12, the consolidation perimeter of the Group includes the following special purpose entities and investment funds:

Subsidiary Company	Establishment year	Acquisition year	Head of office	% of controlling interest	Consolidation method
Pelican Mortgages No. 1	2002	2002	Dublin	100%	Full method
Pelican Mortgages No. 2	2003	2003	Dublin	100%	Full method
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2011	2011	Lisboa	100%	Full method
Fundo Polaris - Fundo de Investimento Imobiliário Fechado	2009	2011	Lisboa	100%	Full method

57 Relevant facts

As at 30 June 2012, the Board of Directors decided to transfer to the balance Loans and advances to customers, two loans portfolio classified as Financial assets held for trading and accounted for Euro 18,900,000, as described in note 22.

This decision made by the Board of Directors, was based on the sale intention of the portfolios that has been changed, having opted for its inclusion on the balance Loans and advances to customers, once it’s not predictable its sale in the short term.

This transfer originated a result of Euro 43,648,000, as this result was obtained through the application of the Group’s Impairment Model to these portfolios.

The detail of this transfer can be analysed as follows:

	Euro '000
Porfolio amount recorded on the balance	
Financial assets held for trading	22,990
Porfolio amount recorded on the balance	
Loans and advances to customers	66,638

58 Impact of change in accounting policy for recognition of actuarial gains and losses related to defined benefit plans

During 2011, according to one of the options allowed by IAS 19 Employee Benefits, the Group decided for a change in accounting policy starting to recognize the actuarial gains and losses against reserves. In accordance with IAS 8, this change in accounting policy is presented for comparative purposes from 1 January 2010, recognizing in that date all the deferred actuarial gains and losses in equity.

Previously, the Group proceeded to the deferral of actuarial gains and losses determined in accordance with the corridor method. Under the corridor method, actuarial gains and losses not recognized that exceed 10% of the greater of the present value of the liabilities and the fair value of the Fund's assets were recorded in the income statement for the period corresponding to the remaining estimated useful life of the employees.

Thus, as described in notes 1 w) and 11 the balance Reserves and retained earnings includes, with effect from 1 January 2011, the restatement resulted from the referred changing in the accounting policy. The referred restatement can be analysed as follows:

	Equity 30.06.2011 Euro '000	Net income first semester 2011 Euro '000	Equity 01.01.2011 Euro '000
Previously reported	1,119,483	5,068	995,478
Adjustments:			
Actuarial to defer gains and losses	(101,709)	-	(101,709)
Amortization of deferred actuarial losses	1,219	1,219	-
	(100,490)	1,219	(101,709)
	1,018,993	6,287	893,769

Caixa Económica Montepio Geral

Interim Individual Financial Statements

30 June, 2012 and 2011

(With Limited Review Report)

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

August 2012
This report contains 108 pages

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LIMITED REVIEW REPORT ON INTERIM 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 requirements of "Código dos Valores Mobiliários" (CVM), we hereby present our Limited Review Report, on the interim financial information for the six months period ended 30 June 2012, of **Caixa Económica Montepio Geral**, which includes the Management Report, the statement of financial position (with a total assets of 24,432,580 thousands of Euro and total equity of 1,439,997 thousands of Euro, including a net profit of 4,935 thousands of Euro) and the statement of income, cash flows, changes in equity and comprehensive income for the six months period then ended and in the corresponding notes to the financial statements.

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

RESPONSIBILITIES

3 The Board of Directors is responsible for:

a) the preparation of financial information that present fairly the financial position of the Bank, the result of its operations, the cash flows, the changes in equity and the comprehensive income;

b) the historical financial information prepared in accordance with the Adjusted Accounting Standards ("Normas de Contabilidade Ajustadas") issued by Bank of Portugal, which are based on the application of IAS 34 – Interim Financial Reporting, with exception of the issues defined in no. 2 and no. 3 of Notice no. 1/2005 and no. 2 of Notice no. 4/2005 of Bank of Portugal ("NCA's"), which is complete, true, current, clear, objective and lawful as required by CVM;

c) the adoption of adequate accounting policies and criteria;

d) the maintenance of an appropriate internal control system; and

e) the communication of any relevant matter that may have influenced its activity, financial position or results.

4 Our responsibility is to verify the financial information included in the above mentioned documents, namely if 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 about whether 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”, 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 usual significant transactions.

6 Our work also included the verification of the consistency of the financial information contained in the Management Report with the remaining documents mentioned above.

7 We believe that our work provides a reasonable basis to issue our report on the interim 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 financial information as at 30 June 2012, is not free of material misstatements that affect its compliance with IAS 34 - Interim Financial Reporting and that is not complete, true, current, clear, objective and lawful.

Lisbon, 17 August 2012

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (no. 189)
Represented by
Vitor Manuel da Cunha Ribeirinho (Statutory Auditor no. 1081)

FINANCIAL STATEMENTS

- NOTES TO THE FINANCIAL STATEMENTS

(Pages 5 to 108)

Caixa Económica Montepio Geral

Income Statement
for the six months period ended at 30 June, 2012 and 2011

(Amounts expressed in thousands of Euro)

	Notes	30 June 2012	30 June 2011
			Restated
Interest and similar income	3	621 409	508 698
Interest and similar expense	3	482 659	360 528
Net interest income		138 750	148 170
Dividends from equity instruments	4	1 999	1 785
Fee and comission income	5	56 162	50 066
Fee and comission expense	5	(9 917)	(8 144)
Net losses arising from assets and liabilities at fair value through profit or loss	6	(22 112)	27 216
Net gains/(losses) arising from available-for-sale financial assets	7	35 870	2 726
Net gains arising from foreign exchange differences	8	2 329	711
Net gains from sale of other financial assets	9	27 087	(2 244)
Other operating income	10	31 049	10 522
Total operating income		261 217	230 808
Staff costs	11	92 223	88 736
General and administrative expenses	12	51 208	45 256
Depreciation and amortisation	13	14 201	12 040
Total operating costs		157 632	146 032
Loans impairment	14	83 416	56 792
Other assets impairment	15	17 968	14 684
Other provisions	16	(5 366)	(722)
Operating profit		7 567	14 022
Taxes			
Deferred	30	1 880	-
Current		752	-
Profit for the period		4 935	14 022

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

See accompanying notes to the Interim Individual Financial Statements

Caixa Económica Montepio Geral

Statement of Comprehensive income
for the six months period ended at 30 June, 2012 and 2011

(Amounts expressed in thousands of Euro)

	Notes	30 June 2012	30 June 2011
Other Comprehensive income for the year			
Fair value reserves			
Financial assets available for sale	42	208 938	(210 723)
Actuarial losses for the period	54	23 806	-
Deferred taxes	30	(11 976)	-
IAS 19 adjustments		(5 012)	(4 514)
Comprehensive income recognised directly in Equity after taxes		215 756	(215 237)
Profit for the period		4 935	14 022
Total Comprehensive income for the period		220 691	(201 215)

Caixa Económica Montepio Geral

Balance Sheet as at 30 June 2012 and 31 December 2011

(Amounts expressed in thousands of Euro)

	Notes	30 June 2012	31 December 2011
Assets			
Cash and deposits at central banks	17	180 825	381 540
Loans and advances to credit institutions repayable on demand	18	52 093	102 701
Other loans and advances to credit institutions	19	420 764	370 268
Loans and advances to customers	20	15 628 377	16 200 240
Financial assets held for trading	21	153 691	145 252
Other financial assets at fair value through profit or loss	22	3 667	3 606
Financial assets available for sale	23	6 841 700	5 821 780
Hedging derivatives	24	1 315	1 184
Held to maturity investments	25	17 431	48 416
Investments in associated companies and other	26	384 547	384 547
Non-current assets held for sale	27	217 612	86 830
Property and equipment	28	62 353	66 183
Intangible assets	29	108 329	110 843
Current income tax assets		10	10
Deferred income tax assets	30	45 365	59 221
Other assets	31	314 501	310 278
Total Assets		24 432 580	24 092 899
Liabilities			
Deposits from central banks	32	1 968 212	2 003 300
Deposits from other credit institutions	33	1 057 648	1 182 068
Deposits from customers	34	13 313 875	13 190 639
Debt securities issued	35	1 764 693	2 240 688
Financial liabilities relating to transferred assets		3 926 668	3 289 983
Financial liabilities held for trading	21	95 598	101 524
Hedging derivates	24	3 052	2 444
Provisions	36	114 648	120 014
Other subordinated debt	37	478 210	477 247
Other liabilities	38	269 979	243 419
Total Liabilities		22 992 583	22 851 326
Equity			
Share capital	39	1 245 000	1 245 000
Other capital instruments	40	15 000	15 000
Fair value reserves	42	(107 754)	(316 692)
Reserves and retained earnings	41 and 42	282 816	265 442
Profit for the period		4 935	32 823
Total Equity		1 439 997	1 241 573
		24 432 580	24 092 899

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

See accompanying notes to the Interim Individual Financial Statements

Caixa Económica Montepio Geral

Statement of Changes in Equity
for the six months period ended at 30 June, 2012 and 2011

(Amounts expressed in thousands of Euro)

	Total equity	Share capital	Other capital instruments	General and special reserves	Other reserves	Fair value reserves	Retained earnings
Balance on 31 December, 2010	995 065	800 000	-	235 130	8 404	(82 973)	34 504
Changes in the acconting policy of recognition of the actuarial gains/losses	(102 247)	-	-	-	-	-	(102 247)
Balance on 1 January, 2011	892 818	800 000	-	235 130	8 404	(82 973)	(67 743)
Other movements recognised directly in Equity:							
IAS 19 adjustments	(4 514)	-	-	-	-	-	(4 514)
Changes in fair value	(210 723)	-	-	-	-	(210 723)	-
Profit for the period	14 022	-	-	-	-	-	14 022
Total gains and losses recognised in the period	(201 215)	-	-	-	-	(210 723)	9 508
Increase in share capital (note 39)	345 000	345 000	-	-	-	-	-
Other capital instruments (note 40)	15 000	-	15 000	-	-	-	-
Dividends paid (note 44)	(23 085)	-	-	-	-	-	(23 085)
Transfers of reserves:							
General reserve	-	-	-	8 298	-	-	(8 298)
Special reserve	-	-	-	2 076	-	-	(2 076)
Balance on 31 June, 2011	1 028 518	1 145 000	15 000	245 504	8 404	(293 696)	(91 694)
Other movements recognised directly in Equity:							
IAS 19 adjustments	(3 519)	-	-	-	-	-	(3 519)
Actuarial losses for the period	73 441	-	-	-	-	-	73 441
Deferred taxes related to balance sheet changes (note 33)	47 853	-	-	-	-	-	47 853
Changes in fair value	(22 996)	-	-	-	-	(22 996)	-
Profit for the period	18 801	-	-	-	-	-	18 801
Total gains and losses recognised in the period	113 580	-	-	-	-	(22 996)	136 576
Increase in share capital (note 39)	100 000	100 000	-	-	-	-	-
Costs related to the issue of perpetual subordinated Instruments	(525)	-	-	-	-	-	(525)
Balance on 31 December, 2011	1 241 573	1 245 000	15 000	245 504	8 404	(316 692)	44 357
Other movements recognised directly in Equity:							
IAS 19 adjustments	(5 012)	-	-	-	-	-	(5 012)
Actuarial losses for the period	23 806	-	-	-	-	-	23 806
Deferred taxes related to balance sheet changes (note 30)	(11 976)	-	-	-	-	-	(11 976)
Changes in fair value	208 938	-	-	-	-	208 938	-
Profit for the period	4 935	-	-	-	-	-	4 935
Total gains and losses recognised in the period	220 691	-	-	-	-	208 938	11 753
Dividends paid (note 44)	(16 584)	-	-	-	-	-	(16 584)
Costs related to the issue of perpetual subordinated Instruments	(525)	-	-	-	-	-	(525)
Other	(5 158)	-	-	-	-	-	(5 158)
Transfers of reserves:							
General reserve	-	-	-	6 565	-	-	(6 565)
Special reserve	-	-	-	1 641	-	-	(1 641)
Balance on 30 June, 2012	1 439 997	1 245 000	15 000	253 710	8 404	(107 754)	25 637

Caixa Económica Montepio Geral

Statement of Cash Flows
for the six months period ended at 30 June, 2012 and 2011

(Amounts expressed in thousands of Euro)

	30 June 2012	30 June 2011
Cash flows arising from operating activities		
Interest income received	718 219	483 753
Commissions income received	58 451	54 854
Interest expense paid	(369 753)	(300 274)
Commissions expense paid	(12 481)	(6 708)
Payments to employees and suppliers	(223 678)	(116 324)
Recoveries on loans previously written off	1 168	1 824
Other payments and receivables	104 523	145 216
	276 449	262 341
(Increase) / decrease in operating assets:		
Loans and advances to credit institutions and customers	1 071 852	(2279 062)
Other assets	(280 033)	(190 244)
	791 819	(2469 306)
(Increase) / decrease in operating liabilities:		
Deposits from clients	104 839	2 557 304
Deposits from credit institutions	(2120 295)	(1397 003)
Deposits from central banks	1 960 000	2 220 000
	(55 456)	3 380 301
	1 012 812	1 173 336
Cash flows arising from investing activities		
Dividends received	1 999	1 785
(Acquisition) / sale of trading financial assets held for trading	(41 210)	19 918
(Acquisition) / sale of other financial assets at fair value through profit or loss	(61)	267
(Acquisition) / sale of available for sale financial assets available for sale	(815 845)	(644 793)
(Acquisition) / sale of hedging derivatives	484	213
(Acquisition) / sale of held to maturity investments	30 435	9 160
(Acquisition) / sale of shares in associated companies	-	(429 522)
Deposits owned with the purpose of monetary control	200 460	(67 852)
Proceeds from sale of fixed assets	-	200
Acquisition of fixed assets	-	14 810
	(623 738)	(1095 814)
Cash flows arising from financing activities		
Dividends paid	(16 584)	(23 085)
Capital increase	-	360 000
Proceeds from issuance of bonds and subordinated debt	161 442	248 011
Reimbursement of bonds and subordinated debt	(586 199)	(629 535)
Increase / (decrease) in other sundry liabilities	1 404	31 701
	(439 937)	(12 908)
Net changes in cash and equivalents	(50 863)	64 614
Cash and equivalents balance at the beginning of the period	235 764	154 046
Cash (note 17)	133 063	95 641
Loans and advances to credit institutions repayable on demand (note 18)	102 701	58 405
Cash and equivalents balance at the end of the period	184 901	218 660

See accompanying notes to the Interim Individual Financial Statements

Caixa Económica Montepio Geral

Notes to the Individual Financial Statements
30 June, 2012

1 Accounting policies

a) Basis of presentation

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

As described in note 26, in 2010, Montepio Geral – Associação Mutualista, CEMG sole shareholder, has made an aquisition of 100% of Finibanco Holding, SGPS, SA share capital through an Initial Public Offering (IPO) in the amount of Euro 341,250,000.

As at 31 March, 2011, Montepio Geral – Associação Mutualista sold its participation in Finibanco Holding, SGPS, SA to CEMG. Under the change in the structure of the Group arising from this acquisition, as at 4 April, 2011, CEMG acquired a set of assets and liabilities of Finibanco, SA (excluding properties owned by Finibanco, SA and acquired as a result of loans and advances to costumers and a leasing portfolio (securities and real estate) in which Finibanco, SA is lessor and the fixed assets that materially support the operating leasing activities), and all associated liabilities and provisions.

In accordance with Regulation (EC) no. 1606/2002 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 Notice no. 1/2005 from Bank of Portugal, CEMG's financial statements are required to be prepared in accordance with Adjusted Accounting Standards ("NCA's"), as established by the Bank of Portugal. NCA's are composed by all the standards included in the International Financial Reporting Standards ("IFRS") as adopted for use in the European Union, with the exception of issues regulated in the Notice no. 4/2005 of Bank of Portugal. IFRS comprise accounting standards issued by the International Accounting Standards Board ("IASB") and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body with the exception of issues regulated in the Notices no. 1/2005 and 4/2005 of Bank of Portugal: i) valuation and provisioning of loans, for which it will be kept the current system, ii) benefits to employees through the establishment of a deferral period for the accounting impact resulting from the transition to the criteria of IAS 19 and iii) restriction of application some options in the IAS / IFRS. The financial statements presented herein were approved by the Board of CEMG on 14 August, 2012. The financial statements are presented in Euro rounded to the nearest thousand.

All the references in this document relate to any normative always report to current version.

CEMG adopted the IFRS standards and interpretations for which application is mandatory for accounting periods beginning on 1 January 2012.

CEMG financial statements, for the six months period ended 30 June 2012, have been prepared in terms of recognition and measurement in accordance with the NCA's, established by the Bank of Portugal and in use in the period.

Durind 2011, according to one of the options allowed by IAS 19 Employee Benefits, CEMG decided for a change in the accounting policy for recognition of actuarial gains and losses, starting to recognise the actuarial gains and losses of the year against reserves. In accordance with IAS 8, this change in accounting policy is presented for comparative purposes from 1 January 2011, recognising in all the deferred actuarial gains and losses determined at that date in equity. Thus, as described in notes 42, 46 and 54 the balance Reserves and retained earnings includes, with effective date 1 January 2011, the restatement resulted from the referred change in the accounting policy.

Previously, CEMG proceeded to the deferral of actuarial gains and losses determined in accordance with the corridor method. Under the corridor method, actuarial gains and losses not recognized that exceed 10% of the greater of the present value of the liabilities and the fair value of the Fund's assets are recorded in the income statement for the period corresponding to the estimated remaining useful life of the employees in service.

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

The accounting policies set out below have been applied consistently for all periods presented in these financial statements.

The preparation of the financial statements in accordance with NCA's requires the Board of Directors to make judgments, estimates and assumptions that affect the application of the accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The issues involving a higher degree of judgment or complexity or where assumptions and estimates are considered to be significant are presented in note 1 x).

b) Loans and advances to customers

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

The derecognition of these assets occurs in the following situations: (i) the contractual rights of the CEMG have expired; or (ii) CEMG transferred substantially all the associated risks and rewards.

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

Impairment

As referred in note 1 a), CEMG has prepared its individual financial statements in accordance with NCA‟s therefore, in accordance with no. 2 and 3 of Notice no. 1/2005 from the Bank of Portugal, CEMG adopted the same requirements for measurement and provision of loans and advances to customers used in the previous years, described as follows:

Specific provision for loan losses

The specific provision for loan losses is based on the appraisal of overdue loans including the related non overdue amounts and loans subject to restructuring, to cover specific credit risks. This provision is shown as a deduction against loans and advances to customers. The adequacy of this provision is reviewed regularly by CEMG, taking into consideration the existence of asset-backed guarantees, the overdue period and the current financial situation of the client.

The specific provision calculated under these terms, complies with the requirements established by the Bank of Portugal, in accordance with Notices no. 3/95, of 30 June, no. 7/00, of 27 October and no. 8/03, of 30 January.

General provision for loan losses

This provision is established to cover latent bad and doubtful debts which are present in any loan portfolio, including guarantees or signature credits, but which have not been specifically identified as such. This provision is recorded under provision for liabilities and charges.

The general provision for loan losses is in accordance with Notice no. 3/95, of 30 June, Notice no. 2/99, of 15 January and Notice no. 8/03, of 30 January of Bank of Portugal.

Provision for country risk

The provision for country risk is in accordance with Notice no. 3/95, of 30 June from Bank of Portugal, and is based on the Instruction no. 94/96, of 17 June, of Bank of Portugal, including the adoption of changes made to paragraph 2.4 of the referred Instruction published in October 1998.

Write-off of loans

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

c) Financial Instruments

(i) Classification, initial recognition and subsequent measurement

1) Financial assets and liabilities at fair value through profit and loss

1a) Financial assets held for trading

The financial assets and liabilities acquired or issued with the purpose of sale or re-acquisition on the short term, namely bonds, treasury bills or shares or that are part of a financial instruments portfolio and for which there is evidence of a recent pattern of short-term profit taking or that can be included in the definition of derivative (except in the case of a derivative classified as hedging) are classified as trading. The dividends associated to these portfolios are accounted in gains arising from assets and liabilities at fair value through profit or loss.

The interest from debt instruments are recognized as interest margin.

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

1b) Other financial assets and liabilities at fair vaue through profit and loss ("Fair Value Option")

CEMG has adopted the Fair Value Option for certain own bond issues, loans and time deposits that contain embedded derivatives or with related hedging derivatives. The variations of the CEMG's credit risk related with financial liabilities accounted under the Fair Value Option are disclosed in "Net gains / (losses) arising from assets and liabilities at fair value through profit or loss".

The designation of the financial assets and liabilities at fair value through profit and loss by decision of the entity is performed whenever at least one of the requirements is fulfilled:

- the assets and liabilities are managed, evaluated and reported internally at its fair value;

- the designation eliminates or significantly reduces the accounting mismatch of the transactions;

- the assets and liabilities include derivatives that significantly change the cash-flows of the original contracts (host contracts).

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

2) Financial assets available for sale

Financial assets available for sale held with the purpose of being maintained by CEMG, namely bonds, treasury bills or shares, are classified as available for sale, except if they are classified in another category of financial assets. The financial assets available for sale are initially accounted at fair value, including all expenses or income associated with the transactions. The financial assets available for sale are subsequently measured at fair value. The changes in fair value are accounted for against fair value reserves until they are sold or an impairment loss exists. In the sale of the financial assets available for sale, the accumulated gains or losses recognized as fair value reserves are recognized under Net gains / (losses) arising from available for sale financial assets. Interest income from debt instruments is recognized in Net interest income based on the effective interest rate, including a premium or discount when applicable. Dividends are recognized in the income statement when the right to receive the dividends is attributed.

3) Financial assets held-to-maturity

Financial assets held-to-maturity include non-derivative financial assets with fixed or determinable payments and fixed maturity, that CEMG has the intention and capacity to maintain until the maturity of the assets and that were not included in the category of financial assets at fair value through profit and loss or financial assets available for sale. These financial assets are initially recognized at fair value and subsequently measured at amortised cost. The interest is calculated using the effective interest rate method and recognized in Net interest income. The impairment losses are recognized in profit and loss when identified.

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

4) Other financial liabilities

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

These financial liabilities are initially recognized at fair value and subsequently at amortised cost. The related transaction costs are included in the effective interest rate. The interest calculated at the effective interest rate is recognized in Net interest income.

