Banco Finantia

ANNUAL REPORT 2010
(CONSOLIDATED ACCOUNTS)

Annual Report 2010

Board of Directors Report

Consolidated Financial Statements

Statutory Audit Report

2010 Consolidated Annual Report

Board of Directors Report

Macroeconomic Environment

Global Environment

After having suffered the sharpest recession since the 1930s, the global economy experienced positive growth in 2010. IMF estimates point to a 5% global output growth, a rate much higher than expected by forecasters some months ago. The fears of a double-dip recession in the US which might have spread to the rest of the world did not materialise.

China, the world's second largest economy, was expected to suffer a hard-landing which did not happen and the country's economy is believed to have grown at a rate of 10.5% in 2010. India has also followed closely behind with an IMF estimated 2010 growth rate of 9.7%. The other two countries representing the "BRIC", Brazil and Russia have been estimated by the IMF to have grown by 7.5% and 4% in 2010, respectively.

The Eurozone operated at two speeds with the Northern countries growing impressively. Germany, the world's fastest-growing large developed economy, is estimated to have grown at a robust 3.3% in 2010. The peripheral economies on other hand saw their GDPs contract, with the exception of Portugal. Greece and Ireland, two of the troubled peripheral economies suffered IMF interventions. On the whole the zone grew at an IMF estimated 2010 rate of 1.7%.

For 2011 the performance of the global economy depends largely on the performance of the US, the Eurozone and the BRICs which appear to be moving in different directions. Whilst the Eurozone is implementing strict austerity measures that should see growth in this region slow to 1.5% according to IMF estimates, the US has furthered its stimulus package with the tax agreement of December 2010. The BRICs are expected to continue to grow although fears of the economy overheating and high inflation continue to be present. The IMF projects 2011 growth rates of 4.1% for Brazil, 8.4% for India, 4.3% for Russia and 9.6% for China.

On the whole, the emerging and developing economies are projected by the IMF to grow at 6.4% in 2011 after an expected 2010 growth rate of 7.1%. Growth rate for the CIS region is projected at 4.6% in 2011, up from an estimated 4.3% in 2010. The Turkish

GDP is estimated to have grown an impressive 7.8% in 2010 on the back of a recovery in investment and domestic consumption, after having experienced a pronounced economic deterioration in 2009, with real GDP contracting by 4.7%. IMF projections for 2011 indicate a slower growth at 3.6% mainly derived from the problems in the Eurozone, although domestic consumption is expected to continue strong.

The economic environment in the Iberian Peninsula

After a significant 2.6% GDP contraction in 2009, Portugal's economy began showing signs of expansion in the beginning of 2010. IMF projects a growth rate of 1.1% for 2010 with a slowing down in 2011 as the austerity measures aimed at addressing the country's macroeconomic imbalances and structural vulnerabilities take effect. The high levels of unemployment that undermine a sustained upturn in private demand coupled with the expected contraction in investment and public expenditure adds further pressure to growth. On a positive note, the IMF expects net exports to continue to provide a positive contribution to growth.

Spain, another of the peripheral countries that has been severely affected by the global crisis registered a 3.7% contraction in 2009. The IMF projects it will improve to a negative 0.3% in 2010 and a positive 0.7% in 2011. The subdued growth in 2010 and 2011 mirrors the austerity package that included cuts to public sector pay, the reform in the country's savings banks and the rigid labour market. Also affecting growth are further adjustments in the housing sector, high levels of unemployment (close to 20%) and a high degree of private indebtedness. Fiscal consolidation will put an additional drag on the recovery in the short term but it will be crucial in improving confidence among domestic and international economic agents.

Operational Activities

The highly volatile macroeconomic environment in 2010 and the sovereign crisis in Europe's peripheral countries, including Spain and Portugal, led the Bank to maintain a highly conservative posture on most business areas, particularly those requiring medium-term funding. The deleveraging policy was maintained while a niche focused strategy on Private Banking, Financial Advisory Services and the sales and trading of Fixed Income and Trade Finance assets has continued to be emphasized. The Consumer Finance activity was reduced reflecting both market conditions and an extremely selective credit policy.

