2010

Market Discipline Report

M 25 YEARS

Millennium bcp

2010

Market Discipline Report

Millennium bcp

TABLE OF CONTENTS

5 Introduction

6 Regulatory calculation methodologies

7 1. Declaration of responsibility of the Executive Board of Directors

9 2. Scope

- 9 2.1. Identification of Banco Comercial Português, S.A.
- 9 2.2. Basis and Perimeters of consolidation for accounting and regulatory purposes
- 13 2.3. Eligibility and composition of the financial conglomerate

16 3. Risk management in BCP Group

- 16 3.1. Risk management principles
- 16 3.2. Risk Management Governance
- 18 3.3. Risk assessment
  - 18 3.3.1. Credit risk
  - 19 3.3.2. Market risk
  - 20 3.3.3. Operational risk
  - 21 3.3.4. Liquidity risk
  - 22 3.3.5. Pension fund risk
  - 22 3.3.6. Business and strategic risk

23 4. Capital adequacy

- 23 4.1. Components and main characteristics of the regulatory capital and capital requirements
- 25 4.2. Method of assessment of the adequacy of own funds at the level of the financial conglomerate
- 26 4.3. Own funds and capital adequacy on 31 December 2010 and 2009
- 31 4.4. Events with a material impact on capital and capital requirements in 2011
- 31 4.5. Internal capital adequacy assessment process (ICAAP)
  - 31 4.5.1. Economic capital calculation approaches and risk taking capacity
  - 33 4.5.2. Economic capital assessment

35 5. Credit Risk

- 35 5.1. Definitions and policies for the assessment of losses and provisioning
- 38 5.2. Management of concentration risk
- 39 5.3. Characterisation of the exposures
- 46 5.4. Own funds requirements for credit risk
  - 46 5.4.1. Framework of the approaches used
  - 46 5.4.2. IRB approach – parameters and general information
  - 48 5.4.3. IRB approach – Corporate risk class
  - 49 5.4.4. IRB approach – Retail portfolio risk class

55 6. Counterparty credit risk

58 7. Credit risk mitigation techniques

- 58 7.1. Eligibility and type of mitigation instruments
- 59 7.2. Protection levels
- 59 7.3. Collateral revaluation

63 8. Equity exposures in the banking book

65 9. Securitisation operations

- 65 9.1. Description of the activities and securitisation operations
- 73 9.2. Accounting policies of the BCP Group
- 74 9.3. Own funds requirements

77 10. Own funds requirements of the trading book

- 78 10.1. Computation methods
- 78 10.2. Stress tests on the trading book
- 79 10.3. Backtesting the internal models approach

83 11. Own funds requirements for foreign exchange and commodities risks

84 12. Own funds requirements for operational risk

- 84 12.1. Gross income
- 84 12.2. Own funds requirements for operational risk hedging – standardised approach
- 87 12.3. Operational risk management

89 13. Interest rate risk in the banking book

TABLES' INDEX

6 Table I – Capital requirements: calculation methods and scope of application

10 Table II – Consolidation methods and regulatory treatment

13 Table III – Composition of the financial conglomerate

17 Table IV – Risk management model

26 Table V – Summary of the main capital aggregates and ratios

28 Table VI – Own funds

29 Table VII – Tier I reconciliation

30 Table VIII – Capital requirements

31 Table IX – Capital adequacy

32 Table X – Models used to calculate economic capital

34 Table XI – Economic capital

37 Table XII – Impact of impairment and provision charges and recoveries on results

40 Table XIII – Exposures by risk class

41 Table XIV – Distribution of exposures by geographical areas

42 Table XV – Distribution of exposures by economic sector

44 Table XVI – Distribution of exposures by residual maturity (RM)

45 Table XVII – Breakdown of past due and impaired exposures

45 Table XVIII – Impairment, provisions and amortisations

47 Table XIX – Rating MasterScale

49 Table XX – Corporate rating models and systems

49 Table XXI – Retail portfolio rating models and systems

50 Table XXII – Own funds requirements for credit risk and counterparty credit risk

52 Table XXIII – Own funds requirements for credit risk and counterparty credit risk (IRB approach)

- **52** Table XXIII-A – Using own estimations of LGD and/or credit conversion factors
- **53** Table XXIII-B – Not using own estimations of LGD and/or credit conversion factors
- **53** Table XXIII-C – Specialised lending
- **54** Table XXIII-D – Equity positions

56 Table XXIV – Own funds requirements for counterparty credit risk (Standardised approach)

56 Table XXV – Own funds requirements for counterparty credit risk (IRB approach)

57 Table XXVI – Credit derivatives

60 Table XXVII – Credit risk mitigation techniques (Standardised approach)

61 Table XXVIII – Credit risk mitigation techniques (IRB approach)

- **61** Table XXVIII-A – Total exposures
- **61** Table XXVIII-B – Equity positions

62 Table XXIX – Concentration analysis: personal and funded credit protection

63 Table XXX – Equity exposures in the banking book

64 Table XXXI – Capital requirements for equity exposures

66 Table XXXII – Description of the securitisation operations

72 Table XXXIII – Main characteristics of the securitisation operations

75 Table XXXIV – Own funds requirements for securitisation operations (Standardised approach)

76 Table XXXV – Own funds requirements for securitisation operations (IRB approach)

77 Table XXXVI – Own funds requirements for the trading book

78 Table XXXVII – Historical record of generic risk in the trading book (Portugal)

79 Table XXXVIII – Stress tests over the trading book

79 Table XXXIX – Backtesting of the VaR approach applied in market risk calculation

81 Table XL – Hypothetical backtest of the trading book (Portugal) – 2010

83 Table XLI – Own funds requirements for exchange rate and commodities risks

86 Table XLII – Gross Income for operational risk

90 Table XLIII – Sensitivity analysis to the interest rate risk in the banking book

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

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

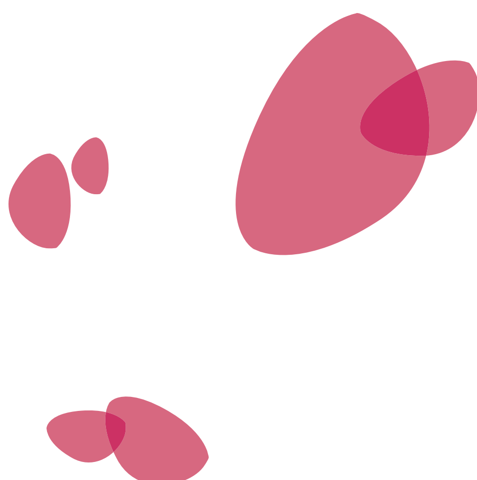
PD Probability of Default

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 "Market Discipline", is comprised within the requirements for the provision of information foreseen in Pillar III of the Basel II, complementing the 2010 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, the risks assumed and respective control and management processes and solvency.

This document complies with the information requirements detailed in the Notice of Bank of Portugal no. 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 Group, Bank of Portugal formally authorised the adoption of methodologies based on internal rating models (IRB – Internal Ratings Based) for the calculation of capital requirements for credit and counterparty risk, covering a substantial part of the risks from the activity in Portugal as from 31 December 2010.

This authorisation led to several changes on the calculation of capital requirements and own funds with reference to the year-end 2010, as in previous periods these calculations were performed in accordance with the standardised approach.

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 of 31 December 2010 and 2009 as well as of the respective geographical application scope.

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

	31-12-2010	31-12-2009
CREDIT RISK AND COUNTERPARTY CREDIT RISK		
Retail		
Loans secured by residential or commercial real estate	IRB Advanced	Standardised
Small companies	IRB Advanced	Standardised
Other loans	Standardised	Standardised
Companies	IRB Foundation (2)	Standardised
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.

It is important to highlight that the determination, either of own funds or of the capital requirements – in what concerns credit risk and the counterparty credit risk – is not directly comparable in the end of 2010 and of 2009, due to the alterations introduced in the calculation methodologies mentioned above.

1. DECLARATION OF RESPONSIBILITY OF THE EXECUTIVE BOARD OF DIRECTORS

I. This declaration of responsibility issued by the Executive Board of Directors ("EBD") of Banco Comercial Português, S.A., relates to the "Market Discipline" report, in compliance with the requirements described in the Notice of Bank of Portugal no. 10/2007.

II. Due to the publication on 3 April 2007 of the Decree-Laws no. 103/2007 and 104/2007 that transposed into the domestic legal framework the Directives no. 49/2006 (Capital Adequacy Directive) and no. 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 of capital requirements and risk management processes and systems, aiming at enhancing market discipline.

IV. Hence, the "Market Discipline" report prepared within the scope of Pillar III, is the third 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 request it, the Bank's External Auditor did not audit this report. However, the same includes information already presented in the audited consolidated financial statements, in the 2010 Annual Report that will be appraised and subject to the approval of the General Meeting of Shareholders that will take place on 18 April 2011.

VI. The report has the following chapters:

1. Declaration of responsibility of the Executive Board of Directors
2. Scope
3. Risk management in BCP 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 "Market Discipline" report, the Executive 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 reports relates to.

Porto Salvo, 6 April 2011

The Executive 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 Oporto, registered at the Oporto 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 is 4,694,600,000 euros, fully paid up and represented by 4,694,600,000 shares with the nominal value of 1 euro each. 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 private limited 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 REGULATORY PURPOSES

The information disclosed within the present document reflects the consolidation perimeter for regulatory purposes, under the terms of Bank of Portugal Notice no. 10/2007, which differs from the consolidation perimeter of the BCP Group accounts.

The main differences in the consolidation perimeter for regulatory purposes, relative to the consolidation perimeter of the BCP 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 no. 8/94, namely in relation to commercial, industrial, agricultural or insurance companies.

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

In addition, shareholdings excluded from consolidation for regulatory 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 no. 6/2010, as detailed in chapter 4. Capital adequacy.

There are no subsidiaries not included in the consolidation perimeter for regulatory purposes, whose own funds are lower than the required minimum level. Under the terms of article 4 of Decree-Law no. 104/2007, of April 3, there are also no subsidiaries included in the consolidation perimeter for regulatory purposes, regarding which the obligations relative to the minimum level of own funds and limits to large exposures are not applicable. On the other hand, 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 BCP Group as at December 31, 2010, 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 regulatory purposes.

TABLE II – CONSOLIDATION METHODS AND REGULATORY TREATMENT

	31 December 2010			
	Accounting Consolidation method	Head office	Economic activity	% control
Academia Millennium Atlântico	Equity method (1)	Angola	Education	33.0%
Baía de Luanda	Equity method (1)	Angola	Services	10.0%
Banca Millennium S.A.	Full	Romania	Banking	100.0%
Banco ActivoBank, S.A.	Full	Portugal	Banking	100.0%
Banco de Investimento Imobiliário, S.A.	Full	Portugal	Banking	100.0%
Banco Millennium Angola, S.A.	Full	Angola	Banking	52.7%
Bank Millennium, S.A.	Full	Poland	Banking	65.5%
Banpor Consulting S.R.L.	Full	Romania	Services	100.0%
Banque BCP (Luxembourg), S.A.	Equity method (2)	Luxembourg	Banking	19.9%
Banque BCP, S.A.S.	Equity method (2)	France	Banking	19.9%
Banque Privée BCP (Suisse) S.A.	Full	Switzerland	Banking	100.0%
BBG Finance BV	Full	Holland	Investment	100.0%
BCP Capital – Sociedade de Capital de Risco, S.A.	Full	Portugal	Venture Capital	100.0%
BCP Finance Bank, Ltd.	Full	Cayman Islands	Banking	100.0%
BCP Finance Company	Full	Cayman Islands	Investment	100.0%
BCP Holdings (USA), Inc.	Full	EUA	Holding Company	100.0%
BCP Investment, BV	Full	Holland	Holding Company	100.0%
BG Leasing S.A.	Equity method (1)	Poland	Leasing	74.0%
BII Finance Company	Full	Cayman Islands	Investment	100.0%
BII Internacional, S.G.P.S., Lda.	Full	Portugal	Holding Company	100.0%
BII Investimentos International, S.A.	Full	Luxembourg	Investment Fund Management	100.0%
BIM – Banco Internacional de Moçambique, S.A.	Full	Mozambique	Banking	66.7%
Bitalpart, B.V.	Full	Holland	Holding Company	100.0%
Caracas Financial Services, Limited	Full	Cayman Islands	Financial Services	100.0%
Caravela SME no. 1	Full	Ireland	Special Purpose Entity (SPE)	100.0%
Caravela SME no. 2	Full	Portugal	Special Purpose Entity (SPE)	100.0%
Constellation	Equity method (1)	Mozambique	Real Estate	20.0%
Fundo de Investimento Capital de Risco M Inovação	Full (3)	Portugal	Real Estate Investment Funds	60.7%
Fundo de Investimento 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 Imosotto Acumulação	Full (3)	Portugal	Real Estate Investment Funds	100.0%
Imábida – Imobiliária da Arrábida, S.A.	Full	Portugal	Real Estate Management	100.0%
Interfundos – Gestão de Fundos de Investimento Imobiliários, S.A.	Full	Portugal	Real Estate Investment Fund Management	100.0%

continues

continuation

	31 December 2010			
	Accounting Consolidation method	Head office	Economic activity	% control
Kion Mortgage Finance PLC I	Full	United Kingdom	Special Purpose Entity (SPE)	100.0%
Kion Mortgage Finance PLC II	Full	United Kingdom	Special Purpose Entity (SPE)	100.0%
Luanda Waterfront Corporation	Equity method (1)	Cayman Islands	Services	10.0%
Lubuskie Fabryki Mebli S.A.	Equity method (1)	Poland	Furniture Manufacturer	50.0%
Magellan Mortgages No.2 PLC	Full	Ireland	Special Purpose Entity (SPE)	100.0%
Magellan Mortgages No.3 PLC	Full	Ireland	Special Purpose Entity (SPE)	82.4%
Magellan Mortgages No.5	Full	Ireland	Special Purpose Entity (SPE)	100.0%
Magellan Mortgages No.6	Full	Ireland	Special Purpose Entity (SPE)	100.0%
MB Finance AB	Full	Sweden	Investment	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 Bank, Societé Anonyme	Full	Greece	Banking	100.0%
Millennium BCP – Escritório de Representações e Serviços, Ltda.	Full	Brazil	Financial Services	100.0%
Millennium bcp – Prestação de Serviços, A.C.E.	Full	Portugal	Services	91.5%
Millennium bcp Bank & Trust	Full	Cayman Islands	Banking	100.0%
Millennium bcp Imobiliária, S.A.	Full	Portugal	Real Estate Management	100.0%
Millennium bcp Gestão de Activos – Sociedade Gestora de Fundos de Investimento, S.A.	Full	Portugal	Investment Fund Management	100.0%
Millennium bcp Participações, S.G.P.S., Sociedade Unipessoal, Lda.	Full	Portugal	Holding Company	100.0%
Millennium BCP Teleserviços – Serviços de Comércio Electrónico, S.A.	Full	Portugal	Videotex Services	100.0%
Millennium Dom Maklerski S.A.	Full	Poland	Brokerage	100.0%
Millennium Fin, Vehicles, Vessels, Aplliances and Equipment Trading, Societé Anonyme	Full	Greece	Investment	100.0%
Millennium Lease Sp.z o.o.	Full	Poland	Leasing	100.0%
Millennium Leasing Sp. z o.o.	Full	Poland	Leasing	100.0%
Millennium Mutual Funds Management Company, Societé Anonyme	Full	Greece	Investment Fund Management	100.0%
Millennium Service Sp. z o.o	Full	Poland	Services	100.0%
Millennium Telecomunication Sp. z o.o.	Full	Poland	Brokerage	100.0%
Millennium TFI S.A.	Full	Poland	Investment Fund Management	100.0%
Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A.	Equity method (2)	Portugal	Holding Company	49.0%
Nanium, S.A.	Equity method (1)	Portugal	Electronic Equipments	41.1%
Nova Finance no. 4	Full	Ireland	Special Purpose Entity (SPE)	100.0%
Orchis Sp zo.o.	Full	Poland	Special Purpose Entity (SPE)	100.0%
Pomorskie Hurtowe Centrum Rolno – Spozywcze S.A.	Equity method (1)	Poland	Wholesale Business	38.4%
S&P Reinsurance Limited	Full (2)	Ireland	Life Reinsurance	100.0%
Servitrust – Trust Managment and Services S.A.	Full	Portugal	Trust Services	100.0%
SIBS – Sociedade Interbancária de Serviços, S.A.	Equity method (2)	Portugal	Banking Services	21.9%
SIM – Seguradora Internacional de Moçambique, S.A.R.L.	Full (2)	Mozambique	Insurance	89.9%
TBM Sp.z o.o.	Full	Poland	Advisory and services	100.0%
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 Renting	50.0%

(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 Regulation 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 BCP 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 operational 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 securitisation operations with assets from Group entities, based on the criteria presented in the chapter 9.2. Accounting policies of the BCP Group, related to the treatment of securitisation operations. Besides these SPE resulting from securitisation 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. Group does not consolidate the financial statements of these entities, except when the Group holds more than 50% of the participation units. However, the entities fully consolidated for accounting purposes are excluded from the consolidation for regulatory 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 2010, the BCP 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 operational policy. 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 regulatory 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.

