MARKET DISCIPLINE
2011

Montepio

Market Discipline

2011

June 30, 2012

Table of Contents

Tables and charts

Foreword

This document uses regulatory reporting information in order to comply with the Bank of Portugal's Notice 10/2007, regarding public disclosure of information, which states that the information provided should adequately cover the risks incurred, taking into account strategic goals and the processes and assessment systems in place. All analyses are based on year-end 2011 data.

1. Declaration of Responsibility

With regards to the information presented in the document "Market Discipline", the board of directors of Caixa Económica Montepio Geral (CEMG) certifies:

- That all procedures deemed necessary were carried out and that, to the best of its knowledge, all information disclosed is true and accurate;
- The quality of all information disclosed;
- That any significant changes occurring during or after the preparation of this document will be promptly disclosed.

2. Scope and risk management policies

2.1 Scope

This report pertains to the consolidated accounts of the group, from a regulatory perspective, which includes Caixa Económica Montepio Geral (CEMG); Finibanco, SA; Finicrédito – Instituição Financeira de Crédito, SA; Finivalor – Sociedade Gestora de Fundos Mobiliário, SA; Finibanco Angola, SA; and Banco Montepio Geral Cabo Verde - Sociedade Unipessoal, S.A. (IFI).

2.2 Risk management strategies, processes, structure and organization

Risk analysis and control at CEMG are the responsibility of the Risk Division (Direção de Risco - DRI), which advises the board of directors on subjects pertaining to risk management. The implementation of risk management and control mechanisms is, in general, the responsibility of the areas where the risks in question arise.

As recommended by the Basel Committee, the DRI reports directly to the board of directors and is independent from the departments responsible for commercial decision-making. Additionally, and also independently, the Internal Audit and Inspection Department analyses the adequacy of processes and their implementation, from the standpoint of internal and external rules.

The DRI encompasses three departments:

(i) **Credit Risk Department** - responsible for developing internal credit risk analysis models and incorporating them in decision-making processes, and also for regulatory reporting on capital and internal reports on credit risk;

(ii) **Market Risk Department** - performs analysis and regulatory and internal reporting on market, interest rate, exchange rate and liquidity risks, as well as being responsible for incorporating that information into the decision-making processes of the trading-room;

(iii) **Operational Risk Department** – is responsible for operational risk management.

As identified in the risk assessment model (MAR) developed by the Bank of Portugal, CEMG is exposed to a diverse set of risks. Most significant among these are credit and liquidity risks.

The main principle of **credit risk** analysis is independence from commercial decision-making, with direct reporting to the board of directors. In this analysis, different tools are used, and rules defined, according to the size of the exposure, the degree of familiarity with the type of risk in question (e.g. the capacity to model those risks) and the liquidity of the instruments in question.

The analysis of loans is based on the mandatory use of risk assessment models, developed in-house in accordance with the requirements of the Basel Committee.

Thus, in retail operations (typically smaller amounts), specific scoring models are used for the main credit portfolios (i.e. mortgages, personal loans and credit cards), differentiating between customers based on the length of their relationship with the institution.

In the Small-Business segment, a scoring model is used to evaluate not only the creditworthiness of the business, but also of its promoters.

In the Corporate segment, customers are classified according to an internal rating model that includes four components:

(i) quantitative (economic and financial information);
(ii) qualitative (management quality and reputation);
(iii) sector-oriented;
(iv) behavioral (banking relationship).

The degree of scrutiny in credit risk analysis depends on the scale of the operations concerned. Limits have been defined, based on the amount of the operation and total exposure, to identify when it is necessary for a report to be drawn up by credit analysts, who are independent from the commercial decision-making process. These reports have differing content depending on the size of the client and exposure in question, requiring deeper analysis in the case of larger exposures.

These reports include the internal risk rating and the limits to exposure defined for the loan maturity, taking into account the client's capacity to generate cash flows and its financing costs.

CEMG's risk management strategies also take into account the capital requirements associated with its operations, via rules for decision-making and the pricing of credit.

The pricing of loans reflects the corresponding expected loss, along with the cost of borrowed capital and of own funds, as well as administrative costs. In quantifying the expected loss, the marginal probability of default for the loan maturity and the internal risk class is taken into consideration, as is the severity of the loss, quantified by market estimates, taking into account the type of credit and collateral. Pricing also reflects the strength of the commercial relationship with customers and associates of the Montepio Geral Mutual Association.

Overriding the response of scoring systems, internal ratings and internal pricing tables is allowed, though only with hierarchical approval, in accordance with principles of delegation established. Rejection criteria are defined to minimize the risk of adverse selection, meaning there is always at least one rejection class.

Thus, credit rejections are determined by the existence of credit events in the financial system, the breach of credit rules (e.g. borrowing capacity) and whenever the level of risk-adjusted pricing significantly increases adverse selection risk.

Thresholds for participation are also defined for the different decision-making levels, based on the size of the operation and overall customer exposure, type of operation/collateral and pricing/ ROE (Return on Equity). In this context, the guiding principle is that the authority to approve operations with a lower risk-adjusted ROE, or larger exposure, lies with the higher levels of management. These thresholds are approved by the board of directors. At the top of the hierarchy is the board of directors, which exercises its authority through the Credit Committee. Participants in this decision-making forum include the heads of the commercial departments, the Credit Analysis Department and the DRI.

In the field of **market risk**, Value-at-Risk (VaR) and stress testing using extreme scenarios are fundamental for analyzing and imposing limits on exposure. Financial activity is monitored through weekly reports on asset portfolios and also counterparty risk reports. Stop-loss and exposure limits are also defined (for each asset class, portfolio, counterparty, rating level and time period). There are also limits for products which require more complex analysis and for currency exposures. These reports include monitoring of the different exposure limits and analyze the concentration, credit, interest rate and price-variation risk, among others. This analysis takes into account different scenarios, such as changes in interest rates, spreads, market prices and credit quality of counterparties.

In terms of **liquidity and interest rate risks**:

- Static and dynamic 12-month gaps are regularly calculated, with monthly (in the case of liquidity) and bi-annual (in the case of interest rate risk) reports submitted to the Bank of Portugal. In this context, CEMG also performs simulations of potential adverse events.
- The liquidity position and its evolution are internally monitored on a daily basis, and on a monthly basis by the ALCO Committee, where the medium and long term risks are also addressed. In addition to mismatches, the concentration of funding, principal repayments of liabilities expected, and existing and prospect funding sources are also analyzed.
- An analysis of interest rate risk, balance sheet characterization and a sensitivity analysis of the net interest income and earnings of various risk factors are also studied on a monthly basis by this committee.
- At the same time, CEMG has been calculating the metrics defined by Basel III and monitoring all developments regarding this issue. The ratios established are already calculated on a regular basis in order to adapt to the new requirements.

The **operational risk** management system is based on identifying, assessing, monitoring, measuring, mitigating and reporting risks of this type. In terms of CEMG's organizational structure, there is a department exclusively dedicated to operational risk management, complemented by operational risk partners in the different companies and business units of the group.

In the "identify and assess" phase, 2011 saw continued emphasis on spreading a culture of operational risk management. This included an e-learning seminar about Operational Risk Management, a review of the plan for activities, risks and controls, with its annual self-evaluation and risk-tolerance matrix, along with the evaluation of the operational risk profile of new products, processes and activities.

For the “monitoring” phase, the principle activities included reinforcing the process of loss event capture, especially through expansion of the sources of capture and report, implementing the Key Risk Indicators (KRI) related to general systems, evaluating the Operational Risk exposure at the Internal Control and Risk Committee and developing periodic reports on the institution’s operational risk profile.

Within the “mitigating” phase, Action Plans were suggested for the most significant risks identified by the operational risk tools mentioned above.

In terms of measuring operational risk, CEMG has been using the Standard Method (TSA) to calculate the capital requirements needed to cover operational risk since Jun 30, 2010. Given the integration of new companies in the group, a roll-out plan is being implemented, in order to include Finicrédito, Finivalor and Finibanco Angola in the Standard method, in line with CEMG.

A plan for **business continuity**, which aims to mitigate risk by ensuring the continuity of operations in case of a disruptive event, is being reviewed and implemented.

Internal committees focusing on risk management issues also meet regularly, namely the Risk and Internal Control Committee (monthly), where the DRI is responsible for the coordination and presentation of the relevant risk indicators and information. In addition, the DRI is part of the ALCO Committee, the Investment and Management Committees of Futuro (in charge of Montepio’s Pension Fund management) and the Monitoring Committee of Montepio’s Pension Fund.

2.3 Scope and nature of risk measurement and information systems

The risk analysis procedures at CEMG include regular reports on the main types of risk to the board of directors and the business areas involved. Regarding credit risk, monthly internal reports are produced, with information broken down by commercial department, the main credit portfolio risk indicators and metrics on the use of risk models. In addition, a half-yearly report is produced, with more aggregated risk information. A watchlist summarizing exposures that deserve closer supervision and action is regularly drawn up for the Credit Committee to examine and discuss. A weekly report on exposures to counterparty risk is also produced.