Corporate Finance

In the area of **Corporate Finance**, the Bank has continued to focus its activities on Financial Advisory, identifying cross-border opportunities for its clients. The Iberian Peninsula and the Brazil corridor have continued to be the focus of Banco Finantia's operations. The Bank's presence in the CIS region is increasingly gaining significance.

Banco Finantia, in partnership with an Indian Bank, has also initiated operations in India working on several investment opportunities for its Portuguese and International clients.

Maintaining its status as the leading independent investment bank operating in Portugal, Banco Finantia has continued assisting its clients to identify and analyse business opportunities in sectors such as Media, Tourism, Engineering and Construction, Food and Beverages, Energy and Information Technology.

Advising international companies in their restructuring processes is gaining importance in Banco Finantia's portfolio of products with 2010 having seen a significant evolution in this business activity.

Although the global economic uncertainty during 2010 was responsible for the postponement of several mandates, we expect positive developments for 2011.

Capital Markets

The Capital Markets department of the Bank continued to expand its activity, increasing the volume of fixed income securities placed and traded, augmenting the range of products and the number of clients.

We have leveraged our activity on a highly qualified team and on nearly two decades of track record, in which we built our reputation as a highly recognized player in the primary and secondary fixed income markets through distribution bases in Portugal, Spain, London, São Paulo and New York.

Our flexible structure permits a swift adjustment to market changes and investors' preferences always assuring the full satisfaction of our clients needs.

We continue to be actively present in the primary and secondary bond markets adopting a multi-product strategy – emerging, high yield, investment grade, and convertible bonds. This year we have placed a stronger emphasis on the sovereign, bank and corporate debt of the peripheral EU countries especially that of Portugal, Spain and Greece, taking advantage of the demand created from arbitrage opportunities.

Our sales benefit from regular inter-office rotation and this has facilitated the offer of a global cross-border service to our clients in Europe and the Americas.

With an objective of increasing our placement capability, we have continued to expand our investor base. Besides Europe, we have gained new clients in Uruguay, Chile, Venezuela and Brazil, and in various regions of the USA such as New York, Boston, Miami, Chicago and San Francisco.

We note the success in the USA of our partnership with our shareholder VTB, where we have intermediated a rising volume of transactions of Russian names (fixed income and equities) originated by them.

Trade Finance

In line with last year, in the area of **Trade Finance and Loans**, we have focused on managing the existing portfolio and on secondary market activity, taking advantage of arbitrage situations created by the market volatility. Following the deleveraging policies of the last two years, 2010 saw a further reduction in the loan portfolio.

The emerging countries syndicated loan primary market saw a gradual return to normality during 2010, namely in the principal economies of Latin America and Russia. In line with recent years, a major part of the Trade Finance activities involved the secondary markets pertaining to corporate and financial issuers from the emerging markets of Eastern Europe, Turkey, Middle East, Latin America and South Africa. Given the volatility seen in the Western European markets, there were also a number of opportunities for loans from the secondary markets of Portugal, Greece, Ireland, and Central Europe.

The relative return to normality and the improved liquidity in the market brought with it a corresponding reduction in the financial margins which were mitigated to some extent by the almost doubling of volumes transacted in 2010 vis-à-vis 2009.

Consumer Finance

In 2010, the **Consumer Finance** activity undertaken by our Sofinloc subsidiary in the Iberian Peninsula continued to focus on financing the acquisition of passenger cars and light commercial vehicles. Similar to previous years, the segments of individuals, self-employed professionals and small and medium sized companies continued to be the main targets, with the offer of credit, leasing and hire-purchase products.

Business continued to be conducted primarily through the auto dealers, both single-brand concession holders and secondary market auto traders (multi-brand).

The Iberian market for new light motor vehicles grew year-on-year inverting the negative trend of the last two years. Nevertheless, the second-hand market segment fell circa 10%.

The gross consumer credit portfolio reached EUR 720 million at year-end, with Portugal representing 71% of the total (EUR 513 million) and Spain the remainder (EUR 207 million).