The financial gains or losses calculated at the time of the repurchase of other financial liabilities are recognized as Net gains/(losses) arising from trading and hedging activities when occurred.

ii) Transfers between categories

CEMG transfers financial assets not derivates with fixed or determinable payments and defined maturities, from financial assets available for sale to the category of financial assets held to maturity, as long as the intention and ability to hold these financial assets to maturity were considered.

These transfers are performed by based on the fair value of transferred assets, determined on the date of transfer. The difference between this fair value and nominal value is recognized in the income statement until maturity, based on the effective interest rate method. The fair value reserve existing on the date of transfer is also recognized in the results based on the effective interest rate method.

Transfers to (i) financial assets held to maturity category can only be perfomed provided as long as the the intention and ability to hold these financial assets to maturity were considered and to (ii) category of loans and advances to customers, where it is intention and ability to hold these financial assets in the foreseeable future and are not traded in an active market.

During the year of 2011 and first semester of 2012, there were no reclassifications between categories

(iii) Impairment

An assessment is made at each balance sheet date as to whether there is any objective evidence of impairment, namely circumstances where an adverse impact on estimated future cash flows of the financial asset or group of financial assets can be reliably estimated or based on a significant or prolonged decrease in the fair value, below the acquisition cost.

If an available for sale asset is determined to be impaired, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the profit or loss) is removed from fair value reserves and recognized in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurred after the impairment loss was recognized in the profit or loss, the impairment loss is reversed through the income statement. The impairment losses recognized in equity instruments classified as available for sale, when reversed, are recognized against fair value reserves.

(iii) Embedded derivatives

Embedded derivatives should be accounted for separately as derivatives if the economic risks and benefits of the embedded derivative are not closely related to the host contract, unless the hybrid (combined) instrument is not initially measured at fair value with changes through profit and loss. Embedded derivatives are classified as trading and recognized at fair value with changes through profit and loss.

d) Derivatives hedge accounting

(i) Hedge accounting

CEMG designates derivatives and non-financial instruments to hedge its exposure to interest rate and foreign exchange risk, resulting from financing and investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative hedging instruments are stated at fair value and gains and losses on re-measurement are recognized in accordance with the hedge accounting model adopted by CEMG. A hedge relationship exists when:

- at the inception of the hedge there is formal documentation of the hedge;

- the hedge is expected to be highly effective;

- the effectiveness of the hedge can be reliably measured;

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

- for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative financial instrument is used to hedge foreign exchange arising from monetary assets or liabilities, no hedge accounting model is applied. Any gain or loss associated to the derivative and to changes in foreign exchange risk related with the monetary items are recognized through profit and loss.

(ii) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedge instruments are recognized in profit and loss, together with changes in the fair value attributable to the hedged risk of the asset or liability or group of assets and liabilities. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative gains and losses recognized until the discontinuance of the hedge accounting are amortised through profit and loss over the residual period of the hedged item.

(iii) Cash flow hedge

In a hedge relationship, the effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity - cash flow hedge reserves. Any gain or loss relating to the ineffective portion of the hedge is immediately recognized in profit and loss when occurred.

Amounts accumulated in equity are reclassified to profit and loss in the periods in which the hedged item will affect profit or loss.

In case of hedging variability of cash-flows, when the hedge instrument expires or is disposed or when the hedging relationship no longer meets the criteria for hedge accounting, or when the hedge relation is revoked, the hedge relationship is discontinued on a prospective basis.

Therefore, the fair value changes of the derivative accumulated in equity until the date of the discontinued hedge accounting can be:

- Deferred over the residual period of the hedged instrument; or

- Recognized immediately in results, if the hedged instrument is extinguished.

In the case of a discontinued hedge of a forecast transaction, the change in fair value of the derivative recognized in equity at that time remains in equity until the forecasted transaction is ultimately recognized in the income statement. When a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit and loss.

(iv) Hedge effectiveness

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

e) Reclassification between financial instruments categories

In October 2008, the IASB issued a change to IAS 39 – Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7: Financial Instruments Disclosures). This change allowed an entity to transfer Financial assets from Financial assets at fair value through profit and loss – trading to Financial assets available for sale, to Loans and Receivables - Loans represented by securities or to financial assets held-to-maturity, as long as the requirements described in the Standard are met, namely:

- If a financial asset, at the date of reclassification present the characteristics of a debt instrument for which there is no active market; or

- When there is some event that is uncommon and higly improbable that will occur again in the short term, that is, the event can be classified as a rare circumstance.

During the year of 2011 and first semester of 2012, there were no reclassifications between categories.

Transfer of financial assets recognized in the category of Financial assets available-for-sale to Loans and receivables - Loans represented by securities and Financial assets held-to-maturity are permitted.

Transfers from and to Financial assets and financial liabilities at fair value through profit and loss by decision of the entity ("Fair value option") are prohibited.

f) Derecognition

CEMG derecognises financial assets when all rights to future cash flows have expired. In a transfer of assets, derecognition can only occur either when risks and rewards have been substantially transferred or CEMG does not maintain control over the assets.

The evaluation of the existence of control is determined based on the criteria established by SIC 12, which can be analised as follows:

- The activities of the SPE, in substance, are being conducted on behalf of the CEMG, in accordance with the specific needs of the CEMG business, so as to obtain benefits from these activities;

- CEMG has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an "autopilot" mechanism, the Bank has delegated these decision-making powers;

- CEMG retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.; or

- CEMG has the rights to obtain the majority of the benefits of the SPE and therefore may be exposed to risks inherent to the activities of the SPE.

CEMG derecognises financial liabilities when these are discharged, cancelled or extinguished.

g) Equity instruments

An instrument is classified as an equity instrument when there is no contractual obligation at settlement to deliver cash or another financial asset to another entity, independently from its legal form, showing a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to an equity instruments issuance are recognized in equity as a deduction to the amount issued.

Amounts paid or received related to sales or acquisitions of equity instruments are recognized in equity, net of transaction costs.

Income from equity instruments (dividends) are recognized when the right to receive this income is established and are deducted to equity.

h) Securities borrowing and repurchase agreement transactions

(i) Securities borrowing

Securities lent under securities lending arrangements continue to be recognized in the balance sheet and are measured in accordance with the applicable accounting policy. Cash collateral received in respect of securities lent is recognized as a financial liability. Securities borrowed under securities borrowing agreements are not recognized. Cash collateral placements in respect of securities borrowed are recognized under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognized on an accrual basis over the period of the transactions and are included in interest income or expense (net interest income).

(ii) Repurchase agreements

CEMG performs acquisition/sale of securities under reselling/repurchase agreements of securities substantially equivalent in a future date at a predetermined price ('repos'/'reverse repos'). The securities related to reselling agreements in a future date are not be recognized on the balance sheet. The amounts paid are recognized in loans and advances to customers or loans and advances to credit institutions. The receivables are collateralised by the related securities. Securities sold through repurchase agreements continue to be recognized in the balance sheet and are revaluated in accordance with the applicable accounting policy. The amounts received from the proceeds of these securities are considered as deposits from customers and deposits from credit institutions.

The difference between the acquisition/sale and reselling/repurchase conditions is recognized on an accrual basis over the period of the transaction and is included in interest income or expenses.

i) Non current assets held for sale and discontinued operations

Non current assets, groups of non-current assets held for sale (groups of assets together and related liabilities that include at least a non current asset) and discontinued operations are classified as held for sale when it is intention to sell the referred assets and liabilities, the referred assets are available for immediate sale and its sale is highly probable.

The Group also classifies as non-current assets held for sale those non-current assets or groups of assets acquired exclusively with a view to its subsequent disposal, that are available for immediate sale and its sale is highly probable.

Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is performed in accordance with the applicable IFRS. After their reclassification, these assets or disposal groups are measured at the lower of their cost and fair value less costs to sell.

Discontinued operations and the subsidiaries acquired exclusively with the purpose to sell in the short term, are consolidated until the disposal.

The Group also classifies as non-current assets held for sale the investments arising from recovered loans that are measured initially by the lower of its fair value net of expenses and the loan's carrying amount on the date that the recovery occurs or the judicial decision is formalised.

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

The subsequent accounting of these assets is determined based on the lower of the carrying amount and the corresponding fair value net of expenses. In case of unrealized losses, these should be recognized as impairment losses against results.

j) Finance and operational lease

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 recognized in the income statement on a straight-line basis over the lease term.

Costs, including the depreciation, incurred in earning the lease income are recognized on a straight-line basis over the lease term as interest income. The initial direct costs incurred by the lessor, such as negotiating and securing leasing arrangements Initial direct costs incurred by lessor in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognized 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 q).

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 recognized in the income statement and (ii) the amortisation of principal, which is deducted from liabilities. Financial charges are recognized 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.

k) Interest income and expense

Interest income and expense for financial instruments measured at amortised cost are recognized in the interest income or expenses (net interest income) through the effective interest rate method. The interest related to financial assets available for sale calculated at the effective interest rate method are also recognized on the net interest income as well as those from assets and liabilities at fair value through profit and loss.

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

When calculating the effective interest rate, CEMG estimates future cash flows considering all contractual terms of the financial instrument (example: early payment options) but without considering future impairment losses. The calculation includes all fees paid or received considered as included in the effective interest rate, transaction costs and all other premiums or discounts directly related with the transaction except for assets and liabilities at fair value through profit and loss.

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

Specifically regarding the accounting policy for interest on overdue loans portfolio the following aspects are considered:

- Interest income for overdue loans with collaterals are accounted for as income up to the limit of the valuation of the collateral valued on a prudent basis. This income is registered against results in accordance with IAS 18, assuming that there is a reasonable probability of recoverability; and

- The interests accrued and not paid for overdue loans for more than 90 days that are not covered by collaterals are writen-off and are recognized only when they are received, in accordance with IAS 18, on the basis that its recoverability is considered to be remote.

For derivative financial instruments, except those classified as hedging instruments of interest rate risk, the interest component is not separated from the changes in the fair value and is classified under Net gains / (losses) from trading and hedging activities. For hedging derivatives of interest rate risk and those related to financial assets or financial liabilities recognized in the Fair Value Option category, the interest component of the changes in their fair value is recognized under interest income or expense (Net interest income).

l) Fee and commission income

Fees and commissions are recognized according to the following criteria:

- Fees and commissions which are earned as services are provided are recognized in income over the period in which the service is being provided;

- Fees and commissions that are earned on the execution of a significant act, are recognized as income when the service is completed.

- Fees and commissions that are an integral part of the effective interest rate of a financial instrument, are recognized in Net interest income.

m) Insurance and reinsurance brokerage services

CEMG is duly authorized by the Portuguese Insurance Institute (Instituto de Seguros de Portugal) to provide insurance brokerage services, in the Insurance Brokerage Services area, in accordance with the article 8, paragraph a), subparagraph i) of Decree-Law 144/2006 of July 31, operating in the life and non life insurance brokerage areas.

In the insurance brokerage services area, CEMG sells insurance contracts. As remuneration for the insurance brokerage services rendered, CEMG receives commission for brokering insurance contracts, which is defined in agreements/protocols established between CEMG and the Insurers.

Commission received for insurance brokerage services refer to:

- Commission that includes a fixed and a variable component. The fixed component is calculated by applying a predetermined rate over the amounts of subscriptions made through CEMG and a variable component calculated based on predetermined criteria, total annual fees being the sum of the fees calculated monthly;

- Commission for participation in the results of insurance, which are calculated annually and paid by the insurer in the beginning of the year following that to which they refer (up to January 31).

Commission received for insurance brokerage services are recognized in an accruals basis. Fees paid in a different period from that to which it relates is recorded as a receivable in the caption “Other assets” by corresponding entry to “Commissions received - for insurance brokerage services”.

CEMG does not collect insurance premiums on behalf of Insurers, or receive or pay funds relating to insurance contracts. Thus, there are no other assets, liabilities, income or expenses to be recognized relating to the insurance brokerage services rendered by CEMG, other than those already disclosed.

n) Fiduciary activities

Assets held in the scope of fiduciary activities are not recognized in the CEMG financial statements. Fees and commissions arising from this activity are recognized in the income statement in the year to which they relate.

o) Property and equipment

Property and equipment are stated at acquisition cost less accumulated depreciation and impairment losses. Subsequent costs are recognized as a separate asset only when it is probable that future economic benefits will result for CEMG. All other repairs and maintenance expenses are charged to the income statement during the financial period in which they are incurred.

CEMG performs impairment testing whenever events or circumstances indicate that the book value exceeds the highest between the value in use and the fair value less costs to sell, being the difference charged to the profit and loss.

Depreciation is calculated on a straight-line basis, over the following periods which correspond to their estimated useful life:

	Number of years
Premises	50
Expenditure on freehold and leasehold buildings	10
Other fixed assets	4 to 10

Whenever there is an indication that a fixed tangible asset might be impaired, its recoverable amount is estimated and an impairment loss shall be recognized if the net value of the asset exceeds its recoverable amount.

The recoverable amount is determined as the highest between the fair value less costs to sell and its value in use calculated based on the present value of future cash-flows estimated to be obtained from the continued use of the asset and its sale at the end of the useful life.

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

p) Intangible assets

Software

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

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

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

Other intangible assets

The recoverable amount of intangible assets without finite useful life as an asset is reviewed annually, regardless of the existence of signs of impairment. Any impairment losses are recognized in certain income statement.

q) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months‟ maturity from the balance sheet date, including cash and deposits with banks.

Cash and cash equivalents exclude restricted balances with central banks.

r) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when CEMG has a legally enforceable right to offset the recognized amounts and the transactions are intended to be settled on a net basis.

s) Employee benefits

Defined benefit plans

CEMG assumed the responsibility to pay its employees pensions on retirement or disabilities, as established in the terms of "Acordo Colectivo de Trabalho do Sector Bancário (ACT)", for employees engaged until 1 March 2009. The new admissions, since that date, are covered by the social security general scheme.

To cover its responsibilities, CEMG makes annual contributions to the pension fund, managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A..

The CEMG net obligation in respect of pension plans (defined benefit pensions plan) is calculated on an annual basis at 31 December of each year.

From 1 January 2011, CEMG employees were integrated in the General Social Security Scheme which now covers their maternity, paternity, adoption and pension benefits. However, CEMG remain liable for those benefits as concern illness, disability, life insurance and death (Decree-Law no. 1-A/2011, of 3 January).

The contributive rate is 26.6% divided between 23.6% supported by the employer and 3% supported by the employees, replacing the Banking Social Healthcare System („Caixa de Abono de Família dos Empregados Bancários") which was extinguished by the decree law referred above. As a consequence of this amendment the capability to receive pensions by the actual employees are covered by the General Social Security Scheme regime, considering the service period between 1 January 2011 and the retirement age. CEMG supports the remaining difference for the total pension assured in "Acordo Colectivo de Trabalho".

Following the approval by the Government of the Decree-Law no. 127/2011, which was published on 31 December, an agreement between the Government, the Portuguese Banking Association and the Banking Labour Unions was established that regulated the transfer of the liabilities related with pensions currently being paid to pensioners and retirees, to the Social Security.

This agreement established that the responsibilities to be transferred relate to the pensions in payment as at 31 December 2011 at fixed amounts (discount rate 0%) in the component established in the „Instrumento de Regulação Colectiva de Trabalho (IRCT)" of the retirees and pensioners. The responsibilities related with the increase in pensions as well as any other complements, namely, contributions to the Health System (SAMS), death benefit and death before retirement benefit continue to be under the responsibility of the Financial Institutions and being financed through the corresponding Pensions funds. The Decree-Law also establishes the terms and conditions under which the transfer was made by setting a discount rate of 4% to determine the liabilities to be transferred.

CEMG opted at the IFRS transition date, as at 1 January 2004, for the retrospective application of IAS 19, performing the recalculation of the pension obligations and the corresponding actuarial gains and losses which will be deferred under the corridor method as defined in IAS 19.

According to one of the options allowed by IAS 19 Employee Benefits, the CEMG decided in 2011 to change the accounting policy for recognition of actuarial gains and losses, starting to recognise the actuarial gains and losses of the year against reserves. In accordance with IAS 8, this change in accounting policy is presented for comparative purposes from 1 January 2010, recognizing in that date all the deferred actuarial gains and losses in equity.

The calculation is made using the projected unit credit method and following actuarial and financial assumptions in line with the parameters required by IAS 19. In accordance with no. 2 of Notice no. 4/2005 from the Bank of Portugal was established a deferral period for the transition impact to IAS 19 as at 1 January 2005 analysed as follows:

Description	**Deferred period**
Obligations with healthcare benefits and other liabilities	10 years
Liabilities for death before retirement	8 years
Early retirement	8 years
Actuarial losses charged-off related with early retirement	8 years
Increase of deferred actuarial losses	8 years
Reversal of amortization of actuarial losses in accordance with local GAAP	8 years

On this basis, for the Health Benefits, it was missing 42 months to 30 June 2008 plus 36 months with a repayment period of 78 months (6 years and 6 months). For Other liabilities the period of deferral changed to 54 months (4 years 6 months).

In accordance with Notice no. 7/2008 from Bank of Portugal concerning the balances listed in the table above, an additional period of three years was authorised considering the inittially defined deferral period.

Previously, CEMG proceeded to the deferral of actuarial gains and losses determined in accordance with the corridor method. Under the corridor method, actuarial gains and losses not recognized that exceed 10% of the greater of the present value of the liabilities and the fair value of the Fund's assets are recorded in the income statement for the period corresponding to the estimated remaining useful life of the employees in service.

The current services cost plus the interest cost on the unwinding of the Pension liabilities less the expected return on the Plan assets are recorded in operational costs.

CEMG net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted in order to determine its present value, using a discount rate determined by reference to interest rates of high-quality corporate bonds that have maturity dates approximating the terms of the CEMG obligations. The net obligations are determined after the deduction of the fair value of the assets of the Pension Plan.

Employee benefits, other than pension plans, namely retirement health care benefits and benefits for the spouse and sons for death before retirement are also included in the benefit plan calculation.

Costs arising from early retirements are recognized in the income statement on the year in which the early retirement is approved and announced.

Actuarial gains and losses for the year are recognized against reserves in the year they occur.

The funding policy of the Plan is to make annual contributions by CEMG so as to cover the projected benefits obligations, including the non-contractual projected benefits. The minimum level required for the funding is 100% regarding the liability with pensioners and 95% regarding the employees in service.

Health Benefits

For the banking employees it is ensured by CEMG medical care by the Health System (SAMS), autonomous entity that is managed by the respective Union.

SAMS provides to its beneficiaries, services and / or reimbursement of expenses of medical care, diagnostic tests, medications, hospitalizations and surgeries, according to their financial resources and internal regulation.

They are compulsory contributions to SAMS made by CEMG, the amount corresponding to 6.50% of total actual remuneration of the employees, including, among others, the holiday pay and Christmas bonus.

The measurement and recognition of obligations of CEMG with health benefits attributable to employees at retirement age are carried out similarly to pension liabilities.

Variable staff and bord of directors remunerations

In accordance with IAS 19 - Employee benefits, variable remuneration (bonus) when assigned to employees and management bodies are accounted for in the year to which they relate.

t) Income taxes

Until 31 December, 2011, CEMG was a entity free from Income Tax Code (IRC), in accordance with subparagraph a) n. 1 of Article 10 of the IRC. This exemption been recognized by Order of 3 December 1993, the Secretary of State for Fiscal Issues and confirmed by Law no. 10-B/96 of March 23, approving the State Budget for 1996.

With effect from 1 January 2012, CEMG is subject to the regime established by the Income Tax Code ("IRC"). Additionally, deferred taxes resulting from the temporary differences between the accounting net income and the net income accepted by the Tax Authorities for Income Taxes calculation, are accounted for, whenever there is a reasonable probability that those taxes will be paid or recovered in the future.

Income tax on the income for the year comprises current and deferred tax effects. Income tax is recognized in the income statement, except to the extent that it relates to items recognized directly to reserves in which case it is recognized in reserves. Deferred taxes arising from the revaluation of financial assets available for sale and cash flow hedging derivatives are recognized in shareholders" equity and are recognized in the profit and loss in the year the results that originated the deferred taxes are recognized.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxes are calculated in accordance with the liability method based on the balance sheet, considering temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes using the tax rates approved or substantially approved at balance sheet date and that is expected to be applied when the temporary difference is reversed.

Deferred taxes assets are recognized to the extent when it is probable that future taxable profits, will be available to absorb deductible temporary differences for taxation purposes (including reportable taxable losses).

CEMG as established in IAS 12, paragraph 74, compensates the deferred tax assets and liabilities if, and only if: (i) has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

u) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, are translated into the respective functional currency of the operation at the foreign exchange rate at the reporting date. Foreign exchange differences arising on translation are recognized in the profit and loss.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into the respective functional currency of the operation at the foreign exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the respective functional currency of the operation at the foreign exchange rate at the date that the fair value was determined against profit and loss, except for financial assets available-for-sale, for which the difference is recognized against equity.

v) Segmental reporting

A geographical segment is a distinguishable component of CEMG that is engaged in providing an individual product or service or a group of related products or services, in a specific economic environment and that is subject to risks and returns that are different from those of other business segments, which operates in different economic environments.

Taking into consideration that the individual financial statements are present with the Group's report, in accordance with the paragraph 4 of IFRS 8, CEMG is dismissed to present individual information regarding Segmental Reporting.

w) Provisions

Provisions are recognized when (i) CEMG has a present obligation (legal or resulting from past practices or published policies that imply the recognition of certain responsibilities), (ii) it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation as a result of past events and (iii) a reliable estimate can be made of the amount of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reverted through profit and loss in the proportion of the payments that are not probable.

The provisions are derecognized through their use for the obligations for which they were initially accounted or for the cases that the situations were not already observed.

x) Accounting estimates and judgements in applying accounting policies

IFRS 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 CEMG reported results and related disclosure.

Considering that in some cases there are several alternatives to the accounting treatment chosen by the Board of Directors, CEMG reported results would differ if a different treatment was chosen. Board of Directors believes that the choices made are appropriate and that the financial statements present the CEMG‘s financial position and results fairly in all material aspects.

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

Impairment of available for-sale financial assets

CEMG determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decrease in the fair value below its acquisition cost. This determination of what is significant or prolonged requires judgment. In making this judgment, CEMG evaluates among other factors, the volatility in the prices of the financial assets.

In addition, valuations are generally obtained trough 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 recognized with a consequent impact in the income statement of CEMG.