Financial conglomerate 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 sub-sector 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.

BCP 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.

On the other hand, and notwithstanding the relative weight of the insurance subsector below the previously mentioned 10% level, the National Council of Financial Supervisors also considered that BCP 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 December 31, 2010, total net assets of the insurance subsector stood at 6,536 million euros, with a relative weight of 6.6%. 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, on the one hand, and by the insurance companies, namely SIM – Seguradora Internacional de Moçambique, S.A.R.L., S&P Reinsurance Limited – Irlanda and the subsidiaries of Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A., as shown in Table III.

TABLE III – COMPOSITION OF THE FINANCIAL CONGLOMERATE

	31 December 2010			
	Consolidation method	Head office	Economic activity	% control
BANKING ACTIVITY				
Academia Millennium Atlântico	Equity method	Angola	Education	33.0%
Baía de Luanda	Equity method	Angola	Services	10.0%
Banca Millennium S.A.	Full	Romania	Banking	100.0%
Banco ActivoBank, S.A.	Full	Portugal	Banking	100.0%
Banco de Investimento Imobiliário, S.A.	Full	Portugal	Banking	100.0%
Banco Millennium Angola, S.A.	Full	Angola	Banking	52.7%
Bank Millennium, S.A.	Full	Poland	Banking	65.5%
Banpor Consulting S.R.L.	Full	Romania	Services	100.0%
Banque BCP (Luxembourg), S.A.	Equity method	Luxembourg	Banking	19.9%
Banque BCP, S.A.S.	Equity method	France	Banking	19.9%
Banque Privée BCP (Suisse) S.A.	Full	Switzerland	Banking	100.0%
BBG Finance BV	Full	Holland	Investment	100.0%
BCP Capital – Sociedade de Capital de Risco, S.A.	Full	Portugal	Venture Capital	100.0%
BCP Finance Bank, Ltd.	Full	Cayman Islands	Banking	100.0%
BCP Finance Company	Full	Cayman Islands	Investment	100.0%

continues

continuation

	31 December 2010			
	Consolidation method	Head office	Economic activity	% control
BCP Holdings (USA), Inc.	Full	USA	Holding Company	100.0%
BCP Investment, BV	Full	Holland	Holding Company	100.0%
BG Leasing S.A.	Equity method	Poland	Leasing	74.0%
BII Finance Company	Full	Cayman Islands	Investment	100.0%
BII Internacional, S.G.P.S., Lda.	Full	Portugal	Holding Company	100.0%
BII Investimentos International, S.A.	Full	Luxembourg	Investment Fund Management	100.0%
BIM – Banco Internacional de Moçambique, S.A.	Full	Mozambique	Banking	66.7%
Bitalpart, B.V.	Full	Holland	Holding Company	100.0%
Caracas Financial Services, Limited	Full	Cayman Islands	Financial Services	100.0%
Caravela SME no.1	Full	Ireland	Special Purpose Entity (SPE)	100.0%
Caravela SME no. 2	Full	Portugal	Special Purpose Entity (SPE)	100.0%
Constellation	Equity method	Mozambique	Real Estate	20.0%
Imábida – Imobiliária da Arrábida, S.A.	Full	Portugal	Real Estate Management	100.0%
Interfundos – Gestão de Fundos de Investimento Imobiliários, S.A.	Full	Portugal	Real Estate Investment Fund Management	100.0%
Kion Mortgage Finance PLC I	Full	United Kingdom	Special Purpose Entity (SPE)	100.0%
Kion Mortgage Finance PLC II	Full	United Kingdom	Special Purpose Entity (SPE)	100.0%
Luanda Waterfront Corporation	Equity method	Cayman Islands	Services	10.0%
Lubuskie Fabryki Mebli S.A.	Equity method	Poland	Furniture Manufacturer	50.0%
Magellan Mortgages No.2 PLC	Full	Ireland	Special Purpose Entity (SPE)	100.0%
Magellan Mortgages No.3 PLC	Full	Ireland	Special Purpose Entity (SPE)	82.4%
Magellan Mortgages No.5	Full	Ireland	Special Purpose Entity (SPE)	100.0%
Magellan Mortgages No.6	Full	Ireland	Special Purpose Entity (SPE)	100.0%
MB Finance AB	Full	Sweden	Investment	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 Bank, Societé Anonyme	Full	Greece	Banking	100.0%
Millennium BCP – Escritório de Representações e Serviços, Ltda.	Full	Brazil	Financial Services	100.0%
Millennium bcp – Prestação de Serviços, A.C.E.	Full	Portugal	Services	91.5%
Millennium bcp Bank & Trust	Full	Cayman Islands	Banking	100.0%
Millennium bcp Imobiliária, S.A.	Full	Portugal	Real Estate Management	100.0%
Millennium bcp Gestão de Activos – Sociedade Gestora de Fundos de Investimento, S.A.	Full	Portugal	Investment Fund Management	100.0%
Millennium bcp Participações, S.G.P.S., Sociedade Unipessoal, Lda.	Full	Portugal	Holding Company	100.0%
Millennium BCP Teleserviços – Serviços de Comércio Electrónico, S.A.	Full	Portugal	Videotex Services	100.0%
Millennium Dom Maklerski S.A.	Full	Poland	Brokerage	100.0%
Millennium Fin, Vehicles, Vessels, Apliances and Equipment Trading, Societé Anonyme	Full	Greece	Investment	100.0%
Millennium Lease Sp.z o.o.	Full	Poland	Leasing	100.0%
Millennium Leasing Sp. z o.o.	Full	Poland	Leasing	100.0%

continues

continuation

	31 December 2010			
	Consolidation method	Head office	Economic activity	% control
Millennium Mutual Funds Management Company, Societé Anonyme	Full	Greece	Investment Fund Management	100.0%
Millennium Service Sp. z o.o	Full	Poland	Services	100.0%
Millennium Telecomunication Sp. z o.o.	Full	Poland	Brokerage	100.0%
Millennium TFI S.A.	Full	Poland	Investment Fund Management	100.0%
Nanium, S.A.	Equity method	Portugal	Electronic Equipments	41.1%
Nova Finance no. 4	Full	Ireland	Special Purpose Entity (SPE)	100.0%
Orchis Sp zo.o.	Full	Poland	Special Purpose Entity (SPE)	100.0%
Pomorskie Hurtowe Centrum Rolno – Spozywcze S.A.	Equity method	Poland	Wholesale Business	38.4%
Servitrust – Trust Managment and Services S.A.	Full	Portugal	Trust Services	100.0%
SIBS – Sociedade Interbancária de Serviços, S.A.	Equity method	Portugal	Banking Services	21.9%
TBM Sp.z o.o.	Full	Poland	Advisory and Services	100.0%
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%
INSURANCE ACTIVITY				
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%
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 BCP 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 centralised 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 having, at all times, an adequate relation between equity and the activity developed together with the corresponding evaluation of the risk profile/return per line of business.

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 fulfill 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).

- Pension fund risk – pension fund risk stems from the potential devaluation of the Bank's 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 materialised when there are negative impacts on net income and/or on 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.

Credit risks and 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 liquidity risks, pension fund risks and 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

The EBD of Millennium bcp is ultimately responsible for the risk policy comprising, in this scope, the approval of high-level principles and rules of risk management, as well as the guidelines that frame capital allocation to the business segments.

The Supervisory Board, through the Audit Committee, is entrusted with matters concerning the supervision of management, financial reporting documents and qualitative measures 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. Should also approve the level of risk appetite proposed by the EBD for the Group.

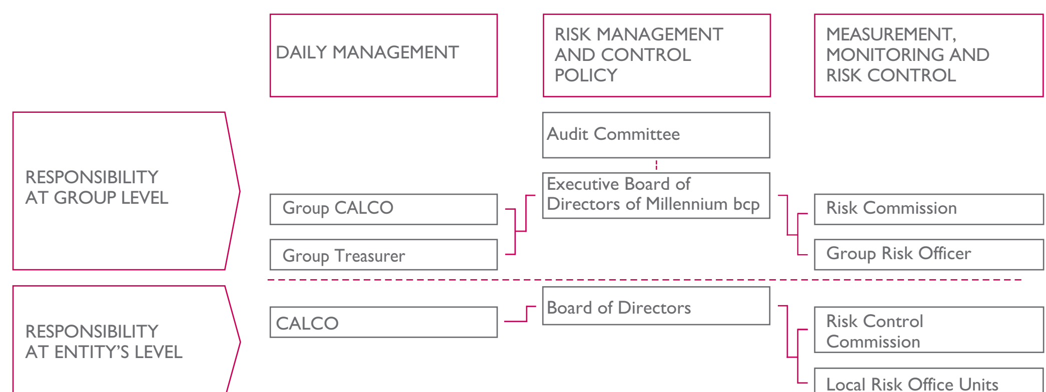
The Risk Commission is responsible for monitoring overall risk levels, ensuring that these are compatible with the objectives and with the strategies approved for the Group's activity development.

The Group Risk Officer is 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, having all Risk Office structures established in accordance with the risks inherent to their respective activities. Each relevant subsidiary company has 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") is responsible for the management of the overall capital of the Group, the assets and liabilities management and the definition of the liquidity management strategies at the consolidated level. Specifically, Group CALCO is 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 hedging of specific positions and the Investment Portfolio.

TABLE IV – RISK MANAGEMENT MODEL



The risk management function was reinforced in 2010 through a set of initiatives aimed at increasing the ability to evaluate and control risks, highlighting:

- 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, which led the positive outcome of this 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 an 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 MasterScale, based on the expected Probability of Default (PD), enabling to have a greater capacity to evaluate and classify the Customers and grade the associated risk. The Rating MasterScale also enables the Bank to identify the Customers that show signs of degradation in their capacity to pay their credits and, in particular, those who are classified, within the scope of Basel II, as being in default. All the rating/scoring models used in the Group have been duly weighted for the Rating MasterScale. The protection level is a crucial element in the assessment of the efficiency of the collateral in the mitigation of the credit risk, promoting a more active credit collateralisation and a better pricing adequacy to the incurred risk.

The Group follows a policy of permanent monitoring of its decision processes, promoting their fine-tuning and every appropriate changes aiming to reinforce the quality and effectiveness of those processes. In 2010 the following measures should be highlighted:

- Reformulation and improvement of a set of rating systems, in order to strengthen credit risk assessment. As examples of these efforts, we emphasise 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 in force for the Corporate and Retail segments;

- Annual recalculation of Loss Given Default (LGD) estimates, with particular incidence on loans secured by real estate collateral and on the small businesses portfolio (SME Retail), and development of an IT project in the scope of credit recovery, in collaboration with an external consultant, with the main objective of creating a database to support the calculation of LGD;

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

The Group developed internally an actuarial portfolio model to quantify the credit risk, which provides an estimate of the distribution of probability of total losses. Besides PD and LGD (Loss Given Default), as basic variables of credit risk assessment, it is also considered the uncertainty associated to these measurements by incorporating their volatility. Furthermore, the model also incorporates the effects of credit risk diversification/concentration, taking into account the degrees of correlation between the various sectors of economic activity.

Aiming at the best possible adequacy of credit risk assessment, the Group has defined a series of Customer macrosegments and segments which are treated under different rating systems and support the links between internal ratings (risk grades) and Customers 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 referred above are translated into the risk grades of a transversal MasterScale, with 15 levels, of which three correspond to situations of relevant deterioration in Customer creditworthiness, called "procedural risk grades". Risk grades are attributed by rating systems and based on automatic decision models or on the Rating Department judgement 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 cash flows 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 approaches for the calculation of the regulatory capital requirements relative to this type of risk. This authorisation was granted with effect on 31 December 2010 (inclusive) and refers to the Group's activities in Portugal.

Regarding other geographical areas – namely Poland and Greece – the Group also plans to apply 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 wholesale positions, securities held for investment, commercial business and corporate activities.

In order to ensure that the risks incurred in Group's portfolios 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 on a daily basis (or intra-daily, in the case of the financial markets areas – Trading and Funding) by the Risk Office.

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 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 10 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 of which performance is directly related with their value. With the necessary adjustments, this model follows the standard methodology defined in the applicable regulation in force due to the Basel II Agreement.

Other complementary methods are also applied to the remaining risk types, namely an internal model that replicates the effect that the main non-linear elements of options may have over the calculation of the results of the different books in which they are included, in a similar way to that considered by the VaR methodology, using the same time horizon and the same significance level, and the standardised approach defined in the applicable regulations (arising from the Basel II Agreement) to the commodities risk, with a corresponding change of the time horizon considered. 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 held positions, the Bank has instituted a process of backtesting, held on a daily basis by which the VaR indicators are compared with the reported ones.

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 regular hedging operations with the markets, 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: segregation of functions; definition of lines of responsibility and corresponding authorisations; definition of limits of tolerance and of exposure to risk; codes of ethics and codes of conduct; implementation of KRI (Key Risk Indicators); access controls, physical and logical; reconciliation activities; exception reports; contingency plans; insurance policies; and 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 as a result of 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 operational practices and business of each entity, so as to cover all the important activities developed.

The responsibility for processes management 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, the Process Monitoring Committee appoints process owners, 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 EBD are 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 actual or potential risks, within each process. Each risk is classified according to its positioning on a tolerance matrix, for three different scenarios, which allows: the determination of the risk of the process without considering the existent contracts (Inherent Risk); the assessment of the risks exposure of the different processes, considering the influence of existing controls (Residual Risk); and the 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 pre-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 characterisation of the 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 3 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, 3 days and 3 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 (3 days or 3 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.

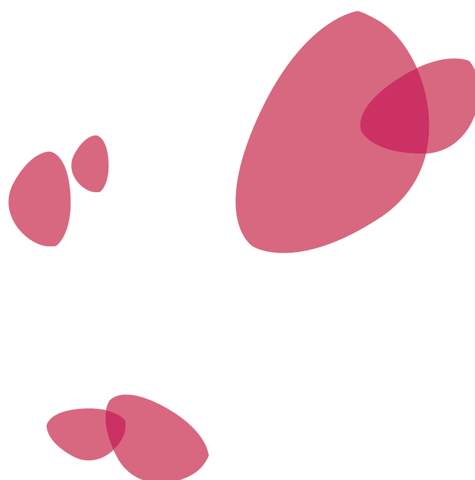
At the same time, the Bank regularly monitors the evolution registered by the Group's liquidity position, with the identification of all factors that may justify the variations occurred. This analysis is submitted to the appraisal of CALCO, aiming at making decisions that enable to maintain financing conditions suitable for the development of the activity. Moreover, the control made on the exposure to liquidity risk pertains to the Risk Commission. This control is enhanced with monthly stress tests in order to be able to characterise the Bank's risk profile and ensure that the Group, and each one of its subsidiary companies, complies with their duties in a liquidity crisis scenario. These tests are also used to determine the economic capital allocated to this risk and support the contingency plan and the management decision-making processes on this issue.

