2011 MARKET DISCIPLINE Report

Millennium bcp

2011 Market Discipline Report

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LIST OF THE ACRONYMS AND TECHNICAL TERMS MOST USED THROUGHOUT THE DOCUMENT

EC: Executive Committee of the Board of Directors

EBD: Executive Board of Directors

CCF: Credit Conversion Factors

EAD: Exposure At Default

ECAI: External Credit Assessment Institutions

IAS: International Accounting Standards

ICAAP: Internal Capital Adequacy Assessment Process

IRB: Internal Ratings Based

KRI: Key Risk Indicators

LGD: Loss Given Default

PD: Probability of Default

RSA: Risks Self-Assessment

SIC 12: Standing Interpretations Committee – before March 2002, interpretation that defines the criteria for SPE consolidation according to IAS 27

SPE: Special Purpose Entity

VaR: Value-at-Risk

INTRODUCTION

This document, denominated "2011 Market Discipline Report", is comprised within the requisites for the provision of information foreseen in Pillar III of the Basel II agreement, complementing the 2011 Annual Report of Banco Comercial Português, S.A. (hereinafter referred to as "Bank" or "Millennium bcp") concerning the information on risk management and capital adequacy on a consolidated basis, namely in what concerns the provision of detailed information on the capital, solvency, risks assumed and respective control and management processes.

This document complies with the information requisites detailed in the Notice of Bank of Portugal nr. 10/2007 and includes all additional information deemed relevant to evaluate the risk profile and the Bank's capital adequacy on a consolidated basis.

REGULATORY CALCULATION METHODOLOGIES

Following the request submitted by Millennium bcp, Bank of Portugal formally authorised the adoption of methodologies based on the Internal Ratings Based models (IRB) for the calculation of capital requirements for credit and counterparty risk, covering a substantial part of the risks of the activity in Portugal, effective as of 31 December 2010. Within the scope of the gradual adoption of IRB approach in the calculation of capital requirements for credit and counterparty risks and, following the approval request presented by the Bank, Bank of Portugal formally authorized the extension of this method to the subclasses "Renewable Retail Positions" and "Other Retail Positions" in Portugal, effective as of 31 December 2011. During the first six months of 2009 the Bank received the authorization from Bank of Portugal to use the advanced approach (internal model) for the generic market risk and to use the standard approach for operational risk.

Without damaging the provision of more detailed information in the next chapters, we show in Table I a summary of the calculation methodologies of the capital requirements used in the regulatory reporting as well as of the respective geographical application scope.

TABLE I – CAPITAL REQUIREMENTS: CALCULATION METHODS AND SCOPE OF APPLICATION (1)

	31-12-2011	31-12-2010
CREDIT RISK AND COUNTERPARTY CREDIT RISK		
Retail		
Loans secured by residential or commercial real estate	IRB Advanced	IRB Advanced
Small companies	IRB Advanced	IRB Advanced
Renewable retail positions	IRB Advanced	Standardised
Other retail positions	IRB Advanced	Standardised
Companies	IRB Foundation (2)	IRB Foundation (2)
Other loans and advances	Standardised	Standardised
MARKET RISK		
Debt instruments	Internal Models	Internal Models
Equity securities	Internal Models	Internal Models
Foreign exchange risk	Internal Models	Internal Models
Commodities risk	Standardised	Standardised
OPERATIONAL RISK	Standard	Standard

(1) The scope of application of the IRB approach and Internal Models is limited to the exposures in the perimeter managed centrally from Portugal, excluding the Standard method of operational risk, whose adoption was authorised in 2009 for application on a consolidated basis.
(2) Exposures derived from the real estate promotion segment and simplified rating system, while belonging to the Companies risk category, are weighted by the Standardised approach.

1. STATEMENT OF RESPONSIBILITY OF THE EXECUTIVE COMMITTEE OF THE BOARD OF DIRECTORS

I. This statement of responsibility issued by the Executive Committee of the Board of Directors (EC) of Banco Comercial Português, S.A., regards the "2011 Market Discipline Report", in compliance with the provisions of Notice of Bank of Portugal nr. 10/2007.

II. Due to the publication on 3 April 2007 of the Decree-Laws nr. 103/2007 and 104/2007 that transposed into the domestic legal framework the Directives nr. 49/2006 (Capital Adequacy Directive) and nr. 48/2006 (Banking Directive), respectively, the prudential regime of the credit institutions and investment companies in Portugal incorporates the requirements proposed in the Revised Capital Accord, usually named "Basel II", that established a new regulatory framework for capital adequacy applicable to financial institutions.

III. The "Basel II" regime is based upon three different and complementary pillars:

- Pillar I consists in rules for the determination of minimum own funds requirements for hedging credit, market and operational risks;
- Pillar II comprises the main principles of the supervision and risk management process, including the capital adequacy self-assessment process;
- Pillar III complements the previous pillars with the demand for the provision of information on the financial standing and the solvency of credit institutions, establishing public disclosure requirements for capital and risk management processes and systems, aiming at enhancing market discipline.

IV. Hence, the "2011 Market Discipline Report" prepared within the scope of Pillar III, is the fourth report on this issue made and published by the Bank, in compliance with the regulations in force and in line with the practices followed by the major international banks.

V. Since the regulatory requirements do not foresee it, this report was not audited by the Bank's External Auditor. However, the same includes information already presented in the audited consolidated financial statements, in the 2011 Annual Report that will be appraised and subject to the approval of the General Meeting of Shareholders that will take place on 31 May 2012.

VI. The report has the following chapters:

1. Statement of responsibility of the Executive Committee of the Board of Directors
2. Scope
3. Risk Management in the Group
4. Capital Adequacy
5. Credit Risk
6. Counterparty credit risk
7. Credit risk mitigation techniques

8. Equity exposures in the banking book

9. Securitisation operations

10. Own funds requirements of the trading book

11. Own funds requirements for foreign exchange and commodities risks

12. Own funds requirements for operational risk

13. Interest rate risk in the banking book

Concerning the information presented in the "2011 Market Discipline Report", the Executive Committee of the Board of Directors:

- Certifies that all procedures deemed necessary were carried out and that, to the best of its knowledge, all the information disclosed is trustworthy and true;
- Assures the quality of all the information disclosed, including the one referring to or with origin in entities comprised within the economic group of which the institution is part; and
- Commits to timely disclose any significant alterations that may occur in the course of the financial year subsequent to the one this report relates to.

Porto Salvo, 22 May 2012

The Executive Committee of the Board of Directors of Banco Comercial Português, S.A.

2. SCOPE

2.1. IDENTIFICATION OF BANCO COMERCIAL PORTUGUÊS, S.A.

Millennium bcp is a public traded company with share capital open to public investment (public company), with registered office at Praça D. João I, 28, in Porto, registered at the Porto Commercial Registry under the unique registry and tax number 501,525,882, registered at Bank of Portugal with code 33, at the Securities Market Commission as a Financial Intermediary under registration number 105 and at the Insurance Institute of Portugal as a Tied Insurance Intermediary, under number 207,074,605.

The current share capital of the Bank, on 31 December 2011, was 6,064,999,986 euros, fully paid up and represented by 7,207,167,060 shares without nominal value. The ordinary, book-entry and nominal shares are registered in the centralised system managed by Interbolsa – Sociedade Gestora de Sistemas de Liquidação e de Sistemas Centralizados de Valores Mobiliários, S.A.

The Bank is a public company, established in Portugal by public deed on 25 June 1985, parent company of a number of companies with which it has a controlling or group relationship, under the terms of article 21 of the Securities Code (henceforth designated as "Group" or "BCP Group"), and is subject to Bank of Portugal supervision, on both an individual and consolidated basis, in accordance with the General Framework for Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras).

The Bank's Articles of Association and the individual and consolidated Annual Reports are at the public's disposal, for consultation, at the Bank's registered office and on its website, at www.millenniumbcp.pt.

2.2. BASIS AND PERIMETERS OF CONSOLIDATION FOR ACCOUNTING AND PRUDENTIAL PURPOSES

The information disclosed within the present document reflects the consolidation perimeter for prudential purposes, under the terms of Bank of Portugal Notice nr. 10/2007, which differs from the consolidation perimeter of the Group accounts defined in accordance with the International Financial Report Standards (IFRS) as approved by the European Union (EU) within the scope of the provisions of Regulation (EC) nr. 1606/2002 of the European Parliament and of the Council of 19 July 2002, as transposed into the Portuguese legislation through the Decree-Law 35/2005 of 17 February and the Notice of Bank of Portugal nr. 1/2005.

The main differences in the consolidation perimeter for prudential purposes, relative to the consolidation perimeter of the Group accounts, are related with the treatment of companies whose activity is of a different nature and incompatible with the provisions of the General Framework for Credit Institutions and Financial Companies, with reference to supervision on a consolidated basis, in accordance with Bank of Portugal Notice nr. 8/94, namely in relation to commercial, industrial, agricultural or insurance companies.

Companies included in the previous paragraph are excluded from consolidation for prudential purposes. Notwithstanding, and according to the Notice 8/94, Bank of Portugal may order the inclusion of some of these companies in the prudential consolidation perimeter, if and when it considers this the most appropriate solution in terms of supervision objectives.

In addition, shareholdings excluded from consolidation for prudential purposes that are recorded in the financial statements for the purposes of supervision on a consolidated basis under the equity method, can be deducted from consolidated own funds, totally or partially, under the terms defined by Bank of Portugal Notice nr. 6/2010, as detailed in chapter 4. Capital Adequacy.

There are no subsidiaries not included in the consolidation perimeter for prudential purposes, whose own funds are lower than the required minimum level. Under the terms of article 4 of Decree-Law nr. 104/2007, of April 3, there are also no subsidiaries included in the consolidation perimeter for prudential purposes, regarding which the obligations relative to the minimum level of own funds and limits to large exposures are not applicable. Finally, there is no significant, current or foreseen, impediment to the prompt transfer of own funds or repayment of liabilities among the Bank and its subsidiaries, although, with reference to Angola and

Mozambique, the rules in force may condition the fluidity of fund transfers, but without any potentially significant impacts at Group level.

Table II describes the entities included in the Group as at 31 December 2011, indicating the Consolidation method to which they are subject to and adding adequate notes aiming to highlight the regulatory treatment of entities excluded from the consolidation perimeter for prudential purposes.

TABLE II – CONSOLIDATION METHODS AND REGULATORY TREATMENT

	31 December 2011			
	Accounting Consolidation method	Head office	Economic activity	% control
Millennium bcp Gestão de Activos – Sociedade Gestora de Fundos de Investimento, S.A.	Full	Portugal	Investment Fund Management	100.0%
Interfundos – Gestão de Fundos de Investimento Imobiliários, S.A.	Full	Portugal	Real Estate Investment Fund Management	100.0%
BII Investimentos International, S.A.	Full	Luxembourg	Investment Fund Management	100.0%
BCP Capital – Sociedade de Capital de Risco, S.A.	Full	Portugal	Venture Capital	100.0%
Banco de Investimento Imobiliário, S.A.	Full	Portugal	Banking	100.0%
BII Internacional, S.G.P.S., Lda.	Full	Portugal	Holding Company	100.0%
BII Finance Company	Full	Cayman Islands	Investment	100.0%
Banco ActivoBank, S.A.	Full	Portugal	Banking	100.0%
BIM – Banco Internacional de Moçambique, S.A.	Full	Mozambique	Banking	66.7%
Banco Millennium Angola, S.A.	Full	Angola	Banking	52.7%
Bank Millennium, S.A.	Full	Poland	Banking	65.5%
Millennium TFI – Towarzystwo Fundusszy Inwestycyjnych, S.A.	Full	Poland	Investment Fund Management	100.0%
Millennium Dom Maklerski S.A.	Full	Poland	Brokerage	100.0%
Millennium Leasing Sp. z o.o.	Full	Poland	Leasing	100.0%
BBG Finance BV	Full	Netherlands	Investment	100.0%
TBM Sp.z o.o.	Full	Poland	Advisory and Services	100.0%
MB Finance AB	Full	Sweden	Investment	100.0%
Millennium Service Sp. z o.o	Full	Poland	Services	100.0%
Millennium Telecomunication Sp. z o.o.	Full	Poland	Brokerage	100.0%
BG Leasing S.A	Full	Poland	Leasing	74.0%
Banque Privée BCP (Suisse) S.A.	Full	Switzerland	Banking	100.0%
Millennium Bank, Societé Anonyme	Full	Greece	Banking	100.0%
Millennium Fin Commerce of Vehicles, Vessels, Devices and Equipment, Societé Anonyme	Full	Greece	Investment	100.0%
Millennium Mutual Funds Management Company, Societe Anonyme	Full	Greece	Investment Fund Management	100.0%
Banca Millennium S.A.	Full	Romenia	Banking	100.0%
Millennium bcp Participações, S.G.P.S., Sociedade Unipessoal, Lda.	Full	Portugal	Holding Company	100.0%
BitalPart, B.V.	Full	Netherlands	Holding Company	100.0%
BCP Investment, BV	Full	Netherlands	Holding Company	100.0%
ALO Investment B.V.	Full	Netherlands	Holding Company	100.0%
BCP Holding (USA), Inc.	Full	USA	Holding Company	100.0%
MBCP Reo I, LLC	Full	USA	Real Estate Management	100.0%
MBCP Reo II, LLC	Full	USA	Real Estate Management	100.0%
Millennium bcp Bank & Trust	Full	Cayman Islands	Banking	100.0%
BCP Finance Bank, Ltd.	Full	Cayman Islands	Banking	100.0%
BCP Finance Company	Full	Cayman Islands	Investment	100.0%
Millennium BCP – Escritório de Representações e Serviços, Ltda.	Full	Brazil	Financial Services	100.0%
Millennium BCP – Serviços de Comércio Electrónico, S.A.	Full	Portugal	Videotex Services	100.0%
Caracas Financial Services, Limited	Full	Cayman Islands	Financial Services	100.0%
Millennium bcp Imobiliária, S.A.	Full	Portugal	Real Estate Management	99.9%
Millennium bcp – Prestação de Serviços, A.C.E.	Full	Portugal	Services	91.5%
Servitrust – Trust Managment and Services S.A.	Full	Portugal	Trust Services	100.0%
Imábida – Imobiliária da Arrábida, S.A.	Full	Portugal	Real Estate Management	100.0%
QPR Investimentos, S.A.	Full	Portugal	Advisory and services	100.0%

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	31 December 2011			
	Accounting Consolidation method	Head office	Economic activity	% control
Propaço – Sociedade Imobiliária de Paço D'Arcos, Lda.	Full	Portugal	Real Estate Development	52.7%
Fundo de Investimento Imobiliário Imosotto Acumulação	Full (3)	Portugal	Real Estate Investment Funds	100.0%
Fundo de Investimento Imobiliário Gestão Imobiliária	Full (3)	Portugal	Real Estate Investment Funds	100.0%
Fundo de Investimento Imobiliário Imorenda	Full (3)	Portugal	Real Estate Investment Funds	100.0%
Fundo Especial de Investimento Imobiliário Oceânico II	Full (3)	Portugal	Real Estate Investment Funds	100.0%
Fundo Especial de Investimento Imobiliário Fechado Stone Capital	Full (3)	Portugal	Real Estate Investment Funds	100.0%
Fundo Especial de Investimento Imobiliário Fechado Sand Capital	Full (3)	Portugal	Real Estate Investment Funds	100.0%
Fundo de Investimento Imobiliário Fechado Gestimo	Full (3)	Portugal	Real Estate Investment Funds	100.0%
M Inovação – Fundo de Capital de Risco BCP Capital	Full (3)	Portugal	Real Estate Investment Funds	60.7%
Academia Millennium Atlântico	Equity method (1)	Angola	Education	33.0%
ACT-C – Indústria de Cortiças, S.A.	Equity method (1)	Portugal	Extractive Industry	20.0%
Baía de Luanda	Equity method (1)	Angola	Services	10.0%
Banque BCP, S.A.S.	Equity method (2)	France	Banking	19.9%
Banque BCP (Luxembourg), S.A.	Equity method (2)	Luxembourg	Banking	19.9%
Constellation	Equity method (1)	Mozambique	Real Estate	20.0%
Beira Nave	Equity method (1)	Mozambique	Electronic Equipment	22.8%
Luanda Waterfront Corporation	Equity method (1)	Cayman Islands	Services	10.0%
Lubuskie Fabryki Mebli S.A.	Equity method (1)	Poland	Furniture Manufacturer	50.0%
Pomorskie Hurtowe Centrum Rolno – Spozywcze S.A.	Equity method (1)	Poland	Wholesale Business	38.4%
Nanium, S.A.	Equity method (1)	Portugal	Electronic Equipments	41.1%
SIBS – Forward Payment Solutions, S.A.	Equity method (2)	Portugal	Banking Services	21.9%
Sicit – Sociedade de Investimentos e Consultoria em Infra-Estruturas de Transportes, S.A.	Equity method (1)	Portugal	Consulting	25.0%
UNICRE – Cartão Internacional de Crédito, S.A.	Equity method (2)	Portugal	Credit Cards	32.0%
VSC – Aluguer de Veículos Sem Condutor, Lda.	Equity method (1)	Portugal	Long Term Rental	50.0%
S&P Reinsurance Limited	Full (2)	Ireland	Life Reinsurance	100.0%
SIM – Seguradora Internacional de Moçambique, S.A.R.L.	Full (2)	Mozambique	Insurance	89.9%
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	Equity method (2)	Portugal	Holding Company	49.0%
Caravela SME No. 1 Limited	Full	Ireland	Special Purpose Entity (SPE)	100.0%
Caravela SME No. 2 Limited	Full	Portugal	Special Purpose Entity (SPE)	100.0%
Kion Mortgage Finance PLC 1	Full	United Kingdom	Special Purpose Entity (SPE)	100.0%
Kion Mortgage Finance No. 2 PLC	Full	United Kingdom	Special Purpose Entity (SPE)	100.0%
Magellan Mortgages No. 2 Limited	Full	Ireland	Special Purpose Entity (SPE)	100.0%
Magellan Mortgages No. 3 Limited	Full	Ireland	Special Purpose Entity (SPE)	82.4%
Magellan Mortgages No. 5 Limited	Full	Ireland	Special Purpose Entity (SPE)	100.0%
Magellan Mortgages No. 6 Limited	Full	Ireland	Special Purpose Entity (SPE)	100.0%
Nova Finance No. 4 Limited	Full	Ireland	Special Purpose Entity (SPE)	100.0%
Orchis Sp zo.o.	Full	Poland	Special Purpose Entity (SPE)	100.0%
Tagus Leasing No. 1 Limited	Full	Ireland	Special Purpose Entity (SPE)	100.0%

(1) Entity excluded from the regulatory consolidation, whose impact on solvency indicators results from assessment of capital requirements of the equity amount recorded on the balance sheet assets.
(2) Entity excluded from the regulatory consolidation, which are subject to deduction from own funds under the terms of Bank of Portugal Notice nr. 6/2010.
(3) Entity excluded from the regulatory consolidation, whose impact on solvency indicators results from assessment of capital requirements of the participation units held in the investment fund.

Hereinafter please find the description of the consolidation methods used for accounting purposes and the respective selection criteria in force in the Group.

FULL CONSOLIDATION

Investments in subsidiaries where the Group holds control are fully consolidated from the date the Group assumes control over its financial and operational activities 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 manage the financial and operating policies of an entity to obtain benefits from its activities, even if the percentage of capital held is less than 50%.

Additionally, the Group fully consolidates Special Purpose Entities ("SPE") resulting from securitization operations with assets from Group entities, based on the criteria presented in the chapter 9.2. Accounting Policies of the Group, related to the treatment of securitization operations. Besides these SPE resulting from securitization operations, no additional SPE have been consolidated considering that they do not meet the criteria established on SIC 12.

In addition, the Group manages assets held by investment funds, whose participation units are held by third parties. The financial statements of these entities are not consolidated by the Group, except when the Group holds more than 50% of the participation units. However, the entities consolidated for accounting purposes are excluded from the consolidation for prudential purposes, as previously mentioned, with their impact being reflected in the determination of own funds requirements.

PROPORTIONAL CONSOLIDATION

Jointly controlled entities, consolidated under the proportional method, are entities where the Group has joint control, established by contractual agreement. The consolidated financial statements include, in the corresponding captions, the Group's proportional share of the entities' assets, liabilities, revenue and expenses, with items of a similar nature on a line by line basis, from the date that joint control started until the date that joint control ceases. On 31 December 2011, the Group didn't consolidate any entity by the proportional method.

EQUITY CONSOLIDATION

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 treatment of holdings held by the Group in insurance companies consolidated under the full consolidation method was changed, for prudential purposes, with the objective of reflecting the recording of these subsidiaries under the equity method, for the purposes of supervision on a consolidated basis.

2.3. ELIGIBILITY AND COMPOSITION OF THE FINANCIAL CONGLOMERATE

Directive 2002/87/CE, of December 16, 2002, of the European Parliament and Council, transposed to the Portuguese law by Decree-Law no. 145/2006, of July 31, established a fully integrated prudential supervision regime for credit institutions, insurance companies and investment companies that, provided certain conditions are met, belong to financial conglomerates.

The abovementioned Decree-Law establishes the conditions to identify financial conglomerates. Eligible groups are those groups that are headed by, or part of, an authorised regulated entity in the European Union of a relevant size, as defined in accordance with its balance sheet, which, cumulatively, includes at least one entity from the insurance subsector and another from the banking or investment services subsector, and provided the activities developed by these two subgroups are significant.

An activity is considered significant if, for each subsector, the average between the weight of its balance sheet in the total Group's financial balance sheet and the weight of its solvency requirements in the total requirements of the Group's financial sector exceeds 10%, or if the balance sheet of the Group's smallest subsector exceeds 6 billion euros.

The Group was defined as a financial conglomerate by the National Council of Financial Supervisors (Conselho Nacional de Supervisores Financeiros) for fulfilling the condition foreseen in article 3, no. 2, subparagraph b, ii), of Decree-Law no. 145/2006, of 31 July, reflecting a balance sheet of the insurance subsector, the Group's smallest subsector, in excess of 6 billion euros.

In addition, and notwithstanding the relative weight of the insurance subsector below the previously mentioned 10% level, the National Council of Financial Supervisors also considered that the Group does not meet the requirements for exclusion from the complementary supervision regime, under the terms of no. 1 of article 5 of the same Decree-Law no. 145/2006, of 31 July.

As at 31 December 2011, total net assets of the insurance subsector stood at 5,856 million euros, with a relative weight of 6.4%. At the same date, BCP Group, as a financial conglomerate, was composed by the entities included in the financial statements for the purposes of supervision on a consolidated basis, in accordance with the information presented in Table II and by the insurance companies, namely SIM-Seguradora Internacional de Moçambique, S.A.R.L., S&P Reinsurance, Limited and the subsidiaries of Millenniumbcp Ageas Grupo Segurador, SGPS, S.A., as shown in Table III.

TABLE III – COMPOSITION OF THE FINANCIAL CONGLOMERATE

	31 December 2011			
	Consolidation method	Head office	Economic activity	% control
BANKING BUSINESS				
Millennium bcp Gestão de Activos – Sociedade Gestora de Fundos de Investimento, S.A.	Full	Portugal	Investment Fund Management	100.0%
Interfundos – Gestão de Fundos de Investimento Imobiliários, S.A.	Full	Portugal	Real Estate Investment Fund Management	100.0%
BII Investimentos International, S.A.	Full	Luxembourg	Investment Fund Management	100.0%
BCP Capital – Sociedade de Capital de Risco, S.A.	Full	Portugal	Venture Capital	100.0%
Banco de Investimento Imobiliário, S.A.	Full	Portugal	Banking	100.0%
BII Internacional, S.G.P.S., Lda.	Full	Portugal	Holding Company	100.0%
BII Finance Company	Full	Cayman Islands	Investment	100.0%
Banco ActivoBank, S.A.	Full	Portugal	Banking	100.0%
BIM – Banco Internacional de Moçambique, S.A.	Full	Mozambique	Banking	66.7%
Banco Millennium Angola, S.A.	Full	Angola	Banking	52.7%
Bank Millennium, S.A.	Full	Poland	Banking	65.5%
Millennium TFI – Towarzystwo Funduszy Inwestycyjnych, S.A.	Full	Poland	Investment Fund Management	100.0%
Millennium Dom Maklerski S.A.	Full	Poland	Brokerage	100.0%
Millennium Leasing Sp. z o.o.	Full	Poland	Leasing	100.0%
BBG Finance BV	Full	Netherlands	Investment	100.0%

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	31 December 2011			
	Consolidation method	Head office	Economic activity	% control
TBM Sp. z o.o.	Full	Poland	Advisory and Services	100.0%
MB Finance AB	Full	Sweden	Investment	100.0%
Millennium Service Sp. z o.o.	Full	Poland	Services	100.0%
Millennium Telecomunication Sp. z o.o.	Full	Poland	Brokerage	100.0%
BG Leasing S.A.	Full	Poland	Leasing	74.0%
Banque Privée BCP (Suisse) S.A.	Full	Switzerland	Banking	100.0%
Millennium Bank, Societé Anonyme	Full	Greece	Banking	100.0%
Millennium Fin Commerce of Vehicles, Vessels, Devices and Equipment, Societé Anonyme	Full	Greece	Investment	100.0%
Millennium Mutual Funds Management Company, Societe Anonyme	Full	Greece	Investment Fund Management	100.0%
Banca Millennium S.A.	Full	Romenia	Banking	100.0%
Millennium bcp Participações, S.G.P.S., Sociedade Unipessoal, Lda.	Full	Portugal	Holding Company	100.0%
BitalPart, B.V.	Full	Netherlands	Holding Company	100.0%
BCP Investment, B.V.	Full	Netherlands	Holding Company	100.0%
ALO Investment B.V.	Full	Netherlands	Holding Company	100.0%
BCP Holding (USA), Inc.	Full	USA	Holding Company	100.0%
MBCP Reo I, LLC	Full	USA	Real Estate Management	100.0%
MBCP Reo II, LLC	Full	USA	Real Estate Management	100.0%
Millennium bcp Bank & Trust	Full	Cayman Islands	Banking	100.0%
BCP Finance Bank, Ltd.	Full	Cayman Islands	Banking	100.0%
BCP Finance Company	Full	Cayman Islands	Investment	100.0%
Millennium BCP – Escritório de Representações e Serviços, Ltda.	Full	Brazil	Financial Services	100.0%
Millennium BCP – Serviços de Comércio Electrónico, S.A.	Full	Portugal	Videotex Services	100.0%
Caracas Financial Services, Limited	Full	Cayman Islands	Financial Services	100.0%
Millennium bcp Imobiliária, S.A.	Full	Portugal	Real Estate Management	99.9%
Millennium bcp – Prestação de Serviços, A.C.E.	Full	Portugal	Services	91.5%
Servitrust – Trust Managment and Services S.A.	Full	Portugal	Trust Services	100.0%
Imábida – Imobiliária da Arrábida, S.A.	Full	Portugal	Real Estate Management	100.0%
QPR Investimentos, S.A.	Full	Portugal	Advisory and services	100.0%
Propaço – Sociedade Imobiliária de Paço D'Arcos, Lda.	Full	Portugal	Real Estate Development	52.7%
Academia Millennium Atlântico	Equity method	Angola	Education	33.0%
ACT-C – Indústria de Cortiças, S.A.	Equity method	Portugal	Extractive Industry	20.0%
Baía de Luanda	Equity method	Angola	Services	10.0%
Banque BCP, S.A.S.	Equity method	France	Banking	19.9%
Banque BCP (Luxembourg), S.A.	Equity method	Luxembourg	Banking	19.9%
Constellation	Equity method	Mozambique	Real Estate	20.0%
Beira Nave	Equity method	Mozambique	Electronic Equipment	22.8%
Luanda Waterfront Corporation	Equity method	Cayman Islands	Services	10.0%
Lubuskie Fabryki Mebli S.A.	Equity method	Poland	Furniture Manufacturer	50.0%
Pomorskie Hurtowe Centrum Rolno – Spozywcze S.A.	Equity method	Poland	Wholesale Business	38.4%
Nanium, S.A.	Equity method	Portugal	Electronic Equipments	41.1%
SIBS – Forward Payment Solutions, S.A.	Equity method	Portugal	Banking Services	21.9%
Sicit – Sociedade de Investimentos e Consultoria em Infra-Estruturas de Transportes, S.A.	Equity method	Portugal	Consulting	25.0%
UNICRE – Cartão Internacional de Crédito, S.A.	Equity method	Portugal	Credit Cards	32.0%
VSC – Aluguer de Veículos Sem Condutor, Lda.	Equity method	Portugal	Long Term Rental	50.0%
Caravela SME No. 1 Limited	Full	Ireland	Special Purpose Entity (SPE)	100.0%
Caravela SME No. 2 Limited	Full	Portugal	Special Purpose Entity (SPE)	100.0%
Kion Mortgage Finance PLC 1	Full	United Kingdom	Special Purpose Entity (SPE)	100.0%

continues

continuation

	31 December 2011			
	Consolidation method	Head office	Economic activity	% control
Kion Mortgage Finance No. 2 PLC	Full	United Kingdom	Special Purpose Entity (SPE)	100.0%
Magellan Mortgages No. 2 Limited	Full	Ireland	Special Purpose Entity (SPE)	100.0%
Magellan Mortgages No. 3 Limited	Full	Ireland	Special Purpose Entity (SPE)	82.4%
Magellan Mortgages No. 5 Limited	Full	Ireland	Special Purpose Entity (SPE)	100.0%
Magellan Mortgages No. 6 Limited	Full	Ireland	Special Purpose Entity (SPE)	100.0%
Nova Finance nr.º 4	Full	Ireland	Special Purpose Entity (SPE)	100.0%
Orchis Sp zo.o.	Full	Poland	Special Purpose Entity (SPE)	100.0%
Tagus Leasing No. 1 Limited	Full	Ireland	Special Purpose Entity (SPE)	100.0%
INSURANCE BUSINESS				
S&P Reinsurance Limited		Ireland	Life Reinsurance	100.0%
SIM – Seguradora Internacional de Moçambique, S.A.R.L.		Mozambique	Insurance	89.9%
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.		Portugal	Holding Company	49.0%
Ocidental – Companhia Portuguesa de Seguros, S.A.		Portugal	Insurance	49.0%
Ocidental – Companhia Portuguesa de Seguros de Vida, S.A.		Portugal	Insurance	49.0%
Médis – Companhia Portuguesa de Seguros de Saúde, S.A.		Portugal	Insurance	49.0%
Pensõesgere, Sociedade Gestora Fundos de Pensões, S.A.		Portugal	Pension Funds Management	49.0%

3. RISK MANAGEMENT IN THE GROUP

3.1. RISK MANAGEMENT PRINCIPLES

The Group is subject to several different risks related with the development of its activities.