Impairment losses on loans and advances to customers

CEMG reviews its loan portfolios to assess impairment losses on a regularly basis, as described in note 1 b).

The evaluation process in determining whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgments. The probability of default, risk ratings, value of associated collaterals recovery rates and the estimation of both the amount and timing of future cash flows, among other things, are considered in making this evaluation.

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

Fair value of derivatives

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

Consequently, the use of a different model or of different assumptions or judgments in applying a particular model could result in different financial results for a particular period.

Securitizations and special purpose entities (SPE)

CEMG sponsors the formation of SPE primarily for asset securitization transactions for liquidity purposes and/or capital management.

Therefore, the securitization operations Pelican Mortgages No. 3, Aqua SME No. 1, Pelican Mortgages No. 4, Aqua Mortgage No. 1, Pelican Mortgages No. 5, Pelican SME and Pelican Mortgages No.6, were not derecognized in the CEMG financial statements.

CEMG derecognized the following SPE which also resulted from operations of securitization: Pelican Mortgages No. 1 e 2. For these SPE, CEMG concluded that the main risks and the benefits were transferred, as CEMG does not hold detain any security issued by the SPE, that are exposed to the majority of the residual risks, neither is exposed to the performance of the credit portfolios.

Income taxes

Significant interpretations and estimates are required in determining the worldwide amount for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business.

Different interpretations and estimates would result in a different level of income taxes, current and deferred, recognized in the year.

The Portuguese Tax Authorities are entitled to review CEMG and its subsidiaries determination of its annual taxable earnings, for a period of four years or six years in case there are tax losses brought forward. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law which for its probability, the Executive Board of Directors considers that there is no relevant material effect at the level of the Financial Statements.

Pension and other employees benefits

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

Changes in these assumptions could materially affect these values.

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

IFRS requires separate disclosure of net interest income and net gains from trading, hedging and available for sale activities, as presented in notes 3, 6 and 7. A particular business activity can generate impact in net interest income and net gains arising from trading, hedging and available-for-sale activities. This disclosure requirement demonstrates the contribution of the different business activities for the net interest margin and net gains from trading, hedging and available-for-sale activities.

The amount of this account is comprised of:

	Jun 2012 **Euro '000**	**Jun 2011** **Euro '000**
Net interest income	138,750	148,170
Net gains arising from assets and liabilities at fair value through profit and loss and available-for-sale financial assets	13,758	29,942
	152,508	178,112

3 Net interest income

The amount of this account is comprised of:

Interest from hedging derivates	799	-	799	1,632	-	1,632
Interest from available for trading financial assets	-	141,335	141,335	-	124,420	124,420
Other interest and similar income	23,293	-	23,293	18,913	-	18,913
	480,074	141,335	621,409	384,278	124,420	508,698
Interest and similar expense:						
Interest from deposits	231,840	-	231,840	126,547	-	126,547
Interest from securities issued	34,311	-	34,311	44,466	-	44,466
Interest from loans	2,131	-	2,131	2,471	-	2,471
Interest from other funding	21,764	-	21,764	26,253	-	26,253
Interest from hedging derivates	913	-	913	1,218	-	1,218
Interest from available for trading financial assets	-	130,981	130,981	-	111,683	111,683
Other interest and similar expenses	60,719	-	60,719	47,890	-	47,890
	351,678	130,981	482,659	248,845	111,683	360,528
Net interest income	128,396	10,354	138,750	135,433	12,737	148,170

The balance Interest from loans and advances includes the amount of Euro 11,830,000 (30 June 2011: Euro 6,904,000) related to commissions and other gains / losses which are accounted for under the effective interest method, as referred in the accounting policy, note 1 b).

The balance Interest from deposits with banks includes the amount of Euro 3,685,000, related to the accountig of interests on time deposits with rising rates.

4 Dividends from equity instruments

The amount of this account is comprised of:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Dividends from financial assets available for sale	513	534
Dividends from subsidiaries and associated companies	1,486	1,224
Dividends from other equity instruments	-	27
	1,999	1,785

The balance Dividends from financial assets available for sale includes dividends and income from investment fund units received during the period.

5 Net fees and commissions income

The amount of this account is comprised of:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Fees and commissions income:		
From banking services	42,954	38,716
From transactions order by third parties	6,119	4,672
From insurance brokerage services	3,185	3,375
From commitments to third parties	3,678	3,267
Other fee and commission income	226	36
	56,162	50,066
Fees and commissions expense:		
From banking services rendered by third parties	8,844	7,587
From transactions with securities	212	243
Other fee and commission expense	861	314
	9,917	8,144
Net fees and commission income	46,245	41,922

At June 30, 2012 and 2011, commissions received on insurance brokerage services or reinsurance is made up as follows:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Non-life insurance:		
Mortgage	1,008	1,067
Consumer	58	77
Other	428	409
	1,494	1,553
Life insurance:		
Mortgage	609	622
Consumer	389	554
Other	693	646
	1,691	1,822
	3,185	3,375

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

The amount of this account is comprised of:

Derivative financial instruments						
Exchange rate contracts	40,279	40,925	(646)	141,563	141,920	(357)
Interest rate contracts	928,785	930,377	(1,592)	240,132	278,174	(38,042)
Credit default contracts (CDS)	2,062	1,470	592	1,425	1,616	(191)
Other	38,724	32,210	6,514	50,634	23,585	27,049
	1,009,850	1,004,982	4,868	433,754	445,295	(11,541)
	1,010,992	1,006,973	4,019	434,177	445,579	(11,402)
Other financial assets at fair value through profit or loss						
Bonds and other fixed income securities issued by other entities	153	-	153	-	175	(175)
	153	-	153	-	175	(175)
Financial liabilities						
Other loans and advances to credit institutions	75	34	41	600	76	524
Deposits from customers	174	100	74	896	403	493
Debt securities issued	-	-	-	15	-	15
Other subordinated debt	83,146	83,631	(485)	11,131	11,344	(213)
Other	487	26,401	(25,914)	42,436	4,462	37,974
	83,882	110,166	(26,284)	55,078	16,285	38,793
	1,095,027	1,117,139	(22,112)	489,255	462,039	27,216

The balance Financial liabilities – other, includes fair value changes related with changes in own credit risk (spread) changes from financial liabilities at fair value through profit or loss.

In accordance with the accounting policies followed by CEMG, financial instruments are initially recognized at fair value. The best evidence of the fair value of the instrument at inception is deemed to be the transaction price. However, in particular circumstances, the fair value of a financial instrument at inception, determined based on a valuation techniques, may differ from the transaction price, namely due to the existence of a built-in fee, originating a day one profit.

CEMG recognises in the income statement the gains arising from the built-in fee (day one profit), generated, namely, on the trading of derivative and foreign exchange financial products, considering that the fair value of these instruments at inception and on subsequent measurements is determined only based on observable market data and reflects CEMG access to the wholesale market.

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

The amount of this account is comprised of:

	Jun 2012			Jun 2011		
	Gains Euro '000	**Losses Euro '000**	**Total Euro '000**	**Gains Euro '000**	**Losses Euro '000**	**Total Euro '000**
Bonds and other fixed income securities						
Issued by public entities	773	351	422	4,716	2,788	1,928
Issued by other entities	34,650	168	34,482	11,592	10,948	644
Shares	19	21	(2)	57	1	56
Other variable income securities	975	7	968	105	7	98
	36,417	547	35,870	16,470	13,744	2,726

The balance Bonds and other fixed income securities - Issued by other entities includes the amount of Euro 33,577,000, resulting from a set of repurchase transactions undertaken by CEMG in order to manage its capital funding structure, namely the repurchase of bonds (Pelican Mortgage n. 3, Euro Medium Term Notes and covered bonds), as described in notes 35 and 48.

8 Net gains/(losses) from foreign exchange differences

The amount of this account is comprised of:

	Jun 2012			Jun 2011		
	Gains Euro '000	**Losses Euro '000**	**Total Euro '000**	**Gains Euro '000**	**Losses Euro '000**	**Total Euro '000**
Foreign exchange differences	17,267	14,938	2,329	41,070	40,359	711

This account is comprised of the results from foreign exchange differences of monetary assets and liabilities in foreign currency in accordance with the accounting policy presented in note 1 u).

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

The amount of this account is comprised of:

	Jun 2012 Euro '000	**Jun 2011 Euro '000**
Sale of properties	(10,258)	(1,952)
Sale of loans and advances to customers	44,070	0
Other	(6,725)	(292)
	27,087	(2,244)

The balance Sale of properties includes the amount of Euro 10,258,000 (30 June 2011: Euro 1,952,000) related with gains and losses on the sale of non-current assets available for sale and Land and building for own use, as referred in note 27.

The balance Sale of loans and advances to customers refers to the disposal of loans to customers, namely Aurea 1 and 2, as referred in notes 20 and 53.

The balance Other includes the amount of Euro 6,695,000, related to the full recognition of software program as expense of the period, as described in note 29.

10 Other operating income

The amount of this account is comprised of:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Operating income:		
Income from services	3,417	2,998
Expenses reimbursement	1,115	1,433
Profits arising from deposits on demand	8,212	3,683
Repurchase debt	23,822	8,505
Other operating income	3,431	2,809
	39,997	19,428
Operating costs:		
Indirect taxes	2,219	631
Donations and quotizations	130	159
Contributions to the Deposit Guarantee Fund	1,506	1,078
Other	5,093	7,038
	8,948	8,906
Other net operating income	31,049	10,522

The balance Repurchase debt is calculated in accordance with note 1c) and it refers to the repurchase of covered bonds and Euro Medium Term Notes.

As at 30 June 2012, the gains arising from the repurchase of covered bonds are in the amount of Euro 536,000 (30 June 2011: Euro 2,602,000) and the gains arising from the repurchase of Euro Medium Term Notes are in the amount of Euro 23,286,000 (30 June 2011: Euro 5,904,000).

The caption Specific contribution for the Banking Sector is estimated according to the terms of the Decree-Law 55-A/2010, that is not eligible as a tax cost. As at 30 June 2012, CEMG recognized as cost expense for the year the amount of Euro 2,116,000 (30 June 2011: Euro 502,000), included in balance Operating costs / Indirect taxes.

11 Staff costs

The amount of this account is comprised of:

	Jun 2012 Euro '000	**Jun 2011 Euro '000**
Remunerations	65,709	59,949
SAMS constributions	3,628	2,592
Mandatory social security charges	15,332	15,188
Other charges with the pension fund	5,396	9,404
Other staff costs	2,158	1,603
	92,223	88,736

The caption Other charges with the pensions fund includes the amount of Euro 1,377,000 related to the impact in the income statement of the responsibilities with retirees and pensioners transferred to the General Social Security Scheme ('GSSS'), as referred in note 46. The referred impact corresponds to the effect of the recalculation of the liabilities based on the actuarial assumptions set by the Portuguese State, in the scope of the transfer.

The referred balance also includes the amount of Euro 878,000 related to costs with early retirements during the year.

12 General and administrative expenses

The amount of this account is comprised of:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Rents	16,015	12,223
Specialised services		
IT services	5,845	5,538
Independent work	1,955	1,920
Other specialised services	8,961	6,642
Advertising	2,160	3,674
Communications	5,278	4,643
Water, electricity and fuel	2,897	2,267
Maintenance and related services	2,320	2,473
Transportation	1,651	1,420
Insurance	1,055	1,125
Travel, hotel and representation costs	750	689
Consumables	684	1,283
Training costs	81	130
Other supplies and services	1,556	1,229
	51,208	45,256

The balance Rents, includes the amount of Euro 12,613,000 (30 June 2011: Euro 7,811,000) related to rents paid regarding buildings used by CEMG as leaser.

13 Depreciation and amortisation

The amount of this account is comprised of:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Intangible assets:		
Software	5,949	4,068
Other tangible assets:		
Land and buldings	1,861	2,006
Equipment:		
Furniture	553	316
Other equipment	720	1,414
Office equipment	64	25
Computer equipment	3,980	3,456
Interior installations	177	32
Motor vehicle	73	11
Security equipment	383	200
Operational lease - Renting	353	466
Other tangible assets	88	46
	8,252	7,972
	14,201	12,040

14 Loans impairment

The amount of this account is comprised of:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Overdue loans and advances to customers:		
Charge for the period net of write-back	84,850	58,632
Recovery of loans and interest charged-off	(1,168)	(1,827)
	83,682	56,805
Other loans and advances to credit institutions:		
Charge for the period	50	103
Write-back for the period	(316)	(116)
	(266)	(13)
	83,416	56,792

In accordance with the accounting policy presented in note 1 a), CEMG applies in its financial statements the NCA's, and therefore the balance Loans impairment accounts the estimate of the incurred losses at the end of the year in accordance with the provision law defined by the rules of the Bank of Portugal, as described in the accounting policy presented in note 1 b).

15 Other assets impairment

The amount of this account is comprised of:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Impairment for non-current assets held for sale:		
Charge for the period	17,209	7,927
Write-back for the period	(8,070)	-
	9,139	7,927
Impairment for securities:		
Charge for the period	17,658	7,703
Write-back for the period	(8,829)	(946)
	8,829	6,757
	17,968	14,684

16 Other provisions

The amount of this account is comprised of:

	Jun 2012 Euro '000	Jun 2011 Euro '000
Provision for credit risks:		
Charge for the period	34,859	23,955
Write-back for the period	(40,043)	(24,824)
	(5,184)	(869)
Outras provisões para outros riscos e encargos:		
Charge for the period	758	432
Write-back for the period	(940)	(285)
	(182)	147
	(5,366)	(722)

17 Cash and deposits at central banks

This balance is analysed as follows:

	Jun 2012 Euro '000	**Dec 2011 Euro '000**
Cash	132,808	133,063
Bank of Portugal	48,017	248,477
	180,825	381,540

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 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 2012, these deposits have earned interest at an average rate of 1%.

18 Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

	Jun 2012 Euro '000	**Dec 2011 Euro '000**
Credit institutions in Portugal	328	304
Credit institutions abroad	15,382	33,040
Amount due for collection	36,383	69,357
	52,093	102,701

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 2012 Euro '000	Dec 2011 Euro '000
Loans and advances to credit institutions in Portugal:		
Deposits	1,135	1,135
Loans	86,467	103,859
Short term deposits	71,994	65,002
Other loans and advances	22,949	-
	182,545	169,996
Loans and advances to credit institutions abroad:		
Deposits	41,811	39,054
Short term deposits	90,002	32,014
Other loans and advances	106,485	129,549
	238,298	200,617
	420,843	370,613
Impairment for credit risks over credit institutions	(79)	(345)
	420,764	370,268

The main loans and advances to credit institutions in Portugal, as at 30 June 2012, bear interest at an average annual interest rate of 0.96% (31 December 2011: 1.35%).

Loans and advances to credit institutions abroad bear interest at international market rates where CEMG operates.

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

	Jun 2012 Euro '000	Jun 2011 Euro '000
Impairment for credit risks over credit institutions		
Balance on 1 January	345	50
Charge for the period	50	103
Write-back for the period	(316)	(116)
Transfers	-	99
Balance on 30 June	79	136

The balance Transfers corresponds of amounts transferred from Finibanco, S.A. in the acquisition by CEMG on 31 March 2011, as described in note 1 a).

20 Loans and advances to customers

This balance is analysed as follows:

Discounted bills	149,813	163,129
Factoring	108,233	146,496
Overdrafts	66,807	99,807
Other loans	1,556,370	1,684,350
Retail:		
Mortgage loans	8,529,482	8,702,991
Finance leases	47,214	46,466
Consumer and other loans	1,005,927	1,066,442
	15,513,974	16,102,987
Foreign loans:		
Corporate:		
Overdrafts	212	5,072
	15,514,186	16,108,059
Correction value of assets subject to the hedge	1,973	1,515
Overdue loans and interest		
Less than 90 days	109,213	124,690
More than 90 days	691,693	660,201
	800,906	784,891
	16,317,065	16,894,465
Impairment for credit risks	(688,688)	(694,225)
	15,628,377	16,200,240

As at 30 June 2012, the balance Loans and advances to customers includes credits that are related with the issue of covered bonds, issued by CEMG in the amount of Euro 2,974,585,000 (31 December, 2011: Euro 2,977,917,000) regarding mortgage loans that collateralise the issue of covered bonds issued by CEMG.

During 2012, CEMG sold two overdue loans portfolios. The nominal value of the credit sold arises to Euro 152,304,000. This transaction has generated a result of Euro 53,530,000, as presented in notes 9 and 53.

During 2012, CEMG proceeded to the reversal of credits in write-off in the balance sheet in the amount of Euro 92,472,000.

The CEMG realized operations conducted under the Programme for the Issuance of CEMG Mortgage Bonds:

- June 2012: Cancellation of Euro 53,300,000;
- November 2011: Issue of Euro 300,000,000, term: 5 years, an interest rate; 2.28%;
- October 2011: Cancellation of Euro 291,700,000;

- November 2010: Issue of Euro 500,000,000, term: 5 years; an interest rate; 4.08%;

- December 2009: Issue of Euro 1,000,000,000; term: 7 years, an interest rate; 2.17%; and

- July 2009: Issue of Euro 708,300,000; term: 3 years, an interest rate; 3.25%.

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

As at 30 de June 2012, the balance Mortgage includes the amount of Euro 3,258,435,000 (31 December, 2011: Euro 2,277,166,000) related with loans objected of securitization and, in accordance with note 1b), related to loans subject of securitization, which according to note 1 b), were not subject to derecognition. This amount is also recorded under the item Financial liabilities associated to transferred assets.

The fair value of the portfolio of loans to customers is presented in note 45.

As at 30 June 2012, the balance Overdue loans for more than 90 days includes loans and advances to costumers from which the responsibility with the former debtor has been extinguished, in the amount of Euro 1,535,000 (31 December 2011: Euro 1,533,000). These amount correspond to loans overdue for more than three years for which the contractual obligation with the former debtor has been extinguished due to the acquisition in court auction bankruptcy or acquisition through foresale but for which there are still pending legal actions.

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

The analysis of Loans and advances to customers, by maturity date and type of credit as at 30 June 2012, 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	61,163	2,378,012	9,896,254	430,413	12,765,842
Other guarantee loans	112,015	1,075,452	300,288	156,113	1,643,868
Unsecured loans	288,459	699,011	369,138	203,195	1,559,803
Public sector loans	822	11,782	41,990	865	55,459
Foreign loans	212	-	-	-	212
Financial leases	-	93,464	188,097	10,320	291,881
	462,671	4,257,721	10,795,767	800,906	16,317,065

The analysis of Loans and advances to customers, by maturity date and type of credit as at 31 December 2011, 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	55,844	2,606,296	10,029,330	528,670	13,220,140
Other guarantee loans	115,412	1,108,745	245,881	101,602	1,571,640
Unsecured loans	418,890	792,141	388,143	146,536	1,745,710
Public sector loans	1,607	11,004	42,331	539	55,481
Foreign loans	5,072	-	-	-	5,072
Financial leases	8,028	94,872	185,978	7,544	296,422
	604,853	4,613,058	10,891,663	784,891	16,894,465

The balance Financial leases, by the period to maturity as at 30 June 2012, is analysed as follows:

	Financial leases			
	Due within 1 year Euro '000	**1 year to 5 years Euro '000**	**Over 5 years Euro '000**	**Total Euro '000**
Outstanding rents	8,246	85,198	237,056	330,500
Outstanding interests	(232)	(7, 739)	(73, 781)	(81, 752)
Residual values	21,657	9,365	1,791	32,813
	29,671	86,824	165,066	281,561

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

	Financial leases			
	Due within 1 year Euro '000	**1 year to 5 years Euro '000**	**Over 5 years Euro '000**	**Total Euro '000**
Outstanding rents	63,773	133,086	138,046	334,905
Outstanding interest	(13,591)	(33,452)	(32,236)	(79,279)
Residual values	4,164	12,344	16,744	33,252
	54,346	111,978	122,554	288,878

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

	Jun 2012 Euro '000	**Dec 2011 Euro '000**
Asset-backed loans	430,413	528,670
Other guaranteed loans	156,113	101,602
Unsecured loans	203,195	146,536
Public sector loans	865	539
Financial lease	10,320	7,544
	800,906	784,891

The impairment for credit risks is analysed as follows:

	Jun 2012 Euro '000	**Jun 2011 Euro '000**
Impairment for credit risks		
Balance on 1 January	694,225	437,329
Charge for the period net from write-back	84,850	58,632
Loans charged-off	(182,859)	(61,654)
Regularizations	92,472	-
Transfers	-	99,435
Balance on 30 June	688,688	533,742

The balance Transfers corresponde to values transferred from Finibanco, S.A. in the scope of the acquisition of assets and liabilities held on April 4, 2011, as described in note 1 a).

Additionally, as at 30 June 2012, CEMG has a provision for general banking risks in the amount of Euro 111,882,000 (31 December 2011: Euro 117,066,000), which in accordance to NCA's is presented as a liability, as referred in note 36.

In accordance with CEMG's policy, interest on overdue loans for a period over 90 days not covered by asset-backed guarantees, is only recorded as income when received.

As mencioned above, the caption Regularizations refers to impairment associated with credits in write-off reversed to the balance sheet.

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

	Jun 2012 Euro '000	Dec 2011 Euro '000
Asset-backed loans	398,800	498,823
Other guareteed loans	108,454	77,440
Unsecured loans	181,434	117,962
	688,688	694,225

In compliance with note 1 b), loans and advances to customers are charged-off when there are no expectations, from an economic point of view, of recovering the loan amount and for collateralized loans, when the funds arising from the execution of the respective collaterals was already received. This charge-off is carried out for loans that are fully provided.

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

	Jun 2012 Euro '000	Dec 2011 Euro '000
Asset-backed loans	104,791	39,602
Other guaranteed loans	65,910	1,142
Unsecured loans	12,158	3,899
	182,859	44,643

The recovered loans and overdue interest, performed during the period of 1 January to 30 June 2012 and during 2011 includes the amount of Euro 1,168,000, related with the recovery of asset-backed loans, as referred in note 14.

CEMG uses physical and financial collaterals as instruments for mitigating credit risk. The physical collaterals correspond mainly to mortgages on residential properties in the course of the mortgage and other types of mortgages on properties in other types of loans. To reflect the market value of them, these effects are reviewed regularly based on evaluations conducted by certified independent testing organizations or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the area their geographical. The financial collateral are revalued based on market values of their assets, when available, and certain coefficients applied depreciation to reflect its volatility.