3.3.5. PENSION FUND RISK

The pension fund risk stems from the potential devaluation of the Bank's 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 materialised 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

As previously referred, Bank of Portugal formally authorised the adoption of methodologies based on IRB approaches for the calculation of capital requirements for credit and counterparty risks, covering a substantial part of the risks arising from the activity in Portugal as from 31 December 2010. This authorisation led to several changes on the calculation of regulatory capital and capital requirements with reference to the year-end 2010, as in previous periods these calculations were performed in accordance with the standardised approach.

The own funds of the BCP Group are determined according to the applicable regulatory rules, namely the Notice no. 6/2010 from Bank of Portugal. The own funds result from adding Tier I with Tier II and subtracting the component of Deductions.

The Tier I comprises the steadiest components of the own funds. This heading includes the paid-up capital and the share premium, the reserves and the 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). Preference shares and other hybrid instruments are also included within the Tier I, after Bank of Portugal's approval and as long as they do not exceed the regulatory limits defined by that entity *versus* the total amount of Tier I, determined before deductions related to the qualified investments and expected losses, if applicable.

Furthermore, the following are negative components of Tier I: own shares, goodwill and other intangible assets, deferred costs related with actuarial variations in excess of the pension fund's corridor defined by the Bank of Portugal for regulatory purpose and the deduction related to the qualified investments and expected losses.

The deduction related to the qualified investments refers to the investments owned in financial institutions, on one hand, and in insurance companies, on the other, above 10% and not below 20% of their share capital, respectively, as long as they are not fully consolidated. This deduction, which is done in equal parts to Tier I and Tier II, is also applied to the part of the aggregate amount of investments on financial institutions, individually representing up to 10% of their share capital, that exceed the respective regulatory limit.

Additionally, the adoption of IRB approaches to the credit portfolio from 31 December 2010 required the deduction of expected losses related to equities using the simple weight approach and the net amount of expected losses on other exposures that exceed the corresponding credit impairment, also in equal parts to Tier I and Tier II (unless expected losses are lower than impairment, when the resulting difference can be add to Tier II until the limit of 0.6% of risk weighted assets).

At the same time, the deduction of the provisioning shortage (if credit impairment, determined in accordance with the IAS stands below the amount of credit provisions defined by Notice no. 3/95 from Bank of Portugal, on an unconsolidated basis) ended with the adoption of the IRB approaches.

Tier I can also be influenced by the existence of revaluation differences on available for sale securities and other assets, on cash-flow hedge transactions or on financial liabilities at fair value through profits and losses, net of taxes, to the extent related to own credit risk, by the existence of a fund for general banking risks and/or net profits arising from the capitalisation of future revenues from securitised assets.

If the amount of preference shares and other eligible hybrid instruments approved by Bank of Portugal to increase Tier I exceeds the respective limits, this excess is deducted to this heading and added to Tier II.

In 2008, Bank of Portugal introduced some changes to the own funds calculation. Thus, through the new Notice no. 6/2008, similarly to credit and other receivables, potential gains and losses arising from available for sale debt securities were excluded from the own funds, to the portion exceeding the impact of related hedging transactions. The obligation of deducting to the Tier I the positive revaluation reserves representing non realised gains on available for sale equity instruments (net of taxes), in excess to the potential related impaired amounts is maintained.

Simultaneously, through Notice no. 7/2008, Bank of Portugal extended, for three additional years, the amortisation plan of the transition adjustments to the IAS that were not fully recognised in the own funds of June 30, 2008, concerning post-retirement health benefits and liabilities of the pension fund. On the other hand, Bank of Portugal published Notice no. 11/2008 which allowed, for regulatory purposes, the enlargement of the pension fund corridor up to the amount of the actuarial losses of 2008, excluding the expected return of the fund's assets in 2008, to be amortised steadily through the next four years.

On 31 December 2010, through the Notice no. 6/2010, Bank of Portugal changed the criteria used to evaluate the eligibility of hybrid instruments to the own funds, defining three tiers related to the inclusion of these instruments within Tier I according to the degree of subordination resulting from their specific features, allowing amounts surpassing those limits to be add to the Tier II and establishing a period of 30 years from 31 December 2010 to the phase out of deductible surpluses and instruments that ceased to be eligible to the own funds according to the new rules.

Tier II includes the subordinated debt and 45% of the unrealised gains in available for sale equity securities and other assets, as well as the amounts related to preference shares and other hybrid instruments that have been deducted to Tier I. These components are part of the Upper Tier II, except subordinated debt, that is split between Upper Tier II (perpetual debt) and Lower Tier II (the remaining).

Subordinated debt can only be included in the own funds with the agreement of Bank of Portugal and as long as their total amount complies with the following limits: a) Tier II cannot surpass the amount of Tier I; and b) Lower Tier II cannot surpass 50% of Tier I. Additionally, non-perpetual subordinated loans should be amortised at a 20% annual rate, along their last five years to maturity. Tier II is also subject to the deduction of 50% of investments owned in financial institutions and insurance companies and expected losses, as already mentioned. If the amount of Tier II is not enough to accommodate this deduction, the excess should be subtracted to Tier I.

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 securitisation transactions that have not reached the regulatory definition of effective risk transfer, to the extent of the amounts not recognised in the Bank's accounts, and the potential excess of exposure to risk limits in the scope of Bank of Portugal published Notice no. 7/2010.

Capital requirements have been determined in accordance with the Basel II framework since the beginning of 2008. In the scope of the approval pack filed with Bank of Portugal with the aim of adopting the use of the IRB approach for credit risk and the internal models approach for market risk, as well as the Standard approach for calculating operational risk requirements, during the first semester of 2009 Bank of Portugal authorised the BCP Group to use the Standard approach to calculate capital requirements for operational risk, instead of the

basic-indicator approach, and the internal models approach to calculate capital requirements for the generic market risk of the trading portfolio, comprising the subportfolios managed from Portugal, related to debt instruments, capital instruments and foreign exchange risks.

As at December 2009, capital requirements for credit risk were determined taking into account the risks recorded both on balance and off-balance sheet weighted based on the type of counterparties, the maturity of transactions and the existing collaterals, as defined by the Notice no. 5/2007 from Bank of Portugal for the Standardised approach. The requirements for securitised assets were determined in accordance with the Notice no. 7/2007 from Bank of Portugal. Capital requirements for operational risk were calculated following the Standard approach described in the Notice no. 9/2007 from Bank of Portugal. Additionally, capital requirements for the trading portfolio were also calculated, according to the Notice no. 8/2007 from Bank of Portugal, namely for the specific risk, while capital requirements for the generic risk were calculated in accordance to the internal models approach.

As at December 2010, after the formal authorisation of Bank of Portugal, the BCP Group adopted IRB approaches to calculate minimum capital requirements for credit risk arising from exposures in Portugal and continued to use the methods described above for the other risk types and geographies, in accordance with Bank of Portugal regulations referred in the previous paragraph and the Notice no. 8/2010 from Bank of Portugal, which entered in force on 31 December 2010.

The confirmation that an entity has an amount of own funds not below the amount of its capital requirements assures the adequacy of its capital, reflected on a solvency ratio – represented by the percentage of total own funds to the risk weighted assets (equal to 12.5 times the capital requirements) – of at least the regulatory minimum of 8%. Additionally, Bank of Portugal released a recommendation in order to, by September 30, 2009, the financial groups submitted to its supervision on a consolidated basis, as well as the respective mother-companies, strengthen their Tier I ratios to a figure not below 8%.

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

BCP Group uses the accounting consolidation method established in Decree-Law no. 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 sub-sectors 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 2010 AND 2009

Table V presents the main groups of own funds and consolidated own funds requirements as of 31 December 2010 and 2009, as well as the respective capital ratios, including Core Tier I ratio (that shows the adequacy level of the Group's core capital, i.e. the capital with the highest quality within Tier I).

Consolidated own funds amounted to 6,116 million euros and 7,541 million euros on 31 December 2010 and 2009, respectively, having the Tier I attained 5,455 million euros and 6,102 million euros on those dates. The Group's core capital attained 3,966 million euros on 31 December 2010 (4,187 million euros on 31 December 2009). At the same time, the consolidated own funds requirements decreased from 5,262 million euros on 31 December 2009 to 4,765 million euros on 31 December 2010.

Consequently, the consolidated Core Tier I ratio calculated in accordance with the IRB approach was 6.7% by the end of 2010, better than the one reported in the end of 2009 pursuant to the standardised approach (6.4%), the Tier I ratio was 9.2% (9.3% in the end of 2009) and the Total ratio attained 10.3% (11.5% on 31 December 2009).

TABLE V – SUMMARY OF THE MAIN CAPITAL AGGREGATES AND RATIOS

Thousand euros

	31-12-2010	31-12-2009
OWN FUNDS		
Tier I	5,455,142	6,101,770
of which: Core Tier I	**3,966,296**	**4,186,784**
Tier II	774,228	1,565,827
Total capital	6,116,032	7,540,582
CAPITAL REQUIREMENTS		
Credit risk and counterparty credit risk	4,374,526	4,884,721
Market risk	48,601	27,996
Operational risk	342,032	348,789
TOTAL	**4,765,159**	**5,261,507**
CAPITAL RATIOS		
CORE TIER I	**6.7%**	**6.4%**
Tier I	9.2%	9.3%
Total capital	10.3%	11.5%

The evolution of the Tier I aggregate was significantly influenced by a group of positive and negative factors. Amongst the positive ones, we may highlight the following:

- The capacity shown of generating core capital translated in the net income attributable to Shareholders (302 million euros). One must highlight that the retention of the totality of the net income of the financial year resulted from the decision of proposing to the Shareholders the attribution of a scrip dividend amounting to 120 million euros, instead of its distribution in cash. This decision aims to defend the interests of the Shareholders and, at the same time, preserve the Group's capital and liquidity;

- The generation of core capital due to retained earnings was enhanced by the fact that the 2010 net income integrated a net loss of 82 million euros due to the joint impact of the impairment allocation for the goodwill in Greece (147 million euros) and of the gains obtained with the sale of the stake in Eureko, BV (65 million euros), the effect of which was already incorporated in own funds;

- The increase of the core capital associated with the interests not controlled by the Bank's Shareholders (153 million euros), that include the correspondent portion of the share capital increase made by Bank Millennium in Poland, amounting approximately to 90 million euros;

Among the negative factors, we may highlight:

- The growth of the actuarial differences of the pension fund above the corridor induced by the devaluation of the share market and by the perception of increased sovereign risk, namely of the Portuguese Republic (428 million euros);

- The amortisation of the deferred impacts of the adjustment of the transition to the IAS, of the 2005 mortality table and of the actuarial losses of 2008 (212 million euros);

- The net amount of losses exceeds the respective impairments (762 million euros), of which half (381 million euros) were deducted from Tier I non core and exceeded the positive impact of 163 million euros registered in core capital due to annulment of the amount that had been deducted in the end of 2009, within the scope of the standardised approach, relating to negative differences between the credit impairments estimated in accordance with the Accounting International Rules and the provisions established by the Notice no. 3/95 of Bank of Portugal;

- The conversion, for regulatory purposes, of the gains not paid-up related with the increase of the own credit risk in 2010, free of taxes (175 million euros);

- The payment and the regulatory accrual of the remuneration of hybrid instruments relating to the 2010 financial year (101 million euros);

- The increase of the deductions related with qualified stakes (94 million euros), mainly from Millenniumbcp Ageas Grupo Segurador, S.G.P.S., S.A., of which, half (47 million euros) were deducted from non core Tier I.

The evolution of Tier I was also influenced by foreign exchange variations and by other factors that, in aggregated terms, caused a residual impact in 2010.

On the other hand, Tier II was conditioned either by the increase in deductions relating to expected losses and to qualified stakes (that, together, attained 428 million euros in Tier II) or by the decrease of the eligible value of subordinated liabilities (364 million euros).

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

TABLE VI – OWN FUNDS

Thousand euros

	31-12-2010	31-12-2009	
1. TOTAL OWN FUNDS FOR SOLVENCY PURPOSES (1.1.+ 1.2. + 1.4.)	**6,116,032**	**7,540,582**	
1.1. ORIGINAL OWN FUNDS (= (1.1.1.TO 1.1.5.)-1.3A.)	**5,455,142**	**6,101,770**	
1.1.1. Eligible capital (=Σ(1.1.1.1. to 1.1.1.4.))	6,804,784	6,801,173	
1.1.1.1. Paid-up capital	5,694,600	5,694,600	(1)
1.1.1.2. (-) Own shares	-81,938	-85,548	
1.1.1.3. Share premium	192,122	192,122	
1.1.1.4. Other instruments eligible as capital	1,000,000	1,000,000	(2)
1.1.2. Eligible reserves and profits and losses (=Σ(1.1.2.1. to 1.1.2.5.))	403,263	281,933	
1.1.2.1. Reserves	-188,006	-267,030	
1.1.2.2. Eligible non-controlling interests	493,437	340,117	
1.1.2.3. Profits and losses from the previous financial year and preliminary profits and losses from the current financial year	97,832	208,846	(3)
1.1.2.4. (-) Net gains from capitalisation of future margin income from securitised assets			
1.1.2.5. 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.)	115,737	156,613	
1.1.4.1. Impact on the transition into IAS/AAS (negative impact)	115,737	156,613	
1.1.4.2. Other items eligible as original own funds			
1.1.5. (-) Other deductions from original own funds (=Σ(1.1.5.1. to 1.1.5.3.))	-1,422,160	-1,119,352	
1.1.5.1. (-) Intangible fixed assets	-400,802	-534,934	
1.1.5.2. (-) Items included in original own funds exceeding the eligibility limits			
1.1.5.3. (-) Other deductions to original own funds	-1,021,358	-584,418	(4)
1.2. ADDITIONAL OWN FUNDS (=Σ(1.2.1. TO 1.2.3.)-1.3B.)	**774,228**	**1,565,827**	
1.2.1. Core additional own funds – Upper Tier II	77,802	135,455	
1.2.2. Supplementary additional own funds – Lower Tier II	1,142,908	1,448,969	
1.2.3. (-) Deductions from additional own funds			
1.3. DEDUCTIONS FROM ORIGINAL AND ADDITIONAL OWN FUNDS	**-892,963**	**-37,195**	(5)
1.3a. Of which: (-) from original own funds	-446,481	-18,597	
1.3b. Of which: (-) from additional own funds	-446,481	-18,597	
1.4. (-) DEDUCTIONS FROM TOTAL OWN FUNDS	**-113,338**	**-127,015**	(6)
1.5. TOTAL ADDITIONAL OWN FUNDS SPECIFIC TO COVER MARKET RISKS			
1.6. MEMORANDUM ITEMS			
1.6.1. (+) Excess of/(-) shortfall provisions in risk-weighted exposures under the internal ratings based approach (gross amounts)			
1.6.1.1. Amount of provisions for the internal ratings based approach	1,012,211		
1.6.1.2. (-) Internal ratings based approach measurement of expected losses	2,085,226		
1.6.2. Gross amount of subordinated loan capital recognised as a positive item of own funds	2,134,484	2,305,566	
1.6.3. Minimum initial capital requirements	17,458	10,000	
1.6.4. Reference own funds for the purpose of limits to large exposures	6,877,873	7,540,582	

(1) Includes the share capital of the Bank, fully paid-in, represented by 4,694,600,000 shares with a nominal value of 1 euro each, and preferential shares in the amount of 1 billion euros, as at December 31, 2010 and 2009, corresponding to two issues of 500 million euros each made by BCP Finance Company, which, according to IAS 32 rules and the Group's accounting policies, were considered as capital instruments.