The management of the risk faced by the several companies of the Group observes control and report principles, methodologies and procedures defined in a centralized manner, in coordination with the respective local departments and taking into consideration the specific risks of each business.

The Group's risk management policy aims at the identification, assessment, follow-up and control of all material risks that the institution faces, both internally and externally, so as to ensure that the same are kept in levels that match the risk tolerance pre-defined by the management body.

Thus, it is particularly relevant to monitor and control the major types of risk – particularly the credit, market, operational and liquidity risks and the risks related with pension fund, business and strategy – inherent to the Group's activities. These can be defined as follows:

- Credit risk – credit risk reflects the potential losses and the degree of uncertainty regarding the future returns to be generated by the loan portfolio, due to the inability of borrowers (and of their guarantors, if any), issuers of securities or counterparties to agreements, to fulfil their obligations.

- Market risk – market risk consist of the potential losses that might occur in a given portfolio, as a result of changes in interest or exchange rates and/or in the prices of the different financial instruments of the portfolio, considering not only the correlations that exist between those instruments but also its volatility.

- Operational risk – operational risk consists in the occurrence of losses as a result of failures and/or inadequacies of internal processes, people or systems or due to external events.

- Liquidity risk – liquidity risk reflects the Group's potential inability to meet its obligations at maturity without incurring significant losses, resulting from a deterioration in funding conditions (funding risk) and/or from the sale of its assets below market values (market liquidity risk).

- Defined benefit pension fund risk – pension fund risk stems from the potential devaluation of the defined benefit pension fund, or from the decrease of its expected returns, implying the undertaking of unplanned contributions.

- Business and strategic risk – business and strategic risk is materialized when there are negative impacts on net income and/or capital, as a result of (i) decisions with adverse effects, (ii) the implementation of inadequate management strategies, or (iii) the inability to respond effectively to market changes and variations.

The credit risks and the market and operational risks are object of calculation of own funds requirements within the scope of the regulatory information on capital adequacy of Pillar I of Basel II, deserving a detailed approach in the following chapters of this document while the liquidity risks, the pension fund risks and the business and strategic risks are exclusively dealt with in Pillar II being detailed in sub-chapter 4.5 Internal Capital Adequacy Assessment Process (ICAAP).

3.2. RISK MANAGEMENT GOVERNANCE IN 2011

The Executive Board of Directors (EBD) of Millennium bcp was responsible for the risk policy comprising, in this scope, the approval of high level principles and rules of risk management, as well as for the guidelines that frame capital allocation to the business segments.

The Supervisory Board, through the Financial Matters Committee, was entrusted with matters concerning the supervision of management, aimed at ensuring both at the level of the Group and each entity, the existence of internal systems that allow the proper management and control of risks and adequate compliance and audit policies.

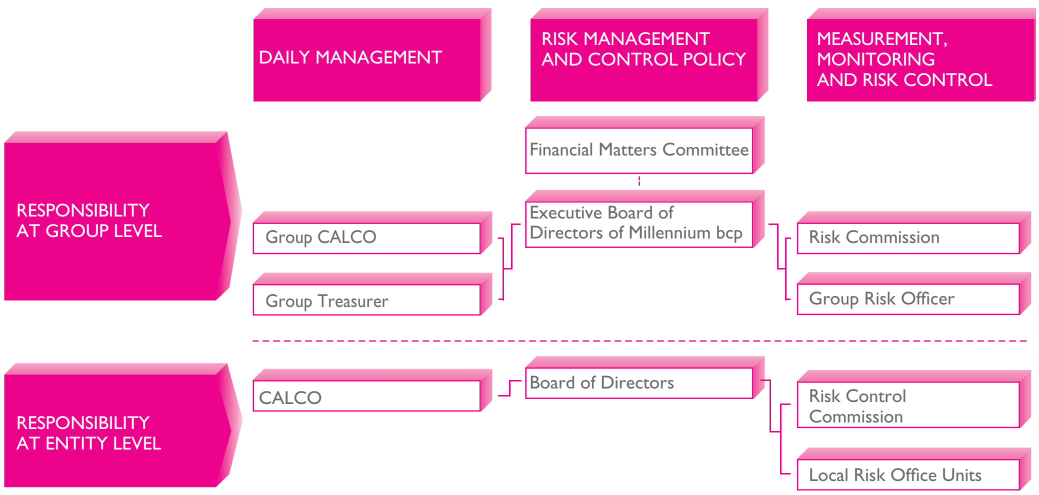
The Risk Commission was responsible for monitoring overall risk levels (credit, market, liquidity and operational risk), ensuring that these are compatible with the objectives and the strategies approved for the development of the Group's activity.

The Group Risk Officer was responsible for the risk control function for all entities of the Group in order to ensure the monitoring and transversal alignment of concepts, practices and objectives. The Group Risk Officer gives support to the Risk Commission, informing the commission on the general level of risk and proposing measures to improve the internal control environment and to implement the approved limits. The Group Risk Officer also has the power to veto any decision that is not subject to the approval of the EBD and that may have an impact on the Group's risk level (for example: the launch of new products or alterations to processes).

All entities included in the Bank's consolidation perimeter guide their activities by the principles and guidelines established centrally by the Risk Commission and the main subsidiaries abroad all have local Risk Office structures established in accordance with the risks inherent to their respective activities. Those subsidiary companies also have a Risk Control Commission responsible for controlling risk locally. The Group Risk Officer is a member of each Commission.

By delegation of the EBD, the Group CALCO ("Capital, Assets and Liabilities Management Committee") was responsible for the management of the overall capital of the Group, the management of assets and liabilities and the definition of the liquidity management strategies at the consolidated level. The Group CALCO was responsible for the structural management of market and liquidity risks, including monitoring the liquidity plan execution, defining transfer prices and capital allocation rules, taking decisions and monitoring the coverage of specific positions and the Investment Portfolio.

TABLE IV – RISK MANAGEMENT MODEL



The risk management function was reinforced in 2011 through a set of initiatives aimed at increasing the ability to evaluate and control risks, with a special highlight to:

- The fine-tuning of the risk management and control mechanisms and instruments, in particular with respect to credit risk, in accordance with the recommendations issued by Bank of Portugal regarding the IRB approaches within the IRB application process; and

- The development of improvements in the stress test framework, for the development of internal tests and participation in the exercises conducted by Bank of Portugal in the context of the tests carried out at a European level.

3.3. RISK ASSESSMENT

3.3.1. CREDIT RISK

The granting of credit is based on the prior classification of the customer's risk and on the strict assessment of the protection level given by underlying collaterals. For that purpose, a single system of risk classification is used, the Rating Master Scale, based on the expected Probability of Default (PD), enabling a greater capacity to evaluate and classify the customers and grade the associated risk. The Rating Master Scale also enables the Bank to identify customers that show signs of degradation in their capacity to service their debts and, in particular, those who are classified, within the scope of Basel II, as being in default. All the rating models and systems used in the Group have been duly weighted for the Rating Master Scale. The Group also uses an internal scale of protection levels as a crucial element in the assessment of the efficiency of the collateral in the mitigation of the credit risk, promoting a more active credit collateralization and a better adequacy of the pricing to the incurred risk.

The Group follows a policy of permanent monitoring of its credit risk decision processes, promoting their fine-tuning and every appropriate change aiming to reinforce the quality and effectiveness of those processes. In 2011 the following accomplishments should be highlighted:

- The development and improvement of a set of rating systems, in order to strengthen credit risk assessment. As examples of these efforts, we emphasize the developments that took place in the scope of the real estate promotion sector and the Large Corporate segment, as well as the formal validation of the rating models and systems in force for the Corporate and Retail segments;

- The annual recalculation of the estimates of Loss Given Default (LGD), with particular incidence on loans secured by real estate collateral and on the small businesses portfolio (SME Retail) as well as the development of an IT project in the scope of credit recovery, in collaboration with an external consultant, with the main objective of gathering data in a systematica and automated manner to support the calculation of the Bank's LGD estimates;

- The improvement of internal regulations on non-performing loans and the restructuring of credit recovery areas, aiming to reinforce the effectiveness of credit recovery processes.

Aiming at the best possible adequacy of credit risk assessment, the Group has defined a series of client macrosegments and segments which are treated under different rating systems and models and support the links between internal ratings (risk grades) and Clients PD, ensuring that the risk assessment takes into account the specific characteristics of the Customers, in terms of their respective risk profiles.

The assessments made by the rating systems and models referred above are translated into the risk grades of a transversal Master Scale, with fifteen levels, of which the last three correspond to situations of relevant deterioration in Customer creditworthiness, called "procedural risk grades". Risk grades are attributed by automatic decision rating systems models or by the Rating Department and are revised/updated periodically or whenever justified by events.

The internal estimates of LGD and CCF (Credit Conversion Factors) are supported by internal approaches validated by Bank of Portugal in the scope of the approval granted to the IRB approaches. The LGD estimations are produced by resorting to a model that collects and analyses the history of losses due to credit risk and discounts all the cashflows inherent to the respective recovery processes while the ones of the CCF result from the analysis made to data on the use of credit lines and limits during one year before the occurrence of the defaults.

The stage of development of the processes and systems allocated by the Group to credit risk management and control enabled Bank of Portugal to approve the Group's application for the use of IRB approach for the calculation of the regulatory capital requirements for this type of risk and for the main risk classes. This authorization was granted with effect as of 31 December 2010 (inclusive) and refers to the Group's activities in Portugal.

Regarding other geographical areas – namely Poland and Greece – the Group applied for the use of IRB approaches for the calculation of capital requirements, in accordance with a roll-out plan for the next two years. In these countries, credit risk management processes and systems are being fine-tuned in line with the practices followed in Portugal.

3.3.2. MARKET RISK

For the purpose of profitability analysis and of the quantification and control of market risks, the trading book portfolio comprises the positions held with the aim of obtaining short-term gains, through sale or revaluation. These positions are managed actively, traded without restrictions and can be precisely and frequently evaluated. The positions in question include securities and derivatives related to sales activities. The banking book portfolio includes all the other positions, namely the wholesale financing, the securities held for investment, the commercial activity and the structural activity.

In order to ensure that the risks incurred in the portfolios of the Group are in accordance with the Group's risk tolerance levels, several limits are defined for market risks (reviewed at least once a year) and are applied to all the portfolios that, in accordance with the management model, might incur these risks.

The definition of these limits is based on the market risks metrics used by the Group in its control and monitoring, which are followed by the Risk Office on a daily basis (or intra-daily, in the case of the financial markets areas – trading and funding).

In addition to these risk limits, stop loss limits are also defined for the financial markets areas, based on multiples defined for those areas, aiming at limiting the maximum losses which might occur within each of the areas. When these limits are reached, a review of the management strategy and assumptions for the positions in question must be undertaken.

The Group uses an integrated market risks measure that allows for the monitoring of all the relevant subtypes of risk considered. This measure covers the evaluation of the following types of risk: generic risk, specific risk, non-linear risk and commodities' risk. The daily measurement of the generic market risk - relative to interest rate risk, exchange rate risk, equity risk and price risk of Credit Default Swaps uses a VaR (Value-at-Risk) model based on the parameter approximation defined in the methodology developed by RiskMetrics, where the calculation considers a time horizon of ten business days and a confidence interval of 99%. As defined in the RiskMetrics methodology, the volatility of each market risk factor (and respective correlations) considered in the VaR model is estimated by an EWMA (Exponentially-Weighted Moving Average) estimation econometric model, with an observation period of one year and a time weight (lambda) of 0.94, which assumes a higher weight to the market conditions recorded in the more recent days ensuring, thus, a better adequacy to the market conditions.

A model is also used to assess the specific risk existing due to the ownership of securities (bonds, shares, certificates, etc.) and of derivatives the performance of which is directly related with the securities' value. With the necessary adjustments, this model follows the standard approachology defined in the applicable regulation in force due to the Basel II Agreement.

There are also applied other complementary methods to the remaining risk types, namely a complementary measure for the non-linear risk, that includes the options risk not covered by VaR methodology, with a confidence level of 99%, and a standardised approach for the commodities risk. These measures are integrated in the market risk indicator based on the conservative assumption of perfect correlation between the several risk types (worst-case scenario).

The amounts of capital at risk are thus determined, both on an individual basis and in consolidated terms, considering the effects of diversification of the various portfolios.

In order to ensure that the internal VaR model is adequate to assess the risks involved in the positions held, there is a process of backtesting, carried out daily through which the VaR indicators are confronted with those that that really occurred. This backtesting is made in a hypothetical manner (using the static portfolio for the estimation of the VaR and the market variations occurred in the meantime) and in a real manner (using the real result of the portfolio, writing off the intermediation results).

The interest rate risk derived from the operations of the banking book is assessed through a process of risk sensitivity analysis, undertaken every month, covering all the operations included in the Group's consolidated balance sheet.

In order to identify the exposure of the Group's banking book to these risks, the monitoring of the interest rate risk takes into consideration the financial characteristics of the positions registered at the information systems, with the respective expected cash-flows being forecast in accordance with the repricing dates and prepayment assumptions.

The interest rate gaps by repricing dates result from the aggregation of the expected cash-flows for each time bucket and currency.

The sensitivity of each currency to the interest rate risk is determined by the difference between the present value of the interest rate mismatch, discounted at market interest rates and the present value of the same cash-flows arising from the simulation of parallel shifts of the yield curves.

The Group performs hedging operations with the market on a regular basis, aimed at reducing the interest rate mismatch of risk positions associated to the portfolio of the commercial and structural areas.

3.3.3. OPERATIONAL RISK

For the management and control of this type of risk, the Group has increasingly adopted a set of clearly defined principles, practices and control mechanisms that are documented and implemented, of which the following are examples: the segregation of functions; the definition of lines of responsibility and corresponding authorizations; the definition of limits of tolerance and of exposure to risk; the codes of ethics and codes of conduct; the implementation of KRI (Key Risk Indicators) [1]; the access controls, physical and logical; the reconciliation activities; the exception reports; the contingency plans; the insurance policies; and the internal training on processes, products and systems.

Hence, aiming at an increasingly higher efficiency in the identification, assessment, control and mitigation of risk exposures, the Group has been strengthening its operational risk management framework since 2006 and expanding it to the main operations abroad, benefiting from the adoption of a common supporting IT application in all the subsidiaries and the monitoring performed by the Group Risk Office.

Operational risk management is based on an end-to-end process structure, defined for all the subsidiaries of the Group, which provides the benefits from a broader perception of the risks and of the measures implemented to as to mitigate them and result in an integrated vision of the activities undertaken along the value chain of each process.

The group of processes defined for each entity is dynamic, adjusted and differentiated according to the operating practices and business of each entity, so as to cover all the relevant activities developed.

The responsibility for the management of the processes is attributed to process owners, whose mission is to: characterise the operational losses captured in the context of their processes; perform the risks self-assessment (RSA); identify and implement the appropriate measures to mitigate risk exposures, contributing to strengthen the internal control environment; and monitor the KRI.

In Portugal, process owners are appointed by the Process and Banking Services Monitoring Committee, recognising their knowledge and experience concerning the activities of the processes for which they are responsible. This body is also responsible for:

- Approving the definition of the process dossiers;
- Approving the institution of new processes, defining, on a case-by-case basis, the need for the respective ISO9001 certification and identifying the processes which, outside of the certification, should be assessed in terms of performance (through key performance indicators);
- Aligning the process-based management practices with the reality of the business units intervening in the processes;
- Ensuring the issuance, maintenance and internal disclosure of documentation and information on process-based management;
- Approving any alterations to processes which have already been instituted, as well as designing new processes.

In other geographical areas, the respective Management Board is responsible for appointing the process owners.

The objective of the risks self-assessment (RSA) is to promote the identification and mitigation (or even elimination) of risks, actual or potential, within each process. Each risk is classified according to its positioning on a tolerance matrix, for three different scenarios, which allows for the: determination of the risk of the process

(1) The KRI are metrics, the monitoring of which enables to identify alterations in the risk profile or in the efficiency of the controls, enabling to detect the best opportunity to launch correction actions to prevent effective losses. This management tool is already used in the most relevant processes of the most important geographical areas where the Group operates.

without considering the existent contracts (Inherent Risk); assessment of the risks exposure of the different processes, considering the influence of existing controls (Residual Risk) and identification of the impact of the improvement opportunities in the reduction of the most significant exposures (Target Risk).

The RSA exercises are based on workshops, attended by the Risk Office and with the participation of the process owners and process managers, or on questionnaires sent to the process owners for the updating of previous results, according to defined updating criteria.

The process owners play a major role in promoting the collection of data on actual losses occurring within the context of their processes. The Risk Office also identifies and records operational losses, based on the analysis of data provided by central areas.

The main objective of the collection of data on operational loss events is to strengthen awareness of this type of risk and provide relevant information to the process owners, to be incorporated in the management of their processes, and to provide support for backtesting the results of the RSA.

The identified operational losses are related to each process and recorded in the Group's operational risk management IT application, being characterised by their respective process owners and process managers.

The full characterization of an operational loss includes, in addition to the description of the respective cause-effect, its valuation and, when applicable, a description of the identified mitigation action (based on the analysis of the cause of loss) which was or will be implemented.

The consolidation of the loss data capture process at the different subsidiaries of the Group is evidenced by the evolution of its respective records in the database. Uniformity of criteria in data capture is ensured by the Group Risk Office, which analyses loss events data and promotes the circulation of information on the mitigation of events throughout all the geographical areas in which the Group operates. Furthermore, processes aimed at the reconciliation of the recorded information on losses with accounting data are run.

3.3.4. LIQUIDITY RISK

The liquidity risk assessment is performed on a consolidated basis and is based on the regulatory framework, as well as on other internal indicators for which have also been defined exposure limits.

The control of the Group's liquidity risk, for short-term horizons (up to three months) is carried out daily on the basis of two internally defined indicators – the immediate liquidity and the quarterly liquidity. These indicators measure the maximum fund-taking requirements that might arise cumulatively over these time horizons, considering the cash flow projections for the periods of, respectively, three days and three months.

These indicators are calculated by adding to the liquidity position registered on the assessment date the future cash flows estimated for each one of the days of the respective timeframe (three days or three months) for the group of operations intermediated by the market areas, including the operations made with customers from the Corporate and Private networks that, for their size, are mandatorily listed by the Dealing Room. To the value thus estimated one adds the amount of assets considered highly liquid that are in the Bank's securities portfolio, being, this way, calculated the liquidity gap accumulated in each one of the days of the period of time under analysis.

At the same time, the Bank regularly monitors the evolution registered by the Group's liquidity position, with the identification of all factors that may justify the variations occurred. This analysis is submitted to the appraisal of the CALCO, aiming at making decisions that enable to maintain financing conditions suitable for the development of the activity. Moreover, the control made on the exposure to liquidity risk pertains to the Risk Commission.

3.3.5. PENSION FUND RISK

The defined benefit pension fund risk stems from the potential devaluation of the defined benefit pension fund, or from the decrease of its expected returns, implying the undertaking of unplanned contributions. The Pension Fund Risk Sub-Monitoring Commission is responsible for the regular monitoring of this risk and for the supervision of its management, being its assessment quantified in the scope of the economic capital.

3.3.6. BUSINESS AND STRATEGIC RISK

The business and strategic risk is materialized when there are negative impacts on net income and/or capital, as a result of decisions with adverse effects, the implementation of inadequate management strategies, or the inability to respond effectively to market changes and variations. Therefore, the variation in the listed price of the Bank's shares is a relevant indicator for the measurement of this type of risk, with its quantification being made by the internal model used to assess/quantify the internal capital needs (economic capital).

4. CAPITAL ADEQUACY

4.1. COMPONENTS AND MAIN CHARACTERISTICS OF THE REGULATORY CAPITAL AND CAPITAL REQUIREMENTS

Following the request presented by the Bank, as previously mentioned, Bank of Portugal formally authorized the extension of the methodologies based on IRB approaches for the calculation of capital requirements for credit and counterparty risks, covering the risk sub-classes "Renewable Retail Positions" and "Other Retail Positions" in Portugal as from 31 December 2011. This authorization led to several changes on the calculation of regulatory capital and capital requirements assessed in comparison with 2010 figures.

The own funds of the Group Banco Comercial Português are determined according to the applicable regulatory rules, namely the Bank of Portugal Notice nr. 6/2010. Total own funds result from adding Tier I with Tier II and subtracting the component of Deductions. For the estimation of Tier I are taken into consideration elements that are part of Core Tier 1, as defined in the Bank of Portugal Notice nr. 3/2011, and other additional data relevant for the estimation of the Tier 1. The Tier 1 and, in particular, the Core Tier 1, comprise the steadiest components of the own funds.

As positive elements of Core Tier 1 we may consider the paid-up capital and the share premium, the reserves and the positive retained earnings, the non-controlling interests related to the share capital not held on fully consolidated companies and the deferred impacts related to the transition adjustments to the International Accounting Standards (IAS). Correspond to negative elements of Core Tier 1 the losses, the own ordinary shares, the positive differential estimated on an individual basis between the regulatory provisions set forth by Notice of Bank of Portugal nr. 3/95 and the impairments estimated in accordance with the International Accounting Standards for the exposures handled using the standardised approach, the goodwill accounted as assets and other intangible assets.

By the end of the 2011 financial year, the Bank decided to alter the accounting policy related with the recognition of actuarial deviations of the Pension Fund. Thus, and following the assessment of the alternatives allowed by the International Accounting Standard (IAS) 19 – Employee Benefits, the Group decided to start recognizing the actuarial deviations of the financial year against reserves. Previously, the Group deferred the actuarial deviations in accordance with the corridor method, wherein the actuarial gains and losses not recognized that exceeded 10% of the highest value between the present value of the liabilities and the fair value of the assets of the Fund were recorded against results in accordance with the estimated remaining years of work of the Employees.

Notwithstanding this alteration in the accounting policy, Bank of Portugal, for prudential purposes, allowed the Bank to continue to use a corridor, corresponding to the highest value between i) 10% of the liabilities with retirement and survival pensions and ii) 10% the value of the Pension Fund as defined in the Bank of Portugal Notice nr. 2/2012.

The Core Tier 1 is also influenced by the reposition of unpaid gains and losses that do not represent impairment in debt securities, credits and other values to receive accounted as available for sale, in cash flow hedging operations, and in financial liabilities evaluated at fair value through results, after taxes, in the portion corresponding to own credit risk, and also by the reversion of unrealised gains on equity securities classified as available for sale and in credits and other values to receive from the trading book or assessed at fair value through profit and loss account.

During the last six months of 2011, Bank of Portugal established new rules that have influenced the Group's Core Tier 1, namely:

- In November 2011, Bank of Portugal introduced an attachment in the Bank of Portugal Notice nr. 6/2010, determining a deduction to Core Tier 1 related with deposits agreed with Customers showing interest rates above 300 basis points (b.p.) versus the market rates (Instruction of Bank of Portugal nr. 28/2011).

- Bank of Portugal, as of December 2011, authorized the prudential neutralization until June 2012, of the impacts related with the transfer of part of the liabilities with retirement and survival pensions into the Social Security General Regime and with the Special Inspections Programme carried out in the wake of the Economic and Financial Aid Programme (Bank of Portugal Notice nr. 1/2012).

The other additional data that are part of Tier 1 are the preferential shares, other hybrid instruments and some deductions, accounted at 50%: (i) of interests held in financial institutions (above 10%) and in insurance entities (above 20%); (ii) of the amount of the expected losses in the portion that exceeds the addition of the value corrections and of the provisions relating to the risk weighted positions computed in accordance with the IRB approach.

The supplementary own funds (Tier II) comprise subordinated debt and 45% of the unrealized gains excluded from Core Tier 1 in assets available for sale. These elements include the Upper Tier II, except for subordinated debt, divided between upper Tier II (debt with an undetermined maturity) and Lower Tier II (the remaining portion). The subordinated debt issued can only be included in own funds pursuant to the approval granted by Bank of Portugal and provided that the following limits are observed: a) Tier II cannot be superior to Tier 1 and b) Lower Tier II cannot represent more than 50% of Tier 1. Additionally, the loans with a determined maturity date must be amortized 20% per year during their last five years to maturity. The Tier II is also subject to the deduction of the remaining 50% not deducted to Tier I: (i) of the interests held in financial companies and in insurance entities and (ii) of the amount of expected losses in the portion that exceeds the addition of the value corrections and of the provisions relating to risk weighted positions estimated in accordance with the IRB approach, and the value that cannot be eventually recorded in Tier II must be removed from Tier 1.

In order to conclude the calculation of the regulatory capital, there are still some deductions to the own funds that need to be performed, namely the amount of real-estate assets resulting from recovered loans that have exceeded the regulatory period of permanence in the Bank's accounts, the impairment concerning securitization transactions that have not reached the regulatory definition of effective risk transfer, to the extent of the amounts not recognized in the Bank's accounts, and the potential excess of exposure to risk limits in the scope of Bank of Portugal Notice nr. 7/2010.

As of the beginning of 2008, own funds requirements are assessed in accordance with Basel II regulations. The own funds requirements for credit risk, in accordance with the Bank of Portugal Notice nr. 5/2007, are estimated in accordance with the IRB approach, in the perimeter managed centrally from Portugal, concerning a substantial portion of the retail and companies exposures and the standardised approach continues to be used for the remaining portfolios and countries.

The own funds requirements for the operational risk, mentioned in the Bank of Portugal Notice nr. 9/2007, are determined by using the standard approach and the own funds requirements for market risk, as defined in Bank of Portugal Notice nr. 8/2007, are computed in accordance with the IRB approach on the trading portfolio in what concerns the estimation of own funds requirements for generic market risk, comprising the subportfolios included in the perimeter centrally managed from Portugal, in what concerns debt instruments, capital instruments and foreign exchange risk, and in accordance with the standardised approach in what concerns the estimations of capital requirements for specific risk.

Additionally, in the wake of the Economic and Financial Aid Program, Bank of Portugal established, through Notice nr. 3/2011, that the financial groups should strengthen their Core Tier 1 ratios, on a consolidated basis, to at least 9% until 31 December 2011 and to 10% until 31 December 2012. In accordance with the EBA criteria that include, namely, a capital buffer amounting to 1,165 million euros related with the exposure to sovereign risks, the Group must attain a minimum Core Tier I ratio of 9% in June 2012.