21 Financial assets and liabilities held for trading

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

	Jun 2012 Euro '000	Dec 2011 Euro '000
Financial assets held for trading:		
Securities		
Shares	11,276	5,414
Derivates		
Derivates financial instruments with positive fair value	142,415	139,838
	153,691	145,252
Financial liabilities held for trading:		
Derivates		
Derivates financial instruments with negative fair value	95,598	101,524

The trading portfolio is recorded at fair value trough profit or loss, in accordance with note 1 c). As referred in the accounting policy, the securities held for trading are those who are acquired with the purpose of short-term transactions, independently from its maturity.

As referred in IFRS 7, financial assets held for trading and available for sale are valued in accordance with the following fair value measurement levels:

- Level 1: financial instruments measured in accordance with quoted market prices or providers.

- Level 2: financial instruments measured in accordance with internal valuation techniques based on observable market inputs.

- Level 3: financial instruments measured in accordance with valuation techniques based on inputs not based on observable data that have significant impact in the instruments valuation.

The financial assets and liabilities held for trading are valued in accordance with market prices or providers and with internal valuation techniques based on observable market inputs. Therefore, accordingly with the hierarchy of the valuation sources, as referred in IFRS 7 these instruments are classified in the levels 1 and 2.

The book value of the assets and liabilities at fair value through profit or loss as at 30 June 2012, is as follows:

		Jun 2012						
		Derivative			Related Asset/Liability			
Derivate	Related financial asset/ liability	Notional Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Book value Euro '000	Reimbursement amount at maturity date Euro '000
Interest rate swap	Securities issued	933,236	2,651	(7,521)	65,687	153,820	229,100	229,100
Interest rate swap	Deposits	1,800,800	30,183	7,933	17,133	1,227	711,760	711,760
Interest rate swap	Deposits from customers	346,885	13,653	(18)	(17,020)	2,572	101,148	101,148
Interest rate swap	Titularization	9,867,332	(11,630)	(896)	-	-	-	-
Interest rate swap	Covered bonds	11,690,653	14,612	8,737	(678)	(7,187)	655,000	655,000
Interest rate swap	Jet Fuel	116,724	29	29	1,973	3,488	25,000	25,000
CIRS	-	3,078	122	141	-	-	-	-
Currency swap	Debt issued	1,272,540	(772)	(966)	-	-	-	-
Future options	-	42,980	270	292	-	-	-	-
Options	Time deposits and other deposits	343,700	257	259	-	-	-	-
Credit Default Swaps	-	64,414	(2,558)	513	-	-	-	-
		26,482,342	46,817	8,503	67,095	153,920	1,722,008	1,722,008

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

		Dec 2011						
		Derivative			Related Asset/Liability			
Derivate	Related financial asset/ liability	Notional Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Fair value Euro '000	Changes in the fair value in the year Euro '000	Book value Euro '000	Reimbursement amount at maturity date Euro '000
Interest rate swap	Securities issued	1,061,936	10,172	(15,207)	(89,648)	(53,425)	315,750	315,750
Interest rate swap	Deposits	1,872,000	22,250	3,673	15,906	1,952	753,397	753,397
Interest rate swap	Deposits from customers	348,767	13,671	1,408	(19,592)	(16,835)	247,368	247,368
Interest rate swap	Titularization	10,070,419	(10,734)	(8,591)	-	-	-	-
Interest rate swap	Covered bonds	9,242,912	5,875	(12,148)	6,509	14,126	708,300	708,300
CIRS	-	1,158,319	(19)	1,173	-	-	-	-
Currency swap	Debt issued	9,072	194	62	-	-	-	-
Future options	-	84,752	(22)	(21)	-	-	-	-
Options	Time deposits and other deposits	87,762	(2)	(755)	-	-	-	-
Credit Default Swaps	-	81,093	(3,071)	(2,334)	-	-	-	-
		24,017,032	38,314	(32,740)	(86,825)	(54,182)	2,024,815	2,024,815

The analysis of financial instruments held for trading, by maturity date as at 30 June 2012, is as follows:

	Jun 2012					
	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	Assets Euro '000	Liabilities Euro '000
Interest rate contracts:						
Interest rate swaps	2,689,891	437,722	21,631,095	24,758,708	136,619	86,998
Options	3,514	19,966	320,220	343,700	4,826	4,569
Exchange rate contracts						
Currency swaps	1,272,540	-	-	1,272,540	(112)	660
Index contracts:						
Index futures	42,980	-	-	42,980	270	-
Credit default contracts:						
Credit default swaps	10,000	17,500	36,914	64,414	812	3,371
	4,018,925	475,188	21,988,229	26,482,342	142,415	95,598

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

	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	Assets Euro '000	Liabilities Euro '000
Interest rate contracts:						
Interest rate swaps	221,076	1,983,241	21,550,036	23,754,353	129,628	88,413
Options	-	2,800	84,962	87,762	8,482	8,484
Exchange rate contracts						
Currency swaps	9,072	-	-	9,072	455	261
Index contracts:						
Index futures	84,752	-	-	84,752	-	22
Credit default contracts:						
Credit default swaps	-	-	81,093	81,093	1,273	4,344
	314,900	1,986,041	21,716,091	24,017,032	139,838	101,524

The fair value of the derivatives financial instruments includes, the valuation of the embedded derivatives separated from the host contract in accordance with note 1 c) in the amount of Euro 6,886,000 (31 December 2011: Euro 7,331,000).

22 Other financial assets at fair value through profit or loss

The balance Other financial assets at fair value through profit or loss amounts in Euro 3,667,000 (31 December 2011: Euro 3,606,000), which is fully composed by fixed income bonds and other securities of other issuers.

CEMG's choice of naming these assets at fair value through profit and loss, according to IAS 39 and note 1 c), can be observed in the planed strategy of CEMG's management, considering that (i) these financial assets are managed and evaluated in a fair value basis and/or (ii) that these assets are holding embedded derivative instruments.

Other financial assets and liabilities held for trading at fair value through profit or loss are measured in accordance with internal valuation techniques considering mainly observable market inputs. In accordance with the hierarchy of the valuation sources, as referred in IFRS 7, these instruments are classified in level 1.

As at 30 June 2012 and 31 December 2011, securities portfolio included in the balance Other financial assets at fair value through profit or loss is found quoted with a maturity greater than 1 year.

23 Financial assets available for sale

This balance is analysed as follows:

	Jun 2012				
		Fair value reserve			
	Cost [1] Euro '000	Positive Euro '000	Negative Euro '000	Impairment losses Euro '000	Book value Euro '000
Fixed income securities:					
Issued by public entities:					
Portuguese	1,183,217	2,616	(68,279)	-	1,117,554
Foreign	128,071	3,411	(17,648)	-	113,834
Issued by other entities:					
Portuguese	4,228,435	1,305	(9,588)	(26,777)	4,193,375
Foreign	449,192	18,083	(36,657)	(8,289)	422,329
Commercial paper	467,580	-	-	(998)	466,582
Variable income securities:					
Shares in companies					
Portuguese	9,664	14	(129)	(3,556)	5,993
Foreign	8,205	247	(109)	(2,520)	5,823
Investment fund units	517,396	3,516	(4,536)	(166)	516,210
	6,991,760	29,192	(136,946)	(42,306)	6,841,700

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

	Dec 2011				
		Fair value reserve			
	Cost [1] Euro '000	Positive Euro '000	Negative Euro '000	Impairment losses Euro '000	Book value Euro '000
Fixed income securities:					
Issued by public entities					
Portuguese	1,392,045	1,935	(243,498)	-	1,150,482
Foreign	147,206	2,164	(2,848)	(19,309)	127,213
Issued by other entities					
Portuguese	3,445,227	1,733	(22,367)	(15,980)	3,408,613
Foreign	520,067	3,010	(55,681)	(8,289)	459,107
Commercial paper	312,067	-	-	(998)	311,069
Variable income securities:					
Shares in companies					
Portuguese	9,602	70	(74)	(3,507)	6,091
Foreign	7,896	313	(382)	(1,416)	6,411
Investment fund units	354,009	850	(1,917)	(148)	352,794
	6,188,119	10,075	(326,767)	(49,647)	5,821,780

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

As referred in note 1 c), the portfolio of assets available-for-sale are presented at market value with fair value changes accounted for against fair value reserves, as referred in note 42. CEMG assesses periodically whether there is objective evidence of impairment losses on the available-for-sale financial assets, following the judgment criteria's described in note 1 x).

The balance Variable income securities – Investment funs units includes the amount of Euro 236,747,000 (31 December 2011: Euro 239,233,000) that relates to:

As described in note 54, balance Investment funds includes:

– 20,195,716 participation units of "CA Imobiliário – Fundo Especial de Investimento Imobiliário Aberto (FEII)"; and
– 59,663 participation units of "Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)".

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

	Jun 2012 Euro '000	Jun 2011 Euro '000
Impairment for securities		
Balance on 1 January	49,647	27,717
Charge for the period	17,658	7,703
Write-back for the period	(8,829)	(946)
Charged-off impairment	(16,170)	(10,617)
Transfers	-	1,264
Balance on 30 June	42,306	25,121

As described in note 1 c), the portfolio of financial assets available for sale are presented net of the total fair value reserve and impairment. The total fair value reserve for financial assets available for sale is negative and amounts to Euro 107,754,000 (31 December 2011: Euro 316,692,000) and impairment amounts to Euro 42,306,000 (31 December 2011: Euro 49,647,000).

CEMG recognizes impairment on financial assets available for sale when there is a prolonged or significant drop in its fair value or when there is an expected impact on future cash flows of the assets. This assessment involves judgment, in which CEMG takes into account among other factors, the volatility of stock prices.

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

- Equity instruments: (i) above 30% devaluation against the purchase price or (ii) the market value below the acquisition cost for a period exceeding 12 months;

- Debt instruments: where there is objective evidence of events that impact on the recoverable value of future cash flows of these assets.

The evolution of the debt crisis of the Euro zone countries associated with the macro economic developments in Greece, which has contributed to a deterioration of economic and financial situation of the Greek State and the inability to access markets which implies that the solvency of the country immediately remains dependent on continued support from the EU and the IMF.

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

	Jun 2012			Dec 2011		
	Quoted Euro '000	**Unquoted Euro '000**	**Total Euro '000**	**Quoted Euro '000**	**Unquoted Euro '000**	**Total Euro '000**
Fixed income securities:						
Issued by public entities						
Portuguese	1,117,554	-	1,117,554	1,150,482	-	1,150,482
Foreign	113,834	-	113,834	127,213	-	127,213
Issued by other entities						
Portuguese	357,515	3,835,860	4,193,375	318,514	3,090,099	3,408,613
Foreign	342,068	80,261	422,329	456,497	2,610	459,107
Commercial paper	-	466,582	466,582	-	311,069	311,069
Variable income securities:						
Shares in companies						
Portuguese	990	5,003	5,993	1,088	5,003	6,091
Foreign	5,657	166	5,823	6,245	166	6,411
Investment fund units	515,896	314	516,210	352,794	-	352,794
	2,453,514	4,388,186	6,841,700	2,412,833	3,408,947	5,821,780

24 Hedging derivatives

This balance is analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Assets		
Interest rate swaps	1,315	1,184
Liabilities		
Interest rate swaps	3,052	2,444

Hedging derivatives are measured in accordance with internal valuation techniques considering mainly observable market inputs. In accordance with the hierarchy of the valuation sources, as referred in IFRS 7 these derivatives are classified in level 2.

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

CEMG performs periodical effectiveness tests of the hedging relationships.

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

	Jun 2012 Euro '000	Dec 2011 Euro '000
Deposits from other credit institutions	41	343
Debt securities issued	-	15
Deposits from customers	-	371
	41	729

The analysis of the hedging derivatives portfolio by maturity date, as at 30 June 2012 is as follows:

	Jun 2012							
	Notionals within 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	-	23,000	92,000	115,000	-	(153)	(1,584)	(1,737)
	-	23,000	92,000	115,000	-	(153)	(1,584)	(1,737)

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

	Dec 2011							
	Notionals within 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 derivates with interest rate risk:								
Interest rate swap	-	-	115,000	115,000	-	-	(1,260)	(1,260)
	-	-	115,000	115,000	-	-	(1,260)	(1,260)

25 Held-to-maturity investments

This balance is analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Fixed income securities		
Bonds issued by Portuguese public entities	6,262	37,420
Bonds issued by foreign public entities	11,169	10,996
	17,431	48,416

The fair value of the held to maturity investment portfolio is presented in note 45.

CEMG assessed, with reference to 30 June 2012, the existence of objective evidence of impairment on its held-to-maturity investments portfolio and no events with impact on the recoverable amount of the future cash flows associated with those investments were identified.

The held-to-maturity investments, as at 30 June 2012 are analysed as follows:

Issue	Issue date	Maturity date	Interest rate	Book value Euro '000
OT - Setembro_98/23-09-2013	May 1998	September 2013	Fixed rate 5.450%	99
OT - Outubro 05/15-10-2015	July 2005	October 2015	Fixed rate 3.350%	6,164
Netherlands Government 05/2015	June 2005	July 2015	Fixed rate 3.250%	5,093
Republic of Austria 04/15-07-2015	May 2004	July 2015	Fixed rate 3.500%	2,053
Belgium Kingdom 05/28-09-2015	March 2005	September 2015	Fixed rate 3.750%	2,027
Buoni Poliennali Del Tes. 05/2015	May 2005	August 2015	Fixed rate 3.750%	1,995
				17,431

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

During the first semester of 2012 and during 2011, CEMG did not transfer to or from this assets category.

26 Investments in associated companies and other

This balance is analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Investments in associated companies and other		
Finibanco Holding, SGPS, S.A.	341,250	341,250
Lusitania, Companhia de Seguros, S.A.	23,566	23,566
Lusitania Vida, Companhia de Seguros, S.A.	9,530	9,530
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	7,001	7,001
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3,200	3,200
	384,547	384,547

The financial information concerning associated companies, as at 30 June 2012 and 31 December 2011, is presented in the following table:

	Number of shares	Percentage of direct shares	Unit value Euro	Acquisition cost Euro ´000
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. (IFI)	77,200	100.00%	90.69	7,001
Finibanco Holding, SPGS, S.A.	175,000,000	100%	1	341,250
Lusitania, Companhia de Seguros, S.A.	1,333,928	26.25%	5.00	23,566
Lusitania Vida, Companhia de Seguros, S.A.	314,736	39.34%	25.00	9,530
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	400,000	20.00%	5.00	3,200
				384,547

In the year 2010, "Montepio Geral – Associação Mutualista", sole shareholder CEMG, proceeded to acquire 100% of the capital of Finibanco Holding, SGPS, SA through an Initial Public Offering in the amount of 341,250,000 Euro.

As at 31 March, 2011, Montepio Geral – Associação Mutualista sold its participation in Finibanco Holding, SGPS, S.A. to CEMG. Under the change in the structure of the Group arising from this acquisition, as at 4 April, 2011, CEMG acquired a set of assets and liabilities of Finibanco, SA (excluding properties owned by Finibanco, S.A. and acquired as a result of loans and advances to costumers and a leasing portfolio (securities and real estate) in which Finibanco, S.A. is lessor and the fixed assets that materially support the operating leasing activities), and all associated liabilities and provisions, by the amount of Euro 216,484,000.

The acquisition of Finibanco Holding by CEMG allowed complete the level of services provided in the financial sector through the acquisition of a participation in Finibanco, S.A. (universal bank), Finicrédito, S.A. (specialized credit financial institution), Finibanco Angola (universal bank in Angola) and Finivalor (Asset management - Investment Funds).

That acquisition also allows the complementarily of commercial networks and entry into markets which CEMG was not present.

27 Non-current assets held for sale

This balance is analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Investments arising from recovered loans	247,157	107,236
Impairment for non-current assets held for sale	(29,545)	(20,406)
	217,612	86,830

The assets included in this balance are accounted for in accordance with the note 1 i).

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

In November and December 2011, CEMG sold a set of assets referred above to CA Imobiliário – Fundo Especial de Investimento Imobiliário Aberto (FEII) and Fundo Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH), both investment funds. Considering the nature of the transaction the assets were derecognized. These assets were accounted by Euro 147,956,000, net from impairment, originating a gain of Euro 35,839,000 and a write-back of impairment of Euro 24,356,000.

These assets are available for sale in a period less than 2 year and CEMG as a strategy for its sale. This balance includes buildings and other assets for which CEMG has already established contracts for the sale in the amount of Euro 29,009,000 (31 December, 2011: Euro 22,591,000).

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

	Jun 2012 Euro '000	Jun 2011 Euro '000
Impairment for non-current assets held for sale		
Balance on 1 January	20,406	39,335
Charges for the period	17,209	7,927
Write-back for the period	(8,070)	-
Balance on 30 June	29,545	47,262

28 Property and equipment

This balance is analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Cost:		
Land and buildings:		
For own use	9,664	9,664
Leasehold improvements in rented buildings	58,166	55,733
Work in progress	35	35
Equipment:		
Furniture	19,855	19,979
Office equipment	2,989	3,055
Computer equipment	86,442	83,219
Interior installations	23,792	22,440
Motor vehicles	3,935	4,057
Security equipment	9,427	9,415
Other equipment	1	1
Works of art	2,830	2,755
Assets in operacional lease	4,133	4,825
Other tangible assets	1,954	1,954
Work in progress	1,247	4,387
	224,470	221,519
Accumulated depreciation:		
Charge for the period	(8,252)	(17,405)
Accumulated charge for the previous periods	(153,865)	(137,931)
	(162,117)	(155,336)
	62,353	66,183

In December 2011, CEMG sold part of Property for own use to “Montepio Geral Associação Mutualista”. Those properties were recorded at the amount of Euro 48,517,000, net of depreciation, resulting in a gain of Euro 28,154,000.

29 Intangible assets

This balance is analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Cost:		
Software	51,836	64,836
Other intangible assets	88,365	88,365
Assets advances	-	520
	140,201	153,721
Accumulated depreciation:		
Charge for the period	(5,949)	(9,449)
Accumulated charge for the previous periods	(25,923)	(33,429)
	(31,872)	(42,878)
	108,329	110,843

The balance Other intangible assets, representing the difference between assets and liabilities of Finibanco, S.A. acquired by CEMG in 4 April 2011 and its book value and consider the fair value of that assets and liabilities and the potential for business generating associated with the network Finibanco, SA acquired.

This intangible asset does not have finite useful life, so that, as referred in accounting policy described in note 1 r), its recoverable amount is annually reviewed, regardless of the existence of impairment signs. Any impairment losses are recognized in income statement.

In 2012, CEMG proceeded to the full recognition of software programs as expense of the period, with a book value of Euro 6,695,000, as described in note 9.

30 Taxes

With effect from 1 January 2012,CEMG is subject to the regime established by the Income Tax Code ("IRC"). Therefore, and based on the applicable law, the temporary differences between accounting income and the results accepted for tax purposes of IRC, whenever there is a reasonable that such taxes will be paid or recovered in the future, according to the accounting policy 1t) are eligible for the recognition of deferred taxes.

Deferred income tax assets and liabilities as at 30 June 2012 and 31 December 2011 are analysed as follows:

	Assets		Liabilities		Net	
	Jun 2012	**Dec 2011**	**Jun 2012**	**Dec 2011**	**Jun 2012**	**Dec 2011**
	Euro '000	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**	**Euro '000**
Financial instruments	6,243	18,328	-	-	6,243	18,328
Other tangible assets	(10)	(10)	-	-	(10)	(10)
Provisions	24,615	32,071	-	-	24,615	32,071
Pension fund	6,908	6,747	-	-	6,908	6,747
Death allowance	485	472	-	-	485	472
Early retirement	1,282	1,231	-	-	1,282	1,231
Seniority bonus	419	382	-	-	419	382
Impairment of buildings	510	-	-	-	510	-
Tax losses carried forward	4,913	-	-	-	4,913	-
Deferred tax assets / (liabilities)	**45,365**	**59,221**	-	-	**45,365**	**59,221**

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

Deferred taxes related to the losses carried forward are recognized only if the existence of future taxable profits is probable. The uncertainty of the recoverability of the tax losses carried forward is considered in the deferred tax assets calculation.

As at 30 June 2012, the changes related to deferred tax assets were recognized in income statement and reserves in the amount of Euro 1,880,000 negative and Euro 12,086,000 negative, respectively.

Net deferred tax assets changes includes the deferred tax expenses for the year recognized in the profit and loss account, as well as the changes recognized in reserves and retained earnings, namely the impact resulting from the changes, in accordance with the IAS 19, of the accounting policy for the recognition of actuarial gains and losses related with pension and post employment benefits, for the year and for previous years and unrealised gains and losses resulting from the revaluation of financial assets available for sale recognized in Equity.

As at 30 June 2012, the amount of unrecognized temporary differences that resulted in a deferred tax asset in the amount of Euro 212,971,000 (31 December 2011: Euro 236,883,000).That differences recognized is dependent of the CEMG generate future taxable income ability.

During the second semester of 2012, the Board of Directors will analyse the adittional information received from the competent Tax Authorities about the clarifications requested by CEMG, and will conclude the analysis about the future recoverability of not recongnized temporary differences, and depending on the evaluation of these aspects, conclude about the eventual recording of deferred taxes not yet recognized.

Deferred tax assets and liabilities are presented on a net basis where, pursuant to applicable regulation, CEMG can offset current tax assets to current tax liabilities and when the assets and deferred tax liabilities relate to taxes on income released by the same taxation authority.

31 Other assets

This balance is analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Recoverable subsidies from Portuguese Government	10,456	9,728
Other debtors	122,072	163,739
Other accrued income	5,602	4,615
Prepayments and deferred costs	17,207	17,138
Sundry debtors	159,164	115,058
	314,501	310,278

The balance Recoverable subsidies from the Portuguese Government, in the amount of Euro 10,456,000 (31 December 2011: Euro 9,728,000), 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 2012 and 31 December 2011, the balance Recoverable subsidies from the Portuguese Government is analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Recoverable subsidies from the Portuguese Government unliquidated	2,166	2,111
Subsidies unclaimed	3,789	3,157
Overdue subsidies unclaimed	4,501	4,460
	10,456	9,728

As at 30 June 2012, the balance Prepayments and deferred costs includes the amount of Euro 10,400,000 (31 December, 2011: Euro 15,441,000) referring to the impacts of the application of IAS 19 requirements not yet deferred, related to actuarial gains and losses of pension fund at 1 January, 2005. This amount will be charge for ten or eight years period depending on whether it relates to obligations with health or employees benefits, respectively, as referred in the note 1 s).