As a complement to its main activity, Sofinloc continued to intermediate/sell auto and life insurance closing 2010 with a commission volume of EUR 4.3 million.

Private Banking

In 2010, Banco Finantia, in line with the last few years, further consolidated its Private Banking activities increasing the client base and the volume of assets under management.

One of the factors that contributed to this growth was the strengthening of the sales team, allowing for a greater monitoring of our clients’ needs. In a context conditioned by the instability of international financial markets, Finantia Private has adapted its value proposition with the aim of presenting a more diverse range of financial services, while maintaining its key principle of profitability and capital preservation.

During the year, and with a view to promote Finantia Private's activities, we undertook a number of initiatives of which we highlight the numerous economy related lectures and the sponsoring of sporting events, among other.

In 2011, Finantia Private will continue to follow its well defined growth path by selectively increasing its client base as well as broadening the relationship with its existing clients. Our actions are undertaken with discretion, confidentiality and independence, and with permanent attention to the profitability of the portfolios and the protection of our clients' assets.

The Bank offers Private Banking services at its offices in Lisbon, Porto, Madrid, Barcelona and Valencia.

Treasury

The year 2010 was characterized by growing asymmetries in financial markets, where a stronger than expected global growth was counterbalanced by increased credit restrictions on some Euro Zone countries. The increased perception of sovereign risk, first in relation to Greece and later towards Ireland also affected the Iberian countries with its banks facing increasing restrictions in obtaining funding in the international markets.

The Bank's Treasury Department has been quite active, controlling and hedging all major financial risks arising from Group Banco Finantia's various activities as well as originating the funding required for our activities.

The Bank continued to implement its deleveraging strategy introduced in 2008. We highlight the full repayment of two syndicated loans in the amounts of EUR 175 million in January 2010 and EUR 190 million in June 2010.

The year 2010 was also characterized by Banco Finantia's continued efforts to diversify its sources of funding which has resulted in a more balanced distribution of its various liabilities.

Contributing to this achievement was the rise in retail deposits, the increment in the number of active counterparties in the collateralized and non-collateralized interbank market and the increase in the available volumes for collateralized funding as a result of the adjustment in the risk profile of the Bank's bond portfolio.

This positive outcome has provided the Bank with excess short-term liquidity, which allows the bank to face with optimism the challenging environment forecast for 2011.

Support Areas

Information Systems and Operations

In 2010, the **Information Systems Department** proved again to be fundamental for the good operational performance of the Banco Finantia Group vis-à-vis clients, markets and employees in general.

Projects undertaken were directed towards reducing operational risk and improving and optimizing the costs of management reports without any loss in efficiency and operational effectiveness. Among the projects undertaken we highlight:

- Revision of the Software and Hardware maintenance contracts that support the Group's operations, reducing operational costs;

- Introduction of the Desktop operating system Microsoft Windows 7 due to its characteristics of security, robustness, reliance and performance compared to its predecessors, increasing users productivity;

- Adoption of Microsoft Windows 2008 as the operating system for the Bank's servers due to its robustness and greater management flexibility, reducing operational costs;

- Server Virtualization through VMware allowing for a reduction in investment and maintenance costs as well as storage space required in the Data Center.

- Update of the Business Continuity Plan (BCP) in accordance with the recommendations on business continuity management in the Financial Sector, extending the coverage of Services / Applications to more Departments. The Datacenter installations and the existing resources in the Disaster Recovery Center of the Group were also increased in line with the plan;

- Commencement of the SEPA / CT project in accordance with the Rulebook of the Bank of Portugal, with its adherence to the Models 1 and 2, and the migration of ATM File Transfer solution provided by SIBS, benefiting from two-way communication in real time;

- Amendment of existing reporting instructions to the Bank of Portugal (such as the case of EMF's - Monetary and Financial Statistics) and introduction of new reports. The development of an application that centralizes prudential reporting (*FinEngine*) has been expanded;

- Improvement of the Intranet with new services and routines that include the integration of processes related to Human Resources and the sharing of documents between departments;

- Analysis of the adequacy of the main operational systems of the Bank. For the Front-Office operations a decision was taken to continue using Reuters and upgrade the Kondor+ system that is currently in use. This upgrade is in the final stages of implementation. In relation to the central system of the Back Office, an analysis of the current system is in progress with the aim of increasing its efficiency, flexibility and security levels. The analysis is expected to be concluded in the first quarter of 2011.