4.2. METHOD OF ASSESSMENT OF THE ADEQUACY OF OWN FUNDS AT THE LEVEL OF THE FINANCIAL CONGLOMERATE

The Bank uses the accounting consolidation method established in Decree-Law nr. 145/2006, of 31 July, for the purposes of calculating the adequacy of own funds at the level of the financial conglomerate.

According to this method, the adequacy of own funds corresponds to the difference between the own funds of the financial conglomerate, calculated based on its consolidated position, and the sum of the solvency requirements of the banking and insurance subsectors that compose the conglomerate, which must not be negative.

The adequacy of own funds is calculated based on the consolidated accounts, as mentioned previously, taking into account the applicable sectorial rules with reference to the form and scope of consolidation.

Within the scope of determining the adequacy of own funds, the proportional part held by the Bank in associated companies, in accordance with the percentages used to prepare its consolidated accounts, is considered. On the other hand, the eligible elements for calculation that would result in them being used twice are eliminated, so as to avoid the inadequate creation of own funds at the level of the financial conglomerate.

4.3. OWN FUNDS AND CAPITAL ADEQUACY ON 31 DECEMBER 2011 AND 2010

Table V presents the main headings of the Group's own funds and own funds requirements on 31 December 2011 and 2010, as well as the respective capital ratios, including Core Tier I ratio.

TABLE V – SUMMARY OF THE MAIN CAPITAL AGGREGATES AND RATIOS

Thousand euros

	31-12-2011	31-12-2010
OWN FUNDS		
Tier I	4,787,573	5,455,142
of which: Core Tier I	**5,135,495**	**3,966,296**
Tier II	612,970	774,228
Deduction to total capital	-137,366	-113,338
Total capital	5,263,178	6,116,032
CAPITAL REQUIREMENTS		
Credit risk and counterparty credit risk	4,072,590	4,374,526
Market risk	45,309	48,601
Operational risk	318,519	342,032
TOTAL	**4,436,418**	**4,765,159**
CAPITAL RATIOS		
Core Tier I	9.3%	6.7%
Tier I	8.6%	9.2%
Total capital	9.5%	10.3%

The core capital of the Group increased to 5,135,495 thousand euros on 31 December 2011 (3,966,296 thousand euros on 31 December 2010). At the same time, the consolidated own funds requirements decreased from 4,765,159 thousand Euros on 31 December 2010 to 4,436,418 thousand euros on 31 de December 2011. Therefore, the core tier I ratio attained 9.3% by the end of 2011, evidencing a growth of 260 b.p. versus the ratio reported by the end of 2010 (6.7%).

The success achieved by the operations made to reinforce Core Tier I carried out during 2011 and the decrease in weighted risks supported by deleveraging and by the optimization and reinforcement of collaterals contributed positively for the evolution registered in Core Tier I ratio.

By the end of 2011, in view of the figures estimated by the end of 2010, Core Tier 1 increased 1,169,199 thousand euros. We highlight the following aspects:

- The increase of the Bank's share capital by 990,147 thousand euros, a process ended in June 2011 within the scope of the general public offer for the purchase of subordinated perpetual securities with conditioned interests.

- The share capital increase in cash made in June 2011, with shareholders' preference reserve, amounting to 259,853 thousand euros.

- The exchange offer aimed at holders of subordinated debt and preferential shares carried out in September and October of 2011 enabled the Bank to increase Core Tier 1 by 538,750 thousand euros, of which 98,315 thousand euros were recorded in the profit and loss account and the remaining in reserves.

- The positive effects caused, on the one hand, by the decrease in prudential deduction related with own credit risk, amounting to 117,452 thousand euros, translating the purchase of own debt accounted at fair value, and, on the other, by the increase of minority interests by 49,210 thousand euros due to the income achieved by the subsidiary companies in Poland, Mozambique and Angola.

- The net income of the financial year that, although registering losses amounting to 848,623 thousand euros, only had a negative impact of 313,970 thousand euros in Core Tier 1 as of 31 December 2011, since that amount included 534,654 thousand euros that were not computed as capital, as stipulated by Bank of Portugal.

- The costs that were not included in Core Tier 1 as of 31 December comprise i) 147,130 thousand euros related with the amortization of the goodwill of the Greek subsidiary company, that did not have an impact in capital since the goodwill had already been deducted and ii) 387,524 thousand euros, after taxes, relating to the impacts originated by the partial transfer of pensions into the Social Security General Regime (117,014 thousand euros) and the Special Inspections Programme (270,510 thousand euros) that were object of prudential neutralization in December 2011, in accordance with Bank of Portugal Notice nr. 1/2012.

- The component of the 2011 net earnings that negatively affected Core Tier 1 (313,970 thousand euros) was determined by the gain of 98,315 thousand euros recognized in the wake of the exchange offer previously mentioned and by the cost amounting to 408,876 thousand euros, after taxes, resulting from the registration of impairment losses corresponding to an average of 77.3% of the nominal value of the Greek public debt held.

- The unfavourable impact of 289,102 thousand euros related with the Pension Fund, computed after the neutralization of the effects of the partial transfer of pensions into the Social Security General Regime and of the corridor due to the liabilities that have not been transferred, of which 64,108 thousand euros resulted from the actuarial differences of 2011, including the effects of the change of actuarial assumptions and of the variation in the corridor, and 224,994 thousand euros resulted from the regulatory amortization of the deferred impacts of the transition into the IAS/IFRS, from the changes occurred in the mortality table in 2005 and from the actuarial losses of 2008.

- The negative impacts associated with other prudential filters, namely the shortfall of impairment to regulatory provisions of exposures handled using the standardised approach (-57,214 thousand euros), the deduction of 21% of the nominal value of the Greek public debt not covered by impairment (-15,821 thousand euros) and deposits with high rates, under the terms of Bank of Portugal Notice nr. 28/2011 (-10,013 thousand euros).

- The effects in consolidated reserves resulting from the variation in fair value reserves of Millenniumbcp Ageas, the changes in the accounting policy of the Pension Fund, the payment of remuneration on hybrid products, foreign exchange differences and others, which in accrued terms contributed with a decrease of 1,778 thousand euros.

The Table VI presents the consolidated own funds detailed in accordance with their main components:

TABLE VI – OWN FUNDS

Thousand euros

	31-12-2011	31-12-2010	
1. TOTAL OWN FUNDS FOR SOLVENCY PURPOSES (1.1.+ 1.2. + 1.4.)	**5,263,178**	**6,116,032**	
1.1. ORIGINAL OWN FUNDS (=∑(1.1.1. A 1.1.5.)-1.3A.)	**5,308,904**	**5,901,624**	
1.1.1. Eligible capital (=∑(1.1.1.1. a 1.1.1.4.))	6,132,407	4,869,456	
1.1.1.1. Paid-up capital	6,065,000	4,694,600	
1.1.1.2. (-) Own shares	-4,314	-17,265	
1.1.1.3. Share premium	71,722	192,122	
1.1.1.4. Other instruments eligible as capital			
1.1.2. Eligible reserves and profits and losses (=∑(1.1.2.1. a 1.1.2.5.))	-1,813,304	403,263	
1.1.2.1. Reserves	-1,624,763	-188,006	
1.1.2.2. Eligible non-controlling interests	542,647	493,437	
1.1.2.3. Profits from the previous financial year and preliminary profits from the current financial year		97,832	(1)
1.1.2.4. (-) Losses from the previous financial year and preliminary losses from the current financial year			
1.1.2.5. Losses from the previous financial year and preliminary losses from the current financial year	-731,188		(1)
1.1.2.6. (-) Net gains from capitalisation of future margin income from securitised assets			
1.1.2.7. Valuation differences eligible as original own funds			
1.1.3. Funds for general banking risks			
1.1.4. Other items eligible as original own funds (1.1.4.1.+1.1.4.2.)	953,949	2,051,064	
1.1.4.1. Other items eligible	173,409	1,935,328	(2)
1.1.4.1. Impact on the transition into IAS/AAS (negative impact)	74,861	115,737	
1.1.4.3. Other items eligible as original own funds	705,679		(3)
1.1.5. (-) Other deductions from original own funds (=∑(1.1.5.1. a 1.1.5.3.))	35,852	-1,422,160	
1.1.5.1. (-) Intangible fixed assets	-250,728	-400,802	
1.1.5.2. (-) Items included in original own funds exceeding the eligibility limits			
1.1.5.3. (-) Other deductions to original own funds	286,580	-1,021,358	(4)
1.2. ADDITIONAL OWN FUNDS (=∑(1.2.1. A 1.2.3.)-1.3B.)	**1,134,301**	**1,220,709**	
1.2.1. Core additional own funds – Upper Tier II	65,128	77,802	
1.2.2. Supplementary additional own funds – Lower Tier II	1,069,174	1,142,908	
1.2.3. (-) Deductions from additional own funds			
1.3. DEDUCTIONS FROM ORIGINAL AND ADDITIONAL OWN FUNDS	**-1,042,662**	**-892,963**	(5)
1.3.a. Of which: (-) from original own funds	-521,331	-446,481	
1.3.b. Of which: (-) from additional own funds	-521,331	-446,481	
1.4. TOTAL ORIGINAL OWN FUNDS FOR SOLVABILITY PURPOSE	**4,787,573**	**5,455,142**	
1.5. TOTAL ADDICIONAL OWN FUNDS FOR SOLVABILITY PURPOSE	**612,970**	**774,228**	
1.6. (-) DEDUCTIONS FROM TOTAL OWN FUNDS	**-137,366**	**-113,338**	(6)
1.7. TOTAL ADDITIONAL OWN FUNDS SPECIFIC TO COVER MARKET RISKS			
1.8. MEMORANDUM ITEMS			
1.8.1. (+) Excess of/(-) shortfall provisions in risk-weighted exposures under the internal ratings based approach (gross amounts)			
1.8.1.1. Amount of provisions for the internal ratings based approach			
1.8.1.2. (-) Internal ratings based approach measurement of expected losses			
1.8.2. Gross amount of subordinated loan capital recognised as a positive item of own funds	1,132,074	2,134,484	
1.8.3. Minimum initial capital requirements	17,458	17,458	
1.8.4. Reference own funds for the purpose of limits to large exposures	5,889,308	6,877,873	

(1) Includes retained earnings, net of expected cash dividends to pay (without any impact in 2011 and 2010), and the adjustment resulting from regulatory filters, namely those due to the effect of change of own credit risk on financial liabilities accounted at fair value through profit or loss.
(2) Preferential shares related to two issues made by BCP Finance Company in the amount of 935,328 thousand euros, as at December 31, 2010 and 163,556 thousand euros, as at December 31, 2011, after the exchange offer concluded in October 2011, and "Valores Mobiliários Perpétuos Subordinados com Juros Condicionados" (Perpetual Subordinated Securities with Conditioned Interest or Securities) issued by Banco Comercial Português, S.A. under its Securities Issue Programme up to the amount of 7,500 million euros, standing at 1,000 million euros on the year-end 2010 and 9,853 million euros, as at December 31, 2011, following the partial voluntary conversion into ordinary shares that took place in June 2011.
(3) As at December 31, 2011, it reflects the regulatory neutralisation permitted by Bank of Portugal, until June, 2012, of impacts arising from both the transfer of pension liabilities to the Social Security General System and the Special Inspections Program, in accordance with the of Bank of Portugal Notice nr. 1/2012.
(4) Includes the following regulatory filters: pension fund (actuarial differences above the regulatory corridor in 2010 and, after the change of the accounting policy related to the pension fund, includes the regulatory corridor in 2011); deduction of the shortfall of impairment to regulatory provisions, calculated on an individual basis, for exposures treated by the Standardised approach; additional impairment deduction related to the Greek public debt; and deduction related to customers' deposits with interest rates above the limits defined by the Bank of Portugal.
(5) Includes the deductions related to significant investments held in financial and insurance entities and to the shortfall of impairment to expected losses for exposures treated in accordance with IRB approaches.
(6) Includes deductions related to the value of repossessed assets that have exceded the regulatory period of permanence in the balance sheet.

Table VII shows the reconciliation between the Core Tier I reported on 31 December 2011 and 2010 and the consolidated total equity of Millennium bcp on those dates:

TABLE VII – CORE TIER I RECONCILIATION

Thousand euros

	31-12-2011	31-12-2010	
Total equity attributable to Shareholders of the Bank	3,826,755	6,749,975	
Non-controlling interests	542,647	493,437	(1)
Regulatory adjustments:			
(-) Preference shares and other hybrid instruments	-173,409	-1,935,328	
(-) Shareholders remuneration			
(+) Impact on the transition into IAS/AAS	74,861	115,737	
(+) Neutralisation permitted by the Bank of Portugal Notice nr. 1/2012	705,679		
(+) Corridor of the pension fund's staff in active	245,492		
(+) Deferral of the mortality tables in 2005 and the revaluation of the pension fund in 2008	124,135	368,061	
(-) Actuarial pension fund in excess of regulatory corridor		-1,389,419	(2)
(-) Intangible assets	-250,728	-400,802	(3)
(-) Profit/Loss after tax in debt securities and gains on equity securities	181,050	147,762	
(-) Results in emissions of financial assets at fair value in the part referring to own credit risk	-47,606	-165,041	
(-) Shortfall of the stock of impairment to regulatory credit provisions	-57,214		
Other adjustments (+/-) to Tier I capital	-36,166	-18,086	(4)
CORE TIER I	**5,135,495**	**3,966,296**	

(1) The differences between the perimeter of accounting consolidation for prudential purposes and regulatory consolidation that have been previously referred led to differences in this heading. The amounts recorded in the BCP Group accounts stood at 547,615 and 497,501 thousand euros on 31 December 2011 and 2010, respectively.
(2) In 2011 the Group opted for changing the accounting policy to recognise the actuarial deviations of the pension fund, that started to be recognised against reserves in 2011 (formerly the Group followed the "corridor" method).
(3) Includes the goodwill recorded in the consolidated assets of the Bank. In 2011 an impairment of 147,130 thousand euros related to the goodwill of the Greek subsidiary was recognised.
(4) Includes the adjustments related to regulatory filters, namely those related to fair value reserves in assets available for sale, to regulatory deduction related to the Greek public debt, to customers' deposits with interest rates above the limits defined by the Bank of Portugal and to BCP shares held by Ocidental Vida.

Table VIII breaks down own funds requirements per types of risks. The own funds requirements amounted to 4,436,418 thousand euros on 31 December 2011, down 328,741 thousand euros *versus* the 4,765,159 thousand euros estimated in the end of 2010. Notwithstanding the fact that the amounts reported on these dates are not directly comparable, as previously mentioned, it is important to highlight the factors that mainly contributed for that reduction:

- The 371,968 thousand euros decrease in credit and counterparty risk requirements associated with the activity, supported by deleveraging, translated into the decrease of the value of the consolidated assets by 6,513,349 thousand euros and into the optimisation and reinforcement of collaterals in 2011.
- The 60,000 thousand euros decrease resulting from the extension of the application of the IRB approach to risk sub-classes "Renewable retail exposures" and "Other retail exposures" in Portugal, formally authorised by Bank of Portugal effective as at 31 December 2011 within the framework of the gradual adoption of the IRB approach in the computation of capital requirements for credit and counterparty risk.
- The regulatory amendments set forth by Bank of Portugal in 2011, influenced by the decrease in the average weights of the regional and local authorities and of the sovereign risks of Angola and Mozambique, whose global value led to a 30,277 thousand euros decrease.
- The decreases in the requirements for market risks of 3,292 thousand euros and for operational risk of 23,513 thousand euros.
- The changes resulting from the Special Inspection Programme, which added 53,096 thousand euros.
- The rating downgrades of the Portuguese Republic increased capital requirements by 107,212 thousand euros.

TABLE VIII – CAPITAL REQUIREMENTS

Thousand euros

	31-12-2011	31-12-2010
2. CAPITAL REQUIREMENTS	**4,436,418**	**4,765,159**
2.1. FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	**4,072,590**	**4,374,526**
2.1.1. Standardised approach	2,087,687	2,091,893
2.1.1.1. Standardised approach exposure classes, excluding securitisation positions	2,087,687	2,091,893
2.1.1.1.1. Claims or contingent claims on Central Governments or Central Banks	31,491	58,508
2.1.1.1.2. Claims or contingent claims on Regional Governments or Local Authorities	19,801	25,941
2.1.1.1.3. Claims or contingent claims on Administrative Bodies and non-profit Organisations	429	38,057
2.1.1.1.4. Claims or contingent claims on Multilateral Development Banks		
2.1.1.1.5. Claims or contingent claims on International Organisations		
2.1.1.1.6. Claims or contingent claims on Institutions	170,403	194,308
2.1.1.1.7. Claims or contingent claims on Corporates	864,012	507,134
2.1.1.1.8. Claims or contingent claims on Retail	118,200	270,488
2.1.1.1.9. Claims or contingent claims secured on real estate property	425,592	624,133
2.1.1.1.10. Past due items	182,831	145,593
2.1.1.1.11. Items belonging to regulatory high-risk categories		
2.1.1.1.12. Claims on covered bonds		
2.1.1.1.13. Claims on Collective Investment Undertakings (CIU)	37,740	34,772
2.1.1.1.14. Other items	237,188	192,960
2.1.1.2. Securitisation positions under the Standardised Approach		
2.1.2. IRB approach	1,984,903	2,282,633
2.1.2.1. Not using own estimations of LGD and/or credit conversion factors	1,291,463	1,608,962
2.1.2.1.1. Claims or contingent claims on Central Governments or Central Banks		
2.1.2.1.2. Claims or contingent claims on Institutions		
2.1.2.1.3. Claims or contingent claims on Corporates	1,291,463	1,608,962
2.1.2.2. Using own estimations of LGD and/or credit conversion factors	632,456	643,642
2.1.2.1.1. Claims or contingent claims on Central Governments or Central Banks		
2.1.2.1.2. Claims or contingent claims on Institutions		
2.1.2.1.3. Claims or contingent claims on Retail	632,456	643,642
2.1.2.3. Equity positions	55,198	26,664
2.1.2.4. Securitisation positions	5,786	3,366
2.1.2.5. Other assets not related to bond loans		
2.2. SETTLEMENT RISK		
2.3. CAPITAL REQUIREMENTS FOR POSITION, FOREIGN-EXCHANGE AND COMMODITIES RISKS	**45,309**	**48,601**
2.3.1. Standardised approach	20,647	15,393
2.3.1.1.Traded debt instruments	19,720	14,795
2.3.1.2. Equity	922	586
2.3.1.3. Foreign exchange risks	0	2
2.3.1.4. Commodities risks	4	10
2.3.2. Internal models approach	24,662	33,208
2.4. CAPITAL REQUIREMENTS FOR OPERATIONAL RISK	**318,519**	**342,032**
2.4.1. Basic indicator approach		
2.4.2. Standard approach	318,519	342,032
2.5. CAPITAL REQUIREMENTS – FIXED OVERHEAD		
2.6. OTHER AND TRANSITIONAL CAPITAL REQUIREMENTS		

By the end of 2011 and of 2010, the Group had an excess of own funds versus the respective own funds requirements of 826,760 and 1,350,874 thousand euros, respectively, standing at 826,760 and 1,261,280 thousand euros in terms of financial conglomerate, as mentioned in Table IX.

TABLE IX – CAPITAL ADEQUACY

Thousand euros

	31-12-2011	31-12-2010
SURPLUS (+)/ DEFICIT (-) OF OWN FUNDS	826,760	1,350,874
SOLVENCY RATIO (%)	9.5%	10.3%
Capital adequacy of the financial conglomerate		
Own funds of the financial conglomerate	5,409,375	6,183,590
Capital requirements of the financial conglomerate	4,582,614	4,922,310
SURPLUS (+)/ DEFICIT (-) OF THE CONGLOMERATE'S OWN FUNDS	826,760	1,261,280

4.4. EVENTS WITH A MATERIAL IMPACT ON CAPITAL AND CAPITAL REQUIREMENTS IN 2012

On 3 February 2012, the Chairman of the Supervisory Board of Banco Comercial Português, with the agreement of the largest shareholders, confirmed that, meeting the Basel 2.5 criteria, translated into the requirements of the European Banking Authority for the Core Tier 1 ratio on 30 June 2012, and the prudential requirements of Bank of Portugal for the end of 2012, Banco Comercial Português submitted to Bank of Portugal, on 20 January 2012, a capital plan, under the terms of the EBA's communication of 8 December 2011.

The capital plan presented by Banco Comercial Português involves two components:

- A share capital increase to be subscribed, with preference rights, by private shareholders, to guarantee permanent own funds. Besides the concurrence of the current shareholders, Banco Comercial Português received indications that allow it to count on reference investors to partake in a future share capital increase;

- The approval of the request to use the temporary and reimbursable public recapitalisation facility established by Law 63-A/2008.

The accomplishment of the capital plan to be agreed with the competent authorities will be submitted to the analysis of a General Meeting convened specifically for that purpose and held under terms and conditions to be defined.

4.5. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

4.5.1 ECONOMIC CAPITAL CALCULATION APPROACHES AND RISK TAKING CAPACITY

The Internal Capital Adequacy Assessment Process (ICAAP) is an important step for the Group towards achieving the best practices in terms of risk management and capital planning. Within this scope, it is of the utmost importance to quantify the amount of capital necessary to absorb potential future losses, with a pre-defined probability, in order to safeguard the interests of its creditors and shareholders.

This involves calculating the internal (or "economic") capital which, independently of the regulatory capital, is adequate to the level of risks incurred. This process (ICAAP – Internal Capital Adequacy Assessment Process) allows for the establishment of a connection between the Group's level of tolerance to risk and its economic capital needs.

The ICAAP is used to identify all the material risks inherent to the Group's activity and their respective quantification, taking into account the possible effects of correlation between the different risks, as well as the effects of business diversification, which is developed along various lines and products and in various geographical areas.

Once the economic capital needs have been calculated, a comparison is drawn up between these needs and the available financial resources (Risk Taking Capacity), which allows for an economic perspective of capital adequacy, as well as for the identification of activities and/or businesses that create value.

In view of the nature of the Group's main activity in the markets in which it operates (retail banking), the main risks considered for the purposes of the ICAAP are the following:

- Credit risk;
- Operational risk;
- Risk of unhedged positions in the trading and banking books;
- Equity risk;
- Real estate risk;
- Pension fund risk;
- Liquidity risk;
- Business and strategic risk.

For the calculation of economic capital, the Group considers a 12-month timeframe, combining several factors of an economic, regulatory and practical nature, around the same forecast scenario: business planning, external ratings, regulatory capital under Pillar I and the quantification of credit risk through internal models for probability of default (PD), among others. The economic capital model takes on a global probability of default of 6 b.p. for 12 months, i.e. a 99.94% confidence level.

Thus, the quantification approaches used are based on the VaR (Value-at-Risk) methodology, where the maximum value of potential loss is calculated for each risk, for a 12-month timeframe, with a 99.94% confidence level.

The metrics used in the calculation are illustrated in the Table X:

TABLE X – MODELS USED TO CALCULATE ECONOMIC CAPITAL

Material risk types within bcp group and respective evaluation metrics

RISK TYPES	SUBTYPE	METRICS
Credit risk		Credit portfolio model
Market risks	Trading book	VaR model
	Interest rate risk of the banking Book	VaR model
	Equity risk in the banking book	Long-term VaR model
	Real estate risk	Long-term VaR model
Operational risk		Standard approach
Liquidity risk		Stress tests model over the funding costs
Pensions fund risk		Simulation model
Business and strategic risk		Model based on the specific volatility of BCP shares

Aggregation of risks at the various levels of the organisational structure of the Group includes the calculation of the effect of the diversification benefits, leading to an overall result which is less than the sum of the various individual components, thus indicating that the different types of risk are not perfectly correlated and the simultaneous occurrence of the worst-case scenarios is improbable.

A combination of two methods is used for this purpose: i) the correlation method and ii) the dependence of extreme events. In general terms, through the correlation method, the value of total economic capital is obtained from the individual values and from the correlation matrix. This method also allows the calculation of contributions towards the total risk of each type of risk.

The correlation matrix is obtained by submitting the historical loss series to an implicit linear correlation analysis, which differs from traditional linear correlation analysis as it recognises the dependence of extreme events.

4.5.2. ECONOMIC CAPITAL ASSESSMENT

Economic capital for credit risk is calculated by using an actuarial portfolio model, developed internally, which provides an estimate of the probability distribution of total losses based on the exposures and specific characteristics of the credit portfolio.

This model incorporates the measurements of the basic variables of credit risk assessment – PD, LGD and CCF, and also considers the uncertainty associated to these measurements by incorporating the volatility of these parameters. Furthermore, the model also incorporates the effects of the diversification/concentration of credit risk, taking into account the degrees of correlation between the various sectors of economic activity.

The methodological basis for the calculation of economic capital requirements relative to market risks is the same as the one used for the calculation of regulatory capital requirements for the Trading Book (VaR model), with some adjustments concerning the time horizon considered.

The measurement used for the calculation of economic capital relative to operational risk is the same as that used for regulatory capital for this type of risk (with regulatory weightings defined by business line applied to their gross income, which is estimated as detailed in subchapter 12.1. Gross income), considering that the amount so calculated corresponds to the maximum operational loss, with a confidence level of 99.90%. Thus, in order to obtain the value of economic capital for operational risk, the amount of regulatory capital is adjusted (scaled) for a confidence level of 99.94%, which corresponds to the path defined under the ICAAP.

The calculation of economic capital relative to liquidity risk is based on the stress test results regarding future funding needs and its respective costs.

The economic capital related to the pension fund is supported by an ALM (Asset Liability Management) simulation model that makes simulations of the profit and loss account and the balance sheet of the pension fund based on multiple scenarios and projections of the fund's inflows and outflows.

The calculation of the economic capital required to cover the economic and strategic risk is based on a long series of the price evolution of the Bank's share, an indicator deemed adequate to assess this type of risk, and this evolution is analyzed after the deduction of the external influence of the banking sector stock market, estimated from a time series of share prices of the larger banks listed at Euronext Lisbon.

Table XI presents the overall risk position as at 31 December 2011 and 2010, represented by the economic capital calculated on these dates:

TABLE XI – ECONOMIC CAPITAL

Thousand euros

	31-12-2011		31-12-2010	
	Amount	%	Amount	%
Credit risk	2,026,811	41.3%	2,078,492	40.6%
Market risk	1,552,422	31.6%	1,212,476	23.7%
Trading book	16,988	0.3%	40,006	0.8%
Banking book – interest rate risk	811,050	16.5%	440,398	8.6%
Equity risk – share price risk	355,565	7.2%	404,338	7.9%
Real estate risk	368,819	7.5%	327,734	6.4%
Operational risk	398,080	8.1%	428,218	8.4%
Liquidity risk	134,805	2.7%	319,278	6.2%
Pension fund risk	621,350	12.7%	875,966	17.1%
Business and strategic risk	177,698	3.6%	202,725	4.0%
NON-DIVERSIFIED ECONOMIC CAPITAL	**4,911,165**	**100.0%**	**5,117,155**	**100.0%**
Diversification effect	-1,164,562		-1,253,966	
DIVERSIFIED ECONOMIC CAPITAL	**3,746,604**		**3,863,188**	

Despite the instability and degradation of the economic framework and the volatility of the financial markets, economic capital requirements (after diversification benefits) registered, at the end of 2011, a 3.3% decrease on the figures registered in December 2010.

5. CREDIT RISK

5.1. DEFINITIONS AND POLICIES FOR THE ASSESSMENT OF LOSSES AND PROVISIONING

The credit risk is associated with losses or with the uncertainty concerning the expected returns due to the failure of the borrower – and of its guarantor, if there is one – or of the issuer of a security or of the counterparty of a contract in complying with their duties.

Past due loans, for accounting purposes, correspond to the global value of the credits and instalments due and not collected associated to credit agreements recognized in the balance sheet in any form whatsoever.

Thus, are accounted in past due loans all the credits (capital) that have not been settled thirty days after their maturity date.

This framework also includes the capital instalments contractually foreseen for future periods but that, due to the non payment of one of the instalments (of capital or of interests) may, in accordance with the law, be considered due and there are doubts on whether they will be paid.

Default credit for accounting purposes complies with the definition presented in the Instruction nr. 16/2004 of Bank of Portugal, aggregating the credit due for more than ninety days and the credits with doubtful collection reclassified as past due loans for purposes of provisioning, as established by the provisions of Bank of Portugal Notice nr. 3/95.