As at 30 June 2012, the balance Sundry debtors includes the amount of Euro 84,023,000 (31 December 2011: Euro 78,209,000) refer to transactions with securities recorded on trade date and pending settlement, in accordance with note 1 c), pending settlement. Additionally, it also includes the amount of Euro 42,249,000 (31 December 2011: Euro 17,882,000) related to the obligations with retirement benefits financed in excess by the Fund.

32 Deposits from central banks

As at 30 June 2012, this balance in amount of Euro 1,968,212,000 (31 December 2011: Euro 2,003,300,000) is related to deposits obtained in the European System of Central Banks and is covered by securities from the portfolio of financial assets available for sale.

33 Deposits from other credit institutions

This balance is analysed as follows:

	Jun 2012			Dec 2011		
	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 institution in Portugal	21,324	25,121	46,445	12,337	79,978	92,315
Deposits from credit institutions abroad	85,678	925,525	1,011,203	48,841	1,040,912	1,089,753
	107,002	950,646	1,057,648	61,178	1,120,890	1,182,068

34 Deposits from customers

This balance is analysed as follows:

	Jun 2012			Dec 2011		
	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	33,379	2,046,142	2,079,521	34,621	2,532,341	2,566,962
Time deposits (*)	-	11,008,715	11,008,715	-	10,354,116	10,354,116
Saving accounts (*)	-	202,518	202,518	-	248,293	248,293
Other resources	2,300	3,688	5,988	5,362	-	5,362
Adjustments arising from hedging operations	17,133	-	17,133	15,906	-	15,906
	52,812	13,261,063	13,313,875	55,889	13,134,750	13,190,639

Observations: (*) Deposits for which the embedded derivate was separate from the host contract, in accordance with note 21 and note 1 c).

In the terms of the law “Portaria” no. 180/94, of 15 December, the deposit guarantee fund was established to guarantee the reimbursement of funds deposited in credit institutions. The criteria to calculate the annual contributions to the referred fund are defined annually by instruction of Bank of Portugal.

As at 30 June 2012, this balance includes the amount of Euro 785,775,000 (31 December 2011: Euro 794,197,000) related to deposits recognized on the balance sheet at fair value through profit or loss.

35 Debt securities issued

This balance is analysed as follows:

	Jun 2012 Euro '000	**Dec 2011 Euro '000**
Euro Medium Term Notes	513,613	1,081,778
Bonds	577,272	452,553
Covered Bonds	673,808	706,357
	1,764,693	2,240,688

The fair value of the debts securities issued is presented in note 45.

As at 30 June 2012, this balance includes the amount of Euro 967,586,000 (31 December 2011: Euro 1,100,366,000) related to debt securities issued recognized at the balance sheet at fair value through profit or loss.

During the first semester of 2012, CEMG proceeded to the issue of 161,442,000 Euro (31 December 2011: Euro 263,011,000) of bonds, and repaid Euro 586,199,000 (31 December 2011: Euro 1,390,073,000).

Under the Issuance of covered bonds program, which maximum amount is 5,000 million Euro, CEMG proceed to the emissions which totalized Euro 2,155 million.The main characteristics of these issues are as follows:

Description	Nominal value Euro '000	Book value Euro '000	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody´s/Fitch/Dbrs)
Covered Bonds	1,000,000	1,000,000	December 2009	December 2016	Quarterly	1.41%	Baa3/BBB-
Covered Bonds	655,000	655,000	July 2009	July 2012	Annual	3.25%	Baa3/BBB-
Covered Bonds	500,000	500,000	November 2010	November 2015	Quarterly	3.20%	Baa3/BBB-
	2,155,000	2,155,000					

The covered bonds are guaranteed by a cover assets pool, comprised of mortgage credit assets and limited classes of other assets, that the issuer of mortgage covered bonds shall maintain segregated and over which the holders of the relevant covered bonds have a statutory special creditor privilege. These conditions are set up in Decree-Law no. 59/2006, Notices no. 5/2006, no. 6/2006, no. 7/2006 and no. 8/2006 of Bank of Portugal and Instruction no. 13/2006 of Bank of Portugal.

The amount of credits that collateralize these emissions is higher than Euro 2,974,585,000 (31 December, 2011: EUR 2,977,917,000), in 31 December, 2011, according with note 20.

The change occurred in debt securities issued during the first semester of 2012 is analyzed as follows:

	Balance on 1 January Euro '000	Issues Euro '000	Repayments Euro '000	Net Repurchase Euro '000	Other movements [(a)] Euro '000	Balance on 30 June Euro '000
Euro Medium Term Notes (EMTN)	1,081,778	-	(500,000)	(81,669)	13,504	513,613
Bonds	452,553	161,442	(32,899)	-	(3,824)	577,272
Covered bonds	706,357	-	(53,300)	15,600	5,151	673,808
	2,240,688	161,442	(586,199)	(66,069)	14,831	1,764,693

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

In accordance with the note 1 c), debt issued repurchased by CEMG is derecognized from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognized in the income statement.

The change occurred in debt securities issued during the six months period ended 30 June 2012 is analyzed as follows:

Issue	Issue date	Maturity date	Interest rate	Book value Euro '000
OBRIGS CX-MG CAPITAL CERTO 2016-11ªSER	Jan.2012	Dec.2016	Semi annual fixed rate of 5.56% (3rd and 4th semester a rate of 5.88%, 5th and 6th semester a rate of 4.5%, 7th and 8th semester a rate of 6.68% and 9th and10th semester a rate of 5.75%)	2,500
OBRIGS CX-MG CAPITAL CERTO 2016-12ªSER	Jan.2012	Dec.2016	Semi annual fixed rate of 5.2140% (3rd and 4th semester a rate of 6.0265%, 5th and 6th semester a rate of 6.8390%, 7th and 8th semester a rate of 7.6515% and 9th and10th semester a rate of 11.7140%)	4,000
OBRIGS CX-MG CAPITAL CERTO 2012/17-1ªSER	Jan.2012	Feb.2017	Semi annual fixed rate of 5.21% (2nd semester a rate of 5.21%, 3rd and 4th semester a rate of 6.035%, 5th and 6th semester a rate of 6.8610%, 7th and 8th semester a rate of 7.6860% and 9th and 10th semester a rate of 10.162%)	5,650
OBRIGS CX-MG CAPITAL CERTO 2012/17-2ªSER	Feb.2012	Mar.2017	Annual fixed rate of 4.8333% (2nd year a rate of 5.6667%, 3rd year a rate of 6.50%, 4th year a rate of 7.3333% and 5th year a rate of 9.8333%)	9,750
OBRIGS CX-MG CAPITAL CERTO 2012/17-3ªSER	Mar.2012	Mar.2017	Annual fixed rate of 4.6247% (2nd year a rate of 4.9539%, 3rd year a rate of 5.2830%, 4th year a rate of 5.6122% and 5th year a rate of 6.5997%)	30,000
OBRIGS CX-CRPC-2012/20-1ªSER	Mar.2012	Mar.2020	Annual fixed rate of 5.25% (2nd year a rate of 5.25%, 3º and 4th year a rate of 6%, 5th year a rate of 6.75% and 6th,7th and 8th year a rate of Max(6.25% ; Min(IPC+2% ; 9.15%))	4,400
OBRIGS CX-MG CAPITAL CERTO 2012/17-4ªSER	Apr.2012	May 2017	Annual fixed rate of 4.75% (2nd year a rate of 4.80%, 3rd year a rate of 5.10%, 4th year a rate of 5.40% and 5th year a rate of 6.35%)	68,000
OBRIGS CX-MG CAPITAL CERTO 2012/17-5ªSER	May 2012	Jun.2017	Annual fixed rate of 6.3897% (2nd year a rate of6.8874%, 3rd year a rate of 8.8782%, 4th year a rate of 9.6247% and 5th year a rate of 13.6063%)	8,700
OBRIGS CX-MG CAPITAL CERTO 2012/20-2ªSER	May 2012	Jun.2020	Annual fixed rate of 7.05% (2nd and 3rd year a rate of 8.2583%, 4th year a rate of 9.7083%, 5th year a rate of 10.7250%, 6th year a rate of 7.4750%, 7th year a rate of 8.30% and 8th year a rate of 11.1583%)	600
OBRIGS CX-MG Partic Junho-Junho 2012/14	Jun.2012	Jun.2014	Annual fixed rate of 4.50% (2nd year a rate of 5.0%)	923
OBRIGS CX-MG TAXA FIXA JUNHO 2012/2014	Jun.2012	Jun.2014	Semi annual rate of 4.50% (2nd semester a rate of 4.50%, 3rd and 4th semester a rate of 5.00%)	21,919
OBRIGS CX-MG CAPITAL CERTO 2012/2017-6ªSER	Jun.2012	Jun.2017	Annual fixed rate of 6.52% (2nd year a rate of 7.27%, 3rd year a rate of 8.02%, 4th year a rate of 9.27% and 5th year a rate of 12.77%)	5,000
				161,442

As at 30 June 2012, for the bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 0.5% and 7.05%.

36 Provisions

This balance is analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Provisions for general banking risks	111,882	117,066
Provisions for liabilities and charges	2,766	2,948
	114,648	120,014

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

	Jun 2012 Euro '000	Jun 2011 Euro '000
Provisions for general banking risks		
Balance on 1 January	117,066	100,188
Charge for the period	34,859	23,955
Write-back for the period	(40,043)	(24,824)
Transfers	-	19,721
Balance on 30 June	111,882	119,040

The General provision for loan losses, was calculated in accordance with Notice no. 3/95, no. 2/99 and no. 8/03 of Bank of Portugal, as referred in accounting policy 1 b). The balance Transfers corresponds to values transferred from Finibanco, S.A. in the scope of the acquisition of assets and liabilities held on April 4, 2011.

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

	Jun 2012 Euro '000	Jun 2011 Euro '000
Provisions for liabilities and charges		
Balance on 1 January	2,948	1,311
Charge for the period	758	432
Write-back for the period	(940)	(285)
Transfers	-	1,359
Balance on 30 June	2,766	2,817

The provisions were accounted in accordance with the probability of occurrence of certain contingencies related with CEMG's activity, which is revised in each reporting date in order to reflect the best estimate of the amount and probability of payment.

The balance Transfers corresponde to values transferred from Finibanco, S.A. in the scope of the acquisition of assets and liabilities held on April 4, 2011.

37 Other subordinated debt

As at 30 June 2012, this balance in the amount of Euro 478,210,000 (31 December 2011: Euro 477,247,000) refers to Bonds with fixed maturity date, and with a residual reimbursement over 5 years.

As at 30 June 2012 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**
CEMG/06	Apr.2006	Apr.2016	50 000	Euribor 3 months+0.45%	50,131
CEMG/08	Feb.2008	Feb.2018	150 000	Euribor 6 months+0.13%	151,189
CEMG/08	Jun.2008	Jun.2018	28 000	Euribor 12 months+0.10%	28,031
CEMG/08	Jul.2008	Jul.2018	150 000	Euribor 6 months+0.13%	151,653
FNB 08/18 1ª/2ª Série	Dec.2008	Dec.2018	10 363	Euribor 6 months+0.15% (v)	10,377
FNB Rendimento Garantido 05/13	May.2005	May 2013	410	Interval (1.90%;4.50%) (iii)	413
FNB Rendimento Seguro 05/15	Jun.2005	Jun.2015	238	6.25%*VN Min.(quotation) (iv)	239
FNB Grandes empresas 07/16_ 1ª	May 2007	May 2016	6 450	Max.(0;6.0%*(1-n/5)) (i)	6,450
FNB Grandes empresas 07/16_ 2ª/3ª	Jun.2011	Jun.2016	30 250	Max.(0;6.0%*(1-n/5)) (i)	30,250
FNB Indices estratégicos07/17 1ª	May 2007	Jun.2015	14 947	6.25%*VN Min.(quotation) (ii)	14,947
FNB Indices estratégicos07/17 2ª/3ª	Jun.2011	Jun.2015	39 000	Euribor 6 months+0.5% (ii)	39,000
					482,680
				Corr. Liability value	(4,470)
					478,210

References:

(i) - The following cupons will be paid, on the year end of each year (May 9, to the 1st série and Junho 20, to the 2nd and 3rd series):

Coupon	Interest rate/ range
1st Coupon	5.50%
2nd Coupon	5.50%
3rd Coupon	Max [0; 6.0% * (1-n/3)]
4th Coupon	Max [0; 6.0% * (1-n/4)]
5th Coupon	Max [0; 6.0% * (1-n/5)]
6th Coupon	Max [0; 6.0% * (1-n/6)]
7th Coupon	Max [0; 6.0% * (1-n/7)]
8th Coupon	Max [0; 6.0% * (1-n/8)]
9th Coupon	Max [0; 6.0% * (1-n/9)]

Notes:

where, *n* is the accumulated number of reference entities in which a credit event has occurred.

If a merge between two or more reference entities had occur and if a credit event occur in the merged entity, it will be accounted many credit events as the number of merged companies.

(ii) - The payment will be annually and it will be equal:

Coupon	Interest rate/ range
1st year	5.5% * notional
2nd year	5.5% * notional
3rd and following	6.25% * notional if Min (SDk/SD0-SXk/SX0; HSk/HS0- SXk/SX0) > Barrier k ***

*** if not = 0%, where:

Barrier 3 = Barrier to be applied on 3rd coupon = 0%;
Barrier 4 = Barrier to be applied on 4th coupon = 1%;
Barrier 5 = Barrier to be applied on 5th coupon = 2%;
Barrier 6 = Barrier to be applied on 6th coupon = 3%;
Barrier 7 = Barrier to be applied on 7th coupon = 4%;
Barrier 8 = Barrier to be applied on 8th coupon = 5%;
Barrier k = Barrier to be applied on kth coupon:
SDk – Closing of Eurostoxx Select Dividend Index (Bloomberg: SD3E) on the observation date K (K=1 to 6)
SD0 – Closing of Eurostoxx Select Dividend Index (Bloomberg: SD3E) on the starting date
SXk – Closing of Eurostoxx50 Total Return Index (Bloomberg: SX5T) on the observation date K (K=1 to 6)
SX0 – Closing of Eurostoxx50 Total Return Index (Bloomberg: SX5T) on the starting date
HSk – Closing of HS60 Europe Index (Bloomberg: HS60EU) on the observation date K (K=1 to 6)
HS0 – Closing of HS60 Europe Index (Bloomberg: HS60EU) on the starting date

(iii) - The payment will be semiannual, with a minimum of 1% and a maximum of 5%, and it will be calculated according with the following formula (annual rate):

n/N * 5% + m/N * 1%

where:
n is the number of working days of the respective period in which Euribor 6 months will be in the fixed range;
m is the number of working days of the respective period in which Euribor 6 months will be outside the fixed range;
N is the number of working days of the respective period.

Note:

Range is defined on the following table for each coupon:

Period	Coupon date	Range
1st semester	09-Nov-05	09-Nov-2005
2nd semester	09-May-2006	09-May-2006
3rd semester	09-Nov-06	09-Nov-2006
4th semester	09-May-2007	09-May-2007
5th semester	09-Nov-07	09-Nov-2007
6th semester	09-May-2008	09-May-2008
7th semester	09-Nov-08	09-Nov-2008
8th semester	09-May-2009	09-May-2009
9th semester	09-Nov-09	09-Nov-2009
10th semester	09-May-2010	09-May-2010
11th semester	09-Nov-10	09-Nov-2010
12th semester	09-May-2011	09-May-2011
13th semester	09-Nov-11	09-Nov-2011
14th semester	09-May-2012	09-May-2012
15th semester	09-Nov-12	09-Nov-2012
16th semester	09-May-2013	09-May-2013

(iv) - The payment will be semiannual, with a minimum of 1% and a maximum of 5%, and it will be calculated according with the following formula (annual rate):

n/N * 5% +m/N * 1%

where:
n is the number of working days of the respective period in which Euribor 6 months will be in the fixed range;
m is the number of working days of the respective period in which Euribor 6 months will be outside the fixed range;
N is the number of working days of the respective period.

Note:

Range is defined on the following table for each coupon:

Period	Coupon date	Range
1st semester	09-Dec-2005	[1.60; 2.75%]
2nd semester	09-Jun-2006	[1.60; 3.00%]
3rd semester	09-Dec-2006	[1.60; 3.25%]
4th semester	09-Jun-2007	[1.60; 3.50%]
5th semester	09-Dec-2007	[1.60; 3.50%]
6th semester	09-Jun-2008	[1.70; 3.75%]
7th semester	09-Dec-2008	[1.70; 3.75%]
8th semester	09-Jun-2009	[1.70; 4.00%]
9th semester	09-Dec-2009	[1.80; 4.00%]
10th semester	09-Jun-2010	[1.80; 4.25%]
11th semester	09-Dec-2010	[1.80; 4.25%]
12th semester	09-Jun-2011	[1.80; 4.50%]
13th semester	09-Dec-2011	[1.90; 4.50%]
14th semester	09-Jun-2012	[1.90; 4.50%]
15th semester	09-Dec-2012	[1.90; 4.50%]
16th semester	09-Jun-2013	[1.90; 4.50%]
17th semester	09-Dec-2013	[2.00; 4.50%]
18th semester	09-Jun-2014	[2.00; 4.50%]
19th semester	09-Dec-2014	[2.00; 4.50%]
20th semester	09-Jun-2015	[2.00; 4.50%]

(v) - The payment will be semiannual and the first coupon will be fixed:

Coupon	Interest rate/ Range
1st coupon	6.50% (annual rate)
between 2nd and 10th cc	Euribor 6M + 1.50% (annual rate)
11th and following	Euribor 6M + 1.75% (annual rate)

Other subordinated debt portfolio is recorded at fair value, in accordance with note 45.

As at 30 June 2012, the effective interest rate range of the subordinated debt bears postponed interest every three and six months is set between 1% and 5%.

38 Other liabilities

This balance is analysed as follows:

	Jun 2012 Euro '000	**Dec 2011 Euro '000**
Creditors:		
Suppliers	7,883	10,576
Other creditors	47,329	76,146
Public sector	18,045	12,977
Holiday pay and subsidies	28,830	32,992
Other administrative cost payable	2,163	2,572
Deferred income	753	759
Securities transactions pending settlement	58,700	752
Other sundy liabilities	106,276	106,645
	269,979	243,419

The caption Other sundry liabilities corresponds to balances of banking and financial transactions pending settlement.

39 Share capital

On 29 de March 2011, following the General Assembly deliberation, CEMG increased the share capital of Caixa Económica Montepio Geral in the amount of Euro 345,000,000, by cash transfer. On 28 de December 2011, 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 1,245,000,000, totally subscribed by "Montepio Geral – Associação Mutualista", and is fully paid.

40 Other capital instruments

This caption includes the issuance of Euro 15,000,000 occurred in the first quarter of 2010 Perpetual Subordinated Securities Interest conditioners made by Finibanco, SA, and in connection with the acquisition of Finibanco Holding, SGPS, S.A. and its subsidiaries spent to integrate the responsibilities CEMG.

Payment

Subject to the payment of interest limitations described below, the payment will be paid semiannually on 2 February and 2 August of each year, beginning on 2 August, 2010 and will be equal to:

1st ao 4th coupon: 7.00%;

5th coupon and following: Euribor 6M + 2.75%, with a minimum of 5%.

Payment interest limitations

The Issuer will be prevented from making interest payment:

– And even the extent of competition in which the sum of the amount payable by the interest this issue with the amount of dividends paid or deliberate and guaranteed payments relating to any preference shares that are likely to be issued, exceed Distributable Funds of the Issuer, or

– Is in compliance with the Regulatory capital requirements regulamentation or the extent and up to competition in its payment implies that is in default with that Regulamentation.

The Issuer is also prevented from proceeding to the interest payment if, in the Board of Directors or the Bank of Portugal opinion, this payment endanger the comply of Regulatory capital requirements regulamentation.

The impediment to proceed to the Interest Payment may be total or partial.

Interest non-payment on any date exclude the issuer of the interest payment related to this date in a future time.

It is considered distributable funds in a determinated year the algebraic sum, with reference to the previous year, the retained earnings with any other amount which may be distributable and profit or loss, net of reserve requirements, statutory and legal, but before the deduction of the amount of any dividends on ordinary shares or other securities subject to these, for that exercise.

Reimbursement

These values are perpetual securities and are only refundable under the terms of early repayment provided below.

By agreement of the Bank of Portugal, the issuer may reimburse, in whole or in part, from the 10th date of payment of interest, including (5th year).

In case of continued occurrence of an Event of Disqualification as Core Capital, even before the expiration of five years from its issuance, and in agreement with the Bank of Portugal, these Securities are redeemable at the option of the Issuer, at any time.

In the disqualification event as Core Capital is defined as a change in any legal document or its official interpretation implies these securities values may no longer be classified as Core Capital of the Issuer.

41 General and special reserves

The general and special reserves are charged under the scope of Decree-Law no. 136/79, of 18 May. The general reserve is charged to cover any risk and extraordinary losses or depreciation.

Under the Portuguese regulations, the general reserve should be charged, at least, in a minimum of 20% of the profit for the year. The limit of general reserve is 25% of total deposits. This reserve is not available for distribution and it can be used to improve future income performances or to increase capital.

The special reserve is charged to cover losses from current operations. Under the Portuguese regulations, the special reserve should be charged, at least, in a minimum of 5% of the profit for the year. This reserve is not available for distribution and it can be used to improve income performances or to increase capital.

The variation of the general and special reserves balance is analysed in note 42.

42 Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

	Jun 2012 Euro '000	Dec 2011 Euro '000
Other comprehensive income:		
Fair value reserves		
Available-for-sale financial instruments	(107,754)	(316,692)
Reserves and retained earnings:		
General reserve	185,550	178,985
Special reserve	68,160	66,519
Other reserves	8,404	8,404
Retained earnings	20,702	11,534
	282,816	265,442

The fair value reserve represents the potential gains and losses on financial assets available for sale net of impairment losses recognized in the income statement and / or in prior years in accordance with note 1 c).

As described in notes 1, 46 and 54, the caption Retained earnings includes, with effect from 1 January 2010, the effect of correction of Euro 88,533,000 arising from the Board of Directors decision to change the accounting policy relating to recognition of actuarial deviations.

The balance Retained earnings includes on June 30, 2012 and December 31, 2011, the amount of Euro 5,012,000 and Euro 9,525,000, respectively, related to the amortization of the transition adjustments resulting from adoption of IAS 19, as defined in note 1 s).