In the area of **market risk**, in addition to a weekly risk report on CEMG’s total portfolio, reports are prepared on a weekly basis for the trading book, as well as for the proprietary portfolio of available for sale assets and a monthly report on the pension fund portfolio. These reports contain information on market risk (e.g. Value-at-Risk), credit risk (external ratings and *Credit*VaR), compliance with limits on exposure and risk, stop-loss and portfolio composition by rating, country, type of security and issuer.

At the **operational risk** level, a set of monitoring reports is prepared on a quarterly or yearly basis, depending on the users. Additionally, the software tool GIRO (Integrated Operational Risk Management) includes a reporting module with the express purpose of creating reports, organized and made available to different users according to their profile, based on data collected in the Identification and Monitoring stages of the Operational Risk Management Cycle implemented at CEMG.

Risk control techniques and models for **credit risk** are based on econometric modeling using CEMG's own experience in granting different types of credit and also, wherever possible, in terms of recovery.

Thus, internal rating models are used for the corporate segment and application scoring models are used for lending to retail and small businesses. The models used for corporate and small business clients distinguishes between the construction sector and other economic sectors, while in retail lending specific models are used for each of the main credit portfolios—mortgage loans, personal loans and credit cards—and a distinction is made between individuals who have been customers of CEMG for more than a year and others.

Internal rating models classify companies into seven “performing” risk classes and a final class which corresponds to default[1].

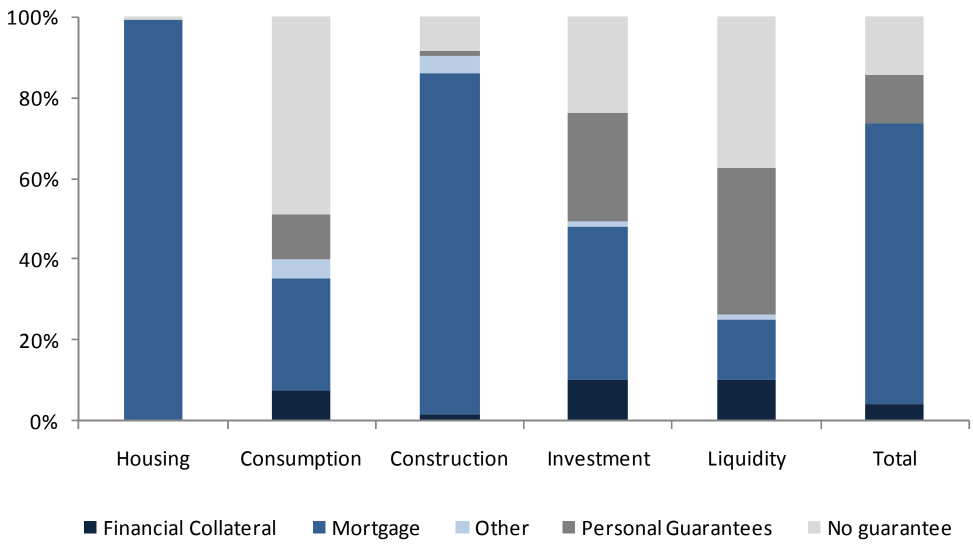
The application scoring models, for mortgage loans and personal loans, use a scale that includes 10 classes for each portfolio, in both cases aggregating pre-existing and new customers. Application credit card scoring classifies credit proposals into four risk classes.

2.4 Risk coverage and mitigation policies

Collateral requirements depend on the size of the unexpected loss for a given loan and typically apply to operations of greater volume, especially those that involve lending for construction or residential housing purchases. When operations involve real collateral, the loan-to-value ratio is taken into consideration for purposes of pricing, as an indicator of potential loss severity.

Different coverage policies are defined for different types of credit. The distribution by guarantee type for each credit portfolio segment is shown below:

Chart 1 – Distribution of types of guarantee by credit segment [2]



Risk mitigation through collateralization is considered when calculating the price of operations, either via the borrower's credit risk (in the case of real collateral), or through reduction of the exposure level, in situations involving financial collateral (where the market risk of the assets involved is taken into account).

[1] This seventh risk class also includes companies that are in default within the Portuguese financial system, despite being classified as performing on all credits at Montepio.
[2] The amounts shown under personal guarantee correspond to operations with no other collateralization.

As a rule, personal guarantees are required for retail loans whenever the customer does not comply with debt-to-income rules, while in the context of corporate credit they are standard for loans involving larger amounts, for smaller companies, and wherever there is a need to further mitigate risk, in light of the operation's collateralization.

3. Capital adequacy

3.1 Regulatory Capital

The regulatory capital for solvency purposes includes core and complementary capital, minus the negative components of each.

Core or Tier 1 capital is understood to mean:

- Paid-in share capital;
- Issue premiums on shares and participation securities;
- Legal, statutory and other reserves made up of retained earnings;
- Positive results for the year in progress and previous years, net of provisions, depreciation, tax and expected dividends.

Complementary or Tier 2 capital is understood to mean:

Upper Tier 2

- Revaluation differences on assets available for sale;
- Revaluation reserves on fixed assets;
- Other authorized reserves;
- Subordinated liabilities with no fixed term to maturity;

Lower Tier 2

- Subordinated loans;
- The released portion of redeemable preference shares;

Negative elements of regulatory capital correspond to:

- Own shares;
- Assets held by the bank that are part of the regulatory capital of a third party;
- Intangible fixed assets;
- Negative results for the year in progress and previous years;
- Total amount of deposits referred to in the Bank of Portugal's Notice 28/2011;
- Negative revaluation reserves.

3.2 Internal capital allocation

CEMG's capital requirements for credit and market risk, as of December 31, 2011, were calculated using the Standardized Approach. For operational risk, calculations used the Standardized approach for CEMG and MG Cabo Verde and the Basic Indicator approach for Finibanco, Finicrédito and Finibanco Angola. All calculations are in accordance with the regulations of the Bank of Portugal (Notices 5/2007, 8/2007 and 9/2007).

The following table shows the distribution of capital requirements for various types of risk:

Table 1 – Capital Requirements by Risk Type

(thousands €)

	Credit Risk	Market Risk	Operacional Risk [a]	Total
Dec-10	767.097	1.721	55.495	824.313
Dec-11	1.004.835	4.420	71.243	1.080.498

Within capital requirements for credit and counterparty risk, approximately 93% corresponds to the loan portfolio.

3.3 Capital adequacy

The Montepio Group strives to provide CEMG with a level of capital appropriate for the evolution of its business, which will ensure satisfactory solvency indicators, consistent with the regulatory recommendations.

CEMG's Institutional Capital, the primary component of its Own Funds, has been consistently strengthened in recent years as a consequence of the positive Net Results that CEMG has generated and distributed to the Associação Mutualista. In 2011, the Capital was increased by 445 million € (from 845 to 1.245 million €), in two phases, the first of which occurred in March, with an increase of 345 million € related to the acquisition of Finibanco Holding. In December, a second capital increase of 100 million € took place. Together these two capital increases contributed significantly to the Core Tier 1 ratio of 10,21% in December 2011.

At the same time, CEMG has secured resources in the form of subordinated debt, which are included in the Complementary Own Funds and benefit the Total Solvency Ratio. It can therefore be concluded that CEMG is adequately capitalized, taking into account the ratios presented above.

In light of the strategic plan drawn up for the three-year period of 2011-2013 and the business plan for the current year, no significant changes are anticipated in the material dimensions of the various types of risk. With regards to credit risk, current trends in activity suggest that, concerning retail credit, greater collateralization of new loans will continue, reducing the average loan-to-value ratio, which will allow for lower capital requirements. This guideline has been implemented in recent years as part of the institution's credit policy.

The current strategy of diversification across economic sectors, particularly in the corporate segment, will move in the opposite direction where collateral is concerned. Exposure will increase in sectors not related to construction, reducing the collateralization of new loans, although these exposures are priced to adequately reflect the risks incurred.

The magnitude of such effects will tend to converge in terms of capital requirements. A strategy of gradual capital reinforcement will be pursued, in order to maintain the levels of solvency set forth in the Bank of Portugal's Notice 3/2011, namely, a Core Tier 1 ratio of no less than 10% in Dec-12.

Montepio's Core Tier 1 ratio was, in December of 2011, higher than those of the main Portuguese banks, as shown in the table below.

Table 2 – Comparison of Core Tier 1 Ratio with the main Portuguese Banks

BanK	Moody's Rating	Total Assets (MM€ 2011)	Core Tier 1 Ratios 2011	2010	2009	2008
Montepio	Ba3	21.495	10,2	9,3	9,5	7,9
Maximum [(1)]		120.728	9,5	8,8	8,8	8,0
Minimum [(1)]		43.037	9,2	6,7	6,4	5,8
Mean [(1)]*		87.484	9,4	8,0	7,8	6,6

[1] Refers to the five largest Portuguese Banks

* Weighted by the amount of total assets

The following Tables 3 to 5 provide a summary of solvency figures throughout 2011, taking into account only Pillar I requirements.