At the same time, within the prudential scope deriving from the application of the Bank of Portugal Notice nr. 5/2007, the positions with amounts in excess of certain material limits, whose maturity date occurred more than 90 days ago, comprising either the due amounts of the positions and the related amounts not yet due, are considered default positions.

Under the standardised approach the material limits mentioned are of 50 euros, while for the IRB Approaches the classification of default position must comply with a set of criteria defined in the internal rulings, including the following material limits: 250 euros for Mass-market Customers; 1,000 euros for Prestige, Business and ActivoBank Customers; 5,000 euros for Private Banking Customers; and 25,000 euros for Companies and Corporate Customers.

The credit object of impairment analysis comprises all the exposures subject to credit risk where one has detected objective impairment evidence. Thus, it comprises the individual exposures of certain clients or counterparties and homogeneous groups of credits that are not considered individually significant in accordance with the conditions hereinafter described. However, this definition – consistent with the values presented in Table XVII "Distribution of the risk positions due and object of impairment" – does not include the exposures with losses incurred but not identified that are also provisioned in accordance with the Group's policy in this matter and hereinafter detailed.

Concerning credit, the Group's policy for purposes of provisioning the positions at risk object of impairment consists in the regular evaluation of the existence of an objective evidence of impairment in its books.

The losses due to impairment identified are registered by counterparty of results being subsequently converted into results in case the amount of the estimated loss is reduced in a subsequent period.

After the initial recognition, a credit or a Client's credit portfolio, defined as a group of credits with similar risk features, may be classified as a portfolio with impairment when there is an objective evidence of impairment resulting from one or more events and when these have impact in the estimated amount of future cash flows of the credit or of the Clients credit portfolio, able of being calculated in a reliable manner.

In accordance with the IAS 39 there are two methods to estimate the losses due to impairment: (i) individual assessment and (ii) collective assessment.

(I) INDIVIDUAL ASSESSED LOANS

The individual evaluation of the losses due to impairment is determined through an assessment, on a case by case basis, of the total credit exposure. For each credit deemed individually significant, the Bank assesses, at least every quarter, the objective evidence of impairment. When determining the losses due to impairment in individual terms, the following factors are taken into consideration:

- The total exposure of each Client, on a consolidated basis, and the existence of past due loans;
- The economic-financial feasibility of the Client's business and its capacity to generate sufficient means to meet the debt service in the future;
- The existence, nature and the estimated amount of the collaterals associated with each credit;
- The economic-financial situation of the Client, as well as its evolution;
- The Client's assets in a situation of liquidation or bankruptcy;
- The existence of privileged creditors;
- The amount and the recovery deadlines estimated.

The losses due to impairment are calculated by comparing the present value of the expected future cash flows discounted at the interest rate of each contract and the accounting value of each credit, being the losses registered against gross income. The accounting value of the credits with impairment is presented in the net balance of impairment losses.

The credits not submitted to an individual analysis are grouped in portfolios with similar credit characteristics and evaluated jointly.

(II) COLLECTIVE ASSESSMENT

The impairment losses based on the collective assessment are estimated by using two perspectives:

- For homogeneous groups of credits with objective signs of impairment but not considered individually significant; or
- Relating to incurred but not reported losses ("IBNR") in credits where there is not an objective evidence of impairment.

The collective impairment losses are determined considering the following aspects:

- The losses past records in portfolios with a similar risk;
- Knowledge on the current credit and economic environment and its influence on past losses; and
- The estimated period of time between the occurrence of the loss and its identification.

The evaluation process of the credit portfolio in order to determine if an impairment loss must be recognized is subject to several estimations and judgements. This process includes factors like the PD, the credit situation, the value of the collaterals related with each operation, the recovery rates and the estimations either of future cash flows or of the moment they are received.

The methodologies and the assumptions used to estimate the cash flows are regularly reviewed so as to monitor the differences between the losses estimations and the real losses.

The write-off of the credits is made when there is no possibility of recovering the credits from an economic perspective and, for collateralized credits, when the funds coming from the use of the collaterals have already been received, by the use of impairment losses when these correspond to 100% of the value of the credits deemed as impossible to recover.

Concerning exposures towards financial instruments, it is made, on each balance date, an evaluation of the objective evidence of impairment, namely of an adverse impact in the expected future cash flows of a financial assets or of a group of financial assets that may be measured in a reliable manner based on the deep and continued fall or the fair value of the asset, under the acquisition cost.

There is impairment in the financial assets available for sale when they present a continued or significant devaluation in their fair value. The determination of a continued or significant devaluation requires a judgement. In that judgement, the Bank evaluates, among other factors, the usual volatility of the prices of the financial assets. Additionally, the evaluations are made by using market prices or evaluation models which require the use of determined assumptions or a judgement in the establishment of fair value expectations.

If impairment is detected in a financial asset available for sale, the accumulated loss (measured as the difference between the acquisition cost and the fair value, excluding impairment losses previously recognized against results) is transferred from fair value reserves and recognized in the results. If, in a subsequent period, the fair value of the debt instruments classified as financial asset available for sale increases and that increase may be objectively related with an event that occurred after the recognition of the impairment loss in the results, the impairment loss is reverted against results. The recovery from impairment losses recognized in capital instruments classified as financial assets available for sale is registered against fair value reserves.

Finally, provisions are recognized when (i) the Group has a current liability (legal or deriving from past practices or published policies that imply the recognition of certain liabilities), (ii) it is likely that its payment is demanded and (iii) when a reliable estimation of the value of that liability can be made.

The provisions are reviewed in the end of each reporting date and adjusted to show the better estimation, being converted to results in the same proportion as unlikely payments. The provisions are derecognised by using them to pay the liabilities for which they have initially been made for or when the same are no longer required.

The impairment charges and recoveries of impairments and provisions with impact in the consolidated financial statements of 2011 and 2010 are shown in Table XII.

TABLE XII – IMPACT OF IMPAIRMENT AND PROVISION CHARGES AND RECOVERIES ON RESULTS

Thousand euros

Impairment and provisions	'11	'10
Charges net of reversions and annulments	1,822,316	812,677
Recoveries	-21,289	-30,555
CHARGES NET OF RECOVERIES	**1,801,027**	**782,122**

Note: Impairment and provision amounts result from amounts ascertained during financial consolidation, including those related to loans and advances to customers, other loans and advances to credit institutions, financial assets available for sale, other assets, warranties and other liabilities.

5.2. MANAGEMENT OF CONCENTRATION RISK

The Group's policy relating to the identification, measurement and evaluation of the concentration risk in credit risk is defined and described in the document "Credit Principles and Guidelines", approved by the Bank's management body. This policy applies to all Group entities by the transposition of the respective definitions and requirements into the internal rulings of each entity, after the same have been formally approved by the respective management bodies.

Through the document mentioned above, the Group defined the following guidelines relating to the control and management of credit concentration risk:

- The monitoring of the concentration risk and the follow-up of major risks is made, at Group level, based on the concept of "Economic Groups" and "Groups of Clients";

- A "Group of Clients" is a group of Clients (individuals or companies) related among themselves, that represent a single entity from a credit risk standpoint, as follows: if one of those Clients is affected by adverse financial conditions it is likely that another Client (or all the Clients) of that group also experiences difficulties in servicing their debts;

- We may include the following as types of relations between clients that originate "Groups of Clients": the formal participation in an economic group, the evidence that there is a control relationship (direct or indirect) between clients (including an individual's control over a company) or the existence of a significant business interdependence between clients that cannot be altered in a near future;

- So as to control the concentration risk and limit the exposure to this risk, there are soft limits defined in view of the own funds (consolidated or for each entity of the Group);

- The Risk Office maintains, validates and monitors a centralized information process relating to concentration risk, with the participation of all the Group's entities.

The definition of the concentration limits mentioned above is made based on the better judgement of the Risk Office taking into consideration the specific situation of the Group's credit portfolio in what concerns the respective concentration and observing best market practices.

Besides, the definition of concentration limits (more specifically the several types of limits established) also identifies the types of concentration risk deemed relevant. The definition of the concentration limits of the Group takes into account all types of credit concentration risk mentioned in the Instruction of Bank of Portugal nr. 2/2010, namely:

- Two types of "major exposures" are considered, at Group level or at the level of each Group entity;

- The basis used to define major exposures and to estimate the limit-values of the concentration are own funds (consolidated or individual, at the level of each Group entity);

- The concentration is measured, in case of direct exposures, in terms of net exposures (EAD x LGD, assuming that PD=1) relating to a counterparty or a group of counterparties;

- Concentration limits are defined for major exposures as a whole, for major exposures at Group's level or for major exposures of each entity;

- Sectorial limits and limits for country-risk are equally defined.

Concerning the monitoring of the concentration risk, the Bank's management body and the Risk Commission are regularly informed on the evolution of the concentration limits and on major risks.

Thus, the quantification of the concentration risk in credit exposures (direct and indirect) involves, firstly, the identification of specific concentration and major exposure cases and the comparison of the exposure values in question versus the own funds levels expressed in percentages that are compared with the pre-defined concentration limits. For such, the Risk Office uses their centralized collection of data on credit exposures (the risk Datamart), regularly updated by the Group's systems.

It is also foreseen in the document mentioned above that if a certain limit is exceeded, that fact must be specifically reported to the members of the management body by the Credit Department and by the Risk Office, being that report accompanied by a remedy proposal. Usually, the remedies proposed will imply the reduction of the net exposure to the counterparties in question (by increasing the collaterals, for example) or by a replacement of a collateral (in the case of indirect credit exposures).

One must mention that the Group, while evaluating its internal capital requirements (economic capital/ICAAP), incorporates factors resulting from the concentration level of the credit portfolio, translating the same into the computation of the value of the economic capital relating to credit risk.

It is also important to point out that the control and management of concentration risk represents for the Group one of the main pillars of its risk mitigation strategy. It is in this context – and, particularly in credit risk – that the Group is making an ongoing monitoring of potential or effective risk concentration events adopting, whenever justified, the preventive (or corrective) measures deemed necessary.

We must also highlight the implementation of measures aiming at the progressive reduction of the concentration of credit in the major individual debtors, either by decreasing the credit exposure or increasing the collaterals provided in the credit operations. Moreover, we must also emphasize the reinforcement of the prudential criteria in the analysis and decision-making of financing proposals, particularly in what concerns the mitigation of sectorial concentration.

In 2011, the Group's Risk Office regularly sent internal reports to the Risk Commission and to the Financial Matters Committee (representing the management and supervision bodies, respectively), and to the Credit Risk Monitoring Subcommission, which significantly contributed towards the identification and correction of risk concentration (not only of credit concentration risk but also of other types of concentration related with other types of risk).

These reports also provided updated information on "Pressing risk situations" detected and deemed as significantly relevant divided into three levels or risk scores (low/medium/high). For each one of these situations, the Risk Office made resolution proposals – to "eliminate", "mitigate" or "accept" –, describing the measures and activities necessary to eliminate or mitigate the risks as well as the players to involve in the implementation of those measures and activities.

5.3. CHARACTERIZATION OF THE EXPOSURES

The exposures taken into consideration for the estimation of the own funds requirements for credit risk comprise the banking book exposures registered in the consolidated balance sheet and in off-balance sheet accounts related, namely, with loans and advances to customers, other loans and advances to credit institutions, investments in financial instruments, the ownership of other assets, the guarantees and commitments assumed and hedging derivatives. These exposures do not include the exposures handled within the scope of the trading portfolio but the ones relating to securitization are considered.

The total of original exposures, corresponding to the respective gross value of impairments and amortizations attained 117,615,557 thousand euros, as at 31 December 2011, and 122,685,213 thousand euros, as at 31 December 2010, including the securitizations. The Table XIII presents a breakdown of these amounts in accordance with the risk types defined by the Basel II Accord.

TABLE XIII – EXPOSURES BY RISK CLASS

Thousand euros

Risk classes (securitisation positions included)	Original exposure		Original exposure (average)	
	31-12-2011	31-12-2010	'11	'10
STANDARDISED APPROACH	**62,286,587**	**65,363,414**	**66,423,264**	**119,541,860**
STANDARDISED APPROACH, EXCLUDING SECURITISATION POSITIONS	62,286,587	65,363,414	66,423,264	119,025,549
Central Governments or Central Banks	9,367,643	9,415,264	10,803,785	7,291,533
Regional Governments or Local Authorities	709,175	777,951	698,212	580,590
Administrative and non-profit Organisations	110,984	2,259,411	777,096	2,624,390
Multilateral Development Banks	88,213	127,270	121,041	103,930
International Organisations			6,251	
Institutions	8,154,303	8,630,153	8,928,174	8,994,560
Corporates	16,940,390	11,880,288	15,004,138	37,710,796
Retail portfolio	3,423,146	8,081,134	7,154,821	12,984,717
Positions guaranteed by real estate	11,351,493	15,551,170	13,433,829	37,078,862
Past due items	2,873,857	2,391,490	2,802,832	4,695,973
Covered bonds				
Exposures on Collective Investment Undertakings (CIU)	478,686	439,263	483,367	760,987
Other items	8,788,697	5,810,022	6,209,718	6,199,211
SECURITISATION POSITIONS				516,312
IRB APPROACH	**55,328,970**	**57,321,800**	**55,039,004**	**4,776,817**
NOT USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	23,543,821	29,165,448	26,731,786	2,430,454
Claims or contingent claims on Central Governments or Central Banks				
Claims or contingent claims on Institutions				
Claims or contingent claims on Corporates	23,543,821	29,165,448	26,731,786	2,430,454
USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	31,073,145	27,470,631	27,644,732	2,289,219
Claims or contingent claims on Central Governments or Central Banks				
Claims or contingent claims on Institutions				
Claims or contingent claims on Retail	31,073,145	27,470,631	27,644,732	2,289,219
EQUITY POSITIONS	198,137	135,527	131,923	11,294
SECURITISATION POSITIONS	513,866	550,193	530,562	45,849
OTHER ASSETS NOT RELATED TO BOND LOANS				
TOTAL	**117,615,557**	**122,685,213**	**121,462,268**	**124,318,677**

Note: The total amount of original exposures stood at 117,615,557 thousand euros on year-end 2011 (122,685,213 thousand euros on year-end 2010), gross of impairments and amortizations, including 95,637,351 thousand euros recorded on-balance sheet (98,307,062 thousand euros in 2010), 18,761,794 thousand euros off-balance sheet exposures (21,715,575 thousand euros in 2010), 2,180,578 thousand euros related to derivative instruments (1,955,985 thousand euros in 2010), and the remaining amount from repurchase agreements, equity and securitization positions.

Tables XIV, XV and XVI detail the original exposures of the Group by the end of 2011 and 2010, in what concerns their geographic and sectorial distribution and per residual maturity dates.

TABLE XIV – DISTRIBUTION OF EXPOSURES BY GEOGRAPHICAL AREAS

Thousand euros

	PORTUGAL		POLAND		GREECE		OTHER	
Risk Classes	31-12-2011	31-12-2010	31-12-2011	31-12-2010	31-12-2011	31-12-2010	31-12-2011	31-12-2010
STANDARDISED APPROACH	**32,247,680**	**34,804,901**	**12,597,267**	**12,996,060**	**7,238,704**	**7,532,124**	**10,202,936**	**10,030,330**
RISK CLASSES	32,247,680	34,804,901	12,597,267	12,996,060	7,238,704	7,532,124	10,202,936	10,030,330
Central Governments or Central Banks	6,065,574	6,202,359	897,581	1,310,572	856,494	765,814	1,547,993	1,136,519 (1)
Regional Governments or Local Authorities	433,298	488,405	266,311	284,509	4,975	5,037	4,591	0
Administrative and non-profit Organisations	97,779	2,252,047	13,187	7,365	18		0	0
Multilateral Development Banks							88,213	127,270 (2)
International Organisations								
Institutions	4,196,515	5,176,880	57,607	58,603	218,536	301,600	3,681,645	3,093,069 (3)
Corporates	9,846,523	4,249,120	2,121,511	1,988,326	2,069,489	2,213,823	2,902,868	3,429,019
Retail portfolio	175,821	3,808,170	1,611,931	2,104,530	774,918	955,093	860,476	1,213,341
Positions guaranteed by real estate	1,408,960	5,735,539	7,044,914	6,675,233	2,438,019	2,615,383	459,600	525,014
Past due items	1,656,186	1,368,122	321,205	355,677	682,090	484,502	214,377	183,189
Covered bonds								
Exposures on Collective Investment Undertakings (CIU)	478,686	439,263						
Other items	7,888,338	5,084,996	263,021	211,245	194,165	190,872	443,173	322,909
SECURITISATION POSITIONS								
IRB APPROACH	**51,698,763**	**53,342,510**	**29,648**	**32,516**	**88,237**	**68,593**	**3,512,323**	**3,878,180**
NOT USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	21,502,310	26,372,047	28,073	31,065	87,872	68,301	1,925,566	2,694,036
Claims or contingent claims on Central Governments or Central Banks								
Claims or contingent claims on Institutions								
Claims or contingent claims on Corporates	21,502,310	26,372,047	28,073	31,065	87,872	68,301	1,925,566	2,694,036
USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	29,484,449	26,284,743	1,574	1,451	365	292	1,586,756	1,184,144
Claims or contingent claims on Central Governments or Central Banks								
Claims or contingent claims on Institutions								
Claims or contingent claims on Retail	29,484,449	26,284,743	1,574	1,451	365	292	1,586,756	1,184,144
EQUITY POSITIONS	198,137	135,527						
SECURITISATION POSITIONS	513,866	550,193						
OTHER ASSETS NOT RELATED TO BOND LOANS								
TOTAL	**83,946,442**	**88,147,411**	**12,626,914**	**13,028,576**	**7,326,942**	**7,600,717**	**13,715,258**	**13,908,510**

Notes: (i) Includes securitisation positions; (ii) all the countries included in "Other" have an individual representativeness of less than 1%.
(1) The amount reported in "Other" regarding "Central Governments or Central Banks" results from exposures to this risk class in Mozambique, Angola, Switzerland, Romania, Ireland and Italy.
(2) Represents exposures to the EIB, based in Luxembourg, and KFW, based in Germany.
(3) The amount reported under "Institutions" classified in "Other"' corresponds mainly to exposures in Banks headquartered in the United Kingdom, with a weight of about 37% of the total exposure, followed by Ireland, with 19%, and France, with 15% of total exposure. All other countries included in "Other" have a relative weight below 10%. In 2010, the main concentration was in Banks headquartered in the United Kingdom, with a weight of about 31% of the total exposure, followed by Ireland, with 29% and France with 14%.

TABLE XV – DISTRIBUTION OF EXPOSURES BY ECONOMIC SECTOR

Thousand euros

	31 December 2011							
Risk Classes	Mortgage credit	Services	Consumer credit	Construction	Other activ. national	Other activ. international	Wholesale business	Other
STANDARDISED APPROACH	**6,899,920**	**22,938,191**	**2,467,061**	**4,498,365**	**12,032,056**	**840**	**455,193**	**12,994,961**
RISK CLASSES	6,899,920	22,938,191	2,467,061	4,498,365	12,032,056	840	455,193	12,994,961
Central Governments or Central Banks		9,367,643						
Regional Governments or Local Authorities		709,175						
Administrative and non-profit Organisations		97,779			13,205			
Multilateral Development Banks		88,213						
International Organisations								
Institutions		8,154,303						
Corporates		3,678,464		2,987,664	6,498,942		292,101	3,483,219 (1)
Retail portfolio		14,232	2,163,442	23,556	1,122,968	15	16,763	82,170 (2)
Positions guaranteed by real estate	6,864,306	493,988		586,135	3,348,510	825	23,875	33,853
Past due items	35,614	334,394	303,619	901,010	1,048,431		122,454	128,335
Covered bonds								
Exposures on Collective Investment Undertakings (CIU)								478,686 (3)
Other items								8,788,697
SECURITISATION POSITIONS								
IRB APPROACH	**21,103,912**	**10,091,411**	**3,702,410**	**3,897,287**	**1,919,589**		**4,658,763**	**9,955,597**
NOT USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS		8,791,484		3,112,566	1,584,033		2,750,706	7,305,032
Claims or contingent claims on Central Governments or Central Banks								
Claims or contingent claims on Institutions								
Claims or contingent claims on Corporates		8,791,484		3,112,566	1,584,033		2,750,706	7,305,032 (1)
USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	21,103,912	1,299,927	3,702,410	784,721	335,556		1,908,057	1,938,562
Claims or contingent claims on Central Governments or Central Banks								
Claims or contingent claims on Institutions								
Claims or contingent claims on Retail	21,103,912	1,299,927	3,702,410	784,721	335,556		1,908,057	1,938,562 (2)
EQUITY POSITIONS								198,137
SECURITISATION POSITIONS								513,866
OTHER ASSETS NOT RELATED TO BOND LOANS								
TOTAL	**28,003,833**	**33,029,602**	**6,169,471**	**8,395,652**	**13,951,645**	**840**	**5,113,956**	**22,950,559**

TABLE XV – DISTRIBUTION OF EXPOSURES BY ECONOMIC SECTOR

Thousand euros

	31 December 2010							
Risk Classes	Mortgage credit	Services	Consumer credit	Construction	Other activ. national	Other activ. international	Wholesale business	Other
STANDARDISED APPROACH	**9,885,990**	**24,455,557**	**8,628,914**	**2,723,934**	**8,345,039**	**1,647,620**	**525,200**	**9,151,159**
RISK CLASSES	9,885,990	24,455,557	8,628,914	2,723,934	8,345,039	1,647,620	525,200	9,151,159
Central Governments or Central Banks		9,414,565			291	408		
Regional Governments or Local Authorities		777,951						
Administrative and non-profit Organisations		324,143		71,890	718,180	2	310,769	834,427
Multilateral Development Banks		127,270						
International Organisations								
Institutions		8,630,153						
Corporates		2,493,525	2,069,876	679,683	4,005,372	1,324,271	57,283	1,250,278
Retail portfolio		83,541	6,074,593	78,768	1,424,458	189,100	45,828	184,844
Positions guaranteed by real estate	9,713,847	2,306,392	37	1,560,612	1,540,549	74,176	17,113	338,444
Past due items	172,143	298,018	484,408	332,981	656,190	59,663	94,206	293,881
Covered bonds								
Exposures on Collective Investment Undertakings (CIU)								439,263
Other items								5,810,022
IRB APPROACH	**23,663,720**	**10,315,475**	**194**	**4,584,615**	**4,958,108**	**1,494,011**	**2,158,444**	**10,147,233**
NOT USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	609,216	9,593,348		4,089,783	4,204,224	1,313,906	1,672,077	7,682,894
Claims or contingent claims on Central Governments or Central Banks								
Claims or contingent claims on Institutions								
Claims or contingent claims on Corporates	609,216	9,593,348		4,089,783	4,204,224	1,313,906	1,672,077	7,682,894
USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	23,054,504	722,127	194	494,832	753,884	180,105	486,367	1,778,619
Claims or contingent claims on Central Governments or Central Banks								
Claims or contingent claims on Institutions								
Claims or contingent claims on Retail	23,054,504	722,127	194	494,832	753,884	180,105	486,367	1,778,619
EQUITY POSITIONS								135,527
SECURITISATION POSITIONS								550,193
OTHER ASSETS NOT RELATED TO BOND LOANS								
TOTAL	**33,549,711**	**34,771,032**	**8,629,108**	**7,308,548**	**13,303,148**	**3,141,631**	**2,683,644**	**19,298,392**

Note 1: Securitisation positions included.

Note 2: December 2011 reflects the update of the Economic Sector Classification of Customers, following the last revision disclosed by the Portuguese Statistics Entity, which justifies some changes between economic sectors and the lack of comparability with December 2010.

(1) Among the amounts included in "Other" and in the risk class "Corporate" the following economic sectors stand out: "Transports and comunications" representing about 24% of the total of this sub-exposure, followed by the "Machinery, Equipment and Base Metals" industry with 18% and "Electricity, water and gas", with about 16% of the amount under analysis. In 2010 the sector "Retail trade" represented about 15% of the total of this subexposure folowed by the "Chemicals" industry and "Restaurants and Hotels" each with about 12% of the amount under analysis.

(2) Among the amounts included in "Other" and in the risk class "Retail portfolio" the following economic sectors stand out: "Restaurants and Hotels" representing about 25% of the total of this sub-exposure, followed by the "Machinery, Equipment and Base Metals" industry with about 21% of the amount under analysis. In 2010 the sector "Retail trade" represented about 40% of the total of this subexposure.

(3) The amounts contained in this heading correspond to Participation Units in Investment Funds.

TABLE XVI – DISTRIBUTION OF EXPOSURES BY RESIDUAL MATURITY (RM)

Thousand euros

	RM < 1 year		1 year < RM < 5 years		5 years < RM < 10 years		RM > 10 years	
Risk Classes	31-12-2011	31-12-2010	31-12-2011	31-12-2010	31-12-2011	31-12-2010	31-12-2011	31-12-2010
STANDARDISED APPROACH	**28,474,181**	**27,234,251**	**12,990,401**	**14,922,394**	**5,535,436**	**5,838,050**	**15,286,569**	**17,368,719**
RISK CLASSES	28,474,181	27,234,251	12,990,401	14,922,394	5,535,436	5,838,050	15,286,569	17,368,719
Central Governments or Central Banks	5,442,722	5,303,674	3,014,574	2,773,277	750,227	1,164,896	160,120	173,417
Regional Governments or Local Authorities	150,356	278,878	113,445	130,111	204,263	149,251	241,112	219,711
Administrative and non-profit Organisations	19,539	1,254,965	68,494	377,565	22,951	307,934		318,948
Multilateral Development Banks	16,099	61,048	1,583		44,225	9	26,306	66,213
International Organisations								
Institutions	5,577,455	5,273,804	1,818,869	1,482,935	552,221	528,299	205,758	1,345,115
Corporates	9,509,180	6,915,196	4,342,076	2,508,830	1,532,665	1,272,420	1,556,469	1,183,842
Retail portfolio	1,177,714	2,523,650	1,730,816	4,315,424	293,948	667,513	220,669	574,547
Positions guaranteed by real estate	1,158,288	2,508,592	877,554	2,630,724	860,148	1,017,241	8,455,504	9,394,613
Past due items	1,830,013	1,486,938	326,528	420,193	241,405	144,644	475,910	339,714
Covered bonds								
Exposures on Collective Investment Undertakings (CIU)			35,107	20,702			443,579	418,561
Other items	3,592,816	1,627,507	661,355	262,634	1,033,383	585,843	3,501,144	3,334,038
SECURITISATION POSITIONS								
IRB APPROACH	**15,308,857**	**17,666,845**	**9,230,241**	**7,863,208**	**4,276,994**	**5,035,795**	**26,512,878**	**26,755,952**
NOT USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	11,988,372	15,695,730	5,344,222	5,873,836	2,593,187	3,624,410	3,618,040	3,971,472
Claims or contingent claims on Central Governments or Central Banks								
Claims or contingent claims on Institutions								
Claims or contingent claims on Corporates	11,988,372	15,695,730	5,344,222	5,873,836	2,593,187	3,624,410	3,618,040	3,971,472
USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	3,320,485	1,971,114	3,886,019	1,989,372	1,683,807	1,411,385	22,182,835	22,098,759
Claims or contingent claims on Central Governments or Central Banks								
Claims or contingent claims on Institutions								
Claims or contingent claims on Retail	3,320,485	1,971,114	3,886,019	1,989,372	1,683,807	1,411,385	22,182,835	22,098,759
EQUITY POSITIONS							198,137	135,527
SECURITISATION POSITIONS							513,866	550,193
OTHER ASSETS NOT RELATED TO BOND LOANS								
TOTAL	**43,783,038**	**44,901,096**	**22,220,642**	**22,785,602**	**9,812,430**	**10,873,845**	**41,799,447**	**44,124,670**

Note: Securitisation positions included.

The exposures due and those object of an impairment analysis, together with the balance of impairments and of the provisions made, as of 31 December 2011 and 2010, are presented in Table XVII, detailing the main economic sectors and geographical areas to which the Group is exposed.