(2) "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 7.5 billion euros. Following the analysis of the characteristics of this financial instrument, Bank of Portugal authorized its eligibility for Tier I up to a maximum limit of 35% of the value of this aggregate.

(3) Comprises retained net income, considering the amount forecasted for payable ordinary dividends and the accrual related to preferential shares and Securities for the current year, but payable only in the following year, and the adjustment related to the results subject to regulatory filters, namely due to the impact of changes in own credit risk from liabilities evaluated at fair value through profits and losses.

(4) Includes the amount of actuarial differences in excess of the regulatory corridor of the Pension Fund, and, in 2009, also includes the deduction of the shortfall of the stock of impairment to regulatory credit provisions, determined on an unconsolidated basis, in the amount of 162,818 thousand euros.

(5) Includes the deduction related to the qualified investments in financial institutions and insurance companies, and, in 2010, also the shortfall of the stock of impairment to expected losses.

(6) Includes deductions related to the amount of real estate assets resulting from recovered loans that have exceeded the regulatory period of permanence in the Bank's accounts and provisions for securitised assets related to securitisation operations that have not reached the regulatory definition of effective risk transfer, to the extent of the amounts not recognized in the Bank's accounts.

Table VII shows the reconciliation between the Tier I reported on 31 December 2010 and 2009 and the consolidated own funds of Millennium bcp on those dates:

TABLE VII – TIER I RECONCILIATION

Thousand euros

	31-12-2010	31-12-2009	
Total equity attributable to Shareholders of the Bank	6,749,975	6,876,496	
Non-controlling interests	493,437	340,117	(1)
Regulatory adjustments:			
(-) Shareholders remuneration			
Ordinary shares – estimated dividends in cash		-90,088	
Hybrid instruments – estimated remuneration for the current year to be paid in the following year	-32,245	-32,245	
Impact on the transition into IAS/AAS	115,737	156,613	
(-) Intangible assets	-400,802	-534,934	(2)
(-) Actuarial differences above the Pension Fund corridor	-1,021,358	-421,599	
(-) Shortfall of the stock of impairment to regulatory credit provisions		-162,818	
Other adjustments (+/-) to Tier I capital	-3,120	-11,174	(3)
Deductions from Tier I and Tier II			
of whitch: (-) from Tier I	-446,481	-18.597	(4)
TIER I	**5,455,142**	**6,101,770**	

(1) The previously referred differences related to the perimeter of accounting and regulatory consolidation led to differences in this heading. The amounts recorded in the BCP Group accounts stood at 498 and 344 million euros on 31 December 2010 and 2009, respectively.
(2) Includes the goodwill recorded on the consolidated balance sheet assets.
(3) Includes adjustments related to regulatory filters, namely from revaluation differences in available for sale assets, cash flow hedge transactions and own credit risk from liabilities evaluated at fair value through profits and losses.
(4) Includes 50% of both the shortfall of the stock of impairment to expected losses and the deduction related to qualified investments in financial institutions and insurance companies.

Table VIII breaks down own funds requirements per types of risks. Own funds requirements amounted to 4,765 million euros on 31 December 2010 and decreased 497 million euros *versus* the 5,262 million euros estimated in the end of 2009. 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 effort made aiming to optimise and reinforce the collaterals of the credit risk exposures, translated in a reduction of the capital requirements of approximately 430 million euros;
- The impact of the sale of the operations in Turkey and in United States of America that, together, contributed to reduce the capital requirements in approximately 40 million euros;
- The reduction of the credit activity and the strict control on the evolution of other exposures with credit risk that, taking advantage of the adoption of the IRB approach, caused a decrease in capital requirements of around 100 million euros;
- The excess of around 80 million euros of capital requirements related with the exposures held on domestic credit institutions due to the downgrading of the rating of the Portuguese Republic that, partially, affected the favourable impacts mentioned above.

TABLE VIII – CAPITAL REQUIREMENTS

Thousand euros

	31-12-2010	31-12-2009
2. CAPITAL REQUIREMENTS	**4,765,159**	**5,261,507**
2.1. FOR CREDIT, COUNTERPARTY CREDIT AND DILUTION RISKS AND FREE DELIVERIES	**4,374,526**	**4,884,721**
2.1.1. Standardised approach	2,091,893	4,875,864
2.1.1.1. Standardised approach exposure classes, excluding securitisation positions	2,091,893	
2.1.1.1.1. Claims or contingent claims on Central Governments or Central Banks	58,508	52,577
2.1.1.1.2. Claims or contingent claims on Regional Governments or Local Authorities	25,941	9,520
2.1.1.1.3. Claims or contingent claims on Administrative Bodies and non-profit organisations or Local Authorities	38,057	22,947
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	194,308	131,992
2.1.1.1.7. Claims or contingent claims on Corporates	507,134	2,302,774
2.1.1.1.8. Retail claims or contingent Retail Claims	270,488	546,992
2.1.1.1.9. Claims or contingent claims secured on real estate property	624,133	1,136,517
2.1.1.1.10. Past due items	145,593	293,770
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)	34,772	65,802
2.1.1.1.14. Other items	192,960	312,973
2.1.1.2. Securitisation positions under the standardised approach		8,857
2.1.2. IRB approach	2,282,633	
2.1.2.1. Not using own estimations of LGD and/or credit conversion factors	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	1,608,962	
2.1.2.2. Using own estimations of LGD and/or credit conversion factors	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. Retail claims or contingent Retail Claims	643,642	
2.1.2.3. Equity positions	26,664	
2.1.2.4. Securitisation positions	3,366	
2.1.2.5. Other assets not related to bond loans		
2.2. SETTLEMENT RISK		**20**
2.3. CAPITAL REQUIREMENTS FOR POSITION, FOREIGN-EXCHANGE AND COMMODITIES RISKS	**48,601**	**27,977**
2.3.1. Standardised approach	15,393	16,292
2.3.1.1.Traded debt instruments	14,795	15,597
2.3.1.2. Equity	586	683
2.3.1.3. Foreign exchange risks	2	
2.3.1.4. Commodities risks	10	12
2.3.2. Internal models approach	33,208	11,684
2.4. CAPITAL REQUIREMENTS FOR OPERATIONAL RISK	**342,032**	**348,789**
2.4.1. Basic indicator approach		
2.4.2. Standard approach	342,032	348,789
2.5. CAPITAL REQUIREMENTS – FIXED OVERHEAD		
2.6. OTHER AND TRANSITIONAL CAPITAL REQUIREMENTS		

By the end of 2010 and of 2009, BCP Group had an excess of own funds *versus* the respective own funds requirements of 1,351 and 2,279 million euros, respectively, standing the same in 1,261 and 2,147 million euros at the level of the financial conglomerate, as mentioned in Table IX.

TABLE IX – CAPITAL ADEQUACY

Thousand euros

	31-12-2010	31-12-2009
SURPLUS (+)/ DEFICIT (-) OF OWN FUNDS	1,350,874	2,279,076
SOLVENCY RATIO (%)	10.3%	11.5%
Capital adequacy of the financial conglomerate		
Own funds of the financial conglomerate	6,183,590	7,540,638
Capital requirements of the financial conglomerate	4,922,310	5,394,085
SURPLUS (+)/ DEFICIT (-) OF THE CONGLOMERATE'S OWN FUNDS	1,261,280	2,146.553

4.4. EVENTS WITH A MATERIAL IMPACT ON CAPITAL AND CAPITAL REQUIREMENTS IN 2011

On 29 March 2011, the Chairman of the Board of the General Meeting received and accepted, from some of the main Shareholders of the Bank, a request for the inclusion in the Agenda of the General Meeting of Shareholders, due to take place on 18 April 2011, of a proposal to resolve on the increase of the share capital.

This proposal relates to a 1,120 million euros share capital increase, of which:

- 120 million euros by incorporation of reserves of issue premium, corresponding to the scrip dividend previously referred, that was already included in the own funds of the Group on 31 December 2010; and

- 1,000 million euros by new contributions in kind, composed by securities named "Valores Mobiliários Perpétuos Subordinados com Juros Condicionados" (subordinated perpetual securities with conditioned interest), in the scope of exchange public offer to be launched on these securities, that presently are a component of the non-core Tier I of the Group.

It should be highlighted that, in the scope of this proposal, it is foreseen an eventual subsequent share capital increase in cash, with preference rights to the Shareholders, by the amount corresponding to the portion not subscribed or, should the subscription percentage be 75% or more, corresponding to the not subscribed amount plus 250 million euros.

Thus, the accomplishment of the share capital increase will led the increase of the core Tier I of the Group, compared to the amount reported on year-end 2010, by 1,000 million euros or 1,250 million euros.

4.5. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

4.5.1 ECONOMIC CAPITAL CALCULATION APPROACHES AND RISK TAKING CAPACITY

Under Pillar II of Basel II (generally known as the "Supervisory Process"), the Group attributes a growing importance to the quantification of 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.

Furthermore, the calculation of the economic capital also includes various risks which are not quantified in the calculation of regulatory capital requirements (Pillar I of Basel II) and uncertain financial variables such as, for example, the expected value of the difference between the fair value and book value of an asset or the expected future profits (excluding subordinated debt with a determined maturity).

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 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 time horizon of 12 months, combining several factors of economic, regulatory and practical nature, to constitute a given forecasted scenario such as, for example, business planning, external ratings, regulatory capital under Pillar I and the quantification of credit risk, among others.

Considering the Group's expectations and objectives in terms of its grading by rating agencies, the economic capital model assumes, on 31 December 2010, an overall probability of default, at 12 months, of 6 basis points, which reflects an objective rating of A+. The quantification approaches used are based on the VaR methodology, where the maximum value of potential loss is calculated for each risk, for a time horizon of 12 months, 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

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

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 Group's 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 economic activity sectors.

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), as explained in detail in sub-chapter 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 testing 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 computes 20,000 simulations of the profit and loss account and the balance sheet of the pension fund based on multiple scenarios and projections of the funds inflows and outflows, allowing to estimate the probability distribution of losses and calculate the economic capital.

The calculation of the economic capital required to cover business and strategic risk is based on a long series of the price evolution of the bank's shares, this evolution being analysed after deduction of the external influence of the stock market, estimated from a time series of share prices from the larger banks listed at Euronext Lisbon.

Table XI presents the overall risk position of the Group as at 31 December 2010 and 2009, represented by the economic capital calculated on these dates:

TABLE XI – ECONOMIC CAPITAL

Thousand euros

	31-12-2010		31-12-2009	
	Amount	%	Amount	%
Credit risk	2,078,492	40.6%	1,790,027	35.5%
Market risk	1,212,476	23.7%	1,320,836	26.2%
Trading book	40,006	0.8%	24,283	0.5%
Banking book – interest rate risk	440,398	8.6%	468,723	9.3%
Equity risk – share price risk	404,338	7.9%	603,939	12.0%
Real estate risk	327,734	6.4%	223,891	4.4%
Operational risk	875,966	17.1%	956,841	19.0%
Liquidity risk	428,218	8.4%	436,466	8.7%
Pension fund risk	319,278	6.2%	250,400	5.0%
Business and strategic Risk	202,725	4.0%	287,298	5.7%
Non-diversified economic capital	**5,117,155**	**100.0%**	**5,041,867**	**100.0%**
Diversification effect	-1,253,966		-1,140,376	
DIVERSIFIED ECONOMIC CAPITAL	**3,863,188**		**3,901,492**	

The overall risk level on the year-end 2010 stood in line with the amount reported in the previous year, since the variation of the internal capital needs between each year-end presented a decrease of only 38 million euros, after diversification effects.

5. CREDIT RISK

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

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 – of the issuer of a security or of the counterparty of a contract in complying with their duties.

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

Thus, are accounted in overdue 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 no. 16/2004 of Bank of Portugal, aggregating the credit due for more than 90 days and the credits with doubtful collection reclassified as overdue loans for purposes of provisioning, as established by the Notice no. 3/95 of Bank of Portugal.

At the same time, BCP Group considers as default positions, within the prudential scope deriving from the application of the Notice no. 5/2007 of Bank of Portugal, the positions with amounts in excess of certain material limits which the maturity date occurred for more than 90 days, comprising either the due amounts of the positions and the related amounts not yet due.

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 comprises all the exposures subject to credit risk where one has detected objective impairment evidence. Thus, the credit object of impairment comprises the individual exposures of determined Customers or counterparties and homogeneous groups of credit 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 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 portfolios. 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 Customers credit portfolio, defined as a group of credits with similar risk characteristics, 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 or the credit or of the Customers credit portfolio, able of being calculated in a reliable manner.

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

(I) INDIVIDUAL ANALYSIS

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 Group assesses, on each balance date, 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 Customer towards the Group and the existence of overdue loans;
- The economic-financial feasibility of the Customer'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 Customer, as well as its evolution;
- The Customer'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 original effective 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. For credits with a floating interest rate, the discount rate used corresponds to the annual effective rate applicable in the period when the impairment was determined.

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

(II) JOINT ANALYSIS

The impairment losses based on the joint analysis 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 joint losses due to impairment 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
- 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 recognised is subject to several estimations and judgements. This process includes factors like PD, risk classifications, value of the collaterals related with each operation, 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 by the Group so as to monitor the differences between the losses estimations and the real losses.

The credits write-off is made when there is no possibility of recovering the credits from an economic perspective and, for collateralised 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.

The Group determines that there is impairment in its 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 Group 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 recognised against results) is transferred from fair value reserves and recognised in the results. If, in a subsequent period, the fair value of the debt instruments classified as financial assets 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 recognised in capital instruments classified as financial assets available for sale is registered against fair value reserves.

Finally, provisions are recognised 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.

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.

Impairment charges and recoveries of impairments and provisions with impact in the consolidated financial statements of 2010 and 2009 are shown in Table XII.

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

Thousand euros

Impairment and provisions	'10	'09
Charges net of reversions and annulments	812,677	691,356
Recoveries	-30,555	-33,365
CHARGES NET OF RECOVERIES	**782,122**	**657,991**

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 concentration risk in credit risk is defined and described in the document "Credit Principles and Guidelines", approved by the Bank's EBD. 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 "Groups of Customers";
- A "Group of Customers" is a group of Customers (individuals or companies) related among themselves, that represent a single entity from a credit risk standpoint, as follows: if one of those Customers is affected by adverse financial conditions it is likely that another Customer (or all the Customers) of that group also experiences difficulties in debt servicing;
- We may include the following as types of relations between Customers that originate "Groups of Customers": the formal participation in an economic group, the evidence that there is a control relationship (direct or indirect) between Customers (including the control of an individual over a company) or the existence of a significant business interdependence between Customers 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);
- Risk Office maintains, validates and monitors a centralised 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 to the respective concentration and observing best market practices.

On the other hand, the definition of concentration limits (more specifically the several types of established limits) 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 no. 2/2010, namely:

- Two types of "major exposures", 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;
- Are equally defined sector limits and limits for country-risk.

Concerning the monitoring of the concentration risk, the EBD 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 centralised collection of data on credit exposures (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 EBD 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.

On the other hand 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 credit concentration in the major individual debtors, either by decreasing the credit exposure or increasing the collaterals provided in the credit operations. Moreover, we must also emphasise the reinforcement of the prudential criteria in the analysis and decision-making of financing proposals, particularly in what concerns the mitigation of sector concentration.

Plus, the Group's Risk Office regularly makes an internal reporting to the Risk Commission and to the Audit Committee (representing the Administration and Supervision Bodies, respectively) and this gives a significant contribution 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).

This report is also a source of 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 makes a resolution proposal – "eliminate", "mitigate" or "accept" –, describing the measures and activities necessary to eliminate or mitigate the risks in question as well as the players to involve in the implementation of those measures and activities.

5.3. CHARACTERISATION 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 to customers, placements in 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 securitisation are considered.