Table 3 – Capital adequacy for regulatory capital purposes

(thousands €)

	Capital Adequacy - Part 1	Dec-11	Dec-10
1.	**Total regulatory capital for solvency purposes**	1.831.996	1.324.048
1.1.	**Core Capital**	1.393.584	956.212
1.1.1.	Eligible share capital	1.245.000	800.000
1.1.1.1.	Paid-in share capital	1.245.000	800.000
1.1.1.2.	(-) Own shares	0	0
1.1.1.3.	share issuance premiums	0	0
1.1.1.4.	Other financial instruments similar to capital	0	0
1.1.2.	Eligible reserves and results	122.150	195.630
1.1.2.1.	Reserves	166.248	196.085
1.1.2.2.	Eligible minority interests	9.111	0
1.1.2.3.	Results from the previous year and provisional results for the current year	0	0
1.1.2.4.	(-) Negative results Resultados negativos do último exercício e resultados negativos provisórios do exercício em curso	-51.087	0
1.1.2.7.	Revaluation differences eligible for Tier 1 regulatory capital	-2.121	-455
1.1.3.	Fund for general banking risks	0	0
1.1.4.	Other items eligible for Tier 1 capital	127.043	23.704
1.1.4.1.	Other eligible instruments (48)	15.000	0
1.1.4.2.	Impact of the transition to the IAS/AAS (negative impact)	10.367	15.792
1.1.4.3.	Other items eligible for Tier 1 capital	101.677	7.912
1.1.5.	(-) Other items deductable from Tier 1 capital	-100.610	-63.122
1.1.5.1.	(-) Intangible fixed assets	-90.205	-18.254
1.1.5.2.	(-) Amount in excess of the eligibility limit for financial instruments included in Tier 1 capital	0	0
1.1.5.3.	(-) Other items to be deducted from Tier 1 capital	-10.406	-44.868
1.2.	**Complementary capital**	471.751	405.506
1.2.1.	Upper Tier 2	8.950	27.506
1.2.2.	Lower Tier 2	462.802	378.000
1.2.3.	(-) Deductions from complementary capital	0	0
1.3.	**(-) Deductions from Tier 1 and complementary capital**	-30.162	-33.107
1.3.a.	Of which: (-) from Tier 1 capital (82)	-15.081	-16.554
1.3.b.	Of which: (-) from complementary capital (83)	-15.081	-16.554
1.4.	**Total Tier 1 captial for solvency purposes (87)**	1.378.503	939.658
1.5.	**Total complementary capital for solvency purposes (88)**	456.670	388.952
1.6.	**(-) Deductions from total regulatory capital (89)**	-3.177	-4.562
1.7.	**Total complementary capital available to cover market risks**	0	0
1.8.	**For the record:**	0	0
1.8.1	(+) Surplus / (-) Shortfall in value corrections and "provisions" for assets risk weighted via the internal models method	0	0
1.8.1.1	Amount of value corrections and "provisions" in the internal models method	0	0
1.8.1.2.	(-) Expected loss determinded by the internal models method	0	0
1.8.2.	Nominal value of subordinated debt recognised as a positive contributor to own funds	0	0
1.8.3.	Minimum requirement for social capital	0	0
1.8.4.	Reference capital for the purpose of large exposures limits	1.831.996	1.324.048

Table 4 – Capital adequacy for capital requirements purposes

(thousands €)

Capital Adequacy - Part 1			Dec-11	Dec-10
2.	Regulatory capital requirements		1.080.498	824.313
2.1.	For credit risk, counterparty risk, risk of decrease in receivables and delivery risk		1.004.835	767.097
2.1.1.	Standardised approach		1.004.835	767.097
2.1.1.1.	Risk classes in the standardised approach, excluding securitisation positions		1.004.353	766.340
	2.1.1.1.1.	Claims and conditional claims on central governments and central banks	4.365	11
	2.1.1.1.2.	Claims and conditional claims on regional governments and local authorities	676	1.780
	2.1.1.1.3.	Claims and conditional claims on public sector and othe non-profit public institutions	2.152	1.826
	2.1.1.1.4.	Claims and conditional claims on multilateral development banks	0	0
	2.1.1.1.5.	Claims and conditional claims on international organizations	0	0
	2.1.1.1.6.	Claims and conditional claims on insitutions	56.904	33.533
	2.1.1.1.7.	Claims and conditional claims on corporations	402.477	283.295
	2.1.1.1.8.	Claims and conditional claims in the retails portfolio	94.586	62.380
	2.1.1.1.9.	Claims and conditional claims seccured by real estate	312.286	317.932
	2.1.1.1.10.	Past due items	65.406	41.167
	2.1.1.1.11.	Items classified as high risk for regulatory purposes	0	0
	2.1.1.1.12.	Covered bonds and public sector bonds	600	431
	2.1.1.1.13.	Exposures to colective investment undertakings (CIU)	26.701	458
	2.1.1.1.14.	Other items	38.201	23.527
2.1.1.2.	Securitisation exposures using the standardised approach		482	757
2.1.1.3.	(-) Provisions for general credit risks		0	0
2.2.	Settlement risk		0	0
2.3.	Capital requirements for position risk, foreign exchange risk and commodities risk		4.420	1.721
2.3.1.	Standardised approach		4.420	1.721
2.3.1.1.	Debt instruments		3.358	1.331
2.3.1.2.	Equity instruments		1.063	389
2.3.1.3.	Exchange rate risk		0	0
2.3.1.4.	Commodities risk		0	0
2.4.	Capital requirements for operational risk		71.243	55.495
2.4.1.	Basic indicator method		5.939	0
2.4.2.	Standardised approach		65.304	55.495
2.4.3.	Advanced measurement methods		0	0
2.5.	Regulatory capital requirements - fixed general expenditure		0	0
2.6.	Temporary capital requirements or other capital requirements		0	0

Table 5 – Total Capital adequacy

(thousands €)

Capital Adequacy - Part 3	Dec-11	Dec-10
Surplus (+) / Shortfall (-) in total capital	751.498	499.735
Total Capital Ratio (%)	13,56%	12,85%

4. Counterparty credit risk

4.1 Exposure Limits

Various limits have been defined for the most relevant risks faced in the course of business. In measuring counterparty credit risk, particular attention is paid to large exposure limits, which are set for money market exposures, based on banks' ratings and profit levels.

4.2 Assessment policies of collaterals

Given the credit quality (rating) of counterparties and the limited level of exposure, no guarantees are required for these operations.

4.3 Quantitative information

As illustrated in Table 6, CEMG's counterparty risk exposures are proportionally low compared to the total portfolio (below 10% of total exposure) and mostly associated with central government entities or financial institutions.

Table 6 – Counterparty credit risk

(thousands €)

	Original Exposure	Credit risk mitigation techniques with substitution effect in the original net exposure	Exposure after risk mitigation	Risk-weighted exposure	
				Dec-11	Dec-10
	1	2	3	4	5
Repos, borrowing/lending of securities or commodities, long settlement transactions or transactions with imposition of margin loans	11.210	0	11.210	2.242	1.227
Derivatives	111.609	0	111.609	22.591	35.984
Contractual multiproduct netting	0	0	0	0	0

The Mark-to-Market valuation method is used to calculate the exposure value for derivatives, repurchase transactions, borrowing or lending of securities or commodities, long term settlement transactions and lending operations with margin imposition, as defined in the Bank of Portugal's Notice 5/2007, Annex V, Part 3. This method consists of adding a potential-future-value adjustment to the market value of the exposure, which is calculated by multiplying the notional value by a regulatory factor defined according to the type of contract and its residual maturity.

As of December 31, 2011, CEMG had no credit risk hedging operations via credit derivatives, as shown in Table 7.

Table 7 – Credit Derivatives Hedging

(thousands €)

Risk Class (Hedged transactions)	Original exposure (hedged transactions)		Notional amount covered by credit derivatives					
			CDS (1)	TRS (2)	CLN (3)	Other	Total	Total
	2011	2010					2011	2010
	1	2	3	4	5	6	7=3+4+5+6	8
CL I - Central government and central banks								
CL VI - Institutions								

(1) CDS: Credit Default Swaps

(2) TRS: Total Return Swaps

(3) CLN - Credit Linked Notes

On the same date, CEMG had the following investment exposure to credit derivatives (considered at market value):

Table 8 – Credit Derivatives Instruments

(thousands €)

Transactions in Credit Derivatives	Long Positions		Short Positions	
	2011	2010	2011	2010
I. Credit Portfolio (totals):				
a) Credit default swaps	1.198	765	4.418	1.516
b) Total return swaps				
c) Credit linked notes	8.520	4.681		
d) Other credit derivatives				
II. Trading Transactions (totals):				
a) Credit default swaps				
b) Total return swaps				
c) Credit linked notes				
d) Other credit derivatives				

Long Positions - Theoretical value of the aquired protection

Short Positions - Theoretical value of the sold protection

5. Credit risk

5.1 Definitions

For accounting purposes, the following definitions apply:

- **Past due credit**: all payments of capital and interest not made on the date they fall due;
- **Loans subject to impairment**: all loans that, according to the analysis carried out individually—for Individually Significant loans—or collectively—for those included in the homogeneous populations—suggest expectations of loss or display impairment signs, as defined by the internal model (including past due loans, restructured credit and registration as a risky user in the Bank of Portugal's database, etc.);
- **Past due loans**: all loans with payments in arrears;
- **Value corrections**: derive from the regulatory provisioning of CEMG portfolio positions. On the date of initial recognition, credits are recorded at their face value, in accordance with the procedures defined in Bank of Portugal Notice 1/2005.