TABLE XVII – BREAKDOWN OF PAST DUE AND IMPAIRED EXPOSURES

Thousand euros

	Past due exposures		Exposures with impairment		Impairment and provisions	
	31-12-2011	31-12-2010	31-12-2011	31-12-2010	31-12-2011	31-12-2010
TOTAL EXPOSURES	**6,423,206**	**4,779,412**	**15,957,961**	**12,210,186**	**4,350,592**	**2,918,706**
BREAKDOWN BY MAIN ECONOMIC SECTORS						
Mortgage credit	1,501,950	1,769,829	2,366,160	3,209,027	194,718	252,655
Services	850,248	549,977	4,271,730	2,643,587	847,944	553,749
Consumer credit	540,995	484,408	860,360	746,066	428,316	410,556
Construction	1,180,730	463,348	2,863,092	1,690,573	455,916	291,127
Other activ. – national	1,107,540	693,981	2,990,157	1,425,912	778,355	382,772
Other activ. – international		90,594		825,827	2	203,117
Wholesale business	488,068	179,148	802,141	340,374	255,793	112,980
Other	753,676	548,128	1,804,321	1,328,819	1,389,547	711,749
BREAKDOWN BY MAIN GEOGRAPHIC AREAS						
Portugal	5,053,280	3,660,507	12,411,539	9,420,383	2,679,631	2,029,074
Poland	321,205	355,677	552,474	591,032	284,084	317,147
Greece	682,090	484,502	1,745,695	807,509	759,970	125,906
Other	366,632	278,727	1,248,254	1,391,262	626,906	446,579

Note: The amounts reported in December 2011 reflect a reclassification of the Client base, in accordance with the most recent update of the business segment codes disclosed by the Portuguese Statistics Entity, which explains some sectorial changes and less comparability with the figures reported in December 2010.

The Table XVIII shows the evolution, from 2010 to 2011, of the balances of the items that justify the difference between the value of the original exposures and the net value under which the same are registered in the consolidated balance sheet: the impairments and provisions on one hand and the depreciation, on the other. The evolution registered by these balances is explained by charges, write-backs, charge-offs and other adjustments.

TABLE XVIII – IMPAIRMENT, PROVISIONS AND DEPRECIATION

Thousand euros

	Impairment and provisions	Depreciation	Total	
			31-12-2011	31-12-2010
OPENING BALANCE ON 1 JANUARY	2,918,706	1,168,395	4,087,101	3,645,098
Charges	2,167,066	72,618	2,239,684	1,332,341
Write-backs	-374,035		-374,035	-458,117
Amounts charged-off/Disposals	-344,750	-48,160	-392,910	-445,951
Other adjustments:	-16,395	-2,996	-19,391	13,731
– Adjustment for exchange rate differences	-13,971	-3,574	-17,545	24,319
– Transfers	-2,424	579	-1,845	-6,796
– Business combinations				
– Acquisitions and disposals of subsidiaries				-3,792
– Other				
CLOSING BALANCE ON 31 DECEMBER	4,350,592	1,189,857	5,540,449	4,087,101

Note: The amounts of impairment and other provisions result from the financial consolidation (regulatory perimeter), including those related to loans and advances to customers, other loans and advances to credit institutions, financial assets available for sale, other assets, guarantees and other commitments. The aforementioned impairment and other provisions, as well as the depreciations related to tangible assets, are deducted from the original exposures, during the calculation of capital requirements.

5.4. OWN FUNDS REQUIREMENTS FOR CREDIT RISK

5.4.1. FRAMEWORK OF THE APPROACHES USED

As at 31 December 2010 and 2011, the Group determined the own funds requirements for credit risk in accordance with authorizations granted by Bank of Portugal on the approaches to estimate risk weighted assets (RWA).

For the portfolio that, on those dates, fitted the standardised approach, the original exposures were classified in line with regulatory risk classes according to the nature of the counterparty, to which specific weights were applied after carrying out some adjustments, such as the ones related with provisions and value corrections, due to the application of credit conversion factors (CCF) – namely, in the case of off-balance sheet exposures – and those resulting from risk mitigation, thus finding the value of the risk weighed assets, based on which the regulatory capital requirements are defined and the solvency ratio is computed.

In the procedure to compute capital requirements based on the standardised approach, the exposures are weighted according to the provisions of Bank of Portugal Notice nr. 5/2007. In the risk class "Central Government and Central Banks", credit ratings of issuers or issues are used, provided they have been attributed by recognised credit rating agencies (ECAI – External Credit Assessment Institutions), based on the risk quality levels defined in Annex I to Instruction nr. 10/2007 (altered by Instructions nr. 4/2010 and nr. 16/2010), of Bank of Portugal and on the equivalence between those levels and the weights defined in Bank of Portugal Notice nr. 5/2007 (Annex III, Part 2). For the purposes of allocating rating notations to exposures, whenever the same issuer or issue has two or more risk evaluations, the second best rating attributed is used. The credit rating of the issuer is applicable to all of its operations, whereas the rating for a specific issue is only considered for that same issue. The ECAI used by the Group were Standard & Poor's, Moody's, Fitch Ratings and ICAP (Greece).

On 31 December 2011, according to the authorizations granted by Bank of Portugal for the Group's activities in Portugal, the Bank used the Internal Ratings Based Approach for risk classes "Companies" (without own LGD estimates), "Retail Portfolio" (with own LGD estimates), "Shares" and "Securitization". We underline that, on 31 December 2010, in the Retail Portfolio, the use of the IRB approach targeted exposures with real estate mortgage collaterals (GHBI) and the exposures to Retail SME, within the scope of a sequential application of this approach, as per art. 15 (2) of Decree-law nr. 104/2007, of 3 April. As at 31 December 2011, the estimates of risk weighted assets for the Retail Portfolio targeted all the respective risk subclasses (*i.e.*, including the subclasses "Renewable retail exposures" and "Other retail exposures"). Regarding the Companies risk class, the exposures of the real estate promotion segment and of the simplified rating system were weighted using the standardised approach.

Regarding the risk classes "Central Government and Central Banks" and "Institutions", in Portugal, the Group uses the standardised approach, pursuant to the partial waiver of the IRB approach ruled in art. 20 of Decree-Law nr. 104/2007, of 3 April, as authorized by Bank of Portugal.

For all the other geographies where the Group operates, the consolidated own funds requirements as at 31 December 2010 and 2011 were estimated following the standardised approach. The Bank is currently organizing a roll-out plan for extending the IRB Approach to the main operations outside Portugal.

One may also underline that in Portugal:

- Own funds as at 31 December 2011 for Customer exposures that exceptionally did not receive an internal risk level were computed according to the standardised approach;

- Bank of Portugal's authorization to use the IRB Approach for the Companies risk class created exceptions for some types of exposures (handled by the Projects Rating System and by the Companies Rating System) related to the real estate sector or to start-ups, therefore their own funds requirements as at 31 December 2011 were estimated following the standardised approach;

- Within the Companies risk class, Bank of Portugal agreed to allow the Bank to partially and permanently use the standardised approach, for a set of Special Purpose Vehicle exposures (SPV), churches, sports clubs and other non-profit organisations.

5.4.2. IRB APPROACH – PARAMETERS AND GENERAL INFORMATION

In the IRB Approach, the weight of exposures to determine the value of risk weighted assets is based on the PD corresponding to the various internal risk ratings of the Customers, using internal rating systems and models, adequate for each Customers segment/subsegment.

In addition, in this approach, the computation of the risk weighted assets also uses the LGD – defined by regulations or estimated internally – as well as CCF on off-balance sheet exposures. Finally, in the IRB approach the effect of the credit risk decrease by means of collaterals for credit exposures is incorporated into the estimate of risk weighted assets using the LGD parameters.

The internal ratings are given based on the following Rating Master Scale, the same for all the rating systems and models used:

TABLE XIX – RATING MASTER SCALE

Risk grades	Minimum PD	Maximum PD	Description
1	0.01%	0.05%	Maximum security (only for sovereign risks)
2	0.05%	0.07%	Superior quality
3	0.07%	0.14%	Very high quality
4	0.14%	0.28%	High quality
5	0.28%	0.53%	Very good quality
6	0.53%	0.95%	Good quality
7	0.95%	1.73%	Medium/high quality
8	1.73%	2.92%	Medium quality
9	2.92%	4.67%	Medium/low quality
10	4.67%	7.00%	Low quality
11	7.00%	9.77%	Very low quality
12	9.77%	13.61%	Conditioned acess to credit
13 (*)	13.61%	27.21%	Weak signs of impairment
14 (*)	27.21%	100.00%	Strong signs of impairment
15 (*)	100.00%	100.00%	Default

(*) Processual risk grade.

The risk ratings attributed by the systems and models are valid for one year, and are periodically revised/updated or whenever there are grounds to do so (e.g. requests for new loans or evidence of a decrease in the debtor's credit quality).

The Rating Department is solely responsible for risk ratings – a unit that is independent from the credit decision-making bodies and areas – even though most risk scores are granted by automatic decision making models used for Customers that have exposure in the Retail Portfolio.

All Customers are rated, but the corresponding PD are only used to compute own funds requirements through the IRB Approach for exposures that fit the risk classes for which Bank of Portugal authorized the use of this approach.

The rating models included in the various rating systems are regularly subject to validation by the Models Control Unit (MCU), a Group Risk Office unit independent from the units responsible for the development and maintenance of rating models. Besides that, the MCU is also responsible for ensuring that the Group's Rating MasterScale is up-to-date and correct.

The periodic validation of the rating models by the MCU does not damage the independent revision made by the Audit Department. The conclusions of MCU's validation, as well as its amendment/improvement recommendations and proposals, are analysed and ratified by a specific Validation Committee, whose composition varies according to the type of model analysed. The proposals to amend the models originated in the Validation Committees are submitted to the approval of the Risk Commission.

Besides the responsibilities regarding the PD models and the Rating Master Scale, the MCU is also responsible for validating the models used to estimate LGD and CCF parameters.

Regarding these models, the Bank estimates them all based on the methods validated by Bank of Portugal within the scope of the process to approve the use of the IRB approach.

In terms of LGD parameters, the computation model used is based on the gathering and analysis of past data on credit risk losses, and all losses verified are computed and the various cash flows underlying credit recovery processes are discounted, including financial losses.

CCF are estimated based on the analysis of data on the use of credit lines and limits within the time frame of one year prior to the defaults.

We also underline that there is a model owner for each credit risk model – PD, LGD and CCF – responsible for:

- Ensuring compliance with the regulatory requirements for storing input and output data;
- Ensuring adequacy of the model's documentation, including the development documentation, development samples and all the documents regarding changes to model;
- Being the senior person in charge of all requests pertaining to the decision process based on the model;
- Changing the model whenever necessary;
- Ensuring the existence of monitoring processes;
- Ensuring the necessary support to the MCU pursuant to the model validation work.

In addition, regarding the rating systems that include the rating models, there is also a rating system owner, who is responsible for:

- Ensuring the necessary support to the MCU within the scope of the analysis of the rating systems decision flow;
- Promoting the execution of changes to the rating system whenever necessary.

5.4.3. IRB APPROACH – CORPORATE RISK CLASS

In this risk class, the computation of own funds requirements using the IRB Approach is based on the weights resulting from the risk assessment made by the Project Finance rating system and on the PD that correspond to risk ratings given by the Corporate rating system.

In the first case, the Bank uses the Project Finance rating, *i.e.* the cross-referencing between the scoring of a specific questionnaire (based on the risk valuation questionnaire in Annex 6 to the Basel II Accord – International Convergence of Capital Measurement and Capital Standards, of June 2006 –, that defines the Supervisory Slotting Criteria approach for specialised loans) and one of four possible classifications (besides the possibility of default) for the risks in question, which then define the weights to be used in the computation of own funds requirements (Bank of Portugal Notice nr. 5/2007, Annex IV, Part 1).

In the second case, the Bank uses five rating models to grant risk scores (and the respective PD used to compute applicable weights): Large, Mid and Small Corporate Models and the Models for Holdings of Economic Groups and for Investment Holdings.

The risk scores given by the Corporate Models result from two evaluation components: a quantitative component (economic-financial grade, based on the Customer's accounting data) and a qualitative component, based on an evaluation template. The scoring resulting from these two components is also adjusted (upwards or downwards) by checking several situations that are typified and pre-defined in specific internal regulations.

Specifically in the Large Corporate Model, both the quantitative and the qualitative part are weighed by factors that introduce in the assessment the risk inherent to the Customer's activity sector, and the final rating/scoring, after the adjustments above, is decided by a Rating Board composed by specialised analysts and by the heads of the Rating Department. Thus, though based on a risk score given by the Large Corporate Model and on the adjustments foreseen by it, the decisions of the Rating Board involve a relevant level of expert judgement.

Table XX summarises these rating models and systems:

TABLE XX – CORPORATE RATING MODELS AND SYSTEMS

Rating system for Projects	Rating model for Project Finance
Rating system for Companies	Large Corporate Model – quantitative component (economic/financial grading based on accounting data, weighted by economic sector) + qualitative component (based on a scorig template and sectorial rating matrices) + adjustements stemming from pre-defined situations
	Small e Mid Corporate Models – quantitative component (economic/financial grading based on accounting data) + qualitative component (based on a scorig template) + adjustements stemming from pre-defined situations
	Rating model for Holdings of economic groups (quantitative + qualitative component)
	Rating model for investment Holdings

5.4.4. IRB APPROACH – RETAIL PORTFOLIO RISK CLASS

In this risk class, the computation of own funds according to the IRB Approach is based on the PD that correspond to the risk scores given by the rating systems for Small Businesses and for Individuals.

In these rating systems, the attribution of risk scores is made using two types of automated decision models: (i) a behavioural model (TRIAD), based on the past financial data of the Customers at the Bank (executed by computer on a monthly basis), which is complemented by (ii) acceptance scoring models, used whenever the behavioural model does not apply (new Customers for instance) and defined based on the credit product the Customer wants or on the products the Customer already has.

In the Small Businesses Rating System, the TRIAD model is composed by two assessment grids that allow the model to fit the evaluated Customer's profile. In this rating system, as mentioned before, risk scores may also be granted by an acceptance scoring model designed for the segment in question.

In the Individuals Rating System, the TRIAD model is composed by four assessment grids defined based on the products already owned by the Customer, and the complementary acceptance scoring models are defined based on the credit product the Customer wants or on the products the Customer already has.

Table XXI summarises the rating systems and models:

TABLE XXI – RETAIL PORTFOLIO RATING MODELS AND SYSTEMS

Rating system for Small Business	TRIAD model – automatic decision based on customer financial behaviour and two scorecards (according to the Client profile)
	Application Scoring model for the Small Businesses (whenever TRIAD cannot be applied – e.g. new Customers)
Rating system for Individuals	TRIAD model – automatic decision based on Customer financial behaviour and four scorecards (according to the products already owned by the Client)
	Application Scoring model for Individuals (whenever TRIAD cannot be applied – e.g. new Customers), for each intended product (or for products already owned by the Customer)

The following tables show the computation of own funds requirements for credit risk, for the portfolios subject to the standardised approach (Table XXII) and to the IRB Approach (Tables XXIII – A, B, C and D).

TABLE XXII – OWN FUNDS REQUIREMENTS FOR CREDIT RISK AND COUNTERPARTY CREDIT RISK (STANDARDISED APPROACH)

Thousand euros

	31 December 2011								Total
	Risk weights								
	0%	10%	20%	35%	50%	75%	100%	150%	
1. ORIGINAL EXPOSURE									
CL I – Central Governments or Central Banks	8,412,293		676,535		47,362		231,452		9,367,643
CL II – Regional Governments or Local Authorities	33,068		676,107						709,175
CL III – Administrative and non-profit Organisations	84,233		13,331		13,109		292	18	110,984
CL IV – Multilateral Development Banks	88,213								88,213
CL V – International Organisations									
CL VI – Institutions		97,921	6,115,612		205,882		1,508,970	225,918	8,154,303
CL VII – Corporates	47,500		15,341		272,955		15,813,281	791,314	16,940,390
CL VIII – Retail portfolio						3,421,502	1,644		3,423,146
CL IX – Positions guaranteed by real estate			4,542	7,270,005	1,222,395	1,170,983	1,639,366	44,202	11,351,493
CL X – Past due items							1,895,641	978,216	2,873,857
CL XI – Covered bonds									
CL XII – Exposures on Collective Investment Undertakings (CIU)							478,686		478,686
CL XIII – Other items	2,564,650		2,074,136				4,149,912		8,788,697
TOTAL ORIGINAL EXPOSURES	**11,229,957**	**97,921**	**9,575,606**	**7,270,005**	**1,761,703**	**4,592,485**	**25,719,243**	**2,039,668**	**62,286,587**
2. EXPOSURE (RESERVE BASE OF RISK WEIGHTS)									
CL I – Central Governments or Central Banks	7,972,577		673,358		47,315		235,261	29	8,928,539
CL II – Regional Governments or Local Authorities	32,902		627,012				122,107		782,022
CL III – Administrative and non-profit Organisations	97,903		12,909		5,227		145	10	116,196
CL IV – Multilateral Development Banks	88,213								88,213
CL V – International Organisations	291								291
CL VI – Institutions	191,702	97,921	4,882,601		128,359		796,183	188,910	6,285,675
CL VII – Corporates	168,872		7,706		264,775		9,591,280	716,627	10,749,260
CL VIII – Retail portfolio	45,792					1,968,197	1,357		2,015,347
CL IX – Positions guaranteed by real estate			4,524	7,236,222	1,168,330	1,120,648	1,298,816	41,897	10,870,436
CL X – Past due items							1,103,032	788,237	1,891,269
CL XI – Covered bonds									
CL XII – Exposures on Collective Investment Undertakings (CIU)							471,756		471,756
CL XIII – Other items	2,564,650		2,074,136				2,550,027		7,188,812
TOTAL EXPOSURES	**11,162,901**	**97,921**	**8,282,247**	**7,236,222**	**1,614,005**	**3,088,845**	**16,169,964**	**1,735,710**	**49,387,815**
3. TOTAL CAPITAL REQUIREMENTS (=∑ (2. * RISK WEIGHTS) * 8%)									
CL I – Central Governments or Central Banks			10,774		1,893		18,821	4	31,491
CL II – Regional Governments or Local Authorities			10,032				9,769		19,801
CL III – Administrative and non-profit Organisations			207		209		12	1	429
CL IV – Multilateral Development Banks									
CL V – International Organisations									
CL VI – Institutions		783	78,122		5,134		63,695	22,669	170,403
CL VII – Corporates			123		10,591		767,302	85,995	864,012
CL VIII – Retail portfolio						118,092	109		118,200
CL IX – Positions guaranteed by real estate			72	202,614	46,733	67,239	103,905	5,028	425,592
CL X – Past due items							88,243	94,588	182,831
CL XI – Covered bonds									
CL XII – Exposures on Collective Investment Undertakings (CIU)							37,740		37,740
CL XIII – Other items			33,186				204,002		237,188
TOTAL CAPITAL REQUIREMENTS	**0**	**783**	**132,516**	**202,614**	**64,560**	**185,331**	**1,293,597**	**208,285**	**2,087,687**

TABLE XXII – OWN FUNDS REQUIREMENTS FOR CREDIT RISK AND COUNTERPARTY CREDIT RISK (STANDARDISED APPROACH)

Thousand euros

	31 December 2010								Total
	Risk weights								
	0%	10%	20%	35%	50%	75%	100%	150%	
1. ORIGINAL EXPOSURE									
CL I – Central Governments or Central Banks	8,642,963		75,371		68		696,862		9,415,264
CL II – Regional Governments or Local Authorities	30,342		84,538		663,070				777,951
CL III – Administrative and non-profit Organisations	651,578		519,702		1,088,131		0		2,259,411
CL IV – Multilateral Development Banks	127,270								127,270
CL V – International Organisations									
CL VI – Institutions			6,023,181		2,347,012		259,959		8,630,153
CL VII – Corporates	252,336		40,616		523,519		11,063,691	126	11,880,288
CL VIII – Retail portfolio						8,081,134			8,081,134
CL IX – Positions guaranteed by real estate	2,457			8,250,982	1,820,646	1,013,912	4,463,174		15,551,170
CL X – Past due items							1,731,612	659,878	2,391,490
CL XI – Covered bonds									
CL XII – Exposures on Collective Investment Undertakings (CIU)							439,263		439,263
CL XIII – Other items	1,662,644		382,560				3,764,817		5,810,022
TOTAL ORIGINAL EXPOSURES	**11,369,590**	**0**	**7,125,968**	**8,250,982**	**6,442,447**	**9,095,045**	**22,419,378**	**660,003**	**65,363,414**
2. EXPOSURE (RESERVE BASE OF RISK WEIGHTS)									
CL I – Central Governments or Central Banks	8,647,674		228,510		40		685,631		9,561,855
CL II – Regional Governments or Local Authorities	30,342		83,916		583,269		15,844		713,370
CL III – Administrative and non-profit Organisations	609,725		389,931		791,051		2,195		1,792,902
CL IV – Multilateral Development Banks	127,270								127,270
CL V – International organisations	900								900
CL VI – Institutions	298,872		5,076,331		2,335,025		246,072		7,956,300
CL VII – Corporates	467,184		26,524		484,069		6,091,653	126	7,069,555
CL VIII – Retail portfolio	86,370					4,508,125			4,594,495
CL IX – Positions guaranteed by real estate	2,498			8,178,369	1,755,881	936,780	3,358,706		14,232,234
CL X – Past due items							968,924	567,323	1,536,246
CL XI – Covered bonds									
CL XII – Exposures on collective investment undertakings (CIUs)							434,655		434,655
CL XIII – Other items	1,662,644		382,560				2,335,484		4,380,689
TOTAL EXPOSURES	**11,933,479**	**0**	**6,187,772**	**8,178,369**	**5,949,335**	**5,444,905**	**14,139,163**	**567,448**	**52,400,472**
3. TOTAL CAPITAL REQUIREMENTS (=∑ (2. * RISK WEIGHTS) * 8%)									
CL I – Central Governments or Central Banks			3,656		2		54,850		58,508
CL II – Regional Governments or Local Authorities			1,343		23,331		1,267		25,941
CL III – Administrative and non-profit Organisations			6,239		31,642		176		38,057
CL IV – Multilateral Development Banks									
CL V – International Organisations									
CL VI – Institutions			81,221		93,401		19,686		194,308
CL VII – Corporates			424		19,363		487,332	15	507,134
CL VIII – Retail portfolio						270,488			270,488
CL IX – Positions guaranteed by real estate				228,994	70,235	56,207	268,696		624,133
CL X – Past due items							77,514	68,079	145,593
CL XI – Covered bonds									
CL XII – Exposures on Collective Investment Undertakings (CIU)							34,772		34,772
CL XIII – Other items			6,121				186,839		192,960
TOTAL CAPITAL REQUIREMENTS	**0**	**0**	**99,004**	**228,994**	**237,973**	**326,694**	**1,131,133**	**68,094**	**2,091,893**

Note: The original exposures reflect the total reported in Table XIII – Exposures, while the own funds requirements shown in this table correspond to the items in 2.1.1.1. of Table VIII – Own funds requirements.

TABLE XXIII-A – OWN FUNDS REQUIREMENTS FOR CREDIT RISK AND COUNTERPARTY CREDIT RISK (IRB APPROACH)

Thousand euros

Using own estimations of LGD and/or credit conversion factors		Internal ratings based system: PD buckets of customer risk grades (%)	Original exposure	Exposure at risk	LGD (average weighted by the exposure at risk) (%)	Capital requirements 31-12-2011	Capital requirements 31-12-2010	Memorandum items: Expected losses	Memorandum items: Impairment
1. TOTAL EXPOSURES		**14%**	**31,073,145**	**28,989,859**	**24%**	**632,456**	**643,642**	**980,335**	**561,482**
1.1. – Exposures related to customers risk grades: Total		14%	31,073,145	28,989,859	24%	632,456	643,642	980,335	561,482
Breakdown of exposures related to customers risk grades [(a)]:	Risk grade: 1	0.01% a 0.05%							
	2	0.05% a 0.07%							
	3	0.07% a 0.14%	842,769	791,868	22%	3,148	14	160	953
	4	0.14% a 0.28%	8,332,690	8,040,528	21%	53,715	28,903	3,213	10,168
	5	0.28% a 0.53%	4,262,598	3,921,493	25%	45,786	66,179	3,457	6,873
	6	0.53% a 0.95%	3,452,852	3,281,260	27%	58,982	67,059	5,525	7,047
	7	0.95% a 1.73%	2,681,551	2,410,193	26%	63,880	71,798	7,587	5,692
	8	1.73% a 2.92%	1,780,423	1,586,122	25%	56,878	67,620	8,633	3,772
	9	2.92% a 4.67%	1,274,894	1,384,718	25%	62,075	61,816	12,086	4,121
	10	4.67% a 7.00%	1,052,606	899,502	24%	50,218	50,308	11,930	2,931
	11	7.00% a 9.77%	983,067	806,940	23%	53,536	53,557	14,638	1,954
	12	9.77% a 13.61%	2,163,017	1,669,403	24%	123,353	130,306	43,674	5,660
	13 a 15	13.61% a 100.00%	4,246,678	4,197,832	23%	60,885	46,085	869,432	512,313

(a) Ascending sort, in accordance to the average PD attributed to the risk grade of the customer. The PD attributed to defaulted customers equals 100%.
Note 1: This table doesn't include information related to the especialised lending, that is presented in Table XXIII-C.
Note 2: Risk grades and PD buckets presented in this table reflect the risk grades scale and corresponding PD of Millennium bcp's Rating MasterScale.

TABLE XXIII-B – OWN FUNDS REQUIREMENTS FOR CREDIT RISK AND COUNTERPARTY CREDIT RISK (IRB APPROACH)

Thousand euros

Not using own estimations of LGD and/or credit conversion factors		Internal ratings based system: PD buckets of customer risk grades (%)	Original exposure	Exposure at risk	LGD (average weighted by the exposure at risk) (%)	Capital requirements 31-12-2011	Capital requirements 31-12-2010	Memorandum items: Expected losses	Memorandum items: Impairment
1. TOTAL EXPOSURES		**18%**	**21,125,736**	**16,796,762**	**39%**	**1,096,913**	**1,435,774**	**1,389,119**	**1,017,186**
1.1. – Exposures related to customers risk grades: Total		18%	21,125,736	16,796,762	39%	1,096,913	1,435,774	1,389,119	1,017,186
Breakdown of exposures related to customers risk grades [(a)]:	Risk grade: 1	0.01% a 0.05%							
	2	0.05% a 0.07%					288		
	3	0.07% a 0.14%	34,185	18,344	44%	418	985	8	38
	4	0.14% a 0.28%	1,520,092	1,152,978	40%	35,098	47,270	868	1,802
	5	0.28% a 0.53%	1,325,070	680,372	44%	31,462	37,229	1,143	1,794
	6	0.53% a 0.95%	2,629,530	1,772,081	42%	101,233	147,804	4,932	5,402
	7	0.95% a 1.73%	1,837,665	1,409,193	40%	90,671	147,487	6,930	4,671
	8	1.73% a 2.92%	3,808,442	2,823,765	41%	227,903	290,407	26,020	11,722
	9	2.92% a 4.67%	2,052,508	1,721,173	38%	143,618	179,624	23,336	13,036
	10	4.67% a 7.00%	1,719,671	1,425,955	33%	130,761	84,627	29,043	4,247
	11	7.00% a 9.77%	472,579	388,424	37%	40,478	110,378	11,600	2,369
	12	9.77% a 13.61%	2,040,501	1,930,251	36%	231,146	257,297	77,762	99,282
	13 a 15	13.61% a 100.00%	3,685,494	3,474,227	37%	64,125	132,378	1,207,478	872,823

(a) Ascending sort, in accordance to the average PD attributed to the risk grade of the customer. The PD attributed to defaulted customers equals 100%.
Note 1: This table doesn't include information related to the especialised lending, that is presented in Table XXIII-C.
Note 2: Risk grades and PD buckets presented in this table reflect the risk grades scale and corresponding PD of Millennium bcp's Rating MasterScale.