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

	Balance on 1 January Euro '000	Reavaluation Euro '000	Acquisition Euro '000	Sales Euro '000	Impairment recognized in the period Euro '000	Balance on 30 June Euro '000
Fixed income securities:						
Bonds issued by Portuguese entities	(241,563)	155,230	(5,414)	26,084	-	(65,663)
Bonds issued by foreign entities	(684)	(17,629)	(15,550)	317	19,309	(14,237)
Bonds issued by other entities						
Portuguese	(20,634)	22,170	79	899	(10,797)	(8,283)
Foreign	(52,671)	10,353	13,821	9,923	-	(18,574)
	(315,552)	170,124	(7,064)	37,223	8,512	(106,757)
Variable income securities:						
Shares in companies						
Portuguese	(4)	(59)	(3)	-	(49)	(115)
Foreign	(69)	1,297	(9)	23	(1,104)	138
Investments fund units	(1,067)	(1,263)	1,215	113	(18)	(1,020)
	(1,140)	(25)	1,203	136	(1,171)	(997)
	(316,692)	170,099	(5,861)	37,359	7,341	(107,754)

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

	Balance on 1 January Euro '000	Reavaluation Euro '000	Acquisition Euro '000	Sales Euro '000	Impairment recognized in the year Euro '000	Balance on 31 December Euro '000
Fixed income securities:						
Bonds issued by Portuguese entiti	(28,302)	(157,628)	(55,976)	343	-	(241,563)
Bonds issued by Foreign entities	(4,103)	21,674	558	496	(19,309)	(684)
Bonds issued by other entities:						
Portuguese	(12,591)	3,259	619	471	(12,392)	(20,634)
Foreign	(38,060)	(27,895)	(3,367)	3,092	13,559	(52,671)
	(83,056)	(160,590)	(58,166)	4,402	(18,142)	(315,552)
Variable income securities:						
Shares in companies						
Portuguese	159	3,130	(48)	(17)	(3,228)	(4)
Foreign	(46)	439	(11)	19	(470)	(69)
Investment fund units	(30)	(415)	(466)	(65)	(91)	(1,067)
	83	3,154	(525)	(63)	(3,789)	(1,140)
	(82,973)	(157,436)	(58,691)	4,339	(21,931)	(316,692)

The fair value reserve can be analysed as follows:

	Jun 2012 Euro '000	**Dec 2011 Euro '000**
Amortised cost of available-for-sale financial assets	6,991,760	6,188,119
Accumulated impairment recognised	(42,306)	(49,647)
Amortised cost of available-for-sale financial assets, net impairment	6,949,454	6,138,472
Fair value of available-for-sale financial assets	6,841,700	5,821,780
Net/ unrealised gains/(losses) recognised in the fair value reserve	(107,754)	(316,692)

43 Obligations and future commitments

Obligations and future commitments are analysed as follows:

	Jun 2012 Euro '000	**Dez 2011 Euro '000**
Guarantees granted	496,943	510,686
Guarantees received	31,768,796	32,544,520
Commitments to third parties	1,446,982	1,578,234
Commitments from third parties	43,537	44,545
Securitised loans	251,195	264,299
Deposits held for safekeeping on behalf of costumers	5,456,327	5,367,132
	39,463,780	40,309,416

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

	Jun 2012 Euro '000	Dec 2011 Euro '000
Guaranteed granted		
Guaranteed	492,214	504,155
Open documentary credits	4,729	6,531
	496,943	510,686

	Jun 2012 Euro '000	Dec 2011 Euro '000
Commitments to third parties:		
Irrevocable commitments		
Irrevocable credit lines	167,420	230,860
Securities subscription	330,950	330,950
Annual contribution to the Guarantee Deposits Fund	25,314	25,314
Potencial obligation with the Investors' Indemnity System	2,316	2,316
Revocable commitments		
Revocable credit lines	920,982	988,794
	1,446,982	1,578,234

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

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

The commitments, revocable and irrevocable, represent contractual agreements for credit concession with CEMG clients which, in general, are contracted by fixed periods or with other expiring requisites and, normally, apply for the payment of a commission. Substantially, all commitments of credit concession in force require clients to maintain certain requisites which are verified at the time of the respective formalization.

Notwithstanding the particular characteristics of these contingent liabilities and commitments, the analysis of these operations follows the same basic principles of any one another commercial operation, namely the solvency of the underlying client and business, being that CEMG requires these operations to be adequately covered by collaterals when needed. Considering that is expected that the majority of these contingent liabilities and commitments expire without having being used, the indicated amounts do not represent necessarily future cash-flow needs.

As at 30 June 2012 and 31 December 2011, 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 2012 and 31 December 2011, is related with the irrevocable commitment assumed by CEMG and required by law, to deliver to that System the necessary amounts for CEMG's obligation with the investors' indemnities to be paid.

The financial instruments recorded as Obligations and future commitments are subject to the same control and approval procedures required for the credit portfolio, namely to the evaluation of the adequacy of provisions as referred in note 1 b), the maximum credit exposition is represented by the nominal value that could been lost related to the liabilities associated and other commitments of CEMG in the matter of the overdue by counterparties, without being in consideration potential recoveries of credit or collaterals.

44 Distribution of profit

On 29 March, 2012, following the General Assembly deliberation, CEMG distributed to Montepio Geral – Associação Mutualista in the amount of Euro 16,584,000 (31 December 2011: Euro 23,085,000).

45 Fair value

Fair value is based on market prices, whenever these are available. If market prices are not available, as it happens regarding many products sold to clients, fair value is estimated through internal models based on cash-flow discounting techniques.

Cash flows for the different instruments sold are calculated according with its financial characteristics and the discount rates used include both the interest rate curve and the current conditions of the pricing policy in CEMG.

Therefore, the fair value obtained is influenced by the parameters used in the evaluation model that, necessarily have some degree of judgement and reflect exclusively the value attributed to different financial instruments. However, it does not consider prospective factors, like the future business evolution.

Under these conditions, the values presented cannot be understood as an estimate of the economic value of CEMG.

CEMG determines the fair value of its financial assets and liabilities in accordance with the following hierarchy:

1 Quoted market prices – this category includes financial assets with available quoted market prices in official markets and with dealer prices, quotations provided by entities that usually provide transaction prices for these assets/liabilities traded in active markets.

2 Valuation models based on observable market information – consists on the use of internal valuation techniques, namely discounted cash flow models and option pricing models that imply the use of estimates and require judgments that vary in accordance with the complexity of the financial instrument. Notwithstanding, CEMG uses observable market data such as interest rate curves, credit spreads, volatility and market indexes. Includes also instruments with dealer price quotations but which are not traded in active markets.

3 Valuation models based on non-observable market information – consists on the use of internal valuation models or quotations provided by third parties but which imply the use of non-observable market information.

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

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

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

- *Other loans and advances to credit institutions, Amounts owed to other credit institutions from 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 installments occur in the contractually defined dates.

  The discount rate used reflects the current conditions applied by CEMG in identical instruments for each of the different maturities. The discount rate includes the market rates for the residual maturity date (rates from the monetary market or from the interest rate swap market, at the end of the year).

- *Financial assets held for trading (except derivatives), Financial liabilities held for trading (except derivatives) and Available-for-sale financial assets*

  These financial instruments are accounted at fair value. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

  Interest rates are determined based on information disseminated by the suppliers of content financial - Reuters and Bloomberg - more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar source but regarding interbank money market. The interest rate curve obtained is calibrated with the values of interest rate short-term futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are used in the projection of the non-deterministic cash flows such as indexes.

When optionality is involved, the standard templates (Black-Scholes, Black, Ho and others) considering the volatility areas applicable are used. Whenever there are no references in the market of sufficient quality or that the available models do not fully apply to meet the characteristics of the financial instrument, it is applied specific quotations supplied by an external entity, typically a counterparty of the business.

In case of shares not listed, they are recognized at historical cost when there is no available market value and it is not possible to determine reliably its fair value.

- *Financial assets held to maturity*

These financial instruments are accounted at amortized cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

- *Hedging and trading derivatives*

All derivatives are recorded at fair value.

In the case of those who are quoted in organized markets is used its market price. As for derivatives traded "over the counter", apply the numerical methods based on techniques of discounted cash flow valuation models and considering options including changing market interest rates applicable to the instruments concerned, and where necessary, their volatility.

Interest rates are determined based on information disseminated by the suppliers of content financial - Reuters and Bloomberg - more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar source but regarding interbank money market. The interest rate curve obtained is calibrated with the values of interest rate short-term futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods.

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 installments occur in the contractually defined dates. The discount rate used reflects the current conditions applied by CEMG in similar instruments for each of the homogeneous classes of this type of instrument and with similar maturity. The discount rate includes the market rates for the residual maturity date (rates from the monetary market or from the interest rate swap market, at the end of the year) and the spread used at the date of the report, which was calculated from the average production of the last three months of the year.

As at 30 June 2012, the average discount rate was 6.14% (31 December 2011: 6.26%), assuming the projection of variable rates according to the evolution of the forward rates implicit in the interest rate curves. The calculations also include the credit risk spread.

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

  Considering the short maturity of these financial instruments, the conditions of the existing portfolio are similar to current conditions used by CEMG. Therefore, the amount in the balance sheet is a reasonable estimate of its fair value.

- *Deposits from customers*

  The fair value of these financial instruments is calculated by discounting the expected principal and interest future cash flows, considering that payments occur in the contractually defined dates. The discount rate used reflects the current conditions applied by CEMG in identical instruments with a similar maturity.

  The discount rate includes the market rates of the residual maturity date (rates of monetary market or the interest rate swap market, at the end of the year) and the spread of CEMG at the date of the report, which was calculated from the average production of the last three months of the year.

  As at 30 June 2012, the average discount rate was of 3.01% (31 December 2011: 4.1%).

- *Debt securities issued and Subordinated debt*

  For these financial instruments, fair value was calculated for the components that are not yet reflected on CEMG's balance sheet. For the fixed interest rate instruments for which CEMG applies a hedge-note, the fair value regarding the interest rate risk is already accounted for.

  In fair value calculation, the other risk components were also considered, apart from the interest rate risk. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted by associated factors, predominantly the credit risk and trading margin, the latter only in the case of issues placed for non institutional customers of CEMG.

  As original reference, CEMG applies the curves resulting from the interest rate swaps markets for each specific currency. The credit risk (credit spread) is represented by an excess from the curve of interest rate swaps established specifically for each term and class of instruments based on the market prices on equivalent instruments.

  For own emissions placed among non institutional costumers of CEMG, it was added one more differential (trade spread), which represents the margin between the financing cost in the institutional market and the cost obtained by distributing the respective instrument in the commercial network owned.

As at 30 June 2012, the following table presents the values of the interest rates used in the clearance of the curves interest rate of major currencies, including Euro, United States Dollar and Sterling Pound used to determine the fair value of the financial assets and liabilities of CEMG:

	Currencies		
	Euro	**United States Dollar**	**Sterling Pound**
1 day	0.215%	0.305%	0.550%
7 days	0.270%	0.180%	0.550%
1 month	0.330%	0.210%	0.650%
2 months	0.430%	0.280%	0.750%
3 months	0.610%	0.380%	0.900%
6 months	0.880%	0.550%	1.250%
9 months	1.030%	1.210%	1.350%
1 year	1.170%	0.860%	1.450%
2 years	0.856%	0.550%	0.973%
3 years	0.959%	0.628%	0.998%
5 years	1.318%	0.963%	1.256%
7 years	1.645%	1.345%	1.609%
10 years	1.979%	1.747%	2.098%
15 years	2.283%	2.194%	2.098%
20 years	2.303%	2.365%	2.098%
30 years	2.281%	2.501%	2.098%

Exchange rates and volatility

We present below the exchange rates (European Central bank) at the balance sheet date and the implied volatilities (at the money) for the main currencies used on the derivatives valuation:

			Volatility (%)				
Exchange rates	**Jun 2012**	**Dec 2011**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.2590	1.2939	10.05	10.50	11.05	11.55	12.00
EUR/GBP	0.8068	0.8353	7.55	8.00	8.60	9.05	9.40
EUR/CHF	1.2030	1.2156	2.95	4.65	6.10	7.00	7.45
EUR/JPY	100.13	100.20	12.95	13.40	14.15	14.70	15.25

Concerning the exchange rates, CEMG uses in the valuation models the spot rate observed in the market at the time of the valuation.

Next table shows the decomposition of main adjustments to the financial assets and liabilities of CEMG, which are recognized at book value and fair value at 30 June 2012 and 31 December 2011:

	Jun 2012								
	Held for trading Euro '000	**Designated at fair value trough profit or loss Euro '000**	**Held-to-maturity Euro '000**	**Loans and advances Euro '000**	**Available-for--sale Euro '000**	**Others at amortised cost Euro '000**	**Other Euro '000**	**Book value Euro '000**	**Fair value Euro '000**
Financial assets:									
Cash and deposits at central bank	-	-	-	180,825	-	-	-	180,825	180,825
Loans and advances to credit institutions repayable on demand	-	-	-	52,093	-	-	-	52,093	52,093
Loans and advances to credit institutions	-	-	-	420,764	-	-	-	420,764	420,764
Loans and advances to customers	-	-	-	15,628,377	-	-	-	15,628,377	14,316,972
Financial assets held for trading	153,691	-	-	-	-	-	-	153,691	153,691
Other financial assets at fair value through profit or loss	-	3,667	-	-	-	-	-	3,667	3,667
Available-for-sale financial assets	-	-	-	-	6,841,700	-	-	6,841,700	6,841,700
Hedging derivates	1,315	-	-	-	-	-	-	1,315	1,315
Held-to maturity investments	-	-	17,431	-	-	-	-	17,431	17,507
Investments in associated companies and other	-	-	-	-	-	-	384,547	384,547	384,547
	155,006	3,667	17,431	16,282,059	6,841,700	-	384,547	23,684,410	22,373,081
Financial liabilities:									
Deposits from central banks	-	-	-	-	-	-	1,968,212	1,968,212	1,968,212
Deposits from other credit institutions	-	-	-	-	-	-	1,057,648	1,057,648	1,057,648
Deposits from customers	-	-	-	-	-	-	13,313,875	13,313,875	13,333,070
Debt securities issued	-	-	-	-	-	-	1,764,693	1,764,693	1,764,695
Financial liabilities relating to transferred assets	-	-	-	-	-	-	3,926,668	3,926,668	3,926,668
Financial liabilities held for trading	95,598	-	-	-	-	-	-	95,598	95,598
Hedging derivates	3,052	-	-	-	-	-	-	3,052	3,052
Other subordinated debt	-	-	-	-	-	-	478,210	478,210	478,210
	98,650	-	-	-	-	-	22,509,306	22,607,956	22,627,153

	Dec 2011								
	Held for trading Euro '000	**Designated at fair value trough profit or loss Euro '000**	**Held-to-maturity Euro '000**	**Loans and advances Euro '000**	**Available-for--sale Euro '000**	**Others at amortised cost Euro '000**	**Others Euro '000**	**Book value Euro '000**	**Fair value Euro '000**
Financial assets:									
Cash and deposits at central bank	-	-	-	381,540	-	-	-	381,540	381,540
Loans and advances to credit institutions repayable on demand	-	-	-	102,701	-	-	-	102,701	102,701
Loans and advances to credit institutions	-	-	-	370,268	-	-	-	370,268	370,268
Loans and advances to customers	-	-	-	16,200,240	-	-	-	16,200,240	14,788,755
Financial assets held for trading	145,252	-	-	-	-	-	-	145,252	145,252
Other financial assets at fair value through profit or loss	-	3,606	-	-	-	-	-	3,606	3,606
Available-for-sale financial assets	-	-	-	-	5,821,780	-	-	5,821,780	5,821,780
Hedging derivates	1,184	-	-	-	-	-	-	1,184	1,184
Held-to maturity investments	-	-	48,416	-	-	-	-	48,416	45,909
Investments in associated companies and others	-	-	-	-	-	-	384,547	384,547	384,547
	146,436	3,606	48,416	17,054,749	5,821,780	-	384,547	23,459,534	22,045,542
Financial liabilities:									
Deposits from central banks	-	-	-	-	-	-	2,003,300	2,003,300	2,003,300
Deposits from other credit institutions	-	-	-	-	-	-	1,182,068	1,182,068	1,182,068
Deposits from customers	-	-	-	-	-	-	13,190,639	13,190,639	13,209,073
Debt securities issued	-	-	-	-	-	-	2,240,688	2,240,688	2,240,689
Financial liabilities relating to transferred assets	-	-	-	-	-	-	3,289,983	3,289,983	3,289,983
Financial liabilities held for trading	101,524	-	-	-	-	-	-	101,524	101,524
Hedging derivates	2,444	-	-	-	-	-	-	2,444	2,444
Other subordinated debt	-	-	-	-	-	-	477,247	477,247	477,247
	103,968	-	-	-	-	-	22,383,925	22,487,893	22,506,328

46 Employee benefits

CEMG assumed the liability to pay to their employees pensions on retirement or disability and other obligations. These liabilities comply with the terms of the 'Acordo Colectivo de Trabalho' (ACT). CEMG pension obligations are covered through the Pensions Fund managed by “Futuro - Sociedade Gestora de Fundos de Pensões, S.A.”.

Following the approval by the Government of the Decree-Law no. 127/2011, which was published on 31 December, an agreement between the Government, the Portuguese Banking Association and the Banking Labour Union was established that regulated the transfer of the liabilities related with pensions currently being paid to pensioners and retirees, to the Social Security.

This agreement established that the responsibilities to be transfer relates to the pensions in payment as at 31 December 2011 at fixed amounts (discount rate 0%) in the component established in the „Instrumento de Regulação Colectiva de Trabalho (IRCT)" of the retirees and pensioners. The responsibilities related with the increase in pensions as well as any other complements namely, contributions to the Health System (SAMS), death benefit and death before retirement benefit continue to be under the responsibility of the Financial Institutions and being financed through the corresponding Pensions funds. The Decree-Law also establishes the terms and conditions under which the transfer was made by setting a discount rate of 4% to determine the liabilities to be transferred.

The responsibilities transferred were determined based on different actuarial assumptions from the assumptions used by the Group, namely the discount rate (4%). These assumptions were determined on a liquidation perspective of the responsibilities (exit value) considering that relates to a definitive and not reversible transfer, implying differences regarding the assumptions used in determining the responsibilities recognized in the financial statements prepared in accordance with the requirements defined in IAS 19 – Employee benefits.

As a consequence, the Projected benefit liabilities and the Value of the Pension Fund, as at 30 June 2012, are presented net of the amounts transferred or to be transferred. As at 30 June 2012, was made last financial settlement of the operation in the amount of Euro 1,377,000, as referred in note 11.

Additionally, and considering that IAS 19 – Employee benefits allows for recognition of the actuarial gains and losses directly in Equity, CEMG decided to change the accounting policy related to the recognition of the actuarial gains and losses in Other Comprehensive Income. In accordance with IAS 8, this change in accounting policy is presented for comparative purposes since 1 January 2010, recognizing at that date the total amount of the deferred actuarial gains and losses in equity.

In accordance with note 1s), CEMG does the calculation of pension liabilities and pension actuarial gains and losses twice a year.

According to this policy and as described in IAS 19 - Employee Benefits, CEMG evaluates the balance sheet date, and separately for each plan, the recoverability of the excess coverage of the Fund meet their pension liabilities.

During the first semester of 2012, CEMG recognized as pension costs the amount of Euro 6,686,000 (30 June 2011: 11,078,000). The analysis of the cost is as follows:

	Jun 2012				Jun 2011			
	Pension plans Euro '000	Death Subsidy Euro '000	Healthcare benefits Euro '000	Total Euro '000	Pension plans Euro '000	Death Subsidy Euro '000	Healthcare benefits Euro '000	Total Euro '000
Service cost	4,293	389	242	4,924	5,533	382	471	6,386
Interest cost	10,537	861	223	11,621	17,067	272	957	18,296
Expected return on plan assets	(10,986)	(889)	(239)	(12,114)	(15,990)	(255)	(897)	(17,142)
Actuarial gains/losses amortization	-	-	-	-	916	-	-	916
Early retirements	878	-	-	878	2,622	-	-	2,622
Resulting from the transfer to the general social healthcare system ("RGSS")	1,377	-	-	1,377	-	-	-	-
Cost for the period	6,099	361	226	6,686	10,148	399	531	11,078

The balance Costs resulting from the transfer to the General Social Security Scheme at 30 June 2012 corresponds to the impact of the transfer of the responsibilities to retired employees/ pensioners to the General Social Security Scheme. That impact is the effect of liabilities recalculation with the preconditions defined Portugal State in the transfer situation.