The value corrections for year-end 2010 and 2011 were 522 million € and 770 million €, respectively. For their part, the totals recovered in 2010 and 2011 amounted to 412 million € and 444 million €, as shown in Table 9.

Table 9 – Provisions and value corrections

(thousands €)

Value Corrections and Provisions	Dec-11	Dec-10
Initial Balance	**521.811**	**493.913**
Appropriations	593.894	525.338
Utilizations	-43.065	-85.093
Transfers/Other	141.838	
Reinstatements/Cancelations	-444.002	-412.347
Closing Balance	**770.476**	**521.811**

5.2 Portfolio Structure

The distribution of exposures in the loan portfolio by risk class shows a large concentration in the Positions Guaranteed by Real Estate and Corporate Loans classes, as there was in the previous year (Table 10). The decrease in the Past Due Exposures class is a consequence of increased provisioning. There was a significant increase in the original exposure in the Central Governments and Central Banks class due to the investment in sovereign debt, although this implied no change in capital requirements.

Table 10 – Distribution of credit exposures by risk class

(thousands €)

Risk Class	Orignial exposure at default		Orignial exposure at default (mean over the course of the year)	
	Dec-11	Dec-10	2011	2010
CL I - Central government and central banks	1.715.596	1.347.071	1.660.611	741.532
CL II - Regional governments and local authorities	42.560	51.058	48.794	44.001
CL III - Public sector entities and other non-profit public institutions	27.594	64.659	37.937	39.876
CL IV - Multilateral development banks	0	0	0	0
CL V - International organisations	0	0	0	0
CL VI - Institutions	1.270.131	1.283.219	1.246.329	1.099.850
CL VII - Corporations	5.555.798	3.948.280	4.809.902	3.586.412
CL VIII - Retail portfolio	1.973.405	1.394.491	2.221.820	1.687.260
CL IX - Garanteed by real estate	9.802.745	9.949.429	9.874.762	10.056.930
CL X - Past due items	688.811	438.472	555.372	534.258
CL XI - Covered bonds and public sector bonds	22.328	26.904	27.278	22.699
CL XII - Exposures to colective investment undertakings (CIU)	333.761	5.728	76.073	7.072
CL XIII - Other items	968.510	429.901	749.345	420.258
Securitisation exposures using the standardised approach	15.278	22.834	17.883	19.807
TOTAL	**22.416.516**	**18.962.046**	**21.326.104**	**18.259.954**

CEMG is commercially present in most regions (NUTS II[3]) of the country (Table 11), though a higher concentration is still seen in areas with higher population density (Lisbon, North and Center) when analyzing the geographic distribution of the loan portfolio.

[3] NUTS II is the *Unidades Territoriais para Fins Estatísticos de Nível II* used by the National Institute of Statistics (INE).

Table 11 – Geographic distribution of exposures in the credit portfolio by risk class (as a % of original exposure at default)

Year	Risk Class	Geografic distribution of exposures (as a % of original exposure at default)							
		Lisbon	North	Center	Algarve	Alentejo	Azores	Madeira	Angola
2010	CL II - Regional governments and local authorities	0,12%	0,00%	0,04%	0,00%	0,00%	0,01%	0,14%	-
	CL III - Public sector entities and other non-profit public institutions	0,01%	0,01%	0,00%	0,00%	0,00%	0,00%	0,00%	-
	CL VI - Institutions	1,06%	0,00%	0,07%	0,01%	0,01%	0,00%	0,00%	-
	CL VII - Corporations	11,27%	4,64%	3,53%	1,29%	0,77%	0,48%	0,83%	-
	CL VIII - Retail portfolio	3,02%	2,54%	1,66%	0,45%	0,39%	0,42%	0,21%	-
	CL IX - Garanteed by real estate	27,44%	15,58%	8,88%	3,32%	2,84%	2,23%	1,69%	-
	CL X - Past due items	2,20%	1,51%	0,83%	0,15%	0,17%	0,08%	0,06%	-
	TOTAL	**45,13%**	**24,30%**	**15,02%**	**5,24%**	**4,18%**	**3,22%**	**2,92%**	**-**
2011	CL I - Central government and central banks	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
	CL II - Regional governments and local authorities	0,10%	0,00%	0,04%	0,00%	0,00%	0,02%	0,06%	0,00%
	CL III - Public sector entities and other non-profit public institutions	0,00%	0,01%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
	CL VI - Institutions	1,25%	0,01%	0,10%	0,01%	0,00%	0,00%	0,00%	0,00%
	CL VII - Corporations	12,39%	6,54%	4,65%	1,57%	0,76%	0,46%	0,71%	0,39%
	CL VIII - Retail portfolio	3,12%	3,55%	2,29%	0,71%	0,46%	0,35%	0,16%	0,05%
	CL IX - Garanteed by real estate	23,32%	13,22%	7,75%	2,96%	2,41%	1,90%	1,43%	0,00%
	CL X - Past due items	2,69%	2,49%	1,27%	0,34%	0,27%	0,07%	0,08%	0,02%
	TOTAL	**42,87%**	**25,82%**	**16,10%**	**5,60%**	**3,91%**	**2,79%**	**2,44%**	**0,47%**

With regards to the distribution of the corporate portfolio by economic sector (Table 12), the construction sector deserves special attention, despite showing a decrease in its proportion, by -8,5 p.p., compared to Dec-10. There is also a significant proportion of loans in the Real Estate Management and Commerce sectors, with the latter registering a slight increase (about +2,4 p.p.) over last year.

Table 12 – Economic sector distribution of exposures in the credit portfolio by risk class (as a % of original exposure at default)

Year	Risk Class	Primary Sector	Secondary Sector		Tertiary Sector							
			Construction	Other	Real estate	Wholesale and retail trade	Financial & Insurance	Hotels, Restaurants, etc.	Transport & Warehousing	Public administration (1)	Consultancy, Scientific, technical and similar activities	Other
2010	CL II - Regional governments and local authorities	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,88%	0,00%	0,00%
	CL III - Public sector entities and other non-profit public institutions	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,05%
	CL VI - Institutions	0,00%	0,00%	0,00%	0,00%	0,00%	3,25%	0,00%	0,00%	0,00%	0,00%	0,00%
	CL VII - Corporations	0,42%	25,40%	6,60%	8,24%	7,98%	2,29%	2,19%	2,67%	1,15%	1,89%	3,03%
	CL VIII - Retail portfolio	0,09%	2,00%	0,87%	0,89%	2,17%	0,07%	0,81%	0,23%	0,51%	0,66%	0,98%
	CL IX - Garanteed by real estate	0,02%	10,79%	0,41%	4,21%	1,37%	0,09%	0,68%	0,03%	0,20%	0,14%	0,39%
	CL X - Past due items	0,01%	3,49%	0,57%	1,06%	0,56%	0,02%	0,17%	0,13%	0,05%	0,09%	0,17%
	TOTAL	**0,54%**	**41,68%**	**8,46%**	**14,41%**	**12,08%**	**5,72%**	**3,86%**	**3,06%**	**2,80%**	**2,78%**	**4,62%**
2011	CL I - Central government and central banks	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%
	CL II - Regional governments and local authorities	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,55%	0,00%	0,00%
	CL III - Public sector entities and other non-profit public institutions	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,00%	0,05%
	CL VI - Institutions	0,00%	0,00%	0,00%	0,00%	0,00%	3,33%	0,00%	0,00%	0,00%	0,00%	0,00%
	CL VII - Corporations	0,95%	21,07%	9,49%	7,65%	9,60%	4,12%	2,24%	2,62%	1,18%	1,66%	3,93%
	CL VIII - Retail portfolio	0,17%	1,65%	1,07%	0,85%	2,37%	0,09%	0,81%	0,35%	0,48%	0,62%	1,06%
	CL IX - Garanteed by real estate	0,04%	6,38%	0,37%	3,51%	1,09%	0,28%	0,66%	0,04%	0,27%	0,09%	0,47%
	CL X - Past due items	0,07%	4,05%	0,99%	1,30%	1,44%	0,06%	0,25%	0,17%	0,03%	0,11%	0,37%
	TOTAL	**1,23%**	**33,15%**	**11,92%**	**13,31%**	**14,51%**	**7,88%**	**3,97%**	**3,17%**	**2,51%**	**2,48%**	**5,87%**

(1) Administração Pública e Defesa; Segurança Social Obrigatória; Actividades de saúde humana e apoio social

In terms of distribution by residual maturity, as seen in the following table, about 50% of assets are long-term (residual maturity greater than 10 years). These assets are mostly in the class "Guaranteed by Real Estate" and consist of housing loans and investment loans to corporations. The portfolio with no set payment plan, which corresponds to about 16% of the overall original exposure, consists broadly of liquidity facilities for companies (revolving credit).