In 2010, the **Operations Department** saw a significant increase in the volume of transactions processed, while increasing the precision of its internal controls in a context of expanding operational and reporting demands from the market and regulatory authorities. The Bank implemented the SEPA payment systems and improved the internal control and operational procedures. As a result, the already existing elevated levels of quality, security and efficiency in the processing of transactions was maintained.

Additionally, a profound revision of all the operational processes was done as required by the project undertaken to re-evaluate the current system that supports the bank's global banking operations. The implementation of a new application will automate all the processes from the front office stage of operations to the control, processing and accountancy stages thereby creating higher levels of efficiency at reduced costs.

For 2011, the Operations Department will continue to focus on developing processes that will further increase the level of efficiency and internal control and the capacity to handle contingency situations without compromising security.

Human Resources

In Banco Finantia Group, human capital is the main asset and its progression and motivation the main challenge for the **Human Resources** policy. Emphasis is laid on the continuous training and motivation of employees preparing them to face challenges that arise during the course of their work. Only with well-trained and motivated employees can the bank face the future with confidence and achieve its corporate goals.

In 2010, in spite of the crisis, the Bank maintained its training policies, identifying suitable programs that would benefit the personal and professional ambitions of its employees. During the year, in line with a defined training plan that was designed to achieve desired objectives, 27 internal and external training programs involving circa 100 employees corresponding to over a thousand hours of training were organised. This plan was based on two basic pillars, namely, a general program that was transversal to the Bank and a specific program that was oriented towards the needs of each department and area of activity.

The Group also continued to implement its policy of internal rotation, seen as an important and continuing professional development tool and to disseminate the culture of the organization. In the year 2010, 15% of the Group's employees changed department or functions. The rotation also involved the relocation of some staff from headquarters to branch offices abroad (Spain, UK, USA and Brazil) and training at the headquarters of the staff from those offices.

In terms of performance management the system used internally was reviewed, with certain areas undergoing a readjustment of competency profiles, generic and specific. The results obtained in the annual assessment process, both in relation to the assessed employee as well as the assessor, are an essential tool for identifying the needs of the organization.

At the end of the year, the Group had 341 employees, of which 245 were in Portugal and 96 in the Group's offices abroad (Spain, UK, USA and Brazil). The average age is 40 years, with more than 50% being graduates.

Social Responsibility, Cultural Patronage and Education

Social Responsibility

Continuing its policy of supporting charitable organisations, in 2010 Banco Finantia undertook specific social actions aimed at assisting disadvantaged children with or without special needs, such as:

- CADin (Child Development Support Center): an institution whose aims are to integrate into society children and youth with developmental disorders;

- "Banco do Bebé": an association that helps underprivileged families of babies born at Alfredo da Costa Maternity in Lisbon;

- "Liga dos Amigos do Hospital S. João do Porto": an association that helps underprivileged children and elderly people when they are in the hospital;

- "APSA" - Associação Portuguesa do Síndroma de Asperger": an institution that supports children and young people carriers of a specific genetically-based neurobehavioral disorder;

- "Raríssimas": an association that helps people with rare diseases. Banco Finantia supported the "Casa dos Marcos" project, a building whose foundation stone was laid in March 2010, designed to give medical, therapeutical and residential support to young people with a mental disability.

Cultural Patronage

Within the scope of cultural patronage, the two institutions that have received Banco Finantia's support over the years are the Palácio Nacional da Ajuda, in Lisbon, and the Fundação de Serralves, in Oporto. The Bank is an active patron of the former since 1997 and is proud to be a Founding member of the Fundação de Serralves, where it has sponsored several cultural and social programs.