The total of original exposures, corresponding to the respective gross value of impairments and amortisations attained 122,685 and 123,584 million euros, respectively, on 31 December 2010 and 2009, including the securitisations. 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)	
	31-12-2010	31-12-2009	'10	'09
STANDARDISED APPROACH	**65,363,414**	**123,583,934**	**119,541,860**	**124,193,481**
STANDARDISED APPROACH, EXCLUDING SECURITISATION POSITIONS	65,363,414	123,036,576	119,025,549	120,989,799
Central Governments or Central Banks	9,415,264	4,861,240	7,291,533	4,176,339
Regional Governments or Local Authorities	777,951	421,655	580,590	367,372
Administrative and non-profit Organisations	2,259,411	2,637,381	2,624,390	1,429,866
Multilateral Development Banks	127,270	77,743	103,930	77,572
International Organisations				
Institutions	8,630,153	8,288,209	8,994,560	7,766,485
Corporates	11,880,288	43,507,906	37,710,796	45,553,414
Retail Portfolio	8,081,134	14,829,452	12,984,717	14,824,542
Positions guaranteed by real estate	15,551,170	35,648,647	37,078,862	34,960,845
Past due items	2,391,490	4,569,745	4,695,973	4,115,094
Covered bonds				
Exposures on Collective Investment Undertakings (CIU)	439,263	849,515	760,987	566,625
Other items	5,810,022	7,345,082	6,199,211	7,151,645
SECURITISATION POSITIONS		547,358	516,312	3,203,681
IRB APPROACH	**57,321,800**		**4,776,817**	
NOT USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	29,165,448		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	29,165,448		2,430,454	
USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	27,470,631		2,289,219	
Claims or contingent claims on Central Governments or Central Banks				
Claims or contingent claims on Institutions				
Retail Claims or contingent Retail Claims	27,470,631		2,289,219	
EQUITY POSITIONS	135,527		11,294	
SECURITISATION POSITIONS	550,193		45,849	
OTHER ASSETS NOT RELATED TO BOND LOANS				
TOTAL	**122,685,213**	**123,583,934**	**124,318,677**	**124,193,481**

Note: The total amount of original exposures stood at 122,685,213 thousand euros on year-end 2010 (123,583,934 thousand euros on year-end 2009), gross of impairments and amortizations, including 98,307,062 thousand euros recorded on-balance sheet (96,305,658 thousand euros in 2009), 21,715,575 thousand euros off-balance sheet exposures (23,094,484 thousand euros in 2009), 1,955,985 thousand euros related to derivative instruments (3,022,243 thousand euros in 2009), and the remaining amount from repurchase agreements.

The Tables XIV, XV and XVI detail the original exposures of the Group by the end of 2010 and 2009, in what concerns their geographic and sector distribution and per residual maturity dates.

TABLE XIV – DISTRIBUTION OF EXPOSURES BY GEOGRAPHICAL AREAS

Thousand euros

	PORTUGAL		POLAND		GREECE		OTHER	
Risk Classes	31-12-2010	31-12-2009	31-12-2010	31-12-2009	31-12-2010	31-12-2009	31-12-2010	31-12-2009
STANDARDISED APPROACH	**34,804,901**	**88,788,214**	**12,996,060**	**11,870,988**	**7,532,124**	**7,438,163**	**10,030,330**	**15,486,569**
RISK CLASSES	34,804,901	88,240,856	12,996,060	11,870,988	7,532,124	7,438,163	10,030,330	15,486,569
Central Governments or Central Banks	6,202,359	1,375,576	1,310,572	1,391,194	765,814	826,710	1,136,519	1,267,760 (1)
Regional Governments or Local Authorities	488,405	304,922	284,509	108,576	5,037	8,157	0	0
Administrative and non-profit Organisations	2,252,047	2,555,650	7,365	81,727			0	4
Multilateral Development Banks							127,270	77,743 (2)
International Organisations								
Institutions	5,176,880	3,880,637	58,603	149,215	301,600	95,647	3,093,069	4,162,710 (3)
Corporates	4,249,120	32,866,385	1,988,326	2,165,846	2,213,823	2,475,152	3,429,019	6,000,523
Retail Portfolio	3,808,170	10,103,719	2,104,530	2,210,120	955,093	1,087,397	1,213,341	1,428,216
Positions guaranteed by real estate	5,735,539	25,913,298	6,675,233	5,201,857	2,615,383	2,474,739	525,014	2,058,754
Past due items	1,368,122	3,690,578	355,677	342,331	484,502	327,156	183,189	209,679
Covered bonds								
Exposures on Collective Investment Undertakings (CIU)	439,263	849,515						
Other items	5,084,996	6,700,576	211,245	220,122	190,872	143,204	322,909	281,179
SECURITISATION POSITIONS		547,358						
IRB APPROACH	**53,342,510**		**32,516**		**68,593**		**3,878,180**	
NOT USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	26,372,047		31,065		68,301		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	26,372,047		31,065		68,301		2,694,036	
USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	26,284,743		1,451		292		1,184,144	
Claims or contingent claims on Central Governments or Central Banks								
Claims or contingent claims on Institutions								
Retail Claims or contingent Retail Claims	26,284,743		1,451		292		1,184,144	
EQUITY POSITIONS	135,527							
SECURITISATION POSITIONS	550,193							
OTHER ASSETS NOT RELATED TO BOND LOANS								
TOTAL	**88,147,411**	**88,788,214**	**13,028,576**	**11,870,988**	**7,600,717**	**7,438,163**	**13,908,510**	**15,486,569**

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, the USA, Romania and Ireland.

(2) Represents exposures to 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 31% of the total exposure, followed by Ireland, with 29%, and France, with 14% of total exposure. All other countries included in 'Other' have a relative weight below 10%. In 2009, the main concentration was in Banks headquartered in the United Kingdom, with a weight of about 25% of the total exposure, followed by France, with 13%, and Germany, Belgium and Spain, each of them with 12%.

TABLE XV – DISTRIBUTION OF EXPOSURES BY ECONOMIC SECTOR

Thousand euros

	31 December 2010							
Risk Classes	Mortgage credit	Services	Consumer credit	Construction	Other national activ.	Other international activ.	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 (1)
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 (2)
Retail Portfolio		83,541	6,074,593	78,768	1,424,458	189,100	45,828	184,844 (3)
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 (4)
Other items								5,810,022
SECURITISATION POSITIONS								
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 (2)
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								
Retail Claims or contingent Retail Claims	23,054,504	722,127	194	494,832	753,884	180,105	486,367	1,778,619 (3)
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**

TABLE XV – DISTRIBUTION OF EXPOSURES BY ECONOMIC SECTOR

Thousand euros

	31 December 2009							
Risk Classes	Mortgage credit	Services	Consumer credit	Construction	Other national activ.	Other international activ.	Wholesale business	Other
STANDARDISED APPROACH								
RISK CLASSES	**30,798,734**	**31,185,738**	**9,922,543**	**7,941,178**	**12,852,702**	**4,111,736**	**3,309,955**	**22,913,990**
Central Governments or Central Banks		4,859,228			1,215	798		
Regional Governments or Local Authorities		421,655						
Administrative and non-profit Organisations		489,897		130,532	411,960	15	32,089	1,572,887 (1)
Multilateral Development Banks		77,743						
International Organisations								
Institutions		8,288,209						
Corporates		13,345,973	2,384,347	5,790,553	8,345,422	3,399,861	1,858,846	8,382,905 (2)
Retail portfolio		1,068,787	6,582,997	927,907	2,185,540	344,260	925,043	2,794,919 (3)
Positions guaranteed by real estate	29,259,676	2,067,587	525,954	735,923	1,329,544	214,867	211,313	1,303,783
Past due items	1,539,058	566,660	429,245	356,262	579,021	151,935	282,665	664,899
Covered bonds								
Exposures on Collective Investment Undertakings (CIU)								849,515 (4)
Other items								7,345,082
SECURITISATION POSITIONS								**547,358**
TOTAL	**30,798,734**	**31,185,738**	**9,922,543**	**7,941,178**	**12,852,702**	**4,111,736**	**3,309,955**	**23,461,348**

Note: Securitisation positions included
(1) The amounts recorded in 'Other' are due basically to the 'Transport and Communications' sector, both in 2009 and 2010.
(2) Among the amounts included in 'Other' and in the risk class 'Corporates' the following economic sectors stand out: 'Retail trade' representing about 15% of the total of this sub-exposure, both in 2010 and 2009, followed by the 'Chemicals' industry and 'Restaurants and Hotels', each with about 12% of the amount under analysis, reflecting an increase from the previous year (10% and 8% in 2009, respectively).
(3) Among the amounts included in 'Other' and in the risk class 'Retail Portfolio', the 'Retail trade' sector stands out, representing 40% of this sub-exposure (about 36% in 2009).
(4) 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	31-12-2010	31-12-2009	31-12-2010	31-12-2009	31-12-2010	31-12-2009	31-12-2010	31-12-2009
STANDARDISED APPROACH	**27,234,251**	**47,313,641**	**14,922,394**	**21,884,177**	**5,838,050**	**11,045,589**	**17,368,719**	**43,340,528**
RISK CLASSES	27,234,251	47,313,641	14,922,394	21,884,177	5,838,050	11,045,589	17,368,719	42,793,170
Central Governments or Central Banks	5,303,674	3,010,336	2,773,277	1,101,100	1,164,896	657,111	173,417	92,694
Regional Governments or Local Authorities	278,878	87,749	130,111	85,549	149,251	84,676	219,711	163,682
Administrative and non-profit Organisations	1,254,965	1,484,963	377,565	376,454	307,934	382,964	318,948	393,000
Multilateral Development Banks	61,048			52,237	9	9	66,213	25,497
International Organisations								
Institutions	5,273,804	5,113,411	1,482,935	1,372,885	528,299	520,785	1,345,115	1,281,127
Corporates	6,915,196	25,220,245	2,508,830	8,911,058	1,272,420	5,204,732	1,183,842	4,171,872
Retail Portfolio	2,523,650	6,540,540	4,315,424	5,964,791	667,513	1,265,103	574,547	1,059,018
Positions guaranteed by real estate	2,508,592	2,106,187	2,630,724	1,973,937	1,017,241	2,159,127	9,394,613	29,409,397
Past due items	1,486,938	1,645,264	420,193	583,864	144,644	297,819	339,714	2,042,798
Covered bonds								
Exposures on Collective Investment Undertakings (CIU)			20,702	757,776			418,561	91,739
Other items	1,627,507	2,104,947	262,634	704,527	585,843	473,262	3,334,038	4,062,345
SECURITISATION POSITIONS								547,358
IRB APPROACH	**17,666,845**		**7,863,208**		**5,035,795**		**26,755,952**	
NOT USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	15,695,730		5,873,836		3,624,410		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	15,695,730		5,873,836		3,624,410		3,971,472	
USING OWN ESTIMATIONS OF LGD AND/OR CREDIT CONVERSION FACTORS	1,971,114		1,989,372		1,411,385		22,098,759	
Claims or contingent claims on Central Governments or Central Banks								
Claims or contingent claims on Institutions								
Retail claims or contingent Retail Claims	1,971,114		1,989,372		1,411,385		22,098,759	
EQUITY POSITIONS							135,527	
SECURITISATION POSITIONS							550,193	
OTHER ASSETS NOT RELATED TO BOND LOANS								
TOTAL	**44,901,096**	**47,313,641**	**22,785,602**	**21,884,177**	**10,873,845**	**11,045,589**	**44,124,670**	**43,340,528**

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 2010 and 2009, 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 [1]		Impairment and provisions	
Risk Classes	31-12-2010	31-12-2009	31-12-2010	31-12-2009	31-12-2010	31-12-2009
TOTAL EXPOSURES	**4,779,412**	**4,569,745**	**12,210,186**	**15,127,515**	**2,918,799**	**2,742,981**
BREAKDOWN BY MAIN ECONOMIC SECTORS						
Mortgage Credit	1,769,829	1,539,058	3,209,027	2,874,457	252,655	217,278
Services	549,977	566,660	2,643,587	4,221,087	553,749	381,031
Consumer credit	484,408	429,245	746,066	751,135	410,556	328,222
Construction	463,348	356,262	1,690,573	1,922,910	291,127	197,797
Other activ. – national	693,981	579,021	1,425,912	1,365,313	382,772	306,011
Other activ. – international	90,594	151,935	825,827	1,287,062	203,117	214,413
Wholesale business	179,148	282,665	340,374	612,022	112,980	191,219
Other	548,128	664,899	1,328,819	2,093,529	711,842	907,010
BREAKDOWN BY MAIN GEOGRAPHIC AREAS						
Portugal	3,660,507	3,690,578	9,420,383	12,466,648	2,029,167	2,046,322
Poland	355,677	342,331	591,032	503,124	317,147	289,406
Greece	484,502	327,156	807,509	508,120	125,906	71,612
Other	278,727	209,679	1,391,262	1,649,624	446,579	335,642

(1) In 2010 the eligibility criteria used to determine the amount of risk positions with impairment was changed, having ceased to include exposures to customers with impairment signs for which the individual assessment has not found an objective evidence of the existence of impairment.

Table XVIII shows the evolution, from 2009 to 2010, 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: impairments and provisions on one hand and amortisations, on the other. The evolution registered by these balances is explained by charges, loans charged-off, re-adjustments, write-offs and other adjustments.

TABLE XVIII – IMPAIRMENT, PROVISIONS AND AMORTISATIONS

Thousand euros

	Impairment and provisions	Amortisations	Total	
			31-12-2010	31-12-2009
OPENING BALANCE	2,539,639	1,105,459	3,645,098	2,829,741
Charges	1,237,834	90,428	1,328,262	1,291,682
Loans charged-off	-458,117		-458,117	-182,781
Re-adjustments/Write-offs	-425,157	-20,794	-445,951	-538,187
Other adjustments:	24,600	-10,869	13,731	244,643
- Adjustment for exchange rate differences	18,249	6,070	24,319	5,915
- Transfers of provisions	10,143	-16,939	-6,796	242,471
- Business combinations				
- Acquisitions and disposals of subsidiaries	-3,792		-3,792	-3,743
- Other				
CLOSING BALANCE	2,918,799	1,164,224	4,083,022	3,645,098

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 amortisations related to tangible assets, are deducted from the original exposures, during the calculation of capital requirements. On the year-end 2009, the amount of provisions reflected a set of regulatory adjustments, like those related to the regulatory provisioning of credit and securitisation transactions, already referred in Table VI – Own funds.

5.4. OWN FUNDS REQUIREMENTS FOR CREDIT RISK

5.4.1. FRAMEWORK OF THE APPROACHES USED

As at December 31, 2009, BCP Group determined the own funds requirements for credit risk in accordance with the standardised approach. In this approach, the original exposures are classified in line with regulatory risk classes according to the nature of the counterparty, to which specific weights are 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 capital requirements calculation process, 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 no. 10/2007 (altered by Instructions no. 4/2010 and no. 16/2010), of Bank of Portugal and on the equivalence between those levels and the weights defined in Notice no. 5/2007 (Annex II, Part 2), of Bank of Portugal. For the purposes of allocating rating notations to exposures, whenever the same issuer 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. ECAI used by the Group were Standard & Poor's, Moody's, Fitch Ratings and ICAP (Greece).

On 31 December 2010, pursuant to an authorisation granted by Bank of Portugal for the Group's activities in Portugal, the Bank used the Internal Ratings Based approach for Companies risk classes – without own LGD estimates, Retail Portfolio – with own LGD estimates, "Shares" and "Securitisation". We underline that 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 no. 104/2007, of 3 April. On the other hand, 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 "Central Government and Central Banks" and "Institutions" risk classes, in Portugal, the Group was authorised by Bank of Portugal to use the standardised approach, pursuant to the partial waiver of the IRB approach ruled in art. 20 of Decree-Law no. 104/2007, of 3 April.