Table 13 – Residual maturity of the credit portfolio by risk class (as a % of original EAD)

Year	Risk Class	RM < 1	1 year < RM < 5 years	5 years < RM < 10 years	RM > 10 years	Revolving
		Residual maturity (as a % of original exposure at default)				
2010	CL II - Regional governments and local authorities	0,0%	0,0%	0,1%	0,1%	0,1%
	CL III - Public sector entities and other non-profit public institutions	0,0%	0,0%	0,0%	0,0%	0,0%
	CL VI - Institutions	0,2%	0,3%	0,0%	0,0%	0,6%
	CL VII - Corporations	5,9%	3,0%	2,8%	1,7%	9,5%
	CL VIII - Retail portfolio	1,8%	1,4%	2,1%	0,6%	2,8%
	CL IX - Garanteed by real estate	0,9%	0,7%	2,5%	53,6%	4,4%
	CL X - Past due items	0,6%	0,2%	0,4%	2,5%	1,3%
	Total original exposure at default	**9,4%**	**5,6%**	**7,9%**	**58,4%**	**18,6%**
2011	CL I - Central government and central banks	0,0%	0,0%	0,0%	0,0%	0,0%
	CL II - Regional governments and local authorities	0,0%	0,0%	0,2%	0,0%	0,0%
	CL III - Public sector entities and other non-profit public institutions	0,0%	0,0%	0,0%	0,0%	0,0%
	CL VI - Institutions	0,5%	0,3%	0,0%	0,0%	0,6%
	CL VII - Corporations	9,0%	3,8%	4,1%	2,2%	8,5%
	CL VIII - Retail portfolio	2,0%	2,7%	2,4%	1,1%	2,5%
	CL IX - Garanteed by real estate	0,6%	0,6%	2,8%	45,7%	3,2%
	CL X - Past due items	1,6%	0,6%	0,6%	2,8%	1,6%
	Total original exposure at default	**13,6%**	**7,9%**	**10,2%**	**51,8%**	**16,3%**

5.3 Concentration risk

As mentioned, CEMG has an ongoing diversification strategy in order to reduce the proportion of exposure related to the real estate sector. The impact of concentration risk on capital requirements is evaluated through the calculation of sector and individual concentration indexes (CI), according to the Bank of Portugal's Instruction 5/2011.

The individual CI[4] is calculated from the 100 largest exposures, aggregated by client/economic group. The proportion of these exposures in Dec-11 amounted to roughly 13% of the loan portfolio and 15% of the total portfolio[5].

The sector CI[6] is calculated based on the classification of clients' economic activities.

Table 14 – Concentration indices

	Credit Portfolio		Total Portfolio	
	Dec-11	Dec-10	Dec-11	Dec-10
Individual CI	0,19	0,19	0,29	0,24
Sector CI	17,0	22,6	15,5	18,8

The decrease in the sector CI reflects the diversification strategy that the Institution has been pursuing in all portfolios, both at a sector and on an asset type level.

[4] Customer Concentration Index = $\Sigma x^2 / (\Sigma x * \Sigma y) * 100$, where x represents the value of total exposure to each customer / economic group belonging to the institution's 100 largest counterparties, and Σy corresponds to the total exposure of the portfolio.

[5] Total Portfolio = Loan Portfolio + Portfolios subject to capital requirements (including AFS – Available for Sale, HTM – Held to Maturity, Trading and of balance hedging).

[6] Sector Concentration Index = $\Sigma x^2 / (\Sigma x)^2 * 100$, where x represents the total exposure in each economic sector.

With regard to the distribution of the largest exposures by country, the portfolio is almost entirely concentrated in Portugal (Table 15).

Table 15 – Distribution of exposures by Country

(thousands €)

Country	Exposure by country		% Total Portfolio	
	Dec-11	Dec-10	Dec-11	Dec-10
Portugal	18.692	16.143	95,5%	94,7%
Spain	136	119	0,7%	0,7%
USA	97	112	0,5%	0,7%
Italy	88	109	0,4%	0,6%
Ireland	75	94	0,4%	0,6%
United Kingdom	108	83	0,6%	0,5%
France	73	62	0,4%	0,4%
Others	296	329	1,5%	1,9%
Total	**19.565**	**17.052**		

5.4 Past Due and Impaired Loans

The distribution of the past due exposures and the related impairment provisioning reflect the concentration of the activity in the business sectors of construction, real estate and commerce.

The geographical distribution of past due loans (Table 16) shows, in line with the total portfolio for 31 December, 2010, a larger concentration in the Lisbon, North and Central regions, reflecting the overall portfolio´s geographical distribution.

Table 16 – Breakdown of past due and impaired exposures

Year	Breakdown	Total exposures		% Exposures past due	% Covered by impairment provisions
Dec-10	Breakdown by main economic sectors (Corporate segment)	Primary Sector		0,1%	36,8%
		Secondary Sector	Construction	55,2%	32,3%
			Other	9,0%	40,0%
		Tertiary Sector	Real estate activities	16,8%	29,5%
			Wholesale and retail trade	8,8%	33,7%
			Hotels, Restaurants, etc.	2,7%	33,9%
			Other	2,6%	48,6%
			Transport & Warehousing	2,1%	84,9%
			Consultancy, Scientific, technical and similar activities	1,4%	33,0%
			Public admin. and defense; Social Security; Human health and welfare	0,8%	8,5%
			Financial & Insurance	0,2%	13,2%
		Total		100,0%	34,0%
	Breakdown by main geografic regions	Lisbon		44,0%	27,3%
		North		30,2%	30,1%
		Center		16,6%	30,8%
		Alentejo		3,5%	28,0%
		Algarve		3,1%	35,6%
		Azores		1,6%	23,6%
		Madeira		1,1%	27,8%
		Total		100,0%	28,9%
Dec-11	Breakdown by main economic sectors (Corporate segment)	Primary Sector		0,8%	35,9%
		Secondary Sector	Construction	45,8%	36,8%
			Other	11,2%	38,1%
		Tertiary Sector	Wholesale and retail trade	16,3%	42,7%
			Real estate activities	14,6%	36,2%
			Other	4,2%	41,1%
			Hotels, Restaurants, etc.	2,8%	36,9%
			Transport & Warehousing	1,9%	53,7%
			Consultancy, Scientific, technical and similar activities	1,3%	35,9%
			Financial & Insurance	0,7%	52,9%
			Public admin. and defense; Social Security; Human health and welfare	0,3%	37,1%
		Total		100,0%	38,5%
	Breakdown by main geografic regions	Lisbon		37,1%	32,4%
		North		34,4%	36,0%
		Center		17,6%	34,2%
		Alentejo		4,6%	27,2%
		Algarve		3,8%	29,9%
		Azores		1,1%	19,7%
		Madeira		1,0%	27,5%
		Angola		0,3%	0,0%
		Total		100,0%	33,3%

5.5 Standard Approach

The capital requirement for credit and counterparty risk is determined in accordance with the Standard Approach as defined in the Bank of Portugal's Notice 5/2007. Depending on the nature of the counterparty, asset portfolio positions are assigned to one of several risk classes, and ratings provided by Moody's, S&P and Fitch are used in the attribution of risk weights.

This use is common to all risk classes and is in accordance with Notice 5/2007, as follows:

- When different ratings are simultaneously issued by separate recognized agencies, the second highest of the two best risk weights applies;
- In the case of bonds or similar securities, the issue rating is used, and the issuer rating applied only in cases where an issue rating is not available;
- Existing ratings are used consistently for all exposures in all classes.

The value of risk-weighted exposures is calculated based on the exposure value, net of provisions and value corrections, considering the effect of credit risk mitigation techniques—namely real and personal credit protections—and after the application of conversion factors to off-balance sheet elements.

As of December 2011, the distribution of CEMG's portfolio among the different classes and risk weights are presented in detail in the following table.

Table 17 – Regulatory capital, counterparty and credit risk requirements

(thousands €)