Education

In this area, we have once again cooperated with ISEG - Instituto Superior de Economia e Gestão of the Universidade Técnica de Lisboa (Technical University of Lisbon) by giving a prize to the best first year Masters student of International Economics and European

Studies. The Bank is also a founding member of the “Fundação Económicas – Fundação para o Desenvolvimento das Ciências Económicas, Financeiras e Empresariais” (Economics Foundation - Foundation for the Development of Economic, Financial and Entrepreneurial Sciences).

Future Prospects

The crisis in Europe’s peripheral countries and the restrictions on medium-term funding, particularly on the ABS market are altering the Bank’s strategic options, as well as other banks in the Euro zone. On one hand, medium-term asset based activities are somewhat limited, on the other, demand for transparent and quality Private Banking Services, expert M&A and Restructuring Advice, and highly focussed Capital Markets capabilities create opportunities that we intend to continue to capitalize upon.

In this context we envisage for 2011 a relative stability of total assets (with the bulk of the deleveraging already done in previous years) and an emphasis on Private Banking, Advisory Services and Capital Markets activities. The Consumer Finance activities shall restart its growth once the securitization markets reopens.

Consolidated Results

Consolidated net profit in 2010 amounted to EUR 10.9 million, a 10% decline from EUR 12.1 million recorded in 2009.

Total operating income decreased to EUR 91.2 million from EUR 131.7 million in the previous year as a result of the reduction in net interest income, due mainly to higher cost of funds and a decrease in total assets, as well as to negative results from financial operations of EUR 30.8 million. Other operating income reached the negative amount of EUR 1.6 million (EUR 0.3 million negative last year). Net fee and commission income amounted to EUR 17.1 million in line with the previous year EUR 16.9 million figure.

Operating expenses amounted to EUR 34.6 million, a decrease from the EUR 39.9 million recorded in 2009. The efficiency ratio (cost-to-income) reached 28.4% (excluding net results from financial operations) one of the lowest in Portuguese banking sector.

Total consolidated assets reached EUR 2628 million, a decline of 15.4% (EUR 3106 million), in line with Banco Finantia´s strategy of deleveraging the balance sheet.

The Consumer Finance portfolio (net of impairment allowances) amounted to EUR 686 million while the securities portfolio (net of impairment allowances) amounted to EUR 1214 million.

The credit quality of the Consumer Finance portfolio remained at adequate levels. Non performing loans (loans overdue more than 90 days) are covered by provisions and collaterals at 124%. Considering total non performing loans the coverage ratio is 113%.

Risk weighted assets decreased 12.3%, amounting to EUR 3115 million by the end of 2010.

The ratio credit (adjusted for securitizations) over deposits fell from 139% to 91%, one of the lowest in Portuguese banking sector.

Core Tier 1 increased to 9.7% (9.4% in 2009). The capital adequacy ratio (CAD) under BAL II at year-end stood at 13.8%, one of the strongest in the sector.

Liquidity, solvability and capitalization were maintained at adequate levels, considering the operational activities carried out. The Bank continued to execute its deleveraging strategy including the reimbursement of two syndicated loans of EUR 365 million during 2010. The Bank enhanced its diversification of source of funds, including retail deposits, allowing a comfortable profile of excess liquidity considering the current environment.

Key figures for the year-ended December 31, 2010 can be analysed as follows:

KEY FIGURES

Euro Million	IFRS [1] 2010	IFRS [1] 2009
Total Assets	**2,628.4**	3,105.7
Guarantees and Credit Default Swaps	**912.8**	934.6
Total Loans and Guarantees	**811.4**	1,143.4
of which Consumer Loans	**686.0**	982.9
Total Equity	**349.2**	353.2
Total Operating Income	**91.2**	131.7
Operating Profit	**56.6**	91.7
Net Profit	**10.9**	12.1
CAPITAL ADEQUACY (BAL II)		
Capital Adequacy Ratio (%)	**13.8**	14.1
Tier I = Core Tier I (%)	**9.7**	9.4
RWA	**3,114.5**	3,552.1
CREDIT QUALITY RATIOS (%)		
Overdue Loans > 90 days / Total Loans	**8.4**	6.3
Coverage of Overdue loans > 90 days [2]	**123.9**	157.4
Past due loans [3] / Total Loans	**9.3**	7.5
Past due loans [3] (net) / Total Loans (net)	**5.3**	2.5
Coverage of Past due loans [2]	**112.7**	132.7
PRODUCTIVITY/EFFICIENCY		
Cost to Income (%)	**38.0**	30.3
Cost to Income (%) [4]	**28.4**	30.0
Staff Costs / Total Operating Income (%)	**18.3**	13.5
Data per share (Euro)		
Net Profit	**0.10**	0.11
Book Value	**3.15**	3.16
Weighted average no. of shares outstanding (million)	**111.1**	112.1
Year end no. of shares outstanding (million)	**110.6**	111.6