TABLE XXIII-C – OWN FUNDS REQUIREMENTS FOR ESPECIALISED LENDING (IRB APPROACH)

Thousand euros

Risk weights	Original exposure		Capital requirements	
	31-12-2011	31-12-2010	31-12-2011	31-12-2010
50%				
70%	18,885	21,309	917	941
of which: grade 1				
90%	1,820,381	2,018,000	123,314	115,656
115%	404,574	373,121	36,262	34,097
250%	174,244	129,048	34,058	22,493
TOTAL	2,418,085	2,541,478	194,550	173,187

TABLE XXIII-D – OWN FUNDS REQUIREMENTS FOR EQUITY POSITIONS (IRB APPROACH)

Thousand euros

Using own estimations of LGD and/or credit conversion factors		Internal ratings based system	Original exposure	Exposure at risk	LGD (average weighted by the exposure at risk) (%)	Capital requirements		Memorandum items	
		PD buckets of customer risk grades (%)				31-12-2011	31-12-2010	Expected losses	Impairment
1. PD/LGD APPROACH: TOTAL RISK EXPOSURES									
Breakdown of exposures related to customers customers risk grades [(a)]:	Risk grade: 1								
	2								
	3								
	4								
	5								
	...								
	...								
	...								
	n								
2. SIMPLE WEIGHT APPROACH: TOTAL EXPOSURES AT RISK			198,137	198,137		55,198	26,664	3,893	
Breakdown of exposures per risk weight:	Risk weight: 190%								
	290%		53,920	53,920		12,509	6,528	431	
	370%		144,217	144,217		42,688	20,136	3,461	
3. IRB APPROACH									

(a) Ascending sort, in accordance to the average PD attributed to the risk grade of the customer. The PD attributed to defaulted customers equals 100%.

6. COUNTERPARTY CREDIT RISK

The counterparty credit risk translates the risk of counterparties being unable to meet their liabilities resulting from securities contracts such as derivatives for instance.

The Bank gives preference to the definition of limits to exposure to counterparty credit risk, bilateral contracts to guarantee exposures resulting from derivatives and the creation of collaterals within the scope of these agreements as preferred tools to mitigate counterparty credit risk.

The total exposure limit for financial institutions that are counterparties in contracts subject to this type or risk is divided into two components: one for traditional credit operations (financial and/or signature) and another for treasury products.

The Manual for Credit Regulations for Sovereigns and Financial Institutions defines the way in which the consumptions of the counterparty credit risk limits are determined. This calculation is made regularly based on the market value of the operations, to which a factor arising from the future potential variation of that same value is added, adjusting for the volatility and deadline of each operation.

The Bank has a policy of closing bilateral contracts to guarantee exposures resulting from OTC derivatives contracted with Banks under the ISDA Master Agreement (ISDA – International Swaps and Derivatives Association).

In addition, an ISDA Master Agreement may frame the creation of collateral using an annex or ISDA Credit Support Document. As a template for the Credit Support Document, the Bank chose the Credit Support Annexes (CSA) contracts to guarantee the constitution, by the entity with net values payable in the future, of financial collaterals from the other party to guarantee the payment of these contractual obligations. In these contracts, the Bank only accepts deposits in euros as collateral.

Finally, the Bank uses a framework agreement model of TBMA/ISMA (The Bond Market Association/International Securities Market Association) within the scope of the repo operations it carries out. This framework agreement, the Global Master Repurchase Agreement (GMRA), defines the repo transactions between the parties and regulates the creation of the collateral that guarantees the exposure.

Both in 2011 and in 2010, for the purposes of reducing counterparty credit risk, the Group used the financial collateral comprehensive method, as established in Annex VI of Bank of Portugal Notice nr. 5/2007, and the mark-to-market method to calculate the future exposure in the relevant positions, as defined in Part 3 of Annex V to the abovementioned Notice.

After estimating the exposures as at 2010 and 2011, the own funds requirements were computed, on one hand, according to Annex III of Bank of Portugal Notice nr. 5/2007, for risk scores and portfolios that followed the Standardised Approach, and, on the other hand, based on Annex IV to said Notice for the portfolios regarding which Bank of Portugal authorized the IRB Approach.

According to the mark-to-market method, the necessary values to calculate the exposure in the relevant positions have only two components: (i) the market value of each operation and (ii) the percentage of the nominal to be applied as an add-on to that market value.

The market values of the operations are collected directly from the front-end application (Kondor+), in which the management and evaluation of the operations is carried out, whilst the add-on values to be applied are directly identifiable in table I of Stage b) of Part 3 of Annex V of Bank of Portugal Notice nr. 5/2007.

Tables XXIV and XXV show own funds requirements determined for counterparty credit risk for exposures handled using the Standardised Approach and the IRB Approach at the end of 2011 and 2010, respectively.

TABLE XXIV – OWN FUNDS REQUIREMENTS FOR COUNTERPARTY CREDIT RISK (STANDARDISED APPROACH)

Thousand euros

	Original exposure	Credit risk mitigation techniques with substitution effects in the original net exposure [(a)]	CRM techniques with substitution effect on the net exposure amount [(b)]	Fully adjusted exposure	Capital requirements	
					31-12-2011	31-12-2010
Repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions	323,829		193,072	130,757	3,364	116
Derivatives	1,779,317		811,567	967,749	27,638	40,007
Contractual cross-product netting						

(a) Substitution effects in the exposure, corresponding to the net balance of outflows and inflows.
(b) Funded credit protection – comprehensive financial collateral approach.
Note: Own funds requirements shown in this table are emphasized in the scope of item 2.1.1. of Table VIII – Own funds requirements.

TABLE XXV – OWN FUNDS REQUIREMENTS FOR COUNTERPARTY CREDIT RISK (IRB APPROACH)

Thousand euros

	Original exposure	Credit risk mitigation techniques with substitution effects in the original net exposure [(a)]	CRM techniques with substitution effect on the net exposure amount [(b)]	Fully adjusted exposure	Capital requirements	
					31-12-2011	31-12-2010
Repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions						
Derivatives	400,984			400,984	40,225	26,211
Contractual cross-product netting						

(a) Substitution effects in the exposure, corresponding to the net balance of outflows and inflows.
(b) Funded credit protection – comprehensive financial collateral approach.
Note: Own funds requirements shown in this table are emphasized in the scope of item 2.1.2. of Table VIII – Own funds requirements.

As at 31 December 2011 and 2010, the Group had no formal credit risk coverage operation involving credit derivatives underway. On those dates, the Group was exposed to other financial instruments with credit risk arising from intermediation activities, namely credit linked notes and credit default swaps, which correspond, essentially, to a number of structured products issued by the Bank and their associated informal coverage operations. These exposures are shown in Table XXVI.

TABLE XXVI – CREDIT DERIVATIVES

Thousand euros

Credit derivative transactions	Long positions		Short positions	
	31-12-2011	31-12-2010	31-12-2011	31-12-2010
I. CREDIT PORTFOLIO (TOTAL):				
a) Credit default swaps				
b) Total return swaps				
c) Credit linked notes				
d) Other credit derivatives				
II. INTERMEDIATION ACTIVITIES (TOTAL):	2,625,050	2,166,774	2,524,550	2,124,124
a) Credit default swaps	2,016,400		2,524,550	2,124,124
b) Total return swaps	19,500	19,500		
c) Credit linked notes	589,150	2,147,274		
d) Other credit derivatives				

Long-term positions – theoretical value of the acquired protection.
Short-term positions – theoretical value of the protection sold.
Notes: The intermediation activities mostly involve net sales of protection via credit default swaps, to hedge the credit risk related to credit linked notes and other financial instruments issued by the Group.
The exposures listed in this table impact originate own funds requirements for counterparty risk, based on market value plus an add-on, with the respective amounts reflected in Tables XXII and XXIII – Own funds requirements for credit risk and counterparty credit risk (Standardised and IRB approaches, respectively).

7. CREDIT RISK MITIGATION TECHNIQUES

7.1. ELIGIBILITY AND TYPE OF MITIGATION INSTRUMENTS

The internal rules and procedures relative to credit risk mitigation meet the requirements defined in Bank of Portugal Notice nr. 5/2007, reflecting also the experience of the Credit Recovery Departments (both Standardised and Specialised) and the opinion of the Legal Department with respect to the binding character of the various mitigation instruments.

The collateral and guarantees are grouped in the following categories:

- Financial collateral, real estate collateral and other collateral;
- Values receivable;
- First demand guarantees, issued by banks or other entities with Risk Degree 7 or higher in the Rating Master Scale;
- Personal guarantees, when the guarantors are classified as Risk Degree 7 or better;
- Credit derivatives.

The accepted financial collateral must also be transacted in a recognised stock exchange, that is, in an organised, liquid and transparent secondary market, with bid and offer prices, located in European Union countries, the United States of America, Japan, Canada, Hong Kong or Switzerland.

In this context, it is important to mention that Banco Comercial Português shares are not accepted as financial collateral for new credit operations, only being accepted within the scope of guarantees in already existing credit operations or within the scope of restructuring processes associated with credit recovery.

Regarding credit guarantees and derivatives the principle of substitution of the Customer's degree of risk for the Protection provider's degree of risk (provided the latter's is better than the former's) is applied when:

- There are State guarantees, financial institutions guarantees or Mutual Guarantee Companies;
- Personal guarantees or bails are provided (or, in the case of Leasing operations, there is a supporting contractor);
- Mitigation is carried out through credit derivatives.

In derivative product operations carried out in financial markets, with banking counterparties, the Bank has to, as a principle, support the same counterparties in bilateral compensation agreements (ISDA).

In addition, the Bank has followed the policy of complementing these agreements with Credit Support Annexes (CSA), which guarantee an effective reduction in the counterparty risk of the transactions, by demanding collateralisation with financial instruments of the net amounts payable by one of the counterparties.

7.2. PROTECTION LEVELS

For all credit operations, at the moment of credit decision, a protection level is attributed, taking into consideration the credit amount and the value and type of collateral involved. The protection level corresponds to the evaluation of the loss reduction in case of default based on the various types of collateral, considering the relationship between the market value of the collateral and the amount of exposure associated.

In the case of financial collateral, an adjustment of the value of protection is carried out through the application of a set of haircuts, so as to reflect the volatility of the price of the financial instruments. The haircuts considered are the following: (i) specific haircut of the collateral type (differentiating debt instruments according to maturity and the issuer risk or the shares included in a main index versus the shares listed in a recognised stock exchange, for example); (ii) seniority haircut of the instrument (senior debt, subordinated debt and highly subordinated debt and preferential shares; (iii) exchange rate haircut (when the currency of the collateral differs from the exposure currency) and (iv) fixed interest rate debt securities haircut (according to residual maturity).

7.3. COLLATERAL REVALUATION

FINANCIAL COLLATERAL

The market value of the financial collateral is automatically updated on a daily basis, through the existing computer connection between the collateral management system and information of the relevant financial markets.

REAL ESTATE: HOME MORTGAGES, COMMERCIAL MORTGAGES AND OTHERS

The procedures are based on the concept of value in terms of a mortgage guarantee, being centralised at the Evaluation Unit, regardless of the customer area (credit concession, credit recovery, real estate received as payment and leasing).

The valuations and respective revisions/revaluations are, in general, carried out by external evaluation entities and ratified by the Bank's Evaluation Unit, and can also be carried out by an internal evaluation expert, irrespective of customer areas. In any case, they are the object of a written report, in standardised digital format, taking into consideration the methods applied – income, cost and reversion and/or market comparison. The value obtained within the scope of the concept of market value and for the purposes of mortgage guarantee, according to the type of real estate in question, is also considered. Evaluations have been subject to a declaration/certification of the evaluation expert since 2008, as required by Bank of Portugal Notice nr. 5/2007.

Relative to real estate for housing, after the initial valuation and in conformity with Bank of Portugal Notices nr. 5/2006 and nr. 5/2007, the Bank verifies the respective values through indexes or revision by an external evaluation expert within the established requirements:

- If the value of the credit operation that benefits from the mortgage is in excess of 500,000 euros, the value is revised by an evaluation expert, every three years;

- If the value of the credit operation that benefits from the mortgage is under of 500,000 euros, the value is revised using market indexes, every three years. Whenever the revision of the value finds a significant decrease (above 10%), the valuation must be revised by an evaluation expert.

For all non-housing real estate properties, the Bank also verifies the value using market indexes, with the minimum regularity defined by Bank of Portugal Notice nr. 5/2007, for offices, warehouses and industrial properties and value revisions resulting from a significant devaluation (above 10%) of the properties, found during the verification, without prejudice to making a direct revision of the value with the regularity defined by the abovementioned regulations.

For all other real estate properties (land, businesses and rustic buildings for instance) there are no market indexes available to verify their value after the initial evaluations. Thus, in these cases and according to the minimum regularity established for the verifications and revisions of the value of these properties, external evaluators are responsible for the value revisions.

The indexes currently used are provided to the Bank by a specialised external entity, which has collected and handled the data based on which they are made for over a decade.

The revision of the evaluation values, according to the requirements of Bank of Portugal Notice nr. 5/2007, are mostly carried out by external evaluation experts. The Bank does not use any automated systems to obtain evaluation values – such as simulators –, all evaluations being carried out by evaluation experts.

Tables XXVII, XXVIII-A and XXVIII-B summarise the impact, with reference to 31 December 2011, using the Standardised Approach and the IRB Approach respectively, of the credit risk reduction techniques used by the Group, in terms of the substitution of exposures and the actual amount of exposures, by risk class.

TABLE XXVII – CREDIT RISK MITIGATION TECHNIQUES (STANDARDISED APPROACH)

Thousand euros

	Net exposure	CRM techniques with substitution effect on the original net exposure						CRM techniques with substitution effect on the net exposure amount: funded credit protection (a)
		Personal credit protection: fully adjusted value of the protection (GA)		Funded credit protection		Substitution effect on the exposure (net of outflows and inflows)	Volatility adjustment to the exposure amount	Financial collateral: amounts adjusted by volatility and any discrepancy between expiration periods (Cvam) (-)
		Guarantees	Credit derivatives	Simple method: financial collaterals	Other forms of funded credit protection			
TOTAL EXPOSURES	**58,328,235**	**437,139**		**353,349**		**159,134**		**2,128,348**
CL I – Central Governments or Central Banks	8,826,745					217,004		
CL II – Regional Governments or Local Authorities	707,565					122,107		
CL III – Administrative and non-profit Organisations	110,943					13,670		203
CL IV – Multilateral Development Banks	88,213							
CL V – International Organisations						291		
CL VI – Institutions	8,152,858	41,938				382,666		950,724
CL VII – Corporates	16,328,228	321,060		30,726		-225,634		1,090,669
CL VIII – Retail portfolio	3,314,911	38,488		321,052		-313,748		47,071
CL IX – Positions guaranteed by real estate	11,210,477	14,007		1,433		-15,440		25,005
CL X – Past due items	1,927,727	21,644		138		-21,782		14,676
CL XI – Covered bonds								
CL XII – Exposures on Collective Investment Undertakings (CIU)	471,756							
CL XIII – Other items	7,188,812							

(a) Comprehensive financial collateral method. Exposure amount shall mean the net exposure after the substitution effect.

TABLE XXVIII-A – CREDIT RISK MITIGATION TECHNIQUES (IRB APPROACH)

Thousand euros

	Original exposures	CRM techniques with substitution effect on the original net exposure				Credit risk mitigation techniques with impact on the LGD estimation, excluding the treatment related to simultaneous default					Treatment related to simultaneous default
		Personal credit protection		Other forms of funded credit protection	Substitution effect on the exposure (net of outflows and inflows)	Using own estimations of LGD: Personal credit protection		Funded credit protection			Personal credit protection
		Guarantees	Credit derivatives			Guarantees	Credit derivatives	Using own estimations of LGD: other	Eligible collateral	Other eligible collateral (a)	
TOTAL EXPOSURES	**54,616,966**	**2,268,591**			**-159,134**			**293,880**	**1,826,918**	**25,251,504**	
Claims or contingent claims on Corporates	23,543,821	270,215			-145,513			82,011	1,490,029	3,669,433	
Retail claims or contingent retail claims	31,073,145	1,998,376			-13,621			211,869	336,889	21,582,070	

(a) Other eligible collateral include real-estate, other tangible guarantees and amounts due for collection.

TABLE XXVIII-B - CREDIT RISK MITIGATION TECHNIQUES – EQUITY POSITIONS (IRB APPROACH)

Thousand euros

	Original exposures	CRM techniques with substitution effect on the original net exposure		
		Personal credit protection		Substitution effect on the exposure (net of outflows and inflows)
		Guarantees	Credit derivatives	
PD/LGD based approach (total)				
Simple weight based approach (total)	198,137			
Internal ratings based approach (total)				

Credit risk mitigation techniques (personal and real credit protection) are analysed in Table XXIX, taking into consideration the main sectors of activity focused on.

TABLE XXIX – CONCENTRATION ANALYSIS: PERSONAL AND FUNDED CREDIT PROTECTION

Thousand euros

31 December 2011								
			Funded credit protection					
	Personal credit protection		Eligible (financial) collateral		Other forms of eligible collateral			Other forms of funded credit protection
	Guarantees	Credit derivatives – Simple method	Simple method	Comprehensive financial collateral method	Real-estate	Other tangible guarantees	Amounts due for collection	
TOTAL POSITIONS COVERED	**2,705,730**		**353,349**	**3,955,265**	**24,678,980**	**572,524**		**293,880**
Mortgage loans	815,943		1,433	8,482	19,156,408			8,943
Services	564,946			2,364,969	1,577,896	168,022		38,930
Consumer credit	89,690		321,052	170,743	11			87,009
Construction	241,237			173,347	478,765	22,362		36,302
Other domestic activities	157,689		30,864	966,395	398,318	12,628		9,828
Other foreign activities								
Wholesale business	368,663			115,009	1,062,967	34,912		55,144
Other	467,562			156,320	2,004,616	334,599		57,725

TABLE XXIX – CONCENTRATION ANALYSIS: PERSONAL AND FUNDED CREDIT PROTECTION

Thousand euros

31 de dezembro de 2010								
			Funded credit protection					
	Personal credit protection		Eligible (financial) collateral		Other forms of eligible collateral			Other forms of funded credit protection
	Guarantees	Credit derivatives – Simple method	Simple method	Comprehensive financial collateral method	Real-estate	Other tangible guarantees	Amounts due for collection	
TOTAL POSITIONS COVERED	**3,840,680**		**561,270**	**3,584,089**	**25,292,445**	**818,057**	**1,014,839**	**255,815**
Mortgage loans	1,412,601		41	22,677	21,220,030	1,423	5,356	15,142
Services	638,881			1,378,346	973,949	174,822	72,833	58,678
Consumer credit	95,123		561,229	314,119	15	48,422		
Construction	261,678			128,788	393,506	38,374	177,587	36,187
Other domestic activities	402,079			440,855	867,871	155,765	288,249	40,277
Other foreign activities	61,675			563,987	156,976	387	2,344	798
Wholesale business	188,168			71,653	244,648	69,911	111,534	21,262
Other	780,476			663,664	1,435,450	328,953	356,937	83,470

Note: In the scope of application of the standardised approach, mortgages guaranteeing credit risks related to residential (including those arising from leasing contracts) and commercial spaces are not included within the specific scope of credit risk mitigation techniques, but contribute, namely, to the verification of the criteria that determine the risk weights applied in their capital requirements calculation and to the deduction of real-estate assets resulting from recovered loans. Similarly, collaterals represented by amounts due to collection and other forms of funded protection, based on the use of own estimations of LGD, are exclusively applied by internal ratings based approaches.

8. EQUITY EXPOSURES IN THE BANKING BOOK

The Group holds equity exposures in the banking book, characterised by stability and with the objective of creating value. The holding of these positions, including shares and risk capital fund units, complies with at least one of the following objectives:

- The development of entities or projects of strategic interest for the Group;
- Generating a return or opportunities for growth of the banking business;
- The development of entities with valuation potential;
- Making entities with the capacity to recover viable, including namely shares received as payment or by converting credits into capital.

Exposure to shares in the banking book are initially recognized at fair value, including gains and losses associated with the transactions, and are afterwards valued at their fair value based on the following hierarchy of criteria: market price listed in regulated or active market or, in its absence, based on external valuations made by independent entities, duly recognised, or based on the worth measurement input from transactions deemed valid between counterparties with good repute.

Changes in the fair value of these shares are registered against fair value reserves until they are sold or register impairment losses.

When sold, accrued gains or losses recognised in fair value reserves are registered under "Results from available for sale financial assets" on the financial statements. The treatment associated with the recognition and reversion of these assets' impairment losses is described in chapter 5.1. Definitions and policies for determining losses and coverage. Dividends will be recognised under earnings when the rights to receiving them are attributed.

The Equity exposures in the banking book are analysed in Table XXX, as follows:

TABLE XXX – EQUITY EXPOSURES IN THE BANKING BOOK

Thousand euros

	Listed shares		Unlisted shares Private equity		Other capital instruments (*)		Total	
	31-12-2011	31-12-2010	31-12-2011	31-12-2010	31-12-2011	31-12-2010	31-12-2011	31-12-2010
Acquisition cost/Notional amount	81,122	34,214	78,557	109,419	116,257	50,682	275,936	194,315
Fair value	55,781	28,375	63,142	82,718	116,027	45,516	234,949	156,609
Market price								
Gains or losses arising from sales and settlements in the period							24,013	73,367 (1)
Total unrealised gains or losses							6,539	8,450 (2)
Total latent revaluation gains or losses							-40,987	-37,706 (3)

Note: Equity issued by the Bank as well as derivatives indexed to those instruments are not included.
(*) Venture capital funds, similar to equity for prudencial purposes.
(1) Gains or losses arising from sales and settlements in the period: results before taxes; in 2010 includes the capital gain recorded in the sale of the investment in Eureko.
(2) Total unrealised gains or losses: reports the amount of the fair value reserves in this portfolio on the reporting dates, doesn't therefore incorporate eventual impairments or goodwill related to the respective securities; corresponds to potential accounting capital gains/losses for this portfolio, to be booked to the profit and loss account in case of divestment.
(3) Total latent revaluation gains or losses: difference between the fair value and the acquisition cost of the securities in the portfolio on the reporting dates. Reflects the total gains/losses underlying the shares of the investment portfolio; however, part of the unrealised losses may have already been recognised, via results or reserves (namely by impairment or goodwill).

On 31 December 2010 and 2011, within the scope of the approval by Bank of Portugal for BCP to use the IRB method, Group BCP used the simple weight method to compute own funds requirements for the shares in the banking book held by Group entities headquartered in Portugal.

The simple computation applies 290% and 370% weights to exposures to listed and unlisted stocks, respectively, and one may apply a smaller weight (190%) to risk exposures resulting from shareholdings in unlisted companies included in portfolios that are sufficiently diversified. In addition, shares that were already in the portfolio on 31 December 2007 are exempt from this computation until 31 December 2017, and are subject to a single 100% weight during this period of time.

Own funds requirements for hedging exposure to shares in the banking book are presented in Table XXXI.

TABLE XXXI – CAPITAL REQUIREMENTS FOR EQUITY EXPOSURES IN THE BANKING BOOK

Thousand euros

	Risk weights	Risk positions[1]		Capital requirements	
		31-12-2011	31-12-2010	31-12-2011	31-12-2010
STANDARDISED APPROACH	100%	35,357	45,692	2,829	3,655
IRB APPROACH [2]		198,137	96,163	20,854	26,664
Listed shares	290%	53,920	28,136	12,509	6,528
Unlisted shares	370%	144,217	68,027	8,344	20,136
TOTAL		233,494	141,855	23,682	30,319

(1) Original exposure net of provisioning.

(2) Based on the simple weight based approach; equities held by 31 December 2007 (risk weighted for 100%, as a result of the use of the applicable exemption), were included within the positions whose capital requirements are calculated according to the standardised approach.

Note1: Own funds requirements shown in this table are emphasized in the scope of item 2.1.1.1.14. and 2.1.2.3. of Table VIII – Own funds requirements.

Note2: Risk positions differ from the fair value amounts as they don't include the amounts deducted to own funds (related to unrealised gains and qualified financial investments).

9. SECURITISATION OPERATIONS

9.1. DESCRIPTION OF THE ACTIVITIES AND OPERATIONS

On 31 December 2011, the number of credit securitization operations originated by the Group rose to thirteen, ten of which from the operation in Portugal, two from Greece and one from Poland.

Since 1998, the Group has regularly carried out securitization operations based on a great variety of assets and pursuing different goals, based on the market conditions and market opportunities and the Group's interests and needs.

We underline that, until 2007, all the operations made were placed in the market with specialized institutional investors. Taking advantage of the conditions of a favourable market framework, this group of operations – involving mortgage loans, consumer loans, companies' loans and auto loans – was carried out with the purpose of complementimg the Group's funding activities and, in some cases, to promote a more efficient management of the Bank's balance sheet, particularly its equity. The type of investors targeted by these operations was widely diverse, broad and mainly supplementary for the investors present in the Bank's direct funding operations in the money markets.

After 2007, market conditions to place these operations altered significantly. Thus the Bank began retaining in its books the totality of the bonds issued within the scope of each credit securitization operation (from the senior tranche to the first loss tranche). So as to maximise liquidity, within a context where access to the various market segments is closed, the Bank has been using the senior tranche of each operation carried out to reinforce its portfolio of assets eligible as collateral for refinancing operations in the Eurosystem.

As an investor, the Group does not hold significant positions in securitisation operations, except for those of EnergyOn No.1 and No. 2, consisting of assets assigned by EDP Serviço Universal, S.A. made up by pre-defined amounts to be received from the Electric National System through prices paid by all electricity consumers in Portugal.

In general, the entity of the Group that acts as Originator also intervenes as Servicer and Transaction Manager.

The main features of the securitization operations with assets originated by the Group, namely in terms of goal, form and level of involvement, the existence or not of a significant risk transfer in each securitization operation and of securitised securities and debt, for active operations as at 31 December 2011, are summarized in Tables XXXII and XXXIII.