		Risk weights									
		0%	10%	20%	35%	50%	75%	100%	150%	Other	Total
1. Original exposure by risk class	CL I - Central government and central banks	1.658.633	0	3.004	0	0	0	53.959	0	0	1.715.596
	CL II - Regional governments and local authorities	0	0	42.560	0	0	0	0	0	0	42.560
	CL III - Public sector entities and other non-profit public institutions	0	4	0	0	0	0	27.590	0	0	27.594
	CL IV - Multilateral development banks	0	0	0	0	0	0	0	0	0	0
	CL V - International organisations	0	0	0	0	0	0	0	0	0	0
	CL VI - Institutions	0	0	605.963	0	67.775	0	594.367	2.026	0	1.270.131
	CL VII - Corporations	0	0	2.119	0	11.537	0	5.542.142	0	0	5.555.798
	CL VIII - Retail portfolio	0	0	0	0	0	1.973.405	0	0	0	1.973.405
	CL IX - Garanteed by real estate	0	0	0	8.461.574	597.383	401.801	341.987	0	0	9.802.745
	CL X - Past due items	0	0	0	0	0	0	423.091	265.720	0	688.811
	CL XI - Covered bonds and public sector bonds	0	7.716	1.905	0	12.707	0	0	0	0	22.328
	CL XII - Exposures to colective investment undertakings (CIU)	0	0	0	0	0	0	333.761	0	0	333.761
	CL XIII - Other items	162.468	0	410.669	0	0	0	395.373	0	0	968.510
	Securitisation exposures using the standardised approach	0	0	10.763	0	1.288	0	3.226	0	0	15.278
	TOTAL of original exposures:	**1.821.101**	**7.720**	**1.076.984**	**8.461.574**	**690.691**	**2.375.206**	**7.715.496**	**267.745**	**0**	**22.416.516**
2. Exposures by risk class (basis for RW application)	CL I - Central government and central banks	1.658.633	0	3.004	0	0	0	53.959	0	0	1.715.596
	CL II - Regional governments and local authorities	0	0	42.274	0	0	0	0	0	0	42.274
	CL III - Public sector entities and other non-profit public institutions	0	0	2	0	0	0	26.897	0	0	26.899
	CL IV - Multilateral development banks	0	0	0	0	0	0	0	0	0	0
	CL V - International organisations	0	0	0	0	0	0	0	0	0	0
	CL VI - Institutions	0	0	565.635	0	67.775	0	561.241	2.026	0	1.196.677
	CL VII - Corporations	0	0	2.119	0	11.537	0	5.024.767	0	0	5.038.423
	CL VIII - Retail portfolio	0	0	0	0	0	1.576.430	0	0	0	1.576.430
	CL IX - Garanteed by real estate	0	0	0	8.461.574	597.383	401.801	341.987	0	0	9.802.745
	CL X - Past due items	0	0	0	0	0	0	431.121	257.636	0	688.757
	CL XI - Covered bonds and public sector bonds	0	7.716	1.905	0	12.707	0	0	0	0	22.328
	CL XII - Exposures to colective investment undertakings (CIU)	0	0	0	0	0	0	333.761	0	0	333.761
	CL XIII - Other items	162.468	0	410.669	0	0	0	395.373	0	0	968.510
	Securitisation exposures using the standardised approach	0	0	10.763	0	1.288	0	3.226	0	0	15.278
	TOTAL exposures:	**1.821.101**	**7.716**	**1.036.370**	**8.461.574**	**690.691**	**1.978.232**	**7.172.333**	**259.662**	**0**	**21.427.678**
3. TOTAL risk weighted exposures (=Σ (2."x"risk weights))		**0**	**772**	**207.274**	**2.961.551**	**345.345**	**1.483.674**	**7.172.333**	**389.492**	**0**	**12.560.441**
Capital requirements by risk class (2. "x" risk weights "x" 8%)	CL I - Central government and central banks	0	0	48	0	0	0	4.317	0	0	4.365
	CL II - Regional governments and local authorities	0	0	676	0	0	0	0	0	0	676
	CL III - Public sector entities and other non-profit public institutions	0	0	0	0	0	0	2.152	0	0	2.152
	CL IV -multilateral development banks	0	0	0	0	0	0	0	0	0	0
	CL V - International organisations	0	0	0	0	0	0	0	0	0	0
	CL VI - Institutions	0	0	9.050	0	2.711	0	44.899	243	0	56.904
	CL VII - Corporations	0	0	34	0	461	0	401.981	0	0	402.477
	CL VIII - Retail portfolio	0	0	0	0	0	94.586	0	0	0	94.586
	CL IX - Garanteed by real estate	0	0	0	236.924	23.895	24.108	27.359	0	0	312.286
	CL X - Past due items	0	0	0	0	0	0	34.490	30.916	0	65.406
	CL XI - Covered bonds and public sector bonds	0	62	30	0	508	0	0	0	0	600
	CL XII - Exposures to colective investment undertakings (CIU)	0	0	0	0	0	0	26.701	0	0	26.701
	CL XIII - Other items	0	0	6.571	0	0	0	31.630	0	0	38.201
	Securitisation exposures using the standardised approach	0	0	172	0	52	0	258	0	0	482
	TOTAL capital requirements:	**0**	**62**	**16.582**	**236.924**	**27.628**	**118.694**	**573.787**	**31.159**	**0**	**1.004.835**

6. Credit risk mitigation techniques

Both personal guarantees, which substitute the risk of one counterparty for another, and financial collateral, which directly reduces the value of the exposure, are used to reduce credit risk for the positions held in the loan portfolio. Mortgage collateral is also a relevant risk mitigating technique in the CEMG portfolio.

CEMG does not generally use on- or off-balance sheet compensation methods, and does not originate credit derivatives for its loan portfolio.

Exposures with risk mitigation via risk substitution are mostly corporate/business loans guaranteed by Mutual Guarantee companies (Norgarante, Lisgarante and Garval).

Loans in which risk is reduced directly correspond mainly to those collateralized by financial securities, namely term deposits, gold, bonds and shares included in a main index of a recognized stock exchange, as presented in Annex VI to Bank of Portugal's Notice 5/2007.

With regards to mortgage collateral, property evaluations are performed by independent specialists or an independent department. The re-evaluation of these assets is done in accordance with the requirements defined in Notice 5/2007, using real estate price variation indices[7] or on-site assessments.

Table 18 – Property Re-evaluation

Property for housing	- At least once every three years, automatically, using real estate variation indices. - For loans exceeding 5% of regulatory capital of the Institution or 500.000 euros, the assessment of the property must be reviewed by an evaluator.
Property for commercial purposes	- At least once a year, automatically through the use of indices, using real estate variation indices. - For loans exceeding 5% of regulatory capital or 1 million euros, the assessment of the property must be reviewed by an evaluator at least every three years.

[7] Provided by external entities, based on data provided by Credit Institutions and Real Estate Brokers.

Table 19 – Credit risk mitigation techniques

(thousands €)

Risk Class	Net exposure	Credit risk mitigation techniques with a substitution effect on net exposure					Mitigation techniques which reduce the value of exposure	
		Personal protection, mitigation amount		Real credit protection		Efect of substitution on exposure[1]	Volatility ajustment to exposure value	Financial Colateral: mitigation amount
		Guarantees	Credit derivatives	Simple Method	Other			
	1	2	3	4	5	6	7	8
Total exposure	**22.416.516**	**97.629**	**0**	**0**	**0**	**11.342**	**0**	**378.043**
CL I - Central government and central banks	1.715.596	0	0	0	0	0	0	0
CL II - Regional governments and local authorities	42.560	0	0	0	0	0	0	130
CL III - Public sector entities and other non-profit public institutions	27.594	0	0	0	0	0	0	535
CL VI - Institutions	1.270.131	885	0	0	0	708	0	53.068
CL VII - Corporations	5.555.798	46.198	0	0	0	0	0	213.517
CL VIII - Retail portfolio	1.973.405	42.484	0	0	0	10.621	0	110.739
CL IX - Garanteed by real estate	9.802.745	0	0	0	0	0	0	0
CL X - Past due items	688.811	8.061	0	0	0	13	0	53
CL XI - Covered bonds and public sector bonds	22.328	0	0	0	0	0	0	0
CL XII - Exposures to colective investment undertakings (CIU)	333.761	0	0	0	0	0	0	0
CL XIII - Other items	968.510	0	0	0	0	0	0	0
Securitisation exposures using the standardised approach	15.278	0	0	0	0	0	0	0

[1] This field is calculated as follows: $G*P_1 - G*P_2$, where G is the amount of the guarantee, P_1 the original RW and P2 the RW after taking into account the guarantee.

Table 20 – Concentration Analysis – Personal and real credit protection

(thousands €)

	Personal credit protection		Real credit protection - Integral method for financial colateral	
	Guarantees		Eligible (financial) collateral	
	Dec-11	Dec-10	Dec-11	Dec-10
CL I - Central government and central banks	0	0	0	0
CL II - Regional governments and local authorities	0	0	130	55
CL III - Public sector entities and other non-profit public institutions	0	0	535	104
CL VI - Institutions	885	900	53.068	60.189
CL VII - Corporations	46.198	88.395	213.517	176.056
CL VIII - Retail portfolio	42.484	42.484	110.739	82.799
CL IX - Garanteed by real estate	0	0	0	0
CL X - Past due items	8.061	1.343	53	0
CL XI - Covered bonds and public sector bonds	0	0	0	0
CL XII - Exposures to colective investment undertakings (CIU)	0	0	0	0
CL XIII - Other items	0	0	0	0
Securitisation exposures using the standardised approach	0	0	0	0

7. Securitizations

7.1 Current involvement

As of 31 December, 2011, CEMG was involved in the following traditional credit securitization operations as originator: Pelican Mortgages 1, Pelican Mortgages 2, Pelican Mortgages 3, Pelican Mortgages 4, Pelican Mortgages 5 and Pelican SME 1 (Table 23). As a result of the acquisition of Finibanco Holding, CEMG took on, and is thus considered the originator of Aqua Mortgage 1, Aqua SME 1 and Aqua Finance 3 (via Finicrédito). In all of these operations, the main goal was to achieve greater flexibility in managing the bank's balance sheet, with a positive impact on liquidity indicators, for instance.

The degree of involvement, understood to be the quotient between the volume of global debt exposures assigned in securitization transactions and the sum of consolidated assets (plus the overall volume of assigned positions), was below 20%.

For regulatory purposes, none of the aforementioned securitizations involved a significant transfer of credit risk.

7.2 Calculation Methods for risk-weighted exposures

Given that none of these securitization operations meets the criteria set out in Annex I to Bank of Portugal Notice 7/2007—which defines the conditions for a significant transfer of credit risk—the loans involved are not excluded from the calculation of risk-weighted assets. Capital requirements are therefore not calculated for the securitization exposures held and losses on these positions are not considered.