[1] International Financial Reporting Standards

[2] Coverage ratios include the fair value of collateral

[3] Overdue loans and doubtful loans

[4] Excluding results from financial operations

Treasury Stock

At the start of 2010 the Group held 3,380,152 treasury shares of the Bank. Purchases and sales of treasury stock during 2010 were made pursuant to the resolutions of the Bank's General Meetings of 15 May 2009 and 28 May 2010, which include a special authorization for the purchase and sale of shares by Group employees. During the fiscal year the Group bought 970,559 shares for a total amount of EUR 1,727 thousand all of which were under the employee program. On 31 December 2010 the Group held 4,350,711 treasury shares.

Appropriation of Results

It is proposed that, for the fiscal year 2010, Net Income be used to strengthen Free Reserves, after the legal and statutory appropriation to Legal Reserves.

Given Bank of Portugal's recent general guidelines for the Portuguese banking system of retaining 2010 earnings to strengthen capital ratios, the Board of Directors will not propose a distribution of dividends. It is proposed that, for the fiscal year 2010, Net Income be used to strengthen reserves.

Declaration of Conformity with Financial Information Presented

In accordance with paragraph c) n. 1 of article 245 of the Securities Code, we declare that, as far as we know:

a) The management report, the annual accounts, the legal certification of accounts and the remaining financial reporting documents were drawn up in accordance with applicable accounting regulations, giving a true and fair image of the assets, liabilities, financial situation and results of Banco Finantia, S.A. and the companies included in the consolidation perimeter; and

b) the management report accurately portraits the evolution of the business, the performance and the financial position of Banco Finantia and the companies included in the consolidation perimeter in fiscal year 2010, and contains a description of the main risks and uncertainties that they face.

Concluding Remarks

In another difficult and challenging year the Board of Directors thanks all of those who have supported the Bank's activities.

To clients, shareholders and corporate bodies a special word of appreciation for their trust. We equally thank our Supervision and other Government Authorities for their cooperation.

To all our employees, a very special thanks for the dedication, loyalty and professionalism.

Lisbon, March 18th 2011

The Board of Directors

António Manuel Afonso Guerreiro (Chairman)

Alexander Tcherepnine

Alexei Mitrofanov

Eduardo de Almeida Catroga

Eduardo José de Belém Garcia e Costa

Jose María Iceta Berecibar

Maria Luisa Falcão Líbano Monteiro Antas

Martin Finegold

ANNEX

Adoption of the Financial Stability Forum (FSF) and Committee of European Banking Supervisors (CEBS) Recommendations concerning the Transparency of Information and the Valuation of Assets

The Bank of Portugal adopted, by the Letters nº 46/08/DSBDR and nº 97/08/DSBDR, of 15th of July and 3rd December, respectively, the recommendations of the Financial Stability Forum (FSF) and the Committee of European Banking Supervisors (CEBS) concerning the publication of the information that allows a better understanding of the financial situation of the financial institutions in general and of the banks in particular.

The information in this annex aims to comply with these recommendations.

I. BUSINESS MODEL

1. Description of the Business Model

A description of the Group's strategy and business model is provided in the Board of Directors' Report which is part of the 2010 Annual Report.

2., 3., 4. and 5. Activities developed and contribution to the business

Information about the strategies and objectives of the business areas and their performance is provided in the Board of Directors' Report.