CEMG used the following actuarial assumptions used to calculate pension responsibilities with retirement pension at 30 June 2012 and 31 December 2011:

	Jun 2012	**Dec 2011**
Salaries increase rate	2.00%	2.00%
Pensions increase rate	1.00%	1.00%
Projected rate of return of Fund assets	5.50%	5.50%
Discount rate	5.50%	5.50%
Mortality table	TV 88/90	TV 88/90
Disability table	EVK 80	EVK 80

47 Related parties transactions

As at 30 June 2012, CEMG's liabilities with subsidiaries, represented or not by securities, included in the balances Deposits from customers, Other subordinated debt and Loans and advances to customers, are analysed as follows:

	Jun 2012		
Company	**Deposits from customers Euro '000**	**Other subordinated debt Euro '000**	**Loans and advances to customers Euro '000**
Lusitania, Companhia de Seguros, S.A.	6,780	13,000	7,956
Lusitania Vida, Companhia de Seguros, S.A.	18,106	3,250	-
Nova Câmbios, S.A.	-	-	401
Silvip, S.A.	2,025	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	3,385	-	1
Montepio Gestão de Activos – S.G.F.I.M., S.A.	1,127	-	-
MG Investimentos Imobiliários, S.A.	-	-	125
Bolsimo – Gestão de Activos, S.A.	153	-	-
Residências Montepio, Serviços de Saúde, S.A.	138	-	2,564
Germont – Empreendimentos Imobiliários, S.A.	-	-	19,119
NEBRA, Energias Renovables, SL	5	-	1,612
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	323	-	13
Banco Montepio Geral - Cabo Verde, Soc. Unipessoal, S.A. (IFI)	399,416	-	-
Civilcentro - Construções do Centro S.A.	-	-	2,450
Finibanco Vida - Companhia de Seguros Vida, S.A.	2,387	-	-
Finimóveis - Sociedade Imobiliária de Serviços Auxilares, S.A.	588	-	7,000
Finisegur-Sociedade Mediadora de Seguros, S.A.	764	-	-
Iberpartners Cafés - S.G.P.S., S.A.	24	-	1,458
Prio Energy S.G.P.S., S.A.	568	-	4,745
Fundo de Pensões CEMG - Gerido pela Futuro	207,606	-	-
Conselho de Administração	1,527	-	141
Montepio Geral - Associação Mutualista	551,030	438,151	-
Finibanco Holding, S.G.P.S., S.A.	43	19,119	43
Finicrédito - Instituição Financeira de Crédito, S.A.	203,093	-	114,498
Fundação Montepio Geral	1,281	-	-
Finibanco, S.A.	16,295	-	34
N Seguros, S.A.	4,824	-	-
Montepio Recuperação de Crédito, ACE	-	-	8
Montepio Arrendamento - FIIAH	15,985	-	-
Finibanco Angola, S.A.	28,731	-	-
CA Imobiliário - Fundo Especial Investimento Imob. Aberto	7,281	-	-
Polaris - Fundo de Investimento Imobiliário Aberto	1	-	-
	1,473,486	473,520	162,168

As at 31 December 2011, CEMG's liabilities with subsidiaries, represented or not by securities, included in the balances Deposits from customers, Other subordinated debt and Loans and advances to customers, are analysed as follows:

	Dec 2011		
Company	**Deposits from customers Euro '000**	**Other subordinated debt Euro '000**	**Loans and advances to customers Euro '000**
Lusitania, Companhia de Seguros, S.A.	30,112	13,350	10,078
Lusitania Vida, Companhia de Seguros, S.A.	20,896	3,250	1
Nova Câmbios, S.A.	231	-	530
Silvip, S.A.	1,927	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	2,532	-	-
Montepio Gestão de Activos – S.G.F.I.M., S.A.	1,096	-	-
MG Investimentos Imobiliários, S.A.	3	-	120
Bolsimo – Gestão de Activos, S.A.	2,749	-	-
Residências Montepio, Serviços de Saúde, S.A.	141	-	2,463
Germont – Empreendimentos Imobiliários, S.A.	308	-	23,119
NEBRA, Energias Renovables, SL	5	-	1,570
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	109	-	13
Banco Montepio Geral - Cabo Verde, Soc. Unipessoal, S.A. (IFI)	29,526	-	-
Civilcentro - Construções do Centro S.A.	-	-	2,402
Finibanco Vida-Companhia de Seguros Vida, S.A.	284	-	-
Finimóveis - Sociedade Imobiliária de Serviços Auxilares, S.A.	300	-	-
Finisegur - Sociedade Mediadora de Seguros, S.A.	699	-	-
Iberpartners Cafés - S.G.P.S., S.A.	-	-	1,379
Prio Energy S.G.P.S., S.A.	8,235	-	5,287
Fundo de Pensões CEMG - Gerido pela Futuro	224,224	-	-
Conselho de Administração	1,578	-	302
Montepio Geral - Associação Mutualista	464,900	-	-
Finibanco Holding, S.G.P.S., S.A.	19,176	-	27,264
Finicrédito - Instituição Financeira de Crédito, S.A.	130	-	189,171
Fundação Montepio Geral	839	-	-
Finibanco, S.A.	3,403	-	39,309
N Seguros, S.A.	7,226	-	-
Montepio Recuperação de Crédito, ACE	-	-	2
Montepio Arrendamento - FIIAH	16,543	-	-
Finibanco Angola, S.A.	14,912	-	16
CA Imobiliário - Fundo Especial Investimento Imob. Aberto	10,532	-	-
	862,616	16,600	303,026

As at 30 June 2012, CEMG's income with subsidiaries, included in the balances Interest and similar income and expense and Fee and commission income, are analysed as follows:

	Jun 2012		
Companies	**Interest and similar expense Euro '000**	**Interest and similar income Euro '000**	**Fee and commission Euro '000**
Lusitania, Companhia de Seguros, S.A.	116	151	21
Lusitania Vida, Companhia de Seguros, S.A.	185	1	10
Nova Câmbios, S.A.	-	5	1
Silvip, S.A.	13	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	24	-	-
Montepio Gestão de Activos – S.G.F.I.M., S.A.	6	-	-
Residências Montepio, Serviços de Saúde, S.A.	-	17	8
Germont – Empreendimentos Imobiliários, S.A.	-	88	-
NEBRA, Energias Renovables, SL	869	-	-
Banco Montepio Geral - Cabo Verde, Soc. Unip. S.A.	120	-	-
SIBS - Sociedade Interbancária de Serviços, S.A.	-	10	-
Civilcentro - Construções do Centro S.A.	-	176	8
Finibanco Vida - Companhia de Seguros Vida, S.A.	-	-	1
Finimóveis Soc. Imob. Serviços Auxiliares, S.A.	-	69	-
Finisegur - Sociedade Mediadora Seguros, S.A.	-	-	-
Iberpartners Cafés - S.G.P.S., S.A.	-	12	-
Prio Energy S.G.P.S., S.A.	-	62	41
Fundo de Pensões CEMG - Gerido pela Futuro	1 860	12	22
Conselho de Administração	9	1	-
Montepio Geral - Associação Mutualista	2 987	37	15
Finibanco Holding, S.G.P.S., S.A.	-	-	1
Finicrédito - Instituição Financeira de Crédito, S.A.	-	1 400	5
Finibanco, S.A.	-	-	2
Montepio Recuperação Crédito - ACE	-	39	-
Finibanco Angola, S.A.	218	13	-
N Seguros, S.A.	263	15	-
CA Imobiliário - Fundo Investimento Imob. Aberto	-	-	1
POLARIS	286	-	-
	6 956	2 108	136

As at 30 June 2011, CEMG's income with subsidiaries, included in the balances Interest and similar income and expense and Fee and commission income, are analysed as follows:

	Jun 2011	
Companies	**Interest and similar income Euro '000**	**Fee and commission Euro '000**
Lusitania, Companhia de Seguros, S.A.	125	1,728
Lusitania Vida, Companhia de Seguros, S.A.	4	1,858
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	0	0
SIBS - Sociedade Interbancária de Serviços, S.A.	0	13,618
MG Gestão de Activos Financeiros– S.G.F.I.M., S.A.	0	865
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	0	1,421
Finicrédito - Instituição Financeira de Crédito, S.A.	33	0
	162	19,490

According to the principle of fair value, every transaction concerning related parties is at market prices.

48 Securitisation transactions

As at 30 June 2012, there are nine securitization transactions, seven of which originated in CEMG and two in Finibanco S.A., currently integrated into CEMG following the success of General and Voluntary Initial Public Offering on the equity representative shares of Finibanco – Holding, SGPS, S.A. and transmission of almost all assets and liabilities for CEMG.

In the following paragraphs present some additional details of these securitization transactions.

As at 19 December, 2002, Caixa Económica Montepio Geral had settled a securitisation operation with a Special Purpose Vehicle (“SPV”) – Pelican Mortgages no. 1 PLC, established in Dublin. The referred agreement consists in a mortgage credit transfer for a period of 35 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 650,000,000. 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 had settled a securitisation operation with a Special Purpose Vehicle (“SPV”) – Pelican Mortgages no. 2 PLC, established in Dublin. The referred agreement consists in a mortgage credit transfer for a period of 33 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 700,000,000. 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 had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 3. The referred agreement consists in a mortgage credit transfer for a period of 47 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 750,000,000. 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 14 June 2007, Finibanco had settled a current account portfolio to small and medium enterprises to Navegator – Sociedade Gestora de Fundos de Titularização de Créditos, S.A., in the amount of Euro 250,000,000 (Aqua SME no. 1). The total period of this operation is 10 years, with a revolving period of three years.

As at 20 May, 2008, Caixa Económica Montepio Geral had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 4. The referred agreement consists in a mortgage credit transfer for a period of 48 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,000,000,000. 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 9 December 2008, Finibanco had settled a mortgage credit portfolio to “Tagus – Sociedade de Titularização de Créditos, S.A.” in the amount of Euro 233,000,000 (Aqua Mortage No. 1). The total period of this operation is 55 years, with a revolving period of 2 years.

As at 25 March 2009, Caixa Económica Montepio Geral had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 5. The referred agreement consists in a mortgage credit transfer for a period of 52 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,000,000,000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0564% of the referred nominal value.

As at 22 June 2010, Caixa Económica Montepio Geral had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage SME. The referred agreement consists in a mortgage credit transfer for a period of 26 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,167,000,000. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.15% of the Asset Backed Notes.

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

The entity that guarantees the debt service (servicer) of this operations is “Caixa Económica Montepio Geral” assuming the collection and distribution of credits assigned amounts received by deposits, to Sociedades Gestoras de Fundos de Titularização de Créditos (Pelican Mortgages No. 1 PLC, Pelican Mortgages No. 2 PLC e Aqua SME n.º 1) and to Sociedades de Titularização de Créditos (Pelican Mortgages No. 3, Pelican Mortgages No. 4, Pelican Mortgages No. 5 and Aqua Mortgages No. 1).

Until 31 December 2004, in accordance with accounting principles, as established by the Bank of Portugal, the assets, loans and securities transfer under above transactions were derecognized. The acquired securities under these transactions were classified as financial assets held-to-maturity and provision in accordance with Notice no. 27/2000 of the Bank of Portugal.

In accordance with IFRS 1, CEMG follows derecognized criteria to individual statements to all transactions occur until 1 January 2004. For the all transactions after this date, CEMG follows de guidance of IAS 39 concerning 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 2012, the securitisation operations are presented as follows:

Issue	Settlement date	Currency	Asset transferred	Amount Euro' 000
Pelican Mortgages No. 1	December 2002	Euro	Mortgage credit	650,000
Pelican Mortgages No. 2	September 2003	Euro	Mortgage credit	700,000
Pelican Mortgages No. 3	March 2007	Euro	Mortgage credit	750,000
Aqua SME No. 1	June 2007	Euro	Small companies	250,000
Pelican Mortgages No. 4	May 2008	Euro	Mortgage credit	1,000,000
Aqua Mortgage No. 1	December 2008	Euro	Mortgage credit	233,000
Pelican Mortgages No. 5	March 2009	Euro	Mortgage credit	1,000,000
Pelican SME	June 2010	Euro	Small companies	1,167,000
Pelican Mortgages No. 6	March 2012	Euro	Mortgage credit	1,107,000
				6,857,000

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

	Jun 2012 Euro '000	Dec 2011 Euro '000
Pelican Mortgages No.1	86,309	91,754
Pelican Mortgages No.2	164,886	172,545
	251,195	264,299

49 Amounts owed by CEMG to subsidiary companies

As at 30 June 2012 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:

	Deposits from other credit institutions Euro '000
Banco MG – Cabo Verde, Sociedade Unipessoal, S.A. (IFI)	399,416
Finibanco Angola, S.A.	28,731
Finibanco - Holding, S.G.P.S., S.A.	43
Finibanco, S.A.	16,295
Finicrédito - Instituição Financeira de Crédito, S.A.	203,093
	647,578

50 Transactions with Group companies

The most significant balances and transactions with Group companies are detailed in the corresponding notes.

51 Risk management

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

CEMG's risk management policy is designed to ensure adequate relationship at all times between its own funds and the business it carries on, and also to evaluate the risk/return profile by business line.

In this connection, monitoring and control of the main types of financial risk – credit, market, liquidity and operational – to which the CEMG's business is subject are of particular importance.

The analysis and risk control are carried out in an integrated mode, through the Direcção de Risco ("DRI"), which includes three departments:

- Credit Risk Department: responsible for development and integration in decision-making of internal models of credit risk analysis, and reporting on Prudential Equity and internal reports on credit risk;
- Market Risk Department: ensure the examination and supervisory reporting and internal market risk, interest rate, foreign exchange and liquidity, as well as their integration into decision-making processes of the dealing room;
- Operacional Risk Department: operational risk management responsible;

"DRI" also ensures coordination with the Bank of Portugal, in the field of prudential reports, including the level of capital requirements, liquidity risk and interest rate risk.

Under the credit risk management and control have been developed several activities, including most importantly the regular realization of Committee of the Risk and Internal Control and policy delegation review of credit decision, in order to make it sensitive to the level expected risk of the client / transaction.

Additionally, was created the "Direcção de Análise de Crédito", which ensures the assessment of credit proposals from companies and individuals, as well as the assignment of internal ratings in the corporate segment.

On the regulatory and Basel II, were developed reports referred in Pillar II - Capital adequacy, and Pillar III - Market Discipline. Under Pillar II were reported to Bank of Portugal reports Process Self-Evaluation of the Capital Market ("ICAAP"), Stress Testing and Risk Concentration as Instruction no. 2/2010, Bank of Portugal . The results of the reports point to the soundness of capital levels commensurate with the risks with greater materiality and the potential adverse developments in key macroeconomic indicators. At the level of risk concentration there is a positive development in the main types of concentration - Sectoral, Geographic and Individual. Under Pillar III, was made public the report of Market Discipline, detailing the types and levels of risk incurred in the activity, as well as the processes, structure and organization of risk management.

It also ensured the participation in the work of "Programa Especial de Inspecções", under the Memorandum signed between the Portuguese State and European Central Bank, European Commission and International Monetary Fund.

This program focused on three areas of work - credit impairment calculation, capital requirements for credit risk calculation and stress testing procedures. The results were very satisfactory, confirming the adequacy of procedures adopted by CEMG.

CEMG has also been following the recommendations of the Basel Committee and follows closely the developments in the Basel III framework of liquidity management and capital assessment, having been carried out analyzes of their impact. The CEMG has also regularly participated in Quantitative Impact Studies (QIS) Basel III, developed by the Bank of Portugal in accordance with the guidelines of the European Bank Association (EBA). The documents published by the Basel Committee in late 2009, are now published in their final versions and is expected to be transposed into European directives soon.

Main types of risk

Credit – Credit risk is associated with the degree of uncertainty of the expected returns as a result of the inability either of the borrower (and the guarantor, if any) or of the issuer of a security or of the counterparty to an agreement to fulfil their obligations.

Market – Market risk reflects the potential loss inherent in a given portfolio as a result of changes in rates (interest and exchange) and/or in the prices of the various financial instruments that make up the portfolio, considering both the correlations that exist between them and the respective volatility.

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

Operational – Operational risk is the potential loss resulting from failures or inadequacies in internal procedures, persons or systems, and also the potential losses resulting from external events.

Internal organization

The Board of Directors is responsible for risk management strategy and policies, and it is advised by the Risk Analysis and Management Division in these fields, that undertake the analysis and the risk management from the standpoint of CEMG, includes the coordination of the Risk Committee and Internal Control and reporting the level of the Asset and Liability Committee ("ALCO") and the Committee on Information Technology.

The Internal Auditing Management, as support to the Board of Directors, has the main duties to assessing reports on the internal control system to be sent annually to the Bank of Portugal, to check compliance with the applicable legislation on the part of the various departments, and to identify major risk areas and submitting its conclusions to the Board of Directors.

Depending on the nature and severity of the risk, plans, programs or actions shall be drawn up, supported by information systems, and procedures shall be devised that provide a high degree or reliably as to the risk management measures defined whenever necessary.

The Dealing Room shall cooperate with the Risk Analysis and Management in order to measure and control operations and portfolio risks, as well as suitably monitor CEMG’s overall risk positions.

In terms of compliance risk, the Head of Compliance in the dependence of the Board of Directors, shall control, identify and assess the various situations that contribute to this risk, namely in terms of transactions/activities, business, products and departments.

In this context, the Internal Auditing Management shall also assess the internal control system, identifying the areas of major importance/risk, to ensure efficient governance.

Risk evaluation

Credit Risk – Retail

Credit risk models play a significant role in credit decision process. Indeed, the decision process concerning the credit portfolio depends on a group of policies based on scoring models developed to individual and business clients and the rating for the corporate sector.

Credit decisions are dependent upon risk ratings and compliance with various rules governing financial capacity and applicants' behaviour. In order to support commercial strategies reactive scoring models are also used, namely in the main individual credit portfolios, such as mortgage and individual loans, distinguishing between customers and non-customers (or new customers). In the case of credit card the correspondent reactive scoring model is being reviewed. Additionally, in the individual credit portfolios, commercial performance and credit risk analysis are supported by behaviour scorings.

To corporate credit are used internal rating models to medium and large companies, distinguishing construction from the other activity sectors, while for customers "Empresários em nome individual" and micro business is applied the scoring model business.

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

	Jun 2012 Euro '000	**Dec 2011 Euro '000**
Loans and advances to credit institutions	52,093	102,701
Other loans and advances to credit institutions	420,764	370,268
Loans and advances to customers	15,628,377	16,200,240
Financial assets held for trading	142,415	139,838
Other financial assets held for trading at fair value through profit or	3,667	3,606
Financial assets available for sale	6,313,674	5,456,484
Hedging derivates	1,315	1,184
Financial assets held to maturity	17,431	48,416
Investments in associated companies	384,547	384,547
Other assets	229,857	267,772
Guarantees granted	496,943	510,686
Irrevocable commitments	167,420	230,860
Credit default swaps (notionals)	64,414	81,093
	23,922,917	23,797,695

The analysis of the risk exposure by sector of activity, as at 30 June 2012, can be analysed as follows:

	Jun 2012							
Sector of activity	**Loans and advances to customers**		**Financial assets held for trading**	**Other financial assets at fair value through profit or loss**	**Available-for-sale financial assets**		**Held-to-maturity investments**	**Guarantees granted**
	Gross amount Euro '000	**Impairment [(a)] Euro '000**	**Gross amount Euro '000**	**Gross amount Euro '000**	**Gross amount Euro '000**	**Impairment [(a)] Euro '000**	**Gross amount Euro '000**	**Euro '000**
Agriculture	68,869	(4,580)	-	-	332	(91)	-	1,957
Mining	43,709	(763)	-	-	-	-	-	1,618
Food, beverage and tobacco	139,977	(8,334)	1,074	-	8,169	(230)	-	5,612
Textiles	78,395	(19,132)	-	-	-	-	-	1,894
Shoes	23,017	(6,098)	-	-	-	-	-	152
Wood and cork	52,555	(10,453)	-	-	93,048	-	-	1,805
Priting and publishing	51,640	(3,475)	-	-	-	-	-	743
Petroleum refining	494	(189)	890	-	22,846	(205)	-	-
Chemicals and rubber	101,298	(8,492)	209	-	1,043	-	-	2,760
Non-metallic minerals	48,744	(2,868)	-	-	-	-	-	2,935
Basis metallurgic industries and metallic production	133,726	(6,726)	-	-	-	-	-	8,718
Production of machinery	45,675	(2,085)	99	-	531	(207)	-	2,048
Production of transport material	19,741	(1,650)	551	-	-	-	-	298
Other transforming material	41,337	(5,696)	235	-	35,517	(2,471)	-	1,851
Electricity, gas and water	106,939	(1,802)	481	2,640	23,953	(1,442)	-	4,982
Construction	2,279,820	(220,957)	226	-	10,976	(998)	-	225,189
Wholesale and retail	1,108,454	(103,911)	4,231	-	16,368	-	-	66,478
Tourism	341,831	(16,767)	-	-	7,159	(90)	-	12,380
Transports	179,790	(17,909)	-	-	2,340	-	-	11,324
Communications and information activities	56,926	(4,053)	977	-	24,550	(352)	-	857
Financial activities	631,936	(18,835)	142,981	1,027	2,203,612	(23,091)	-	64,280
Real estates activities	942,772	(61,818)	-	-	9,708	(691)	-	34,411
Services provided to companies	513,208	(18,422)	-	-	12,098	-	-	14,915
Public services	140,295	(1,485)	-	-	1,238,790	-	17,431	591
Other activities of collective services	387,642	(12,797)	-	-	-	-	-	8,219
Mortgage loans	8,529,478	(146,656)	-	-	3,019,425	(12,199)	-	-
Others	248,797	(94,617)	1,737	-	153,541	(239)	-	20,926
Total	16,317,065	(800,570)	153,691	3,667	6,884,006	(42,306)	17,431	496,943

[(a)] includes a impairment provision in the amount of 688,688 thousands of euro (see note 20) and provisions for general banking risk in the amount of 111,882 thousands of euro (see note 36).

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

	Dec 2011							
Sector of activity	**Loans and advances to customers**		**Financial assets held for trading**	**Other financial assets at fair value through profit or loss**	**Available-for-sale financial assets**		**Held-to-maturity investments**	**Guarantees granted**
	Gross amount Euro '000	**Impairment [a] Euro '000**	**Gross amount Euro '000**	**Gross amount Euro '000**	**Gross amount Euro '000**	**Impairment [a] Euro '000**	**Gross amount Euro '000**	**Euro '000**
Agriculture	51 384	(3 869)	59	-	442	(91)	-	3 356
Mining	40 265	(1 165)	57	-	-	-	-	1 617
Food, beverage and tobacco	132 141	(10 656)	901	-	13 900	(187)	-	3 182
Textiles	62 521	(13 143)	-	-	-	-	-	805
Shoes	19 917	(1 477)	-	-	-	-	-	125
Wood and cork	51 510	(10 114)	-	-	82 716	-	-	1 406
Priting and publishing	49 388	(13 261)	-	-	-	-	-	748
Petroleum refining	441	(135)	537	-	34 854	-	-	-
Chemicals and rubber	84 251	(5 242)	155	-	1 042	-	-	2 661
Non-metallic minerals	48 452	(2 416)	-	-	-	-	-	2 916
Basis metallurgic industries and metallic production	129 638	(10 640)	-	-	-	-	-	9 037
Production of machinery	41 302	(2 442)	36	-	539	(121)	-	1 875
Production of transport material	18 797	(1 074)	42	-	-	-	-	298
Other transforming material	36 237	(3 219)	32	-	75 967	(2 471)	-	1 906
Electricity, gas and water	104 266	(3 240)	751	2 593	23 238	(976)	-	4 620
Construction	2 343 408	(243 892)	153	-	10 968	(998)	-	228 211
Wholesale and retail	1 006 997	(78 857)	294	-	14 145	-	-	63 125
Tourism	315 542	(12 438)	-	-	7 427	(90)	-	13 878
Transports	163 265	(8 432)	154	-	2 333	-	-	8 689
Communications and information activities	49 286	(2 540)	356	-	28 011	-	-	1 287
Financial activities	741 721	(16 279)	140 524	1 013	2 283 565	(13 410)	-	47 024
Real estates activities	962 598	(80 747)	53	-	7 692	(691)	-	28 444
Services provided to companies	323 802	(18 687)	-	-	14 520	-	-	11 937
Public services	116 238	(1 164)	-	-	1 301 933	(19 309)	48 416	583
Other activities of collective services	287 826	(7 873)	-	-	-	-	-	7 676
Mortgage loans	8 975 960	(233 698)	-	-	1 834 521	(11 063)	-	-
Others	737 312	(24 591)	1 148	-	133 614	(240)	-	65 280
Total	16 894 465	(811 291)	145 252	3 606	5 871 427	(49 647)	48 416	510 686

[a] includes a impairment provision in the amount of 694,225 thousands of euro (see note 20) and provisions for general banking risk in the amount of 117,066 thousands of euro (see note 36).