TABLE XXXII – DESCRIPTION OF THE SECURITISATION OPERATIONS

	MAGELLAN 1
Identification of the securitisation operation	Magellan Mortgages No. 1 Limited
Initial objective of the securitisation operation	Securing funding and risk management
Form of the securitisation operation	Traditional securitisation
Level of involvement in the respective process	Credit lender (Banco Comercial Português, S.A. and Banco de Investimento Imobiliário, S.A.) Manager of the assigned credits Escrow bank of the Securitisation Credit Fund Transaction Manager [Counterparty to the interest rate back-to-back swap]
Start date	December 18, 2001
Legal maturity	December 15, 2036
Step-up clause (date)	December 15, 2008
Revolving (years)	N.A.
Securitised assets (in million of euros)	1,000.0
Significant credit risk transfer (1)	No

	MAGELLAN 2
Identification of the securitisation operation	Magellan Mortgages No. 2 Limited
Initial objective of the securitisation operation	Securing funding and risk management
Form of the securitisation operation	Traditional securitisation
Level of involvement in the respective process	Credit lender Manager of the assigned credits Escrow bank of the Securitisation Credit Fund Transaction Manager [Counterparty to the interest rate back-to-back swap]
Start date	October 24, 2003
Legal maturity	July 18, 2036
Step-up clause (date)	October 18, 2010
Revolving (years)	N.A.
Securitised assets (in million of euros)	1,000.0
Significant credit risk transfer (1)	No

	MAGELLAN 3[2]
Identification of the securitisation operation	Magellan Mortgages No. 3 Limited
Initial objective of the securitisation operation	Securing funding and risk management
Form of the securitisation operation	Traditional securitisation
Level of involvement in the respective process	Credit lender Manager of the assigned credits Escrow bank of the Securitisation Credit Fund Transaction Manager [Counterparty to the interest rate back-to-back swap]
Start date	June 30, 2005
Legal maturity	May 15, 2058
Step-up clause (date)	August 15, 2012
Revolving (years)	N.A.
Securitised assets (in million of euros)	1,500.0
Significant credit risk transfer [1]	No

	MAGELLAN 4
Identification of the securitisation operation	Magellan Mortgages No. 4 Limited
Initial objective of the securitisation operation	Securing funding and risk management
Form of the securitisation operation	Traditional securitisation
Level of involvement in the respective process	Credit lender Manager of the assigned credits Escrow bank of the Securitisation Credit Fund Transaction Manager [Counterparty to the interest rate back-to-back swap]
Start date	July 13, 2006
Legal maturity	July 20, 2059
Step-up clause (date)	July 20, 2015
Revolving (years)	N.A.
Securitised assets (in million of euros)	1,500.0
Significant credit risk transfer [1]	No

	KION I
Identification of the securitisation operation	Kion Mortgage Finance PLC
Initial objective of the securitisation operation	Securing funding and risk management
Form of the securitisation operation	Traditional securitisation
Level of involvement in the respective process	Credit lender (Millennium Bank, S.A., a branch of Banco Comercial Português, S.A. in Greece) Manager of the assigned credits (Millennium Bank, S.A., a branch a branch of Banco Comercial Português, S.A. in Greece) Counterparty to the interest rate back-to-back swap (Millennium Bank, S.A., a branch of Banco Comercial Português, S.A. in Greece)
Start date	December 7, 2006
Legal maturity	July 15, 2051
Step-up clause (date)	January 15, 2014
Revolving (years)	N.A.
Securitised assets (in millions of euros)	599.9
Significant credit risk transfer (1)	No

	NOVA 4
Identification of the securitisation operation	Nova Finance No. 4 Limited
Initial objective of the securitisation operation	Reinforce the Bank's portfolio of eligible assets (2)
Form of the securitisation operation	Traditional securitisation
Level of involvement in the respective process	Credit lender Manager of the assigned credits Escrow bank of the Securitisation Credit Fund Transaction Manager Counterparty of the back-to-back interest rate swap (Millennium bcp Bank & Trust) Guarantor of the back-to-back interest rate swap (Banco Comercial Português, S.A., SFI) Escrow bank for the Fund accounts (Fund Account & Fund Operating Reserve Account)
Start date	December 21, 2007
Legal maturity	March 22, 2019
Step-up clause (date)	N.A.
Revolving (years)	3 years
Securitised assets (in millions of euros)	700.0
Significant credit risk transfer (1)	No

	ORCHIS
Identification of the securitisation operation	Orchis Sp. z o.o.
Initial objective of the securitisation operation	Securing funding and risk management
Form of the securitisation operation	Traditional securitisation
Level of involvement in the respective process	Credit lender (Millennium Leasing Sp. z o.o, held by Bank Millennium, S.A., in turn a branch of Banco Comercial Português, S.A. in Poland) Manager of the assigned credits (Millennium Leasing Sp. z o.o, held by Bank Millennium, S.A. in turn a branch of Banco Comercial Português, S.A. in Poland) Receiver within the Collateralised and Protected Deposit (Bank Millennium, S.A.) Guarantor of the warranty pledged under the Support Agreement (Bank Millennium, S.A.) Counterparty of the interest rate swap (Bank Millennium, S.A.) Guarantor of the obligations of Bank Millennium, S.A. under the Support Agreement (Banco Comercial Português, S.A.)
Start date	December 20, 2007
Legal maturity	December 20, 2016
Step-up clause (date)	N.A.
Revolving (years)	3 years
Securitised assets (in millions of euros)	209.0
Significant credit risk transfer (1)	No

	MAGELLAN 5
Identification of the securitisation operation	Magellan Mortgages No. 5 Limited
Initial objective of the securitisation operation	Reinforce the Bank's portfolio of eligible assets (2)
Form of the securitisation operation	Traditional securitisation
Level of involvement in the respective process	Credit lender Manager of the assigned credits Escrow bank of the Securitisation Credit Fund Transaction Manager Counterparty of the interest rate swap (Millennium bcp Bank & Trust) Guarantor of the interest rate swap (Banco Comercial Português, S.A., SFI) [Counterparty to the interest rate back-to-back swap]
Start date	June 26, 2008
Legal maturity	November 20, 2064
Step-up clause (date)	N.A.
Revolving (years)	3 years
Securitised assets (in millions of euros)	1,529.3
Significant credit risk transfer (1)	No

	KION 2
Identification of the securitisation operation	Kion Mortgage Finance No. 2 PLC
Initial objective of the securitisation operation	Reinforce the Bank's portfolio of eligible assets (2)
Form of the securitisation operation	Traditional securitisation
Level of involvement in the respective process	Credit lender (Millennium Bank, S.A., a branch of Banco Comercial Português, S.A. in Greece) Manager of the assigned credits Counterparty to the interest rate back-to-backswap (Millennium Bank, S.A., a branch of Banco Comercial Português, S.A. in Greece)
Start date	July 18, 2008
Legal maturity	June 20, 2053
Step-up clause (date)	September 20, 2015
Revolving (years)	N.A.
Securitised assets (in millions of euros)	585.1
Significant credit risk transfer (1)	No

	SME 1
Identification of the securitisation operation	Caravela SME No. 1 Limited
Initial objective of the securitisation operation	Reinforce the Bank's portfolio of eligible assets (2)
Form of the securitisation operation	Traditional securitisation
Level of involvement in the respective process	Assigner of the securitised assets Manager of the securitised assets Counterparty of the back-to-back interest rate swap (Millennium bcp Bank & Trust) Guarantor of the back-to-back interest rate swap (Banco Comercial Português, S.A., SFI)
Start date	November 28, 2008
Legal maturity	June 20, 2038
Step-up clause (date)	N.A.
Revolving (years)	3 years
Securitised assets (in millions of euros)	3,000.0
Significant credit risk transfer (1)	No

	MAGELLAN 6
Identification of the securitisation operation	Magellan Mortgages No. 6 Limited
Initial objective of the securitisation operation	Reinforce the Bank's portfolio of eligible assets (2)
Form of the securitisation operation	Traditional securitisation
Level of involvement in the respective process	Credit lender Manager of the assigned credits Escrow bank of the Securitisation Credit Fund Transaction Manager Counterparty of the interest rate swap (Millennium bcp Bank & Trust) Guarantor of the interest rate swap (Banco Comercial Português, S.A., SFI) [Counterparty to the interest rate back-to-back swap]
Start date	March 20, 2009
Legal maturity	January 17, 2062
Step-up clause (date)	N.A.
Revolving (years)	3 years
Securitised assets (in millions of euros)	3,525.1
Significant credit risk transfer (1)	No

	TAGUS LEASING 1
Identification of the securitisation operation	Tagus Leasing No. 1 Limited
Initial objective of the securitisation operation	Reinforce the Bank's portfolio of eligible assets (2)
Form of the securitisation operation	Traditional securitisation
Level of involvement in the respective process	Credit lender Manager of the assigned credits Transaction Manager
Start date	February 26, 2010
Legal maturity	August 23, 2040
Step-up clause (date)	N.A.
Revolving (years)	1 year
Securitised assets (in millions of euros)	1,200.0
Significant credit risk transfer (1)	No

	SME 2
Identification of the securitisation operation	Caravela SME No. 2
Initial objective of the securitisation operation	Reinforce the Bank's portfolio of eligible assets [(2)]
Form of the securitisation operation	Traditional securitisation
Level of involvement in the respective process	Credit lender Manager of the assigned credits Transaction Manager
Start date	December 17, 2010
Legal maturity	December 23, 2020
Step-up clause (date)	N.A.
Revolving (years)	4 years
Securitised assets (in millions of euros)	2,700.0
Significant credit risk transfer [(1)]	No

[(1)] For regulatory purposes.
[(2)] Assets that, on 31 December 2011, may be pledged by the Bank as collateral within the Eurosystem in the scope of its financing operations.

TABLE XXXIII – MAIN CHARACTERISTICS OF THE SECURITISATION OPERATIONS

	TRADITIONAL							
	MAGELLAN 1		MAGELLAN 2		MAGELLAN 3		MAGELLAN 4	
	31-12-2011	31-12-2010	31-12-2011	31-12-2010	31-12-2011	31-12-2010	31-12-2011	31-12-2010
INFORMATION ON THE TRANSACTIONS								
Amounts in debt (in millions of euros)	250.9	285.0	278.9	311.2	633.5	684.9	702.7	756.7
INFORMATION ON THE INVOLVEMENT OF THE LENDER INSTITUTION								
Implicit support situations	N.A.	N.A.	N.A.	N.A.	Yes [(*)]	Yes [(*)]	N.A.	N.A.
Assets assigned (per institution)/Securitised assets (total) (%)	2%	2%	2%	2%	5%	5%	5%	5%
Initial gains/Value of first loss positions held	N.A.	N.A.	N.A.	N.A.	N.A.	[(*)]	N.A.	N.A.

	TRADITIONAL							
	KION 1		NOVA 4		ORCHIS		MAGELLAN 5	
	31-12-2011	31-12-2010	31-12-2011	31-12-2010	31-12-2011	31-12-2010	31-12-2011	31-12-2010
INFORMATION ON THE TRANSACTIONS								
Amounts in debt (in millions of euros)	189.2	231.9	438.8	692.6	85.2	188.1	1,432.4	1,499.0
INFORMATION ON THE INVOLVEMENT OF THE LENDER INSTITUTION								
Implicit support situations	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Assets assigned (per institution)/Securitised assets (total) (%)	1%	2%	3%	5%	1%	1%	11%	10%
Initial gains/Value of first loss positions held	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

	TRADITIONAL									
	KION 2		SME 1		MAGELLAN 6		TAGUS LEASING 1		SME 2	
	31-12-2011	31-12-2010	31-12-2011	31-12-2010	31-12-2011	31-12-2010	31-12-2011	31-12-2010	31-12-2011	31-12-2010
INFORMATION ON AS OPERAÇÕES										
Amounts in debt (in millions of euros)	443.1	523.9	1,875.4	2,287.7	3,379.5	3,491.4	914.6	1,141.8	2,802.4	2,582.9
INFORMATION ON THE INVOLVEMENT OF THE LENDER INSTITUTION										
Implicit support situations	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Assets assigned (per institution)/Securitised assets (total) (%)	3%	4%	14%	16%	25%	24%	7%	8%	21%	18%
Initial gains/Value of first loss positions held	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

N.A. – Not Applicable.

(*) During 2010, the Bank repurchased 82.4% of Magellan No. 3 residual note. This transaction has been accomplished at fair market value (30 million euros), but has been considered as an implicit support situation for regulatory purposes.

9.2. ACCOUNTING POLICIES OF THE GROUP

The Group fully consolidates SPE resulting from securitization operations originated in Group entities, when the relation with such entities indicates that the Group controls their activities, regardless of the shareholding owned by it. The assessment of the existence of control is made based on the criteria defined by SIC 12, analysed as follows:

- The SPE's activities are being carried out in favour of the Group, according to its specific business needs, so that the Group benefits from the SPE;
- The Group has the power to decide to obtain most of the benefits of the SPE's activities, or, by establishing auto-pilot mechanisms, the entity delegated such decision-making powers;
- The Group has the right to obtain most of the benefits of the SPE's activities and is therefore exposed to the SPE's underlying risks;
- The Group holds most residual or property risks of the SPE or its assets, so as to benefit from its activities.

Due to the difficulty in determining if an SPE is controlled, we assess if the Group is exposed to the risks and benefits of the activities of the SPE and if it has the decision-making powers in that SPE. The decision on whether an SPE must be consolidated by the Group requires the use of premises and estimates to verify the residual gains and losses and determine who holds most of those gains and losses.

Within the scope of the application of such policy, the accounting consolidation perimeter included the following SPE resulting from securitization operations: NovaFinance No. 4, Magellan No. 2, 3, 5 and 6, Kion No. 1 and 2, Orchis Sp zo.o., Caravela SME No. 1 and 2 and Tagus Leasing No. 1.

However, the Group did not consolidate into its accounts the following SPE that also resulted from the Group's securitization operations: Magellan No. 1 and 4. Regarding these SPE, not recognised in the balance sheet, we were able to verify that the associated risks and benefits were substantially transferred, since the Group does not hold securities issued by the SPE in question with exposure to most residual risks, nor is it in any other manner exposed to the performance of their credit portfolios.

Regarding the SPE included in the consolidation perimeter, should it be determined that the control exercised by the Group over their activities ceased, namely pursuant to the sale of the most subordinated securities issued by them, the SPE will no longer be consolidated. In this case, since the law determines that the management of loans granted remains within the group, we will maintain their registry in the off balance sheet items.

At the moment of the assignment of the assets associated with securitization operations, the Group registers a gain or a loss in the income statement if the SPE is not consolidated from the beginning, corresponding to the difference between the value of the sale of the assets and their accounting value; in the other cases, if the SPE is consolidated there are no gains or losses in the initial moment.

If while an operation is active, whose SPE is consolidated, the Group sells part or all the securities held, registering a gain or loss that: (i) if the SPE is consolidated, is associated with the sale of the securities issued, being incorporated in liabilities as a premium or discount and accrued according to the effective rate until maturity or, (ii) if the SPE is not consolidated with due grounds, will result from the sale of the assets, which will be derecognized, and the sale will be recognized in the consolidated financial statements.

9.3. OWN FUNDS REQUIREMENTS

On 31 December 2011 and 2010, the Group only owned securitization positions as an investor, for prudential purposes, since the securitization operations where it was the assignor did not entail a significant transfer of exposure according to the criteria defined in Bank of Portugal Notice nr. 7/2007 and therefore the own funds requirements where determined as if these had not occurred.

The computation of own funds requirements for securitization operations on the year-end 2011 was made based on the Annex IV of Bank of Portugal Notice nr. 7/2007, and using the approach based on rating notations for securitization positions with the external rating granted by an ECAI, as per Annex III of Bank of Portugal Instruction nr. 10/2007. Each credit quality level defined corresponds to a weight figure. Exposures without external ratings were subject to a 1250% weight.

Also within the scope of the approach based on rating notations, the weights for finding the capital requirements depend on the levels of credit quality resulting from the relations between the ECAI's ratings and those levels, in this case according to Annex III of Bank of Portugal Instruction nr. 10/2007. Likewise, securitization exposures without external ratings were also subject to a 1250% weight.

The ECAI used in 2011 and in 2010 to compute own funds requirements for securitization operations were Standard & Poor's, Moody's and Fitch Ratings.

TABLE XXXIV – OWN FUNDS REQUIREMENTS FOR SECURITISATION OPERATIONS (STANDARDISED APPROACH)

Thousand euros

Traditional securitisation	Total amount of securitised exposures originated (from the lender)	Fully adjusted exposure value		Breakdown of the exposure amount subject to weighting (2+3) by a risk weight higher or equal to 100%					Capital requirements	
				Position subject to notation		1,250%		Position not subject to notation		
			Amounts deducted from own funds (-)	100%	350%	Position subject to notation	Position not subject to notation		31-12-2011	31-12-2010
TOTAL EXPOSURES (=A+B+C)										
A – LENDER ENTITY: TOTAL EXPOSURES										
A.1. – Balance sheet items										
Most senior										
Mezzanine										
First loss										
A.2. – Off-balance sheet items and derivatives										
A.3. – Early amortization										
B – INVESTOR: TOTAL EXPOSURES										
B.1. – Balance sheet items										
Most senior										
Mezzanine										
First loss										
B.2. – Off-balance sheet items and derivatives										
C – SPONSOR: TOTAL EXPOSURES										
A.1. – Balance sheet items										
A.2. – Off-balance sheet items and derivatives										

Note: Own funds requirements shown in this table are emphasized in the scope of item 2.1.2. of Table VIII – Own funds requirements.

TABLE XXXV - OWN FUNDS REQUIREMENTS FOR SECURITISATION OPERATIONS (IRB APPROACH)

Thousand euros

Traditional securitisation	Total amount of the originated securitised exposure (for the lender institution)	Fully adjusted exposure value		Breakdown of the exposure amount subject to weighting (2+3) by a risk weight higher or equal to 100%						Capital requirements	
				Internal ratings approach		1,250%		Regulatory formula approach	Internal evaluation approach		
			Amounts deducted from own funds (-)	12%-18%	100%	Position subject to notation	Position not subject to notation	Average risk weight (%)	Average risk weight (%)	31-12-2011	31-12-2010
TOTAL EXPOSURES (=A+B+C)		**513,866**		**507,637**	**6,129**		**101**			**5,786**	**3,366**
A – LENDER ENTITY: TOTAL EXPOSURES											
A.1. – Balance sheet items											
Most senior											
Mezzanine											
First loss											
A.2. – Off-balance sheet items and derivatives											
A.3. – Early amortization											
B – INVESTOR: TOTAL EXPOSURES		**513,866**		**507,637**	**6,129**		**101**			**5,786**	**3,366**
B.1. – Balance sheet items		513,866		507,637	6,129		101			5,786	3,366
Most senior		513,766		507,637	6,129					5,685	3,265
Mezzanine											
First loss		101					101			101	101
B.2. – Off-balance sheet items and derivatives											
C – SPONSOR: TOTAL EXPOSURES											
A.1. – Balance sheet items											
A.2. – Off-balance sheet items and derivatives											

On 31 December 2011 and 2010 there were no additional amounts of risk weighted exposures to securitization operations of renewable exposures with early repayment clauses, regarding the application of the provisions of items 32 to 35 of nr. 9 of Annex IV of Bank of Portugal Notice nr. 7/2007, regarding the approach based on rating notations in effect.

10. OWN FUNDS REQUIREMENTS OF THE TRADING BOOK

The trading book is composed of positions held with the purpose of obtaining short-term gains, via sales or revaluations. It is actively managed and rigorously and frequently evaluated.

In a letter dated 30 April 2009, Bank of Portugal authorized the Group to use the internal models approach to compute own funds requirements in terms of generic risk of the trading book.

This authorisation encompassed all the subportfolios of the trading book that are part of the perimeter that is centrally managed from Portugal, which includes all the trading operations related with financial markets and products, namely those carried out by Banco Comercial Português, S.A.

Thus, as at 31 December 2011 and 2010, own funds requirements for generic market risks of the Group's trading book were calculated in accordance with the internal models approach for generic risk, within the universe of entities centrally managed from Portugal; for the remaining entities, the own funds requirements were calculated in accordance with the standardised approach. With regards to specific risk, the standardised approach was used for all eligible positions.

Table XXXVI shows own funds requirements associated with the Group's trading book as at 31 December 2011 and 2010, by type of risk.

TABLE XXXVI – OWN FUNDS REQUIREMENTS FOR THE TRADING BOOK

Thousand euros

	31-12-2011	31-12-2010
TOTAL TRADING BOOK RISKS (=∑(1.A 3.))	**40,334**	**39,551** (1)
1. EXPOSURE RISK (1.1.+1.2.)	**40,334**	**39,551**
1.1. Standardised approach for the trading book (=∑(1.1.1. a 1.1.6.))	20,643	15,381
1.1.1. Debt instruments	19,720	14,795
1.1.1.1. Specific risk	18,898	10,688
1.1.1.2. General risk	822	4,107
1.1.2. Equity securities	922	586
1.1.2.1. Specific risk	922	586
1.1.2.2. General risk		
1.1.3. Collective investment undertakings (CIU)		
1.1.4. Exchange-traded futures and options		
1.1.5. Futures and options traded in OTC markets		
1.1.6. Other		
1.2. Internal models approach for the trading book	19,691	24,170
2. COUNTERPARTY CREDIT RISK (=∑(2.1.A 2.3.))		
2.1. Sales/purchases with repurchase/resale agreement, securities or commodities lending or borrowing transactions, long-term settlement transactions and margin lending transactions		
2.2. Derivative instruments		
2.3. Contractual cross-product netting		
3. SETTLEMENT RISK		

Note: Own funds requirements shown in this table are emphasized in the scope of items 2.2., 2.3.1.1. and 2.3.1.2., and, partially, in item 2.3.2 of Table VIII – Own funds requirements.

(1) On December 31, 2011 the own funds requirements for the trading book include 14,843 thousand euros related to the impact of the Basel 2.5 rules, the inclusion of which was requested by Bank of Portugal with reference to this date. The own funds requirements for the trading book, adjusted by this effect, decreased, in contrast with the market evolution, due to the reduction of the exposure to market risk carried out during 2011.

10.1. CALCULATION METHODOLOGIES

The calculation of own funds requirements for generic market risk, via the standardised approach, was based on the following methodologies, according to the specific type of financial instrument:

- Debt instruments: in this portfolio, own funds requirements for generic market risk were calculated in accordance with the duration approach – in conformity with point 5 of Section II-B of Annex II to Bank of Portugal Notice nr. 8/2007 – and with the treatment of positions included in Section I of the same Annex.

- Capital instruments: for this portfolio, own funds requirements for generic market risk were calculated in accordance with the methodology described in Section III-B and II-C of Part 2 of Annex II to Bank of Portugal Notice nr. 8/2007.

In addition, for the purposes of application of the internal models approach, the Group applies a VaR (Value-at-risk) methodology to measure generic market risk – including interest rate risk, foreign exchange risk and equity risk – for all subportfolios covered by the previously mentioned internal modelling authorisation. VaR is calculated based on the parametric approximation defined in the methodology developed by RiskMetrics, considering a 10-working day time horizon and a significance level of 99%.

Table XXXVII presents the main Generic Risk VaR statistics, computed according to the internal models approved by Bank of Portugal, exclusively for the group of entities managed from Portugal, in 2011 and 2010:

TABLE XXXVII – HISTORICAL RECORD OF GENERIC RISK IN THE TRADING BOOK (PORTUGAL)

Thousand euros

	'11	'10
Maximum	13,021	26,275
Average	2,984	7,019
Minimum	1,405	2,100
Amount on December, 31	5,032	12,494

Note: VaR 10 days with 99% unilateral confidence level.

Own funds requirements for specific market risk continued to be calculated in accordance with the standardised approach, including those of the subtrading books regarding which Bank of Portugal authorised the use of the internal models approach to calculate the generic market risk, as previously mentioned.

These requirements were determined, for the total positions of the Group's trading book, pursuant to Sections II-A or III-A of Part 2 of Annex II to Bank of Portugal Notice nr. 8/2007, according to the type of financial instruments in question (debt instruments or capital instruments, respectively).

10.2. STRESS TESTS ON THE TRADING BOOK

Besides calculating the VaR, aiming to identify the concentration of risks not captured by that metric and to assess other possible losses, the Group continually tests a wide set of stress scenarios on the trading book, analysing the results of those stress tests.

Table XXXVIII summarises the results of these tests on the Group's global trading book on 31 December 2011, indicating that its exposure to the various risk factors is limited and that the main risk is the depreciation of foreign currencies *vs.* the Euro, especially the Polish zloty and Romanian leu.

TABLE XXXVIII – STRESS TESTS OVER THE TRADING BOOK

Thousand euros

Tested scenarios	Negative results scenarios	Result
Parallel shift of the yield curve by +/- 100 b.p.	-100 b.p.	-2,879
Change in the scope of the yield curve (for maturities from 2 to 10 years) by +/- 25 b.p.	-25 b.p.	-77
4 possible combinations of the pevious 2 scenarios	-100 b.p. e -25 b.p.	-2,956
	-100 b.p. e +25 b.p.	-2,802
Variation in the main stock market indices by +/- 30%	-30%	-1,283
Variation in foreign exchange rates (against the euro) by +/- 10% for the main currencies and by +/- 25% for other currencies	-10%, -25%	-11,189
Variation in the swap spreads by +/- 20 b.p.	+20 b.p.	-139

10.3. BACK-TESTING THE INTERNAL MODELS APPROACH

The Group carries out back-tests of the results of the internal models approach, in relation to the theoretical results obtained by the target portfolio of the calculation, unchanged between two consecutive working days and revaluated at market prices of the second day. In parallel, the Group has a complementary process to verify the results of the model in relation to the actual results obtained (currently undergoing validation), excluding the effects of operations carried out via intermediation (at different market prices).

The evaluation of financial assets and liabilities included in the trading book is carried out by a Middle--Office unit, which is totally independent from the negotiation of those assets, and the control of the evaluations is assured by the Model Control Unit, part of the Group's Risk Office. The evaluation and control procedures are documented in the Group's internal regulations. The segregation between position-taking and position-evaluation duties is also contemplated at the level of information technology systems that intervene in the entire process involving the management, evaluation, settlement and accounting of operations.

With regards to verification of the results of the approach carried out *a posteriori*, the number of excesses recorded between 2009 and 2011, relative to the total trading book of companies managed from Portugal, for which Bank of Portugal approved the use of the internal models approach to compute generic risk capital requirements, is shown in Table XXXIX.

TABLE XXXIX – BACKTESTING OF THE VAR APPROACH APPLIED IN MARKET RISK CALCULATION

Year	Number of excesses occurred
2009	0
2010	3
2011	1

Note: The model used for the purpose of verification *a posteriori* is focused on the excesses occurred in both sides of the distribution and the expected number of excesses – according to the significance level applied – is five per year (2% x 250 annual observations).

The accuracy of the model to estimate generic risk is monitored on a daily basis by the back-testing process that compares the risk values computed on a given day (VaR) with the (theoretical) result of applying the following day's market rates to those exposures.

In the following graphic, one may see this hypothetical back-testing, for the trading book centrally managed from Portugal in 2011.

As mentioned previously, in 2011 we were only able to find one excess in the hypothetical results of the approach, confirming its adequacy to evaluate the risks in question.

The VaR increases at the end of 2011 were caused by greater public debt retention – following the policy to increase assets eligible for discount at central banks – with the extraordinary increase of the price volatility of such assets.