II. RISK AND RISK MANAGEMENT

6. and 7. Description and Nature of the Risks Incurred

Both the Board of Directors' Report and the Consolidated Financial Statements (see Note 34. - Risk management activity) provide a description how the Risk Management function is organized within the Group, together with information allowing the market to form a perception on the risks incurred by the Group and the management tools in place to monitor and control such risks.

III. IMPACT OF THE PERIOD OF FINANCIAL TURMOIL ON THE RESULTS

8. Qualitative and quantitative description of the results

The main impacts arising from the current period of financial turmoil are described in the Board of Directors' Report.

We opted for a qualitative description in so far as we believe that a measurement of the effects originating in the financial turmoil only would be disproportionate and not quantifiable, since this turmoil was accompanied by strong disruptions in the commodities markets and in the price of oil, with reflexes on several areas of the national and international economy.

9. e 10. Breakdown of "write downs"

The Group is not exposed to subprime credit related instruments, namely commercial mortgage-backed securities, residential mortgage-backed securities, colateralised debt obligations and asset-backed securities.

11. and 12. Comparison of impacts between periods

Not applicable.

13. Financial turmoil and the price of the Group's share

Not applicable.

14. Maximum loss risk

Note 34 to the financial statements "Risk management activity" discloses information on the management of the activity risks and presents information concerning losses liable of being incurred in situations of market stress.

15. Debt issued by the Group and results

Note 7 to the financial statements discloses the impact on results arising from the revaluation of debt issued.

IV. LEVEL AND TYPE OF EXPOSURES AFFECTED BY THE PERIOD OF TURMOIL

16. Nominal and fair value of exposures

The breakdown of financial assets and liabilities and respective carrying amount and fair value are presented in Note 37 to the financial statements.

17. Credit risk mitigants

In addition to other references to credit risk management, in the accompanying notes to the financial statements describes the derivatives used for risk management purposes as well as the associated assets and liabilities.

18. Information about the Group's exposures

Not applicable.

19. Movement in exposures between periods

Not applicable.

20. Non consolidated exposures

Not applicable.

21. Exposure to insurers and quality of the assets insured

Not applicable.

V. ACCOUNTING POLICIES AND VALUATION METHODS

22. Structured Products

Relevant information on this issue is given in the description of the accounting policies included in the notes to the financial statements.

23. Special Purpose Entities (SPEs) and consolidation

Disclosures concerning these entities are included in the referred description of the accounting policies and in Notes 26 and 38.

24. and 25. Fair value of financial instruments

See point 16 of this Annex.
The description of the accounting policies refers the terms of use of the fair value option, as well as the methods used for the valuation of financial instruments.

VI. OTHER RELEVANT ASPECTS OF DISCLOSURE

26. Description of the disclosure policies and principles

The Group's policy on the disclosure of accounting and financial information aims to meet all requirements of a regulatory nature, whether included in the accounting regulations or issued by the supervision and market regulation authorities.

Additionally, the Group seeks to align its disclosures to the best market practices, taking into account, on the one hand, the cost of obtaining the relevant information, and on the other, the potential benefits of such information to its various users.

Banco Finantia

FINANCIAL STATEMENTS 2010
(CONSOLIDATED ACCOUNTS)