For all the other geographies where the Group operates, the consolidated own funds requirements as at 31 December 2010 were estimated following the standardised approach. The Bank is currently organising 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 2010 for Customer exposures that exceptionally did not receive an internal risk level were computed according to the standardised approach;
- Bank of Portugal's authorisation 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 2010 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 MasterScale, the same for all the rating systems and models used:

TABLE XIX – RATING MASTERSCALE

Risk Grade	Min PD	Max 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%	Limited access to credit
13 (*)	13.61%	27.21%	Soft signs of Impairment
14 (*)	27.21%	100.00%	Strong signs of Impairment
15 (*)	100.00%	100.00%	Default

(*) Procedural 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 – a unit that is independent from the credit decision-making bodies and areas – is solely responsible for risk ratings 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 authorised 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 MasterScale, 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, by discounting these cash flows.

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 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 Model, 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 probability of default) for the risks in question, which then define the weights to be used in the computation of own funds requirements (Notice no. 5/2007 of Bank of Portugal, Annex IV, Part 1).

In the second case, the Bank uses 5 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: 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 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, 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 4 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

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 (CIU)							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 (=Σ (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**

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

Thousand euros

	31 December 2009								Total
	Risk weights								
	0%	10%	20%	35%	50%	75%	100%	150%	
1. ORIGINAL EXPOSURE									
CL I – Central Governments or Central Banks	4,165,594		42,752				652,895		4,861,240
CL II – Regional Governments or Local Authorities	8,157		306,501		106,997				421,655
CL III – Administrative and non-profit Organisations	713,318		1,842,333		81,731		0		2,637,381
CL IV – Multilateral Development Banks	77,743								77,743
CL V – International Organisations									
CL VI – Institutions			8,165,442		55,775		66,992		8,288,209
CL VII – Corporates	13,594		140,547		1,503,435		41,850,331		43,507,906
CL VIII – Retail Portfolio						14,793,525	35,927		14,829,452
CL IX – Positions guaranteed by real estate				28,636,610	4,308,945	1,561,647	1,141,445		35,648,647
CL X – Past due items							3,551,225	1,018,519	4,569,745
CL XI – Covered bonds									
CL XII – Exposures on Collective Investment Undertakings (CIU)							849,515		849,515
CL XIII – Other items	1,618,370		587,160				5,139,552		7,345,082
TOTAL ORIGINAL EXPOSURES	**6,596,775**	**0**	**11,084,735**	**28,636,610**	**6,056,883**	**16,355,172**	**53,287,882**	**1,018,519**	**123,036,576**
2. EXPOSURE (RESERVE BASE OF RISK WEIGHTS)									
CL I – Central Governments or Central Banks	4,267,407		42,752				648,661		4,958,820
CL II – Regional Governments or Local Authorities	8,157		307,298		84,160		15,465		415,080
CL III – Administrative and non-profit Organisations	314,163		1,270,277		65,565		0		1,650,005
CL IV – Multilateral Development Banks	77,743								77,743
CL V – International Organisations	1,953								1,953
CL VI – Institutions	380,420		7,780,154		54,788		66,472		8,281,835
CL VII – Corporates	262,335		125,937		486,139		28,516,415		29,390,826
CL VIII – Retail portfolio	67,760					9,116,541			9,184,301
CL IX – Positions guaranteed by real estate	37			28,456,970	4,169,309	1,397,328	1,113,875		35,137,520
CL X – Past due items							2,625,454	697,780	3,323,234
CL XI – Covered bonds									
CL XII – Exposures on Collective Investment Undertakings (CIU)							822,526		822,526
CL XIII – Other items	1,618,370		587,160				3,794,729		6,000,259
TOTAL EXPOSURES	**6,998,346**	**0**	**10,113,578**	**28,456,970**	**4,859,962**	**10,513,869**	**37,603,597**	**697,780**	**99,244,102**
3. TOTAL CAPITAL REQUIREMENTS (=Σ (2. * RISK WEIGHTS) * 8%)									
CL I – Central Governments or Central Banks			684				51,893		52,577
CL II – Regional Governments or Local Authorities			4,917		3,366		1,237		9,520
CL III – Administrative and non-profit Organisations			20,324		2,623		0		22,947
CL IV – Multilateral development banks									
CL V – International Organisations									
CL VI – Institutions			124,482		2,192		5,318		131,992
CL VII – Corporates			2,015		19,446		2,281,313		2,302,774
CL VIII – Retail portfolio						546,992			546,992
CL IX – Positions guaranteed by real estate				796,795	166,772	83,840	89,110		1,136,517
CL X – Past due items							210,036	83,734	293,770
CL XI – Covered bonds									
CL XII – Exposures on Collective Investment Undertakings (CIU)							65,802		65,802
CL XIII – Other items			9,395				303,578		312,973
TOTAL CAPITAL REQUIREMENTS	**0**	**0**	**161,817**	**796,795**	**194,398**	**630,832**	**3,008,288**	**83,734**	**4,875,864**

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 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	Original exposure	Exposure at risk	LGD (average weighted by the exposure at risk) (%)	Capital requirements		Memorandum items	
		PD buckets of customer risk grades (%)				31-12-2010	31-12-2009	Expected losses	Impairment
1. TOTAL EXPOSURES		**12%**	**27,470,631**	**26,346,307**	**22%**	**643,642**		**714,104**	**228,583**
1.1 - Exposures related to customers risk grades: Total		12%	27,470,631	26,346,307	22%	643,642		714,104	228,583
Breakdown of exposures related to customers risk grades [(a)]:	Risk grade: 1	0.01% to 0.05%							
	2	0.05% to 0.07%							
	3	0.07% to 0.14%	3,796	3,607	19%	14		1	4
	4	0.14% to 0.28%	4,292,611	4,406,432	19%	28,903		1,698	5,182
	5	0.28% to 0.53%	5,919,418	5,895,310	21%	66,179		4,700	7,575
	6	0.53% to 0.95%	3,686,202	3,730,696	23%	67,059		5,763	6,376
	7	0.95% to 1.73%	2,937,404	2,663,913	24%	71,798		7,900	5,482
	8	1.73% to 2.92%	2,131,315	1,827,534	24%	67,620		9,702	4,061
	9	2.92% to 4.67%	1,288,501	1,321,888	24%	61,816		11,499	3,849
	10	4.67% to 7.00%	988,077	863,673	23%	50,308		11,254	2,085
	11	7.00% to 9.77%	914,772	776,534	22%	53,557		13,732	1,957
	12	9.77% to 13.61%	2,124,818	1,691,459	23%	130,306		43,296	7,653
	13 to 15	13.61% to 100.00%	3,183,718	3,165,261	21%	46,085		604,560	184,359

(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 PDs 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 31-12-2010	Capital requirements 31-12-2009	Memorandum items: Expected losses	Memorandum items: Impairment
1. TOTAL EXPOSURES		15%	26,623,970	20,453,741	39%	1,435,774		1,323,244	779,251
1.1 - Exposures related to customers risk grades: Total		15%	26,623,970	20,453,741	39%	1,435,774		1,323,244	779,251
Breakdown of exposures related to customers risk grades [a]:	Risk grade: 1	0.01% to 0.05%							
	2	0.05% to 0.07%		17,343	45%	288		4	1
	3	0.07% to 0.14%	173,559	42,976	44%	985		19	107
	4	0.14% to 0.28%	2,150,832	1,518,510	40%	47,270		1,166	1,714
	5	0.28% to 0.53%	1,686,073	821,878	43%	37,229		1,364	1,951
	6	0.53% to 0.95%	3,716,828	2,387,321	43%	147,804		7,896	5,840
	7	0.95% to 1.73%	2,774,228	2,015,152	41%	147,487		12,177	4,949
	8	1.73% to 2.92%	4,312,951	3,404,448	42%	290,407		37,091	6,532
	9	2.92% to 4.67%	2,844,066	2,316,360	34%	179,624		32,282	7,179
	10	4.67% to 7.00%	1,085,542	888,177	30%	84,627		19,669	4,085
	11	7.00% to 9.77%	1,257,595	1,078,629	38%	110,378		30,459	6,337
	12	9.77% to 13.61%	2,420,656	2,135,557	36%	257,297		92,431	15,826
	13 to 15	13.61% to 100.00%	4,201,640	3,827,390	38%	132,378		1,088,687	724,729

(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 PDs of Millennium bcp's Rating MasterScale.

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

Thousand euros

Risk weights	Original exposure 31-12-2010	Original exposure 31-12-2019	Capital requirements 31-12-2010	Capital requirements 31-12-2019
50%				
70%	21,309		941	
of which: Grade 1				
90%	2,018,000		115,656	
115%	373,121		34,097	
250%	129,048		22,493	
TOTAL	**2,541,478**		**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 (%)				31-12-2010	31-12-2009	Expected losses	Impairment
1. PD/LGD APPROACH: TOTAL RISK EXPOSURES									
Breakdown of exposures related to customers risk grades [(a)]:	Risk grade:								
	2								
	3								
	4								
	5								
	...								
	...								
	...								
	n								
2. SIMPLE WEIGHT APPROACH: TOTAL EXPOSURES AT RISK			135,527	96,163		26,664		1,858	
Breakdown of exposures per risk weight:	Risk weight:								
	290%		33,975	28,136		6,528		225	
	370%		101,553	68,027		20,136		1,633	
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 or repos.

The BCP Group 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 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.

In the Manual Credit Regulations for Sovereigns and Financial Institutions, the Group defines the way in which the consumptions of the counterparty credit risk limits are determined. This calculation is based on the market value of the operations, to which a factor arising from the future potential variation of that same value is added, being an adjustment related to the temporal scope of the probability of default (which increases over time) also made.

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

In addition there is an "ISDA Master Agreement" that 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 – English Law (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 mostly accepts deposits in euros as collateral.

On the other hand, 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. Although the GMRA sets forth that the collateral can be given in cash or in securities, until this date, the Bank only accepted collaterals in cash and in euros.

Both in 2010 and in 2009, for the purposes of reducing counterparty credit risk, the Group uses the financial collateral comprehensive method, as established in Annex VI to Bank of Portugal Notice no. 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.

The exposures thus computed as at 31 December 2009 were subject to the regulatory weights defined by the standardised approach, in accordance with the provisos of Annex III to Notice no. 5/2007 of Bank of Portugal, and by the end of 2010 own funds requirements were computed, on one hand, according to the regulation used 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 authorised the IRB approach.

According to the mark-to-market method applied by the Group, the necessary values to calculate the exposure in the relevant positions only has 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 of the Group (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 to Bank of Portugal Notice no. 5/2007.

Tables XXIV and XXV show own funds requirements determined for counterparty credit risk at the end of 2010 and 2009, 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	
					31-12-2010	31-12-2009
Repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions	20,872		13,595	7,276	116	771
Derivatives	1,648,881		450,417	1,198,464	40,007	77,262
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	
					31-12-2010	31-12-2009
Repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions						
Derivatives	307,034			327,634	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 December 31, 2010 and 2009, BCP Group had no formal credit risk coverage operation involving credit derivatives underway, having benefited, however, from credit risk protection obtained within the scope of the "Promise Caravela 2004" synthetic securitisation operation during the first half of 2009 (this operation was created in December 2004 and cancelled in July 2009). 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 originated 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	
	31-12-2010	31-12-2009	31-12-2010	31-12-2009
I. CREDIT PORTFOLIO (TOTAL):				
a) Credit default swaps		7,567		
b) Total return swaps				
c) Credit linked notes				
d) Other credit derivatives				
II. INTERMEDIATION ACTIVITIES (TOTAL):				
a) Credit default swaps		23,872	2,124,124	2,222,575
b) Total return swaps	19,500	37,539		
c) Credit linked notes	2,147,274	1,766,400		
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

Within the scope of the implementation of the Basel II Accord, the internal rules and procedures relative to credit risk mitigation were revised, so as to fulfil the operational requirements defined in Bank of Portugal Notice no. 5/2007 and to promote an improved collateralisation of credit operations, seeking to ensure that transactions are guaranteed by mitigation instruments that provide an adequate protection against incurred risks.

The eligibility criteria stipulated by the Bank reflect, in addition to the requirements of the Notice, the experience of the Credit Recovery Department (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 MasterScale;
- 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 BCP 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 by the Protection Provider's Degree of Risk, provided the latter's is better than the former's, is applied when:

- There are State guarantees, Mutual Guarantee Companies or financial institutions guarantees;
- 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, 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 considered haircuts 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 the information of the relevant financial markets.

REAL ESTATE: HOME MORTGAGES, COMMERCIAL MORTGAGES AND OTHERS

The procedures with respect to evaluation of the real estate portfolio are identical throughout the Bank and 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).

Evaluations 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 applied methods – 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 in Notice no. 5/2007.

Relative to real estate for housing, in conformity with Bank of Portugal in Notices no. 5/2006 and no. 5/2007, the Bank verifies the respective values through indices or revision by an external evaluation expert within the established requirements:

- If the value of the guarantee is in excess of 500,000 euros, the value is revised by an evaluation expert, every three years;

- If the value of the guarantee is below 500,000 euros, the value is verified every three years, through indices, in those cases in which their use is possible. The non-existence of indices implies the intervention of an evaluation expert.

For all other real estate, outside housing scope, there are no available indices yet. As a result, real estate related with industry – namely factories –, real estate related with housing development processes or even rustic buildings are evaluated by external evaluators.

The indices currently used to verify housing real estate, are provided to the Bank by a specialised external entity, which has for more than a decade been collecting and handling the data on which the respective elaboration is based.

The indices are applied for the purposes of verification of the evaluation values and the revision of the evaluation values, according to the requirements of Bank of Portugal in Notice no. 5/2007, are carried out by external and internal evaluation experts, in this case supported by value revision algorithms developed by the Bank.

The Bank does not use any automated systems to obtain evaluation values – such as simulators –, all evaluations are being carried out by evaluation experts.

To control the verifications of the evaluations carried out through indices, an alert map of devaluations in excess of a specific percentage (currently 10%) is produced in the Bank's central system, which supports analyses of guarantee devaluations or the detection of errors in the input of values, subject to immediate correction.

Tables XXVII and XXVIII summarise the impact, with reference to December 31, 2010, 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	**62,338,691**	**535,430**		**561,270**	**48,422**	**540,952**		**1,726,333**
CL I – Central Governments or Central Banks	9,411,184					161,408		
CL II – Regional Governments or Local Authorities	776,440	2,005				19,536		2,414
CL III – Administrative and non-profit Organisations	2,255,859	178,010				–140,788		5,569
CL IV – Multilateral Development Banks	127,270							
CL V – International Organisations						900		
CL VI – Institutions	8,617,812					1,103,862		423,629
CL VII – Corporates	11,458,622	236,339		73,423	48,422	–139,281		1,011,335
CL VIII – Retail portfolio	7,934,378	95,616		487,806		–489,647		190,924
CL IX – Positions guaranteed by real estate	15,361,559	3,154		41		45,268		68,791
CL X – Past due items	1,580,223	20,306				–20,306		23,671
CL XI – Covered bonds								
CL XII – Exposures on Collective Investment Undertakings (CIU)	434,655							
CL XIII – Other items	4,380,689							

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

TABLE XXVIII-A – CREDIT RISK MITIGATION TECHNIQUES – TOTAL EXPOSURES (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	**56,636,079**	**3,305,251**			**-540,952**			**255,815**	**1,857,755**	**27,076,919**	
Claims or contingent claims on corporates	29,165,448	690,818			-412,910			130,418	1,705,500	5,085,113	
Retail claims or contingent retail claims	27,470,631	2,614,433			-128,042			125,397	152,255	21,991,807	

(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)	135,527			
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 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

Thousand euros

31 December 2009								
			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	**997,233**	**7,526**	**658,609**	**3,667,915**		**10,573**		
Mortgage loans			37	5,092				
Services	243,615			1,790,907				
Consumer credit	77,411		658,572	269,798		10,573		
Construction	147,976			148,865				
Other domestic activities	82,622			342,040				
Other foreign activities	61,317			335,450				
Wholesale business	81,405			50,020				
Other	302,887	7,526		725,743				

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

BCP 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 recognised 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 income statement. The treatment associated with the recognition and reversion of these assets' impairment losses is described in chapter 5.1. "Definitions and policies for the assessment of losses and provisioning". Dividends will be recognised under earnings when the rights to receiving them are attributed.