With regard to securitizations where CEMG acts as an investor, the risk-weighted exposure is calculated according to Notice 7/2007 of the Bank of Portugal, using the Standardized Approach. Credit ratings issued by Fitch, Moody's and S&P were used to determine the credit quality of each securitization position.

7.3 Accounting policies

Until 31 December, 2004, in accordance with the accounting principles defined by the Bank of Portugal, loans transferred by CEMG through securitization deals were derecognized. Securities acquired as a result of those operations were considered as assets available for sale and provisioned according to the rules defined in the Bank of Portugal’s Instruction 27/2000. Following the publication of the Bank of Portugal’s Instruction 2/2008, the provisioning of these securities was subject to the impairment rules as defined in IAS 39.

In line with IFRS 1, no changes have been made to the derecognition criterion adopted in CEMG's individual financial statements for all securitizations issued carried out prior to 1 January, 2004. All operations carried out after that date are analyzed according to the rules set out in IAS 39, which stipulates that if a substantial portion of the risks and benefits associated with the assets are transferred, or control over the assets is transferred, those assets may be derecognized.

7.4 Quantitative information

Table 21 – Securitization Operations

(thousands €)

	Pelican 1	Pelican 2	Pelican 3	Pelican 4	Pelican 5	Pelican SME 1	Aqua Mortgage 1	Aqua SME 1	Aqua Finance 3
	Securitisation Operations								
Traditional securitisation									
Originator	CEMG	CEMG	CEMG	CEMG	CEMG	CEMG	CEMG	CEMG	Finicrédito
Issuer	Navegator SGFTC, SA	Banco Finantia, SA	Sagres STC, SA	Sagres STC, SA	Sagres STC, SA	Sagres STC, SA	Tagus STC, SA	Navegator SGFTC, SA	Tagus STC, SA
Information on the operations									
Start date	19-Dec-02	29-Sep-03	30-Mar-07	20-May-08	25-Mar-09	22-Jun-10	09-Dec-08	14-Jun-07	30-Jun-09
Legal maturity	Sep-37	Sep-36	Sep-54	Sep-56	Dec-61	Jul-36	Dec-63	Jun-17	Dec-23
Step-up clause (date)	n.a.	Sep-10	Mar-16	Jun-17	Jun-18	Jul-13	n.a.	Jun-14	n.a.
Revolving (years)	n.a.	n.a.	n.a.	n.a.	n.a.	3	2	3	3
Securitised assets (in millions of euros)	650	700	750	1.000	1.000	1.167	233	250	207
Outstanding amount (in millions of euros)	92	173	370	836	866	987	214	125	205
Information on involvement of originator(s)									
Existence of situations of "implicit support"	não	não	não	não	não	não	não	sim	não
Assets ceded (by institution)/Securitised Assets (total) (%)	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
Inicial capital-gains/Value of repurchased first-loss position	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00

n.a. = not aplicable

Table 22 – Outstanding exposure amount on securitized loans

(thousands €)

	Amount	Of which: relating to exposures subject to impairment or past due
Pelican 1	92	2
Pelican 2	173	1
Pelican 3	370	1
Pelican 4	836	1
Pelican 5	866	1
Pelican SME 1	987	16
Aqua Mortgage 1	214	3
Aqua SME 1	125	9
Aqua Finance 3	205	19
Traditional securitisations (total)	3.868	54

Table 23 – Credit risk – Securitization Operations: Standardized Approach

(thousands €)

Type of securitisation (tradicional/synthetic)	Exposure amount		Risk weighted exposure	
		Amount deducted from regulatory capital	Dec-11	Dec-10
	2	3	9	10
B=Investor positions: total	15.278	0	6.023	9.458
B1 - On-balance sheet exposures	15.278	0	6.023	9.458
Securitisations	15.278	0	6.023	9.458
Resecuritisations	0	0	0	0
B2 - Off-balance sheet items and derivatives	0	0	0	0
C=Issuer positions: total	0	0	0	0
C1 - On-balance sheet exposures	0	0	0	0
C2 - Off-balance sheet items and derivatives	0	0	0	0

Table 24 – Credit risk – Securitization Operations: Activities Summary

(thousands €)

Type of securitisation (tradicional/synthetic)	Securitised exposure		Risk weighted exposure		Gains / Losses recognised on sales	
	Dec-11	Dec-10	Dec-11	Dec-10	Dec-11	Dec-10
Tradicional securitisations (total)	3.868	3.574	0	0	0	0
On-balance sheet exposures	3.868	3.574	0	0	0	0
Securitisations	3.868	3.574	0	0	0	0
Resecuritisations	0	0	0	0	0	0
Off-balance sheet items and derivatives	0	0	0	0	0	0
Synthetic securitisations (total)	0	0	0	0	0	0
On-balance sheet exposures	0	0	0	0	0	0
Securitisations	0	0	0	0	0	0
Resecuritisations	0	0	0	0	0	0
Off-balance sheet items and derivatives	0	0	0	0	0	0

8. Position, credit, counterparty and settlement risk on the trading book

8.1 Methods of calculation of capital requirements

The trading book portfolio is composed of positions held with the aim of achieving short-term gains, either through sales or by revaluation. Capital requirements are calculated using the Standardized Approach.

8.2 Methods for assessing risk on the trading book

The trading book is fully covered by the “standardized approach to the trading book”.

In accordance with the Standardized Approach, the financial assets are split into two classes: Debt instruments (including derivatives and comparable debt instruments) and Equity securities (including derivatives on equity instruments and comparable assets).

The capital requirement for each asset class is calculated according to the specific risk and overall risk hedging for each asset class. Thus, according to the Standardized Approach, the following methodologies are applied to each type of exposure:

Debt Instruments

- General Risk: refers to the risk of loss caused by unfavorable changes in interest rates. In order to calculate the regulatory capital requirements for general risk, a method based on maturity is used, in accordance with Section II-B, Part 2 of Annex II of the Bank of Portugal’s Notice 8/2007.
- Specific Risk: refers to the risk of loss due to factors associated with the issuer, and the regulatory capital requirements for these risks are based on the methodology described in Section II-A, Part 2 of Annex II to Notice 8/2007, considering the changes introduced by the Bank of Portugal’s Notice 8/2010, which results in the weighting of assets in accordance with the sector and the credit quality of the issuer.

Equities

- General Risk: refers to the risk of loss caused by unfavorable changes in the stock market. To calculate the regulatory capital requirements for general risk, the method described in Sections III-B and III-C, Part 2 of Annex II of the Bank of Portugal's Notice 8/2007 is used, resulting in the multiplication of the overall net position by 8%;
- Specific Risk: refers to the risk of loss due to factors associated with the issuer. The regulatory capital requirements for these risks are based on the methodology described in Section III-A, Part 2 of Annex II of Notice 8/2007, which results in the multiplication of the gross position overall by 8%.

8.3 Quantitative information

Table 25 – Regulatory capital requirements (trading book)

(thousands €)

Trading book risks		Regulatory capital requirements	
		Dec-11	Dec-10
1.	**Position risk**		
1.1.	**Standardised approach to the trading book**	4.420	1.721
1.1.1.	**Debt instruments**		
1.1.1.1.	Specific risk	1.640	855
1.1.1.2.	General risk	1.718	476
1.1.2.	**Equities**		
1.1.2.1.	Specific risk	660	112
1.1.2.2.	General risk	402	277
2.	**Counterparty credit risk**		
2.1	Bonds	0	0
2.2	Derivatives	902	437
2.3	Other	0	0

In quantitative terms, using the methods described above, the regulatory capital requirements for the trading portfolio as of 31 December, 2011, amounted to 4.420.286 €. The increase in capital requirements for the trading book was, in part, caused by the integration of Finibanco Holding's portfolio following the acquisition. The change in exposure to German Bunds futures during 2011 also contributed to this variation.

9. Exchange rate and commodity risks on the banking and trading books

9.1 Method of calculation of minimum regulatory capital requirements

The method used by CEMG to calculate the regulatory capital requirements to cover currency and commodity risks is the Standardized approach, as defined in Annexes V and VI of the Bank of Portugal's Notice 8/2007.

9.2 Evaluation method of exchange and commodities risk

For the calculation of regulatory capital requirements, according to Annex V of the Bank of Portugal's Notice 8/2007, the standardized method imposes a weight of 8% (or 4% when dealing with closely correlated currencies) on the aggregate net positions in foreign currencies, if this sum exceeds 2% of total regulatory capital.

With regards to commodity risk, due to the inexistence of outright or derivative commodity exposures as of 31 December, 2011, application of the calculations described in Annex VI of the Bank of Portugal's Notice 8/2007 was not required.

9.3 Quantitative information

Given that, as of 31 December, 2011, the net foreign currency position represented approximately 0,21% of the regulatory capital, and given the limits described in the previous section, there was no allocation of capital to cover currency risk.

10. Equity exposures in the banking book

10.1 Management goals

Equity investment in CEMG's banking book assumes marginal proportions, with regards to both the portfolios managed and the balance sheet.