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

During the six months period ended 30 June 2012 and 2011, CEMG closed a number of credit default swaps, that lead to a reduction of the notional value of the purchase contracts of Euro 27,500,000 to Euro 21,500,000, and of sale contracts of Euro 53,500,000 to Euro 43,000,000.

Overall Risks and Financial Assets

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

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

Concerning risk information and analysis, regular reports are provided on the credit and market risks on the company's financial assets and those of the other members of CEMG. For the company's own portfolio, the various risk limits are defined using the Value-at-Risk ("VaR") method. There are different exposure limits such as global 'VaR' limits, by issuer, by asset type/class and rating. There are also limits of Stop Loss. Investment portfolio is mainly concentrated in bonds which as at 30 June 2012 represented 69% of the total's portfolio.

CEMG continuously calculates its own portfolios 'VaR', given a 10-day horizon and a 99% confidence interval, by the method of historical simulation.

Regarding the nature of the retail activity, CEMG normally presents positive interest rate gaps, that in the six months period ended 30 June 2012, reached, in static terms, Euro 161,278,000 negative (31 December 2011: Euro 604,896,000 positive) (considering the total of the refixing terms of the interest rates).

The following table presents the mainly indicators of these measures, as at 30 June 2012 and 31 December 2011:

	Jun 2012				**Dec 2011**			
	June Euro '000	**Annual average Euro '000**	**Maximum Euro '000**	**Minimum Euro '000**	**December Euro '000**	**Annual average Euro '000**	**Maximum Euro '000**	**Minimum Euro '000**
Interest rate Gap	(161,278)	221,809	604,896	(161,278)	604,896	327,435	604,896	49,973

Following the recommendations of Basel II (Pillar II) and Instruction no. 19/2005, of the Bank of Portugal, CEMG calculates its exposure to interest rate risk based on the methodology of the Bank of International Settlements ("BIS") which requires the classification of non-trading balances and off-balance positions by repricing intervals.

	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	Total Euro '000
30 June 2012						
Assets	10,908,910	4,466,412	637,565	1,381,224	811,209	18,205,320
Off balance sheet	11,905,675	208,100	361,876	2,106,526	-	14,582,177
Total	22,814,585	4,674,512	999,441	3,487,750	811,209	32,787,497
Liabilities	6,606,062	1,551,368	3,927,348	6,182,103	99,815	18,366,696
Off balance sheet	12,696,468	518,841	13,740	1,353,028	-	14,582,077
Total	19,302,530	2,070,209	3,941,088	7,535,131	99,815	32,948,773
GAP (Assets – Liabilities)	3,512,055	2,604,303	(2,941,647)	(4,047,381)	711,394	(161,276)
31 December 2011						
Assets	12,060,231	4,723,593	443,280	1,481,436	813,517	19,522,057
Off balance sheet	11,650,184	178,931	971,660	2,253,911	-	15,054,686
Total	23,710,415	4,902,524	1,414,940	3,735,347	813,517	34,576,743
Liabilities	8,302,384	2,353,259	2,789,954	5,300,452	171,200	18,917,249
Off balance sheet	13,116,395	562,418	8,970	1,366,812	-	15,054,595
Total	21,418,779	2,915,677	2,798,924	6,667,264	171,200	33,971,844
GAP (Assets – Liabilities)	2,291,636	1,986,847	(1,383,984)	(2,931,917)	642,317	604,899

Sensibility analysis

As at June, 2012, based on the interest rate gaps observed, an instantaneous positive variation in the interest rates by 100 bp would cause an increase in the income statement in Euro 34,229,000 (31 December 2011: Euro 26,734,000).

The following table presents the average interests, in relation to the CEMG major assets and liabilities categories for the periods ended 30 June 2012 and 31 December 2011, as well as the average balances and the income and expense for the period:

	Jun 2012			Dec 2011		
Products	**Average balance for the period Euro '000**	**Average interest rate (%)**	**Income / Expense Euro '000**	**Average balance for the period Euro '000**	**Average interest rate (%))**	**Income / Expense Euro '000**
Assets						
Loans to customers	16,563,484	4.61	379,765	16,167,253	4.18	676,363
Deposits	11,879	1.03	571	196,012	1.24	2,439
Securities portfolio	7,600,627	3.04	115,014	6,363,143	2.98	189,472
Inter-bank loans and advances	432,674	0.74	1,595	453,286	1.85	8,404
Swaps	-		142,042	-	-	277,653
Total Assets	24,608,664		638,987	23,179,694		1,154,331
Liabilities						
Deposits from customers	13,428,488	3.61	240,826	11,857,822	2.91	344,719
Securities deposits	8,318,387	2.77	114,738	8,180,018	2.47	202,352
Interbank deposits	2,514,844	1.02	12,778	2,656,595	1.61	42,810
Other liabilities	296	0.53	1	336	0.69	2
Swaps	-		131,894	-	-	260,975
Total liabilities	24,262,015		500,237	22,694,771		850,858

In relation to foreign exchange risk, the breakdown of assets and liabilities, by currency, as at 30 June 2012 is analysed as follows:

	Jun 2012							
	Euro Euro '000	**United States Dollar Euro '000**	**Sterling Pound Euro '000**	**Canadian Dollar Euro '000**	**Suisse Frank Euro '000**	**Japanese Yen Euro '000**	**Other foreign currencies Euro '000**	**Total amount Euro '000**
Assets by currency								
Cash and deposits at central banks	169,045	9,676	632	539	366	59	508	180,825
Loans and advances to credit institutions repayable on demand	47,003	1,289	774	470	539	1,790	228	52,093
Loans and advances to credit institutions	413,662	109	-	6,993	-	-	-	420,764
Loans and advances to customers	15,614,264	13,914	-	-	199	-	-	15,628,377
Financial assets held for trading	147,107	6,344	240	-	-	-	-	153,691
Other financial assets at fair value trought profit or loss	3,667	-	-	-	-	-	-	3,667
Available-for-sale financial assets	6,817,011	24,050	32	-	607	-	-	6,841,700
Hedging derivates	1,315	-	-	-	-	-	-	1,315
Held-to-maturity investments	17,431	-	-	-	-	-	-	17,431
Investments in associated companies and others	384,547	-	-	-	-	-	-	384,547
Non-current assets held for sale	217,612	-	-	-	-	-	-	217,612
Property and equipment	62,353	-	-	-	-	-	-	62,353
Current income tax assets	108,329	-	-	-	-	-	-	108,329
Deferred income tax assets	10	-	-	-	-	-	-	10
Intangible assets	45,365	-	-	-	-	-	-	45,365
Other assets	63,761	176,437	8,819	48,420	2,601	2,736	11,727	314,501
Total assets	24,112,482	231,819	10,497	56,422	4,312	4,585	12,463	24,432,580
Liabilities by currency								
Deposits from central banks	1,968,212	-	-	-	-	-	-	1,968,212
Deposits from other credit institutions	929,332	94,832	3,955	29,189	306	-	34	1,057,648
Deposits from customers	13,248,947	53,001	3,993	2,795	2,025	-	3,114	13,313,875
Debt securities issued	1,762,310	2,383	-	-	-	-	-	1,764,693
Financial liabilities relating to transferred assets	3,926,668	-	-	-	-	-	-	3,926,668
Financial liabilities held for trading	92,044	3,554	-	-	-	-	-	95,598
Hedging derivates	3,052	-	-	-	-	-	-	3,052
Provisions	114,648	-	-	-	-	-	-	114,648
Other subordinated debt	478,210	-	-	-	-	-	-	478,210
Other liabilities	148,857	78,318	2,549	24,438	1,917	4,585	9,315	269,979
Total Liabilities	22,672,280	232,088	10,497	56,422	4,248	4,585	12,463	22,992,583
Net asset/ liability by currency	1 440 202	(269)	-	-	64	-	-	1 439 997
Equity	1 440 202	(269)	-	-	64	-	-	1 439 997
Net exposure	-	-	-	-	-	-	-	-

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

Assets by currency								
Cash and deposits at central banks	376,447	3,369	378	299	669	88	290	381,540
Loans and advances to credit institutions repayable on demand	93,440	6,138	833	1,066	918	5	301	102,701
Loans and advances to credit institutions	370,161	107	-	-	-	-	-	370,268
Loans and advances to customers	16,197,440	2,452	-	-	348	-	-	16,200,240
Financial assets held for trading	145,068	145	-	39	-	-	-	145,252
Other financial assets at fair value through profit or loss	3,606	-	-	-	-	-	-	3,606
Available-for-sale financial assets	5,819,192	2,322	-	-	266	-	-	5,821,780
Hedging derivates	1,184	-	-	-	-	-	-	1,184
Held-to-maturity investments	48,416	-	-	-	-	-	-	48,416
Investments in associated companies and others	384,547	-	-	-	-	-	-	384,547
Non-current assets held for sale	86,830	-	-	-	-	-	-	86,830
Property and equipment	66,183	-	-	-	-	-	-	66,183
Current tax assets	10	-	-	-	-	-	-	10
Deferred tax assets	59,221	-	-	-	-	-	-	59,221
Intangible assets	110,843	-	-	-	-	-	-	110,843
Other assets	89,353	179,000	5,986	35,571	49	130	189	310,278
Total Assets	23,851,941	193,533	7,197	36,975	2,250	223	780	24,092,899
Liabilities by currency								
Deposits from central banks	2,003,300	-	-	-	-	-	-	2,003,300
Deposits from other credit institutions	1,141,161	19,301	2,471	18,737	343	-	55	1,182,068
Deposits from customers	13,150,817	36,684	1,122	1,669	142	17	188	13,190,639
Debt securities issued	2,238,369	2,319	-	-	-	-	-	2,240,688
Financial liabilities relating to transferred assets	3,289,983	-	-	-	-	-	-	3,289,983
Financial liabilities held for trading	101,366	158	-	-	-	-	-	101,524
Hedging derivates	2,444	-	-	-	-	-	-	2,444
Provisions	120,014	-	-	-	-	-	-	120,014
Other subordinated debt	477,247	-	-	-	-	-	-	477,247
Other liabilities	85,605	135,133	3,604	16,569	1,765	206	537	243,419
Total Liabilities	22,610,306	193,595	7,197	36,975	2,250	223	780	22,851,326
Net asset/ liability by currency	1,241,635	(62)	-	-	-	-	-	1,241,573
Equity	1,241,635	(62)	-	-	-	-	-	1,241,573
Net exposure	-	-	-	-	-	-	-	-

Liquidity risk

The purpose of liquidity management is to maintain adequate liquidity levels to meet short, medium and long term funding needs. Liquidity risk is monitored carefully, and prepared several reports for the purpose of prudential regulation and monitoring in place of ALCO Committee.

In addition, it is also carried out a follow-up of liquidity positions of a prudential point of view, calculated in the manner required by the Bank of Portugal (Instruction no. 13/2009).

Operational Risk

CEMG has implanted an Integrated Continuing Business Plan, which allows to ensure the continuity of the operations in a case of a rupture in the activity. This system is held by an organizational structure, included in the DRI and exclusively dedicated to this assignment, delegates designated by each department.

Capital Management and Solvency Ratio

In prudential matters, CEMG is subject to Bank of Portugal supervision that, under the capital adequacy Directive from the CE, establishes the rules to be attended by the institutions under its supervision. These rules determine a minimum solvency ratio in relation to the requirements of the assumed risks that institutions have to fulfil.

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

- Basic Own Funds ("BOF"): This category includes the share capital, the eligible reserves (excluding positive fair value reserves), the retained earnings, minority interest and preferential stocks. It is deducted the negative fair value reserves associated to stocks or other capital instruments, by the book value related to the Goodwill, intangible assets, deferred costs, actuarial losses and negative fair value reserves that come from obligations with retirement benefits of employees above the corridor limit of 10% of maximum between those responsibilities and assets of the pension fund. They are also deducted 50% of its value the shares above 10% in financial institutions, as well as stakes in insurers. In November 2011 came into force on Instruction 28/2011 of Bank of Portugal, with review in March 2012, which includes as a negative element of a capital base of the balance of deposits whose rate of return is 3% above the reference rate for the deposit effective on the date of renewal or establishment of such deposit. This instruction applies to deposits made or renewed after April 1, 2012.

- Complementary Own Funds ("COF"): Essentially incorporates the subordinated eligible debt, the revaluation reserves of tangible assets and 45% of the positive fair value reserve and is deducted by 50% of the book value of equity investments in banking and insurance entities, in participations higher than 10%, as well as in participations in insurance entities.

- It is deducted to the total Own Funds the non-current assets held for sale acquired in exchange for loans at more than 4 years. This value is calculated in accordance with a progressiveness method that leads that in 9 to 12 years in portfolio (considering the date of the operation), the net value of the asset, are totally deducted in the own funds.

Additionally there are several rules limiting the capital basis of CEMG. The prudential rules determine that the COF cannot exceed the COF. In addition, some components of the COF (Lower Tier II) cannot exceed 50% of the BOF.

In 2008, the Bank of Portugal issued Notice no. 6/2008, which changed the rules to determine capital requirements. This notice along with the treatment given to credits and other values to receive, excluded the potential in debt securities classified as available for sale of Own Funds, in what exceeds the impact of eventual hedged operations, maintaining, however, the obligation of not consider in basis Own Funds positive re-evaluation reserves, in what exceeds the impairment which eventually had been registered, related to non realized gains in capital available for sale securities (net from taxes).

In 2011, CEMG adapted the accounting policy of Pension Fund to the changes in International Accounting Standards. Previously, it was used to rule the designated corridor rule and in December 2011 came to recognize that the whole of actuarial reserves. Despite this change to accounting, in regulatory terms there were no changes since the Instruction no. 2/2012 sets prudential treatment for this new accounting procedure, similar to that designated by rule of the corridor. Also in December 2011 was performed a partial transfer of post-employment plans from defined benefit to the control of General Social Security Scheme, whose effects on equity have been deferred to June 2012, according to Instruction no. 1/2012 of the Bank Portugal.

The confirmation that an entity has an amount of own funds not below of its capital requirements assures the adequacy of its capital, reflected on a solvency ratio – represented by the percentage of total own funds to the result of 12.5 times the capital requirements. Instruction no. 3/2001 of the Bank of Portugal released a recommendation in order to the financial groups submitted to its supervision, as well as the respective mother-companies, strengthen their Core Tier 1 ratio to a figure not below 9% until 31 December 2011 and 10% until 31 December 2012.

The capital adequacy of CEMG as at 30 June 2012 and 31 December 2011 is presented as follows:

	Jun 2012 Euro '000	**Dec 2011 Euro '000**
Core Tier I		
Share capital	1,245,000	1,245,000
Net profit, General reserves, Special reserves and Retained earnings	274,411	257,038
Other regulatory adjustments	(292,258)	(165,806)
	1,227,153	**1,336,232**
Basic own funds		
Other capital instruments	15,000	15,000
Deduction to basic own funds	(191,745)	(191,745)
	1,050,408	**1,159,487**
Complementary own funds		
Upper Tier 2	91,342	90,197
Lower Tier 2	440,316	468,575
Deduction to complementary own funds	(191,745)	(191,745)
	339,913	**367,028**
Deduction to total own funds	(5,432)	(2,532)
Total owned funds	**1,384,889**	**1,523,983**
Own funds requirements		
Credit risk	944,177	937,243
Market risk	4,107	4,420
Operational risk	65,065	65,065
	1,013,349	**1,006,728**
Ratios		
Core Tier 1	9.69%	10.62%
Tier 1	8.29%	9.21%
Solvency	10.93%	12.11%

52 Sovereign debt of European Union countries subject to bailout

As at 30 June 2012, the exposure of the CEMG to sovereign debt of European Union countries subject to bailout is as follows:

Issuer/ Portfolio	**Book value Euro '000**	**Fair value Euro '000**	**Fair value reserves Euro '000**	**Impairment Euro '000**	**Interest rate Average %**	**Maturity average Years**	**Fair value measurement levels**
Portugal							
Financial assets available for sale	1,117,554	1,117,554	(65,663)	-	3.89%	2.17	1
Held to maturity financial assets	6,262	5,526	-	-	3.38%	3.26	n.a.
	1,123,816	1,123,080	(65,663)	-			
Greece							
Financial assets available for sale	2,623	2,623	(15,555)	-	2.00%	22.94	1
Ireland							
Financial assets available for sale	11,840	11,840	1,858	-	4.60%	3.80	1
	1,138,279	1,137,543	(79,360)				

As at 31 December 2011, the exposure of CEMG to sovereign debt of European Union countries subject to bailout is as follows:

Issuer/ Portfolio	**Book value Euro '000**	**Fair value Euro '000**	**Fair value reserves Euro '000**	**Impairment Euro '000**	**Interest rate Average %**	**Maturity average Years**	**Fair value measurement levels**
Portugal							
Financial assets available for sale	1,150,482	1,150,482	(241,563)	-	4.35%	2.21	1
Held to maturity financial assets	37,419	34,299	-	-	4.72%	1.03	n.a.
	1,187,901	1,184,781	(241,563)	-			
Greece							
Financial assets available for sale	33,507	33,507	-	(19,309)	4.22%	0.37	1
Ireland							
Financial assets available for sale	11,032	11,032	1,051	-	4.60%	4.30	1
	1,232,440	1,229,320	(240,512)	(19,309)			

For the public debt of Portugal, Greece and Ireland do not have occurred in the six months period ended June 30, 2012 no reclassifications between portfolios.

The evolution of the European Union sovereign debt crisis and specifically the economic and political environment in Greece have contributed to the continuous deterioration of economic and financial situation of Greece and the incapacity to obtain funds from the capital markets, which implies that the short term solvency of the country is dependent on the continuous support by EU and IMF.

Considering this environment, as at 31 December 2011, the balance Impairment for securities corresponds to the impairment recognised on Greek sovereign debt during 2011. Impairment was determined considering the terms of the agreement established between the Greek state and the private sector, related with the restructuring of the Greek sovereign debt (GGB's). The key terms for private sector involvement (PSI') in the above mentioned restructuring, , are as follows:

a) Holders of GGBs exchanged their existing GGB's for:

- New GGBs with a face amount equal to 31.5% of the par amount of the old GGBs;

- Notes issued by the European Financial Stability Facility (EFSF) with a face amount equal to 15% of par of the old GGBs. The notes will bear a market rate of interest and mature within 24 months;

b) The new GGBs have the following key terms:

- Initial annual coupons of 2% increasing to 3% and then 4.3%;

- Repayment of principal in 20 annual installments commencing on the 11th anniversary of the issue date with final maturity in 2042.;

- Aggregated collective action clauses;

- Listing on the Athens stock Exchange;

- Issues ruled by English law; and

- Detachable GDP-linked securities entitling the holder to an additional annual coupon of 1% if specified GDP targets are met.

For the purposes of determining impairment the Group considered the terms and conditions of the PSI and also paragraph AG 84 of IAS 39 that considers reasonable that, for the portfolio of assets held to maturity when, for practical reasons, there are relevant uncertainties regarding the estimate of future cash-flows, impairment can be determined based on observable market prices.

Considering the available information regarding the new bonds, the fair value corresponded on 31 December 2011, to approximately 23% of the book value of the old GGB.

The PSI is part of an European Union Euro 130 billion bailout package for Greece which requires parliamentary approval of Eurozone countries.

CEMG acepted the reestructuring and the transaction was setled in 12 March 2012.

It is noteworthy that on the sale that occurred in the second quarter of 2012, CEMG used the existing provisions.

Relatively with exposure to other countries at the bailout, CEMG Board of Directors also believes that at this date there is no objective evidence of impairment.

53 Relevant facts

During 2012, CEMG sold two loans and advances to customers portfolios to a securitization company named “Hefesto Sociedade de Titularização de Créditos, S.A.”. This operations were named as Aurea 1 and Aurea 2.

These portfolios presented a book value of Euro 17,010,000, having been sold by Euro 70,540,000, which represents a gain of Euro 53,530,000, as referred in note 9:

	Loans granted Euro'000	**Loans impairment Euro'000**	**Loans net of impairment Euro'000**	**Sales value Euro'000**	**Gains Euro'000**
Aurea 1	76,949	68,059	8,890	35,519	26,629
Aurea 2	75,355	67,235	8,120	35,021	26,901
	152,304	135,294	17,010	70,540	53,530

54 Impact of change in accounting policy for recognition of actuarial gains and losses related to defined benefit plans

According to one of the options allowed by IAS 19 Employee Benefits, CEMG decided in 2011 for a change in accounting policy starting to recognise the actuarial gains and losses against reserves. In accordance with IAS 8, this change in accounting policy is presented for comparative purposes from 1 January 2011, recognising in that date all the deferred actuarial gains and losses in equity.

Previously, CEMG proceeded to the deferral of actuarial gains and losses determined in accordance with the corridor method. Under the corridor method, actuarial gains and losses not recognised that exceed 10% of the greater of the present value of the liabilities and the fair value of the Fund's assets were recorded in the income statement for the period corresponding to the remaining estimated useful life of the employees.

Thus, as described in notes 1, 11, 30, 42 and 46 the balance reserves and retained earnings includes, with effect from 1 January 2011, the restatement resulted from the referred changing in the accounting policy. The restatement is analysed as follows:

	Equity 30.06.2011 Euro '000	**Net income 2010 Euro '000**	**Equity 1.1.2011 Euro '000**
Previously reported	1,128,804	13,107	994,019
Adjustments:			
Actuarial deferred gains and losses	(102,247)	-	(102,247)
Amortization of deferred actuarial losses	915	915	-
	(101,332)	915	(102,247)
Restated	1,027,472	14,022	891,772