TABLE XXX – EQUITY EXPOSURES IN THE BANKING BOOK

Thousand euros

	Listed shares		Unlisted shares Private equity		Other capital instruments (*)		Total	
	31-12-2010	31-12-2009	31-12-2010	31-12-2009	31-12-2010	31-12-2009	31-12-2010	31-12-2009
Acquisition cost/Notional amount	34,214	15,414	109,419	782,168	50,682	112,135	194,315	909,717 (1)
Fair value	28,375	7,062	82,718	369,764	45,516	108,668	156,609	485,494
Market price								
Gains or losses arising from sales and settlements in the period							73,367	14,062 (2)
Total unrealised gains or losses							8,450	84,140 (3)
Total latent revaluation gains or losses							-37,706	-424,223 (4)

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) Acquisition cost/Notional amount: in 2009, the capital stake in Eureko (private equity) was recorded in the portfolio of securities available for sale of the Group, in the amount of the equity attributable to the Bank on its last consolidation date (under the equity method). In this map this amount was adjusted to incorporate the goodwill previously deducted from the consolidated reserves in the acquisition cost of the shareholding, in line with its prudential treatment. The investment in Eureko was sold in 2010.

(2) 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.

(3) 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.

(4) 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 bank shares portfolio; however, part of the potential losses may have already been recognized, via results or reserves (namely by impairment or goodwill).

Own funds requirements for risks of the banking book as at 31 December 2009 were calculated in accordance with the standardised approach, i.e. by applying a 100% weight on the value of the risk positions not deducted from own funds, net of provisions. On 31 December 2010, within the scope of the approval by Bank of Portugal for BCP to use the IRB method, BCP Group 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

Thousand euros

	Risk weights	Risk positions [1]		Capital requirements	
		31-12-2010	31-12-2009	31-12-2010	31-12-2009
STANDARDISED APPROACH	100%	45,692	465,661	3,655	37,253
IRB APPROACH [2]		96,163		26,664	
Listed shares	290%	28,136		6,528	
Unlisted shares	370%	68,027		20,136	
TOTAL		**141,855**	**465,661**	**30,319**	**37,253**

(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 SECURITISATION OPERATIONS

On 31 December 2010, the number of credit securitisation operations originated by the BCP Group rose to thirteen, ten of which in Portugal, two in Greece and one in Poland.

Since 1998, BCP Group has regularly carried out securitisation 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 with specialised 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 supplementing a more efficient management of the Bank's balance sheet and its equity. The type of investors targeted by these operations was widely diverse, broad and mainly supplementary considering 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 securitisation 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, BCP 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 BCP Group that acts as Originator also intervenes as Servicer, Transaction Manager and in specific cases, as home bank for the transaction accounts or as counterparty on swap operations.

The main features of the securitisation 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 securitisation operation and of securitised securities and debt, for active operations as at 31 December 2010, are summarised in Tables XXXII and XXXIII.

TABLE XXXII – DESCRIPTION OF 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 millions 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 millions 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 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 interest rate swap (Millennium bcp Bank & Trust) Guarantor of the 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-back swap (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 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) Custodian bank for the Fund accounts (Fund Account & Fund Operating Reserve Account) [Counterparty to the interest rate back-to-back swap]
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) (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 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	
	31-12-2010	31-12-2009	31-12-2010	31-12-2009	31-12-2010	31-12-2009	31-12-2010	31-12-2009
INFORMATION ON THE TRANSACTIONS								
Amounts in debt (in millions of euros)	285.0	323.9	311.2	353.3	684.9	750.0	756.7	831.5
INFORMATION ON THE INVOLVEMENT OF THE LENDER INSTITUTION								
Implicit support situations	N.A.	N.A.	N.A.	N.A.	Yes*	N.A.	N.A.	N.A.
Assets assigned (per institution)/Securitised assets (total) (%)	2%	3%	2%	3%	5%	7%	5%	7%
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	
	31-12-2010	31-12-2009	31-12-2010	31-12-2009	31-12-2010	31-12-2009	31-12-2010	31-12-2009
INFORMATION ON THE TRANSACTIONS								
Amounts in debt (in millions of euros)	231.9	276.2	692.6	684.6	188.1	190.6	1,499.0	1,493.1
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) (%)	2%	2%	5%	6%	1%	2%	10%	13%
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	
	31-12-2010	31-12-2009	31-12-2010	31-12-2009	31-12-2010	31-12-2009	31-12-2010	31-12-2009	31-12-2010	31-12-2009
INFORMATION ON THE TRANSACTIONS										
Amounts in debt (in millions of euros)	523.9	594.6	2,287.7	2,497.3	3,491.4	3,480.3	1,141.8	-	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.	-
Assets assigned (per institution)/Securitised assets (total) (%)	4%	5%	16%	22%	24%	30%	8%	-	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. – Not Aplicable.
(*) During 2010, the bank repurchased 82.4% of Magellan No. 3 residual note. This transaction have been accomplished at fair market value (30 million euros), but have been considered as an implicit support situation for regulatory purposes.

9.2. ACCOUNTING POLICIES OF THE BCP GROUP

The Group consolidates through the full approach the SPE resulting from securitisation 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 SPE risks 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 a 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 securitisation 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.

On the other hand, the Group did not consolidate into its accounts the following SPEs that also resulted from the Group's securitisation 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 the 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, 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 securitisation 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 will sell 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 derecognised, and the sale will be recognised in the consolidated income statements.

9.3. OWN FUNDS REQUIREMENTS

On December 31, 2010 and 2009, the Group only owned securitisation positions as an investor, for regulatory purposes, since the securitisation operations where it was the assignor did not entail a significant transfer of exposure according to the criteria defined in Notice no. 7/2007 of Bank of Portugal and therefore the own funds requirements where determined as if these had not occurred.

The computation of own funds of securitisation operations was made using the standardised approach based on the year of 2009, as per Annex III of Notice no. 7/2007 of Bank of Portugal, and using the Internal Ratings Based approach for securitisation positions with the external rating granted by an ECAI, as of the end of 2010, as per Annex IV of Notice no. 7/2007, of Bank of Portugal.

Regarding the standardised approach, the weight of exposures depends on the level of credit quality, in accordance with the ratings of the ECAI, as per Annex II to Instruction no. 10/2007 of Bank of Portugal. Each quality level defined corresponds to a weight figure. Exposures without external ratings were subject to a 1250% weight.

Also within the scope of the Internal Ratings Based approach, 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 Instruction no. 10/2007 of Bank of Portugal. Exposures without external ratings were also subject to a 1250% weight

The ECAI used in 2010 and in 2009 to compute own funds requirements for securitisation 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		31-12-2010	31-12-2009
TOTAL EXPOSURES (=A+B+C)										**8,857**
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										**8,857**
B.1. – Balance sheet items										8,857
Most senior										8,756
Mezzanine										
First loss										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										

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				1250%		Regulatory formula approach	Internal evaluation approach		
			Amounts deducted from own funds (-)	100%	250%	425%	650%	Position subject to notation	Position not subject to notation	Average risk weight (%)	Average risk weight (%)	31-12-2010	31-12-2009
TOTAL EXPOSURES (=A+B+C)		**550,193**							**101**			**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		**550,193**							**101**			**3,366**	
B.1. – Balance sheet items		550,193							101			3,366	
Most senior		550,092										3,265	
Mezzanine													
First loss		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 2010 and 2009 there were no additional amounts of risk weighted exposures to securitisation operations of renewable exposures with early repayment clauses, regarding the application of the provisos of items 32 to 35 of no. 9 of Annex IV of Notice no. 7/2007 of Bank of Portugal, regarding the Internal Ratings Based approach in effect at the end of 2010, and of the provisos of items 12 to 23 of no. 5 of Annex III of the same Notice, regarding the standardised approach used at the end of 2009, respectively. In addition, in 2010 and in 2009 there were no losses in securitisation operations nor were losses or gains from sales of tranches held by the Group.

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 authorised BCP Group to use the internal models approach to compute own funds requirements in terms of generic market risk of the trading book.

This authorisation encompassed all the sub-portfolios 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 December 31, 2009 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 BCP Group's trading book as at December 31, 2010 and 2009, by type of risk.

TABLE XXXVI – OWN FUNDS REQUIREMENTS FOR THE TRADING BOOK

Thousand euros

	31-12-2010	31-12-2009
TOTAL TRADING BOOK RISKS (=Σ(1.A 3.))	**39,551**	**19,468**
1. EXPOSURE RISK (1.1.+1.2.)	*39,551*	*19,448*
1.1. Standardised approach for the trading book (=Σ(1.1.1. a 1.1.6.))	15,381	16,280
1.1.1. Debt instruments	14,795	15,597
1.1.1.1. Specific risk	10,688	9,315
1.1.1.2. General risk	4,107	6,282
1.1.2. Equity securities	586	683
1.1.2.1. Specific risk	586	683
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	24,170	3,168
2. COUNTERPARTY CREDIT RISK (=Σ(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		**20**

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

10.1. COMPUTATION METHODS

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 Part 2 of Annex II to Bank of Portugal Notice no. 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 no. 8/2007.

On the other hand, 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 sub-portfolios 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 2010 and 2009:

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

Thousand euros

	'10	'09
Maximum	26,275	8,955
Average	7,019	3,100
Minimum	2,100	874
Amount on December, 31	12,494	3,582

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 sub-trading 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 no. 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, analysis the results of those stress tests.

Table XXXVIII summarises the results of these tests on the Group's global trading book on 31 December 2010, indicating that its exposure to the various risk factors is limited and that the main risk is the increase in interest rates, especially if it also implies an increase of long-term rates above that of short-term rates.

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.	-20.6
Change in the scope of the yield curve (for maturities from 2 to 10 years) by +/- 25 b.p.	+ 25 b.p.	-2.5
4 possible combinations of the pevious 2 scenarios	+ 100 b.p. and + 25 b.p.	-23.0
	+ 100 b.p. and - 25 b.p.	-18.1
Variation in the main stock market indices by +/- 30%	- 30%	-2.8
Variation in foreign exchange rates (against the euro) by +/- 6% for the main currencies and by +/- 20% for other currencies	+ 6%, + 20%	-3.9
Variation in the swap spreads by +/- 20 b.p.	+ 20%	-0.1

10.3. BACKTESTING THE INTERNAL MODELS APPROACH

The Group carries out verifications *a posteriori* of the results of this model (backtests), in relation to the theoretical results obtained by the target portfolio of the calculation, unchanged between two consecutive working days and revalued 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, 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 recording of operations.

With regards to verification of the results of the model carried out *a posteriori*, the number of excesses recorded in 2008, 2009 and 2010, 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
2008	0
2009	0
2010	3

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 5 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 backtesting, for the trading book centrally managed from Portugal in 2010.

VaR BACKTESTING – TRADING BOOK (PORTUGAL)

Thousand euros

As previously mentioned, we were only able to find three excesses in the model's hypothetical results, confirming its adequacy to evaluate the risks in question.

The VaR increases in some periods of 2010 are caused by the simultaneous occurrence of periods of 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 backtesting to the trading book managed from Portugal in 2010. There is an excess when the value (in absolute terms) of the theoretical result is higher than the VaR:

TABLE XL – HYPOTHETICAL BACKTEST OF THE TRADING BOOK (PORTUGAL) – 2010

Thousand euros

Date	VaR	Hypothetical results	Date	VaR	Hypothetical results	Date	VaR	Hypothetical results
04-01-2010	3,788	-1,664	09-03-2010	2,324	-642	12-05-2010	26,275	-1,943
05-01-2010	3,750	233	10-03-2010	2,466	1,676	13-05-2010	25,997	-351
06-01-2010	3,598	837	11-03-2010	3,096	971	14-05-2010	24,594	-6,025
07-01-2010	3,587	-911	12-03-2010	3,396	-1,321	17-05-2010	23,164	3,191
08-01-2010	3,623	-2,073	15-03-2010	3,229	-470	18-05-2010	22,381	-282
11-01-2010	3,815	773	16-03-2010	3,106	-1,192	19-05-2010	21,718	5,879
12-01-2010	3,862	-743	17-03-2010	3,239	-1,013	20-05-2010	20,743	-2,447
13-01-2010	3,091	12	18-03-2010	3,189	-1,446	21-05-2010	19,556	791
14-01-2010	2,991	-1,480	19-03-2010	3,291	437	24-05-2010	19,075	-1,615
15-01-2010	2,912	-1,090	22-03-2010	3,048	-959	25-05-2010	20,455	2,854
18-01-2010	2,906	805	23-03-2010	3,033	-1,958	26-05-2010	24,608	-3,016
19-01-2010	3,125	-1,282	24-03-2010	2,904	821	27-05-2010	24,407	-235
20-01-2010	3,383	1,362	25-03-2010	2,865	280	28-05-2010	23,871	-1,293
21-01-2010	3,381	1,887	26-03-2010	2,776	1,772	31-05-2010	23,364	-2,664
22-01-2010	3,467	-1,363	29-03-2010	2,831	-669	01-06-2010	22,191	2,288
25-01-2010	3,297	-219	30-03-2010	2,924	-541	02-06-2010	21,454	1,263
26-01-2010	3,374	-1,048	31-03-2010	3,079	-2,023	04-06-2010	19,804	-8,966
27-01-2010	3,203	-682	01-04-2010	3,352	682	07-06-2010	8,902	-644
28-01-2010	3,130	-1,141	05-04-2010	3,251	-433	08-06-2010	8,855	1,858
29-01-2010	3,184	-2,698	06-04-2010	3,562	-696	09-06-2010	18,938	1,178
01-02-2010	3,403	-426	07-04-2010	4,445	-1,975	11-06-2010	9,110	-396
02-02-2010	3,535	596	08-04-2010	3,440	2,446	14-06-2010	9,164	-1,578
03-02-2010	2,100	-1,369	09-04-2010	3,103	2,711	15-06-2010	8,286	1,479
04-02-2010	**2,877**	**-4,839** [1]	12-04-2010	3,441	727	16-06-2010	4,123	302
05-02-2010	2,981	-515	13-04-2010	3,322	443	17-06-2010	4,224	-954
08-02-2010	2,762	1,969	14-04-2010	3,136	-1,084	18-06-2010	4,291	-491
09-02-2010	2,355	-335	15-04-2010	3,233	643	21-06-2010	4,829	-1,629
10-02-2010	2,622	819	16-04-2010	3,501	-41	22-06-2010	4,873	-215
11-02-2010	2,350	-1,364	19-04-2010	3,741	41	23-06-2010	4,726	951
12-02-2010	2,694	492	20-04-2010	3,584	-2,409	24-06-2010	4,268	29
15-02-2010	2,577	1,395	21-04-2010	3,244	-804	25-06-2010	4,190	1,890
17-02-2010	2,935	485	22-04-2010	3,256	232	28-06-2010	3,813	-1,316
18-02-2010	2,932	309	23-04-2010	3,347	389	29-06-2010	3,699	-456
19-02-2010	2,785	1,492	26-04-2010	3,229	1,721	30-06-2010	3,585	-492
22-02-2010	2,470	-675	27-04-2010	3,002	-824	01-07-2010	4,000	2,122
23-02-2010	2,846	-1,373	28-04-2010	3,225	-645	02-07-2010	3,932	1,141
24-02-2010	2,699	-1,380	29-04-2010	3,195	1,370	05-07-2010	3,947	818
25-02-2010	2,725	903	30-04-2010	3,037	-1,895	06-07-2010	4,099	1,164
26-02-2010	2,469	-1,347	03-05-2010	3,494	254	07-07-2010	3,789	1,576
01-03-2010	2,374	154	04-05-2010	4,059	-2,753	08-07-2010	4,064	1,941
02-03-2010	2,296	912	05-05-2010	3,633	-3,548	09-07-2010	3,907	1,661
03-03-2010	2,254	430	06-05-2010	3,229	-874	12-07-2010	4,117	939
04-03-2010	2,313	-921	07-05-2010	3,298	1,553	13-07-2010	3,880	542
05-03-2010	2,280	1,557	**10-05-2010**	**6,421**	**7,275** [2]	14-07-2010	3,623	-508
08-03-2010	2,248	-895	11-05-2010	18,565	-1,120	15-07-2010	3,651	406

continues

(1) Increase by 3.4% of JPY/EUR XS and by 1.2% of USD/EUR XS.
(2) Decrease of up to 310 b.p. on Portuguese bond rates, 2 to 9 years, and decrease of up to 1073 b.p. of Greek bond rates.