In addition, Table XL presents in great detail the results of the daily back-testing to the trading book managed from Portugal in 2011. Here is an excess when the value (in module) of the theoretical result is higher than the VaR:

VaR (TRADING BOOK) – HYPOTHETICAL BACKTESTING

Thousand euros

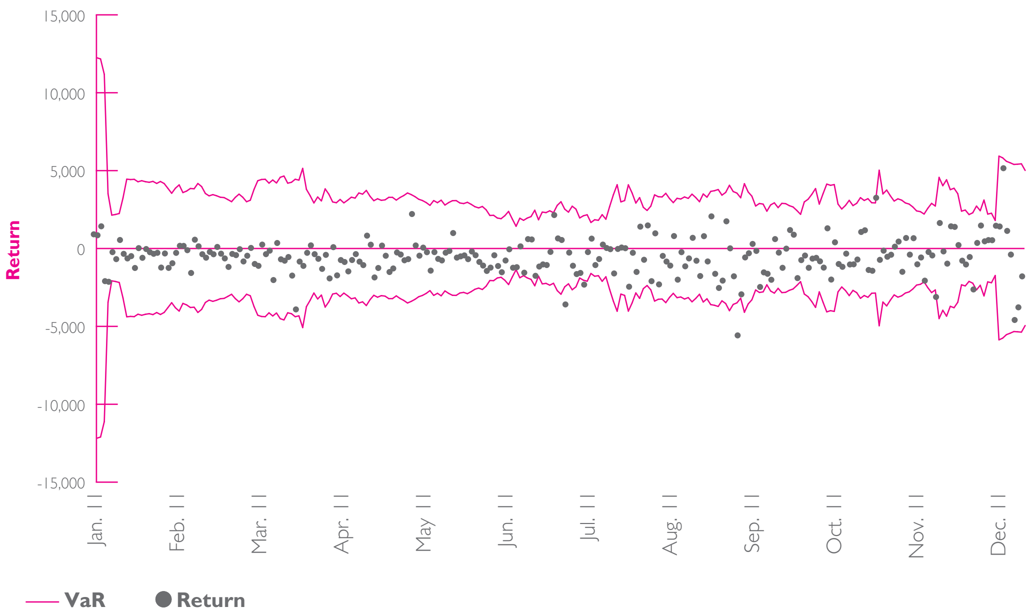


TABLE XL – HYPOTHETICAL BACKTEST OF THE TRADING BOOK (PORTUGAL) – 2011

Thousand euros

Date	VaR	Hypothetical results
03-01-2011	12,174	1,066
04-01-2011	12,299	2,018
05-01-2011	11,215	2,480
06-01-2011	3,445	-1,103
07-01-2011	2,273	-1,551
10-01-2011	2,178	288
11-01-2011	2,260	-577
12-01-2011	3,136	958
13-01-2011	3,776	116
14-01-2011	3,812	-483
17-01-2011	4,055	-606
18-01-2011	3,957	-898
19-01-2011	3,760	419
20-01-2011	3,953	-108
21-01-2011	3,658	207
24-01-2011	3,584	170
25-01-2011	3,444	-157
26-01-2011	3,634	170
27-01-2011	3,573	-862
28-01-2011	3,360	-146
31-01-2011	3,346	-1,404
01-02-2011	3,605	-471
02-02-2011	3,744	211
03-02-2011	3,406	827
04-02-2011	3,158	260
07-02-2011	3,418	141
08-02-2011	3,410	-1,470
09-02-2011	3,501	922
10-02-2011	3,155	235
11-02-2011	2,861	-15
14-02-2011	2,743	-334
15-02-2011	2,719	244
16-02-2011	2,743	251
17-02-2011	2,673	491
18-02-2011	2,708	-2
21-02-2011	2,623	-513
22-02-2011	2,509	-1,028
23-02-2011	2,582	8
24-02-2011	2,925	79
25-02-2011	2,826	73
28-02-2011	2,566	-325
01-03-2011	2,763	-302
02-03-2011	3,004	257
03-03-2011	3,920	-707
04-03-2011	3,977	-775
07-03-2011	4,021	571
09-03-2011	3,478	25
10-03-2011	3,635	79
11-03-2011	3,842	-1,470
14-03-2011	4,199	762
15-03-2011	4,230	-104
16-03-2011	3,816	-453
17-03-2011	3,694	-301
18-03-2011	3,732	-1,446
21-03-2011	3,707	364
22-03-2011	4,315	-579
23-03-2011	3,524	-436
24-03-2011	2,975	256
25-03-2011	2,118	425
28-03-2011	2,552	93
29-03-2011	2,088	-398
30-03-2011	2,902	-711
31-03-2011	2,773	-88
01-04-2011	2,167	-971
04-04-2011	2,118	517
05-04-2011	2,127	-784
06-04-2011	2,072	-195
07-04-2011	2,183	-516
08-04-2011	2,083	-707
11-04-2011	2,046	-131
12-04-2011	2,062	-270
13-04-2011	1,990	444
14-04-2011	2,070	-153
15-04-2011	1,924	898
18-04-2011	1,734	80
19-04-2011	1,799	-1,198
20-04-2011	1,827	-907
21-04-2011	1,806	47
26-04-2011	1,745	-296
27-04-2011	1,861	-799
28-04-2011	1,983	-782
29-04-2011	2,105	117
02-05-2011	2,368	120
03-05-2011	2,463	-623
04-05-2011	2,317	-151
05-05-2011	2,168	1,695
06-05-2011	2,161	699
09-05-2011	2,088	-90
10-05-2011	2,202	484
11-05-2011	1,900	861
12-05-2011	2,297	-726
13-05-2011	1,776	325
16-05-2011	1,942	-97
17-05-2011	1,843	-221
18-05-2011	1,904	-60
19-05-2011	2,086	197
20-05-2011	1,882	1,114
23-05-2011	1,769	-167
24-05-2011	1,739	-126
25-05-2011	1,730	-139
26-05-2011	1,782	-392
27-05-2011	1,553	207
30-05-2011	1,553	-74
31-05-2011	1,429	-285
01-06-2011	1,405	11
02-06-2011	1,504	-763
03-06-2011	1,583	-947
06-06-2011	1,617	203
07-06-2011	1,646	-281
08-06-2011	1,825	-1,207
09-06-2011	1,727	374
14-06-2011	1,813	337
15-06-2011	1,407	-633
16-06-2011	1,967	-816
17-06-2011	1,744	445
20-06-2011	1,914	-1,359
21-06-2011	1,854	212
22-06-2011	2,279	919
24-06-2011	1,724	-1,488
27-06-2011	2,200	-651
28-06-2011	2,170	-872
29-06-2011	2,314	-702
30-06-2011	2,078	69
01-07-2011	2,551	2,464
04-07-2011	2,978	1,138
05-07-2011	2,452	1,091
06-07-2011	**2,161**	**-3,156 (1)**
07-07-2011	2,643	-758
08-07-2011	2,173	140
11-07-2011	1,729	241
12-07-2011	1,924	-855
13-07-2011	2,012	-1,289
14-07-2011	1,490	-479
15-07-2011	1,408	965
18-07-2011	1,576	-842

(1) Increase of up to 422 bp of Portuguese bond rates

continues

continuation

Thousand euros

Date	VaR	Hypothetical results
19-07-2011	2,129	-279
20-07-2011	2,121	1,101
21-07-2011	2,839	1,066
22-07-2011	3,775	130
25-07-2011	4,364	-1,203
26-07-2011	3,491	200
27-07-2011	2,933	378
28-07-2011	4,259	249
29-07-2011	3,584	-1,652
01-08-2011	2,813	248
02-08-2011	3,335	-1,040
03-08-2011	3,103	1,794
04-08-2011	2,609	-445
05-08-2011	3,189	1,760
08-08-2011	3,381	-1,523
09-08-2011	3,363	1,562
10-08-2011	3,503	-2,465
11-08-2011	3,832	444
12-08-2011	3,833	-372
16-08-2011	3,618	-928
17-08-2011	3,642	559
18-08-2011	3,342	-2,113
19-08-2011	3,598	6
22-08-2011	3,816	-614
23-08-2011	3,481	-242
24-08-2011	3,345	951
25-08-2011	3,023	-469
26-08-2011	3,516	-1,464
29-08-2011	3,304	1,325
30-08-2011	3,766	-934
31-08-2011	3,584	2,007
01-09-2011	3,854	-1,035
02-09-2011	3,491	-2,062
05-09-2011	3,448	-1,821
06-09-2011	3,728	825
07-09-2011	4,071	459
08-09-2011	3,858	-1,319
09-09-2011	3,279	-2,936
12-09-2011	3,119	-866
13-09-2011	3,520	246
14-09-2011	3,023	270
15-09-2011	2,234	621
16-09-2011	2,636	502
19-09-2011	2,629	-1,936
20-09-2011	2,398	-1,537
21-09-2011	2,841	-730
22-09-2011	2,984	-1,346
23-09-2011	2,621	1,051
26-09-2011	2,869	-154
27-09-2011	2,778	-718
28-09-2011	2,678	486
29-09-2011	2,539	1,540
30-09-2011	2,615	1,174
03-10-2011	2,356	-1,417
04-10-2011	2,718	-968
06-10-2011	2,473	28
07-10-2011	2,398	-336
10-10-2011	2,657	-1
11-10-2011	2,590	-96
12-10-2011	2,940	-402
13-10-2011	2,975	-1,132
14-10-2011	2,878	1,881
17-10-2011	3,339	-1,681
18-10-2011	2,370	814
19-10-2011	1,967	-815
20-10-2011	2,391	-791
21-10-2011	2,888	-46
24-10-2011	2,574	-597
25-10-2011	2,498	-840
26-10-2011	2,554	-265
27-10-2011	2,850	1,406
28-10-2011	2,908	1,409
31-10-2011	2,700	-1,133
02-11-2011	2,718	-1,121
03-11-2011	4,595	3,568
04-11-2011	2,909	-213
07-11-2011	3,139	-30
08-11-2011	2,936	8
09-11-2011	2,711	-359
10-11-2011	2,979	314
11-11-2011	2,881	833
14-11-2011	2,784	-973
15-11-2011	2,559	837
16-11-2011	2,516	-231
17-11-2011	2,338	994
18-11-2011	2,228	-601
21-11-2011	2,132	-263
22-11-2011	2,301	-1,594
23-11-2011	2,622	-588
24-11-2011	2,410	-335
25-11-2011	4,559	-3,244
28-11-2011	3,999	1,673
29-11-2011	4,356	265
30-11-2011	3,820	-686
02-12-2011	3,787	1,559
05-12-2011	3,368	1,672
06-12-2011	2,239	548
07-12-2011	2,352	-458
09-12-2011	2,152	-528
12-12-2011	2,227	-377
13-12-2011	2,687	-2,038
14-12-2011	2,426	705
15-12-2011	3,128	1,981
16-12-2011	2,331	691
19-12-2011	2,382	812
20-12-2011	1,693	869
21-12-2011	5,929	1,616
22-12-2011	5,813	1,786
26-12-2011	5,492	1,468
27-12-2011	5,366	-89
28-12-2011	5,374	-4,270
29-12-2011	5,429	-3,593
30-12-2011	5,032	-1,363

Note: VaR 10 days with 99% unilateral confidence level, hypothetical result obtained through a validation procedure a posteriori of the VaR model (dayly result scaled for 10 days by the square root of the time).

11. OWN FUNDS REQUIREMENTS FOR FOREIGN EXCHANGE AND COMMODITIES RISKS

As at 31 December 2011 and 2010, own funds requirements for exchange rate risks were determined by using the internal models approach, authorised by Bank of Portugal for exposures managed centrally from Portugal, simultaneously and in the same conditions as for the generic market risk of the trading book, previously mentioned, having been calculated in accordance with the standardised approach for all other exposures.

Own funds requirements for commodities risk, regarding the Group's banking and trading books, were calculated in accordance with the standardised approach for this risk type, at the end of 2011 and of 2010.

The market risk for the global exchange rate positions of Group entities subject to the use of the standardised approach, for the purposes of calculating own funds requirements, was evaluated in accordance with Annex V of Bank of Portugal Notice nr. 8/2007.

Besides, the Group calculated own funds requirements for market risk in connection with the portfolio positions sensitive to commodities risk in accordance with the Maturity Ladder approach, pursuant to paragraphs 2 to 7 of Part 3 of Annex VI of Bank of Portugal Notice nr. 8/2007.

Own funds requirements for exchange rate risks and commodities risks calculated by the Group, with reference to 31 December 2011 and 2010, are shown in Table XLI.

TABLE XLI – OWN FUNDS REQUIREMENTS FOR EXCHANGE RATE AND COMMODITIES RISKS

Thousand euros

	31-12-2011	31-12-2010
1. EXCHANGE RATE RISK (1.1.+1.2.)	**4,971**	**9,040**
1.1. Standardised approach	0	2
1.2. Internal models approach	4,971	9,038
2. COMMODITIES RISK (=∑(2.1.A 2.2.))	**4**	**10**
2.1. Standardised approach (=∑(2.1.1. a 2.1.4.))	4	10
2.2.1. Maturity ladder approach or simplified approach	4	10
2.2.2. Futures and commodity options traded on the stock-exchange		
2.2.3. Futures and commodity options traded in OTC markets		
2.2.4. Other		
2.2. Internal models approach		

Note: The own funds requirements shown in this table correspond to those in items 2.3.1.3. and 2.3.1.4., and, partly, in item 2.3.2. of Table VIII – Own funds requirements.

12. OWN FUNDS REQUIREMENTS FOR OPERATIONAL RISK

As at 31 December 2010 and 2011, the Group calculated own funds requirements for operational risk in accordance with the standard approach, pursuant to the authorization granted by Bank of Portugal for this purpose, effective as at 31 March 2009.

The computation of own funds requirements results from the application of a set of weights to the gross income that are set apart based on the activity segments into which gross income breaks down, according to Bank of Portugal's definitions.

The framework for this calculation was provided by Bank of Portugal Notice nr. 9/2007 and Instruction nr. 23/2007, and also by additional clarifications provided by Bank of Portugal, namely with respect to the accounting items considered in the determination of the gross income.

12.1. GROSS INCOME

The gross income results from the sum of Net interest income, Dividends received, with the exception of income from financial assets with an "almost capital" nature – shareholders' advances –, Net commissions, Profits and losses arising on financial transactions associated to trading operations and Other operating income. From these last items, the following are excluded: those that result from the sale of shareholdings and other assets, those with reference to discontinued operations and those resulting from negative consolidation differences. The Interest in arrears recovered and expenses, which, on a consolidated basis, are recorded in the reversions of impairment losses item, is also added to the gross income.

Yet, neither the compensations received as a result of insurance contracts nor revenues from the insurance activity are added to the value of the gross income. Finally, other operating expenses cannot contribute to the reduction of the gross income value, with exception of the costs resulting from outsourcing provided by external entities to the Group or by entities that are not subject to the provisions of Decree-Law nr. 104/2007, of April 3.

The values thus obtained for the previously identified items are adjusted by the non-current amounts of the activity that are eventually still included in the gross income.

12.2. OWN FUNDS REQUIREMENTS FOR OPERATIONAL RISK – STANDARD APPROACH

Own funds requirements calculated in accordance with the standard approach are determined by the average, over the last three years, of the sum of the risk-weighted gross income, calculated each year, relative to the activity segments and the risk weights that are defined in Part II of Annex I of Bank of Portugal Notice nr. 9/2007, whose scope corresponds in general terms to the following:

- Corporate Finance (subject to an 18% weight): underwriting activities and related services, investment analysis and other financial consulting activities;
- Trading and Sales (subject to an 18% weight): dealing on own account and intermediation activities in monetary and financial instrument markets;
- Retail Brokerage (subject to a 12% weight): placement of financial instruments without a firm underwriting and intermediation of orders relative to financial instruments, on behalf of private Customers and small businesses;

- Commercial Banking (subject to a 15% weight): taking deposits and credit and guarantee concession and undertaking other commitments to companies;

- Retail Banking (subject to a 12% weight): taking deposits and credit and guarantee concession and undertaking other commitments to individuals and small businesses;

- Payment and Settlement (subject to an 18% weight): payment operations and issue and management of means of payment activities;

- Agency Services (subject to a 15% weight): services associated to the safekeeping and administration of financial instruments;

- Asset Management (subject to a 12% weight): investment fund and individual portfolio management activities.

The risk-weighted gross income for a given segment may, in a specific year, be negative (counterbalancing positive weighted indicators associated with other segments). However, if in that year the sum of the relevant risk-weighted indicators of all segments of activity is negative, the value to consider in the numerator will be zero, and that result must, likewise, be reflected in the denominator.

The gross income by segments of activity, on a consolidated basis, resulted from the aggregation of the values obtained for the perimeters of Portugal and of each one of the Group's foreign operations, determined based on criteria that are homogeneous and common to all geographies.

The gross income by segments of activity for Portugal, Poland and Greece was calculated based on their financial statements, complemented with information collected from their management information systems, whereas for the other foreign operations, accounting information was used. With respect to Poland and Greece, the entire calculation process was conducted locally, taking into consideration that these are operations with a diversified activity which require the contribution of own management information systems. The remaining foreign subsidiaries, which have a standardised activity concentrated in the Retail segment, were treated centrally.

The segmentation of the gross income of activity in Portugal, Poland and Greece based itself on information by business segments, produced for the purposes of internal management and market disclosure. In a first phase, the business segments and operational risk segments that present the greatest perimeter similarities were identified. Subsequently the necessary transfers between the various segments, of zero sum, were carried out, to achieve a perimeter in line with what is required for the purposes of operational risk, in each segment.

In addition, the calculation of the gross income by activity segments for the Group's foreign operations, excluding Poland and Greece, was based on the financial statements of each subsidiary, as previously mentioned. Bearing in mind that these subsidiaries develop a retail activity, they were allocated, in a first phase, to the Retail Banking segment, with exception of the values recorded in the Profits and losses arising on financial transactions item, which, by their nature, are immediately placed in the Trading and Sales segment, and subsequently the transfers for achieving a segmentation in line with the defined perimeter for the gross income are carried out. This calculation is carried out for the operations of Romania, Switzerland, Angola, Mozambique and of Millennium bcp Bank & Trust, with registered office in the Cayman Islands, in addition to ActivoBank, which, although it develops its activity in Portugal, verifies the same assumptions and, thus, follows the same methodology. This estimate also encompassed the operations in Turkey and in the US until 2010, when they were sold.

Having concluded these procedures and the consolidation of the Group's activities, the segmented gross income was obtained in conformity with the requirements defined for the purposes of operational risk, to which the calculation methodology and the previously mentioned weights were applied, and the respective capital requirements were obtained.

As at 31 December 2011, the Group reported 318,519 thousand euros of own funds requirements for operational risk, having reported 342,032 thousand euros as at 31 December 2010, as per Table XLII.

TABLE XLII – GROSS INCOME FOR OPERATIONAL RISK

Thousand euros

Segments	Gross income 2011			Memorandum items: Advanced measurement method – reduction of own funds requirements (2011)	
	'09	'10	'11	Expected losses captured in business practices	Risk transfer mechanisms
1. BASIC INDICATOR APPROACH					
2. STANDARDISED APPROACH	2,517,387	2,453,972	2,346,303		
Corporate finance	30,064	30,009	28,551		
Trading and sales	123,054	9,889	-370,740		
Retail brokerage	25,815	23,218	25,273		
Commercial banking	637,563	659,737	767,678		
Retail banking	1,529,201	1,577,463	1,718,668		
Payment and settlement	122,113	122,876	122,870		
Agency services	30,752	15,068	33,055		
Asset management	18,825	15,711	20,949		
ADVANCED MEASUREMENT APPROACH (a)					

TABLE XLII – GROSS INCOME FOR OPERATIONAL RISK

Thousand euros

Segments	Gross income 2010			Memorandum items: Advanced measurement method – reduction of own funds requirements (2010)	
	'08	'09	'10	Expected losses captured in business practices	Risk transfer mechanisms
1. BASIC INDICATOR APPROACH					
2. STANDARDISED APPROACH	2,776,289	2,517,387	2,453,972		
Corporate finance	38,219	30,064	30,009		
Trading and sales	43,949	123,054	9,889		
Retail brokerage	27,300	25,815	23,218		
Commercial banking	590,088	637,563	659,737		
Retail banking	1,909,478	1,529,201	1,577,463		
Payment and settlement	99,421	122,113	122,876		
Agency services	40,179	30,752	15,068		
Asset management	27,656	18,825	15,711		
ADVANCED MEASUREMENT APPROACH (a)					

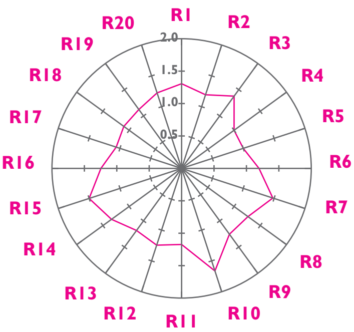
(a) Information on the relevant indicator for activities subject to the Advanced measurement approach.

12.3. OPERATIONAL RISK MANAGEMENT

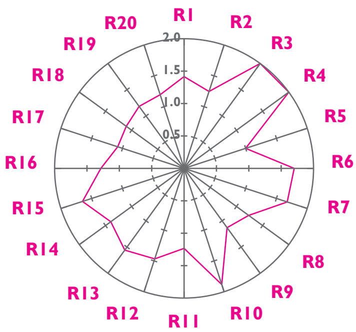
Operational risk management is based on an end-to-end process structure, defined for all the Group's subsidiary companies, and the responsibility for their management was given to process owners, who must: characterize operating losses captured within their processes; carry out the Risk Self-Assessment (RSA); identify and implement the appropriate measures to mitigate exposures, contributing to reinforce internal control and monitor key risk indicators (KRI).

The graphs below show the results of the latest RSA made in Portugal, Poland, Greece, Romania and Mozambique on the average score of each of the 20 risk sub-types defined for operational risk within the set of processes assessed. The outside border represents a 2.5 score on a scale of 1 (less serious) to 5 (most serious).

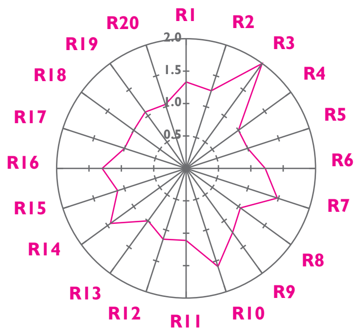
PORTUGAL



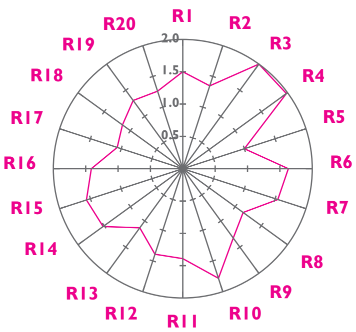
POLAND



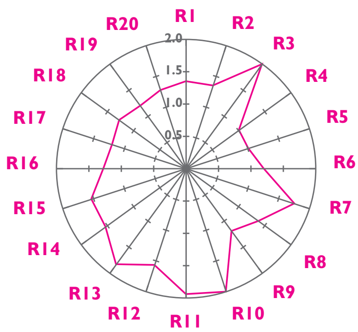
GREECE



ROMANIA



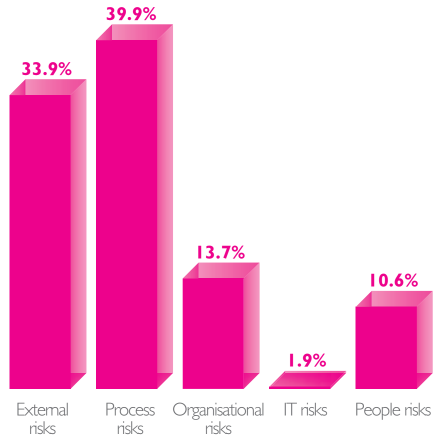
MOZAMBIQUE



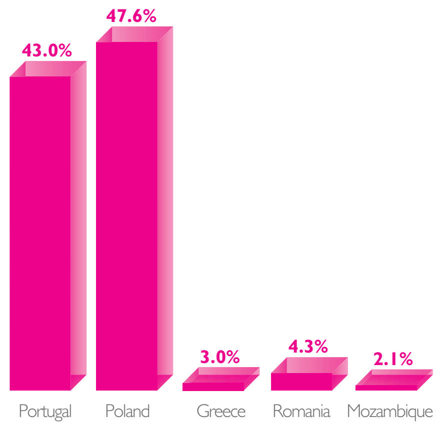
R1 Internal fraud and theft
R2 Execution of unauthorised transactions
R3 Employee relations
R4 Breach of work health & safety regulations
R5 Discrimination over Employees
R6 Loss of key Staff
R7 Hardware and software problems
R8 Problems related to telecom services & lines
R9 Systems security
R10 Transaction, capture, execution & maintenance
R11 Monitoring and reporting errors
R12 Customer related errors
R13 Product flaws errors
R14 External fraud and theft
R15 Property and disasters risks
R16 Regulatory and tax risks
R17 Inappropriate market and business practices
R18 Project risks
R19 Outsourcing related problems
R20 Other third parties' related problems

The operating losses identified are connected with the respective process and registered in the Group's operational risk application. They are duly considered and assessed according to their nature and, when applicable, measures are taken to mitigate them.

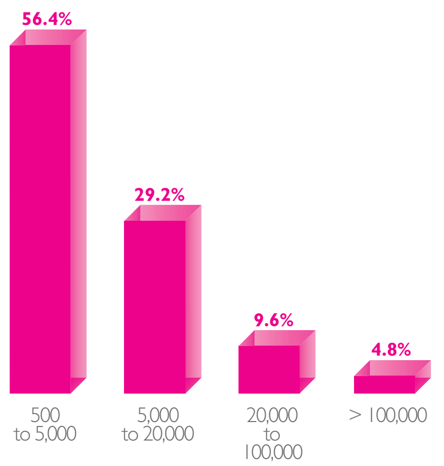
LOSS AMOUNTS DISTRIBUTION
By type of event



LOSS AMOUNTS DISTRIBUTION
By country



LOSS AMOUNTS DISTRIBUTION
By amount range
Euros



The following graphs feature the profile of accrued operating losses until 31 December 2011.

A set of KRI was identified and implemented within the Group's various operations to monitor the main procedures' risks. These KRI are management instruments represented by metrics that aim to identify changes in risk profiles and in control effectiveness, so as to enable preventive measures and avoid turning potential risk situations into actual losses.

The information on the KRI identified is consolidated in a KRI Library to share the information with the subsidiary companies, and it presently includes over four hundred indicators.

At the same time, the Group continued to strengthen and perfect its business continuity management during the 2011 financial year, aiming to ensure continuity in the execution of the main activities – business or business support – in case of a catastrophe or significant contingency.

In the Group, this matter is handled in two ways, different but complementary:

- The Disaster Recovery Plan, for communication systems and infra--structures; and
- The Business Continuity Plan, for people, premises and equipment required for the minimum support of selected processes, deemed critical.

For example, in Portugal there are 36 critical processes encompassed by the Business Continuity Plan involving 62 structure units, and the management of this specific operational risk area is designed, promoted and coordinated by a specific structure unit, across the Group: the Business Continuity Unit.

In addition, the Group maintains an insurance contract policy as an instrument to mitigate potential financial impacts of operational risks, by transferring, partially or in full, the risks pertaining to assets, people or liability before third parties.

The proposals for new insurances are submitted by the process owners, within the scope of their operational risk management powers regarding their processes, or presented by the heads of areas or organic units, and are analysed by the Risk Commission and decided on by the EC. Within the scope of insurance contracts in Portugal, the specialised technical and commercial functions involved are attributed to the Insurance Management Unit (IMU), a unit that encompasses all the Group's entities operating in Portugal. The IMU shares information with the Risk Office, aiming to strengthen insurance coverage and the quality of the operating losses database.

13. INTEREST RATE RISK IN THE BANKING BOOK

Evaluation of the interest-rate risk originated by the banking portfolio is performed via a risk-sensitivity analysis process carried out every month involving all operations included in the Group's consolidated perimeter, and reflects the potential loss that can be recorded as a result of adverse changes to interest rates.

The banking book includes all the positions not allocated to the trading book, namely the positions resulting from institutional funding operations and in monetary markets, as well as commercial and structural operations and investment portfolio securities.

The market interest rates variation has impact on the Group's financial margin, both in short-term and in medium/long-term. The main risk factors are the repricing mismatch of the trading positions (repricing risk) and the yield curve risk. In addition – though with less impact – there is the risk of having unequal variations in different indexes with the same repricing term (basis risk).

So as to identify the exposure of the Group's banking book to these risks, the monitoring of the interest rate risk takes into consideration the financial characteristics of the contracts available in the information systems to project the respective expected cash flows, in accordance with repricing dates, as well as the calculation of the impact on the Group's economic value resulting from several scenarios involving changes in market interest rate curves.

The risk positions of the commercial and structural areas not specifically hedged on the market are transferred, through in-house operations, to the market areas and, from then on, are considered a part of the respective portfolios. As such, they are evaluated daily based on the VaR methodology.

The fundamental assumptions used in this analysis are documented in internal regulations and consist, essentially, in establishing interest rate refixing maturities (for items regarding which there is no defined repricing date) or understanding expected early repayment behaviour.

For those items for which there are no defined repricing dates, the most adequate repricing periods for each case, considering the Bank's structure and practices, are applied, as follows:

- Nostro and Vostro Accounts: assumption of repricing in 1 month;
- Demand deposits at Central Banks: assumption of repricing in 1 month;
- Roll-over credit (current accounts, credit cards and overdrafts): assumption of 60% repricing in 1 month, 30% in 3 months and 10% in 6 months;
- Non-interest bearing demand deposits and other deposits: assumption of 30% repricing in 1 month, 30% in 3 months and 40% in 1 year;
- Interest earning demand deposits: assumption of 50% repricing in 1 month, 40% in 3 months and 10% in 6 months.

Regarding the expected behaviour of early repayment, certain assumptions are adopted in the portfolios in which they result in significant impacts at the level of analysed risk measures, namely in fixed interest rate loan portfolios. The assumptions are approved by the Risk Committee and are based on the fixed pre-payment percentages verified in the last year for each relevant portfolio or on dynamic models based on the interest rate differential comparison between the present moment and the moment in which the loan was granted.

Stress tests are carried out for the banking book by applying standard shocks of parallel shifts to the yield curve. Stress tests are also carried out in different macroeconomic scenarios, contemplating several variables of analysis and total Group positions in which the interest rate risk of the banking book is a relevant component within the scope of analysis.

Stress tests are carried out every six months, with the objective of assessing the impact of extreme situations that cannot be measured through VaR and BPV (Basis Point Value – analysis of positive and negative impacts as a result of interest rate variations) analyses.

Macroeconomic scenarios are designed based on the economic situation and the impact that the main risk analysis variables may suffer, namely, prices of transacted assets, interest rates, exchange rates, default probabilities and the capability of recovering non-performing loans.

Table XLIII illustrates the impacts on the shareholders' equity of the Group as at 31 December 2011 and 2010, in value and percentage, as a result of shocks of +200 and -200 basis points (b.p.) in interest rates.

TABLE XLIII – SENSITIVITY ANALYSIS TO THE INTEREST RATE RISK IN THE BANKING BOOK

Thousand euros

		31-12-2011	31-12-2010
Value	+200 b.p.	-134,732	-122,332
	-200 b.p.	215,831	217,167
% Shareholders' equity	+200 b.p.	3.2%	3.3%
	-200 b.p.	5.1%	5.9%

(1) Shareholders' equity excludes hybrid products accounted in equity but not eligible for Core Tier 1. The ratios of 31 December 2010 are proforma, considering the impacts of the change in accounting policy for recognition of actuarial deviations of the pension fund, that have been recorded against reserves since December 2011 (formerly the accounting policy followed the "corridor" method).

On 31 December 2011 and 2010, the range of shocks considered for the purposes of this analysis (parallel variations of interest rate curves of +/- 200 b.p.) reflects itself in the asymmetry of the impacts calculated as a consequence of the increase/decrease of interest rates in the economic value of the Group, which were influenced by the restriction of the non-existence of negative interest rates (since final rate levels, for some maturities, are under the variation considered in the scenarios) and by the different sensitivities of the short and long-term exposures. These differences in sensitivity mostly come from the interest rate risk in the investment portfolio that, at the end of 2011, was responsible for an impact of -246 million euros in the +200 b.p. scenario and of +258 million euros in the -200 b.p. scenario.

As at 31 December 2011 and 2010, since interest sensitive assets had a smaller weight and term than interest sensitive liabilities, the effect of an interest rate increase scenario was positive, while the decrease scenario was negative.

2011 Market Discipline Report

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