This conservative attitude towards risk has meant that, under the adverse conditions that have characterized the stock market, there was no significant negative impact on profitability or regulatory ratios.

10.2 Accounting techniques and assessment methods used

Capital losses on equity exposures are accounted for according to the portfolios in which these securities are classified, the cumulative value of the losses and the length of time for which the losses have existed. Capital losses on equity registered in the trading book have an immediate effect on results. Reductions in the value of shares categorized as available for sale are classified as impairment and affect results if greater than 30% or if the situation persists for a period of more than 12 months. In the remaining cases, capital losses are recorded in revaluation reserves, affecting equity.

10.3 Quantitative information

Table 26 – Equity exposure

(thousands €)

	Listed shares		Unlisted shares		TOTAL	
	Dec-11	Dec-10	Dec-11	Dec-10	Dec-11	Dec-10
Acquisition cost	14.108	7.793	379.305	32.717	393.413	40.510
Fair value	12.094	6.638	377.713	32.390	389.907	39.028
Market price	12.094	6.638			12.094	6.638
Results for the year arising from sales and settlements					-638	3.102
Total unrealized gains and losses					-465	-1.595
Total gains and losses inherent in latent revaluations					**-3.141**	**113**

11. Operational risk

Operational risk consists of the risk of losses as a result of shortcomings or failures in internal processes, human resources, systems or external factors.

Montepio obtained authorization from the Bank of Portugal, effective 30 June 2010, to adopt the Standard Method (TSA) for the calculation of minimum capital requirements for operational risk. With the larger perimeter of consolidation in 2011, this method is being implemented in the new companies within the group.

As of December 31, 2011, the operational risk capital requirements for CEMG were calculated using the Standard Approach (TSA), and included assets transferred from Finibanco and those of MG Cabo Verde. For Finibanco, Finicrédito and Finibanco Angola, the requirements were calculated according to the Basic Indicator Approach (BIA). As a result, the consolidated capital requirements to cover operational risk were 71,2 million € on December 31, 2011.

In the Basic Indicator Approach, regulatory capital requirement to cover operational risk is calculated as the average of the relevant positive yearly indicator over the last three years, multiplied by 15%. In the Standard Method this capital requirement corresponds to the average of the relevant positive yearly indicator, across each of the business lines, over the last three years, multiplied by a factor assigned to each business line, according to the Bank of Portugal's definitions.

The accounting information taken into consideration in calculating the relevant indicator is aligned with Bank of Portugal's Instruction 23/2007, with the exception of accounts that do not stem from CEMG's current activity, according to the provisions of article nº.5, subparagraph d) of Annex I to Bank of Portugal's Notice 9/2007.

The criteria for each business segment follow the Bank of Portugal's Notice 9/2007. The table below describes the relationship between the business segments and the list of activities in CEMG:

Table 27 –Business Line Mapping

Business Line	Activity
Corporate Finance	- Underwriting;
	- Consulting services on capital structure, industrial strategy and other related or consulting questions, along with services related to mergers and acquisitions by companies;
Trading and sales	- Proprietary positions; - MMI Brokerage; - Reception and transmission of orders in relation to one or more financial instruments; - Execution of orders on behalf of clients;
Payment and settlement	- Issue and administration of payment services; - Payments operations;
Commercial banking Retail banking	- Retail deposits and investment funds; - Private lending; - Finance leases; - Guarantees;
Agency services	- Safekeeping and administration of financial instruments on behalf of clients, including custody and related services, such as treasury/ collateral management;
Retail brokerage	- Reception and transmission of orders in relation to one or more financial instruments; - Execution of orders on behalf of clients.
Asset Management	- OICVM management.

Table 28 – Capital Requirements of Operational Risk

(thousands €)

Business Line	Relevant Indicator			Regulatory capital requirement
	2009	2010	2011	
Total	570.957	500.199	475.938	71.243
1.Total of activities subject to Basic Indicator method	36.775	39.408	42.595	5.939
2.Total of activities subject to Standard method	534.182	460.791	433.343	65.304
2.1. Corporate Finance	574	900	1.107	
2.2. Trading and sales	29.008	605	1.943	
2.3. Retail brokerage	6.740	6.801	5.105	
2.4. Commercial banking	160.774	170.573	226.332	
2.5. Retail banking	305.256	246.869	163.341	
2.6. Payment and settlement	26.786	30.724	31.256	
2.7. Agency services	5.043	4.319	4.259	
2.8. Asset Management	0	0	0	

12. Analysis of sensitivity of Capital requirements

12.1 Interest rate risk on the banking book

Identifying, measuring and controlling interest rate risk on CEMG's banking book are among the tasks of the DRI. CEMG’s interest rate risk management is based on the principles recommended by the *Bank for International Settlements*.

Measurement and assessment of the interest rate risk on CEMG's banking book essentially uses two methods:

- Repricing gap (most commonly used);
- Market value/duration.

These methods use the following components in constructing the simulation:

- Remunerated assets and liabilities that make up CEMG's balance sheet (balance, currency, repricing date, maturity date, contract interest rate, type of indexing rate, interest rate renewal period and type of repayment);
- Off-balance sheet accounts (in particular interest rate swaps);
- New volumes strategies (amounts, pricing and repricing);
- Projection of interest and exchange rates;

The repricing gap method calculates the value of assets and liabilities that renew their interest rate within a certain period ("time bucket"), normally one month. The difference between the value of assets and liabilities that renew their interest rate within a certain period represents a gap, which will be positive (negative) if the total value of assets is higher (lower) than the total value of liabilities.

The repricing models can be:

- Static: concerned only with the balance sheet and off-balance sheet position at the end of each month;
- Dynamic: concerned with the balance sheet and off-balance sheet position forecast for subsequent months, based on the initial situation and the expected development of various business variables, such as volumes, interest rate renewal periods, early settlements and mobilizations.

The models are based on the following methodological approaches:

- Remunerated assets and liabilities are grouped according to repricing period, type of reference rate and purpose of operation;
- Fixed-rate remunerated assets and liabilities are regarded as undergoing repricing on their maturity date;
- Currently, coefficients take into account the residual maturity of the contracts, instead of considering early mobilization (of deposits and credit).

For remunerated assets and liabilities that are not directly indexed to a market rate, the repricing date corresponds to the expiration date.

On-demand deposits are regarded subject to repricing every one to two years, noting that changes to the remuneration of these deposits are made only administratively.

Deposit bonds issued at a fixed rate by CEMG have associated interest rate swaps and therefore affect repricing gaps on the dates that the pay leg of the swap is refixed.

12.2 Stress tests

Due to CEMG's participation in the Bank of Portugal's Special On-site Inspections Program (SIP), which took place over the course of 2011 and included a specific stress testing exercise, CEMG was not required to perform the stress tests described in the Bank of Portugal's Notice 32/2009.

The SIP exercises were accompanied by an external auditor, in partnership with the Bank of Portugal, and aimed to assess the impact of adverse macroeconomic and financial scenarios on credit, market and interest rate risk.

For credit risk, the analysis focused on adverse scenarios, with negative outlooks for the main risk parameters, such as increased past due loans, and significant devaluation of collateral. The conclusion drawn from this exercise is that CEMG's capital ratios are sufficiently robust to cope with the type of shocks simulated. It was also concluded that the CEMG group used adequate parameters and methodologies for the majority of the aspects under analysis, although the possibility of improvement in specific areas was not ruled out.

The institution also conducts a monthly impact analysis of parallel movements of the yield curve on interest rate risk, as per Instruction 19/2005. Regular stress tests are also performed for the ALCO Committee including interest rate shifts, changing haircuts for ECB accepted collateral in refinancing operations, variations in exposures to large depositors and impacts on net interest income caused by the change in spreads. Measures/strategies for immunization or containment of any adverse effects expected are then defined.

Sensitivity analyses are also carried out, every six months, in the field of operational risk, in addition to participation in the stress testing exercises promoted by the Bank of Portugal, in cooperation with the other areas of the DRI. The last exercise performed did not reveal any relevant vulnerability which would justify the need for corrective measures to deal with potential future adverse events.

The results of these analyses are communicated to the board of directors and used in strategic decisions such as pricing, loan criteria and in the development of products offered.

12.3 Quantitative information - interest rate risk

The following is the information reported biannually to the Bank of Portugal on "Interest rate risk (banking book)", on a consolidated basis, considering the impact of a rate shock of (+-) 200 b.p.:

Table 29 – Interest rate risk (banking book)

(thousands €)

			Dec-11	Dec-10
Efect on equity od a parallel shift of 200 b.p. in interest rate	Amount	+	51.643	54.644
		-	-51.643	-54.644
	% Regulatory capital	+	3,08%	4,20%
		-	-3,08%	-4,20%

"+ " = upward parallel shift of 200 b.p. in the interest rate

"- " = downward parallel shift of 200 b.p. in the interest rate

Calculated in accordance with the methodology laid down in Instruction 19/2005, the impact on equity of a parallel shift of + 200 b.p. in the interest rate curve is 3,08% of the regulatory capital (see Table 29). The sensitivity of the banking book to interest rate risk is thus within the guidelines defined by the BIS in "Principles for the Management and Supervision of Interest Rate Risk" (20% limit).