continuation

Thousand euros

Date	VaR	Hypothetical results	Date	VaR	Hypothetical results	Date	VaR	Hypothetical results
16-07-2010	3,677	1,452	17-09-2010	5,233	-2,746	23-11-2010	12,164	-7,281
19-07-2010	3,643	-478	20-09-2010	4,492	-1,511	24-11-2010	12,909	-9,372
20-07-2010	3,485	-1,073	21-09-2010	3,911	-323	25-11-2010	12,960	1,899
21-07-2010	3,422	-653	22-09-2010	4,774	1,171	26-11-2010	12,502	8,347
22-07-2010	3,548	96	23-09-2010	4,589	-1,778	29-11-2010	12,241	-6,586
23-07-2010	3,657	-621	24-09-2010	4,664	-1,658	30-11-2010	12,480	-607
26-07-2010	4,038	16	27-09-2010	5,116	737	**02-12-2010**	**13,469**	**14,136 (3)**
27-07-2010	4,368	789	28-09-2010	4,684	-1,517	03-12-2010	19,678	12,073
28-07-2010	4,723	-1,400	29-09-2010	4,286	306	06-12-2010	20,870	-1,096
29-07-2010	4,683	-870	30-09-2010	3,983	-28	07-12-2010	20,037	2,030
30-07-2010	4,815	-1,305	01-10-2010	4,142	-821	09-12-2010	19,334	-7,699
02-08-2010	5,078	-713	04-10-2010	4,235	1,212	10-12-2010	19,158	272
03-08-2010	5,204	-359	06-10-2010	4,726	-892	13-12-2010	18,271	-2,661
04-08-2010	5,152	0	07-10-2010	4,536	695	14-12-2010	18,241	-3,212
05-08-2010	5,093	-187	08-10-2010	4,495	-1,265	15-12-2010	17,375	-1,740
06-08-2010	5,044	-985	11-10-2010	4,598	438	16-12-2010	16,786	-731
09-08-2010	5,018	1,197	12-10-2010	4,554	-1,266	17-12-2010	16,046	-311
10-08-2010	4,682	-1,841	13-10-2010	4,582	-3,439	20-12-2010	16,071	-3,775
11-08-2010	4,548	-581	14-10-2010	4,863	322	21-12-2010	15,610	-1,065
12-08-2010	4,616	4,225	15-10-2010	4,642	2,328	22-12-2010	14,893	-3,264
13-08-2010	5,091	-2,260	18-10-2010	4,450	2,633	23-12-2010	14,572	-906
16-08-2010	5,025	-1,285	19-10-2010	6,237	710	27-12-2010	14,436	-826
17-08-2010	5,093	-923	20-10-2010	5,086	-1,126	28-12-2010	14,391	-6,916
18-08-2010	5,350	-1,495	21-10-2010	5,054	785	29-12-2010	14,846	3,975
19-08-2010	5,445	1,718	22-10-2010	5,263	-2,572	30-12-2010	13,038	-838
20-08-2010	5,068	79	25-10-2010	5,277	1,652	31-12-2010	12,494	632
23-08-2010	4,901	-54	26-10-2010	5,179	1,890			
24-08-2010	4,698	-2,505	27-10-2010	7,212	-2,861			
25-08-2010	4,561	-966	28-10-2010	7,442	-1,502			
26-08-2010	4,449	585	29-10-2010	7,206	-807			
27-08-2010	4,361	26	02-11-2010	7,096	-4,577			
30-08-2010	4,409	87	03-11-2010	7,060	-3,730			
31-08-2010	4,537	-1,056	04-11-2010	7,204	-2,446			
01-09-2010	4,390	1,533	05-11-2010	7,105	-713			
02-09-2010	4,904	328	08-11-2010	6,894	-3,768			
03-09-2010	4,801	-58	09-11-2010	7,012	-883			
06-09-2010	4,845	-2,566	10-11-2010	12,587	-7,892			
07-09-2010	4,883	-2,054	11-11-2010	12,988	-4,953			
08-09-2010	6,244	262	12-11-2010	12,769	11,472			
09-09-2010	5,781	2,581	15-11-2010	13,749	1,842			
10-09-2010	5,532	300	16-11-2010	13,350	-1,553			
13-09-2010	5,377	1,025	17-11-2010	13,533	-703			
14-09-2010	5,244	1,599	18-11-2010	13,037	76			
15-09-2010	4,994	850	19-11-2010	12,774	-1,419			
16-09-2010	5,178	253	22-11-2010	12,502	3,888			

(3) Decrease of up to 68 b.p. of Portuguese bond rates and increase by 1.7% of the Dutch stock index.
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 December 31, 2010 and 2009, 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 2010 and of 2009.

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 to Bank of Portugal Notice no. 8/2007.

On the other hand, 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 to Bank of Portugal Notice no. 8/2007.

Own funds requirements for exchange rate risks and commodities risks calculated by BCP Group, with reference to December 31, 2010 and 2009, are shown in Table XLI.

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

Thousand euros

	31-12-2010	31-12-2009
1. EXCHANGE RATE RISK (1.1.+1.2.)	**9,040**	**8,517**
1.1. Standardised approach	2	
1.2. Internal models approach	9,038	8,517
2. COMMODITIES RISK (= (2.1.TO 2.2.))	**10**	**12**
2.1. Standardised approach (=Σ(2.1.1.to 2.1.4.))	10	12
2.2.1. Maturity ladder approach or simplified approach	10	12
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 December 31, 2010 and 2009, the Group calculated own funds requirements for operational risk in accordance with the standardised approach, pursuant to the authorisation granted by Bank of Portugal for this purpose, effective as at March 31, 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 Notice no. 9/2007 and Instruction no. 23/2007 of Bank of Portugal, 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 operational 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. On the other hand, the recoveries of interest in arrears and expenses, which, on a consolidated basis, are recorded in the reversions of impairment losses item, are added to the gross income.

In addition, 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. On the other hand, other operational 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 no. 104/2007, of April 3.

The values thus obtained for the previously identified items were adjusted by the non-current amounts of the activity that were still included in the gross income. In this context, and for the 2007 to 2010 period included in this analysis, as explained in the following paragraph, the commission costs supported within the scope of the merger project and the Takeover Bid for Banco BPI, S.A. were reversed, which added 103 million euros to the gross income of 2007.

12.2. OWN FUNDS REQUIREMENTS FOR OPERATIONAL RISK HEDGING – STANDARDISED APPROACH

Own funds requirements calculated in accordance with the standardised 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 no. 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 private Customers 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 those 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 income 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 and materially relevant, which require the contribution of own management information systems. On the other hand, 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 parallel, 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 Turkey, Romania, Switzerland, USA, 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.

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 December 31, 2010, BCP Group reported 342 million euros of own funds requirements for operational risk, having reported 349 million euros as at December 31, 2009, as per Table XLII.

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)					

TABLE XLII – GROSS INCOME FOR OPERATIONAL RISK

Thousand euros

Segments	Gross Income 2009			Memorandum items: advanced measurement method – reduction of own funds requirements (2009)	
	'07	'08	'09	Expected losses captured in business practices	Risk transfer mechanisms
1. BASIC INDICATOR APPROACH					
2. STANDARDISED APPROACH	2,702,691	2,776,289	2,517,387		
Corporate finance	35,821	38,219	30,064		
Trading and sales	-125,537	43,949	123,054		
Retail brokerage	41,362	27,300	25,815		
Commercial banking	613,346	590,088	637,563		
Retail banking	1,939,011	1,909,478	1,529,201		
Payment and settlement	95,237	99,421	122,113		
Agency services	56,843	40,179	30,752		
Asset management	46,609	27,656	18,825		
ADVANCED MEASUREMENT APPROACH (a)					

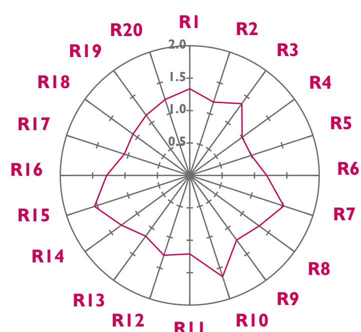
(a) Information on the relevant indicator for activities subject to the advanced measurement approach.
Note: The gross income of 2007 and 2008, calculated with reference to the reporting of December 31, 2009, changed from the reporting of the previous year, following the specifications introduced by the Bank of Portugal, in the first quarter of 2009, with respect to the scope and accounting items to consider in the determination of the gross income.

12.3. OPERATIONAL RISK MANAGEMENT

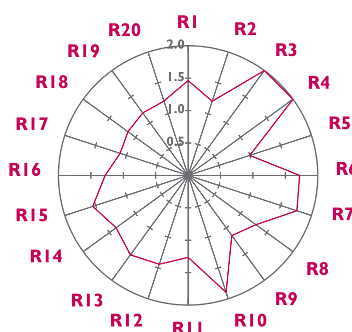
Operational risk management is based on an end-to-end process structure, defined for all the Group's subsidiary companies, and the responsibility for their management was given to process owners, who must: characterise operational losses captured within their processes; carry out the Risk Self-Assessment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

The graphs below show the results of the RSA made in 2010 in Portugal, Poland and Greece, on the average score of each of the 20 risk subtypes defined for operational risk within the set of processes assessed. The outside border represents a 2.0 score on a scale of 0 (less serious) to 5 (most serious).

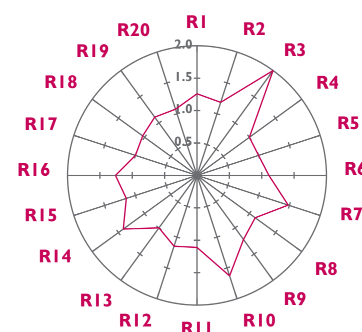
PORTUGAL



POLAND



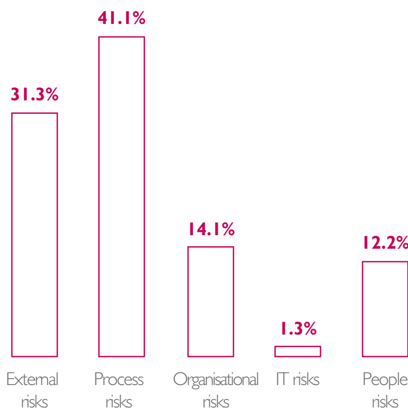
GREECE



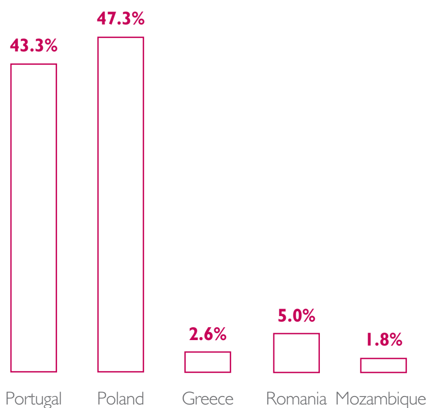
R1 Internal fraud and theft
R2 Execution of unauthorised transactions
R3 Employee relations
R4 Breach of work health & safety regulations
R5 Discrimination over Employees
R6 Loss of key staff
R7 Hardware and software problems
R8 Problems related to telecom services & lines
R9 Systems security
R10 Transaction, 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 Outsourcing related problems
R19 Other third parties' related problems
R20 Project risks

The operational 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.

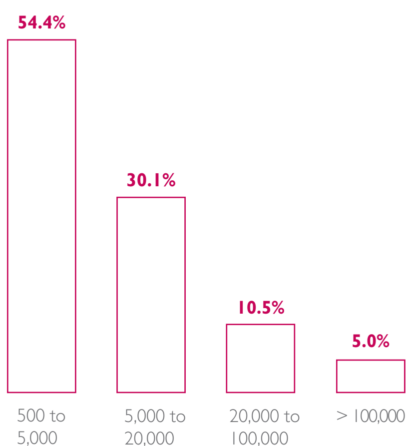
LOSS AMOUNTS DISTRIBUTION
By type of event



LOSS AMOUNTS DISTRIBUTION
By country



LOSS AMOUNTS DISTRIBUTION
By amount range
Euros



The following graphs feature the profile of accrued operational losses until December 31, 2010.

A set of KRI was identified, implemented and monitored within the Group's various operations. 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.

KRI were initially implemented in the Romania subsidiary (test) and, in 2010, also began to be systematically adopted to prevent potential risks in a set of processes relevant in Portugal, Poland and Greece.

At the same time, the Group continued to strengthen and perfect its business continuity management during the 2010 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 (BCP), 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 BCP, 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.

On the other hand, 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, or presented by the heads of areas or organic units, and are analysed by the Risk Commission and decided on by the EBD.

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 operational 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 included in the trading book, including the positions resulting from institutional funding operations and in monetary markets, as well as commercial operations and investment portfolio securities.

The market interest rates variation has impact on the Group's net interest income, 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 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.

Within the scope of the calculation of economic capital, correlations between the interest rate risk in the banking book and other types of risks were identified. These correlations were obtained by analysing the historical series of losses originated by different risks, with the strongest correlation observed in equity risk.

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 overdue loans.

Table XLIII illustrates the impacts on the shareholders' equity of the Group as at December 31, 2010 and 2009, 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

		31-12-2010	31-12-2009
Value	+200 b.p.	-122,332	39,050
	-200 b.p.	217,167	25,206
% Shareholders' equity	+200 b.p.	-1.7%	0.5%
	-200 b.p.	3.0%	0.3%

Taking into consideration the historically low level of short term market rates of the main currencies in the Bank's consolidated balance sheet on December 31, 2009, 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 on this date. These impacts were inclusively positive in both scenarios, namely in the decrease of interest rates (-200 b.p.), which is influenced by the restriction of the non-existence of negative interest rates and by the different sensitivities of the short term (net positions with a positive BPV) and medium and long term positions (net positions with a negative BPV) of the Group's balance sheet to interest rate risk.

In 2010 the values resulting from these scenarios are higher due to the increase in this specific exposure (in absolute terms) due to the increase of the fixed rate securities portfolio. This year, the values observed are also not symmetrical in rate increase/decrease scenarios, since rate levels, for some maturities, are under the variation considered in the scenarios. Thus effectively, the variation of the decrease scenario is lower than that of the increase scenario. This effect is also experienced, and to a greater extent, in the 2009 figures.

In 2010, since interest sensitive assets have greater weight and term than interest sensitive liabilities, the effect of an interest rate increase scenario is negative, while the decrease scenario is positive.

2010 Market Discipline Report

©Millennium bcp

www.millenniumbcp.pt

Banco Comercial Português, S.A.,
Public Company

Registered Office:
Praça D. João I, 28
4000-295 Porto

Share Capital:
4,694,600,000 euros

Registered at the Commercial
Registry Office of Oporto
under the single registration
number and TIN 501 525 882

Typesetting:
Choice – Comunicação Global, Lda.

April 2011

Millennium
bcp
Life inspires us