Consolidated Financial Statements

Banco Finantia

Consolidated Balance Sheet
as at 31 December 2010 and 2009

EUR thousand	Note	2010	2009
Assets			
Cash and banks	12	8,953	23,014
Financial assets held for trading	13	69,204	87,616
Due from banks	14	433,833	497,047
Investment securities	15	1,213,625	1,241,377
Loans and advances to customers	16	784,692	1,120,451
Investment property		597	1,262
Property and equipment	19	16,126	16,667
Intangible assets	20	517	664
Current income tax assets		1,240	573
Deferred income tax assets	22	27,087	28,470
Other assets	21	72,500	88,539
Total assets		**2,628,374**	**3,105,680**
Liabilities			
Due to central banks		400,177	260,653
Financial liabilities held for trading	13	146,988	141,417
Due to banks	23	406,322	705,002
Due to customers	24	202,355	154,375
Securities sold under repurchase agreements	25	442,462	453,148
Debt issued	26	522,616	833,320
Hedging derivatives	17	-	25,429
Current income tax liabilities		202	633
Deferred income tax liabilities	22	-	-
Subordinated debt	27	136,005	151,663
Other liabilities	28	22,008	26,810
Total liabilities		**2,279,135**	**2,752,450**
Equity			
Share capital	29	115,000	115,000
Share premium	29	60,000	60,000
Treasury stock	29	(4,351)	(3,380)
Reserves and retained earnings	30	167,493	169,300
Net profit attributable to the equity holders of the Bank		10,875	12,096
Total equity attributable to the equity holders of the Bank		**349,017**	**353,016**
Minority interest		221	214
Total equity		**349,238**	**353,230**
Total liabilities and equity		**2,628,374**	**3,105,680**

The following notes form an integral part of these financial statements

Chief Accountant

The Board of Directors

Banco Finantia

Consolidated Income Statement
for the years ended 31 December 2010 and 2009

EUR thousand, except per share data	**Note**	**2010**	**2009**
Interest and similar income	5	180,036	222,269
Interest expense and similar charges	5	(73,529)	(105,918)
Net interest income		**106,507**	**116,351**
Fee and commission income	6	21,199	23,108
Fee and commission expense	6	(4,089)	(6,179)
Net results from financial operations	7	(30,820)	(1,272)
Other operating income		(1,601)	(349)
Operating income		**91,196**	**131,659**
Staff costs	8	(16,649)	(17,833)
General and administrative expenses	9	(16,131)	(19,967)
Depreciation and amortisation	19, 20	(1,839)	(2,117)
Operating expenses		**(34,619)**	**(39,917)**
Operating profit		**56,577**	**91,742**
Impairment and provisions	10	(45,248)	(77,299)
Profit before income tax		**11,329**	**14,443**
Current income tax	22	(310)	(673)
Deferred income tax	22	(137)	(1,664)
Net profit		**10,882**	**12,106**
Attributable to:			
Equity holders of the Bank		10,875	12,096
Minority interest		7	10
Weighted average number of ordinary shares outstanding (thousands)	11	111,088	112,112
Earnings per share **for profit attributable to the equity holders of the Bank**			
Basic (in Euros)	11	0.10	0.11
Diluted (in Euros)	11	0.10	0.11

The following notes form an integral part of these financial statements

Banco Finantia

Consolidated Statement of Comprehensive Income
for the years ended 31 December 2010 and 2009

EUR thousand	**Note**	**2010**	**2009**
Net profit			
Attributable to the equity holders of the Bank		10,875	12,096
Attributable to minority interest		7	10
		10,882	**12,106**
Other comprehensive income, after taxes			
Fair value reserves			
AFS financial assets	30	(11,782)	7,745
Cash flow hedges	30	9,197	(5,193)
Deferred taxes	22	(1,513)	350
Net investment hedge	18	(8,901)	(9,624)
Currency translation differences		594	(2,570)
		(12,405)	**(9,292)**
Total comprehensive income		**(1,523)**	**2,814**
Attributable to:			
Equity holders of the Bank		(1,530)	2,806
Minority interest		7	8

The following notes form an integral part of these financial statements

Banco Finantia

Consolidated statement of changes in equity
for the years ended 31 December 2010 and 2009

EUR thousand	Share capital & Share premium	Treasury stock	Reserves and retained earnings	Net profit	Total equity attrib. to the shareholders of the Bank	Minority interest	Total equity
Balance as at 01.01.09	**175,000**	**(1,838)**	**170,854**	**10,843**	**354,859**	**206**	**355,065**
Net profit	-	-	-	12,096	12,096	10	12,106
Changes in AFS reserve	-	-	7,745	-	7,745	-	7,745
Changes in cash flow hedge reserve	-	-	(5,192)	-	(5,192)	(1)	(5,193)
Net investment hedge	-	-	(9,624)	-	(9,624)	-	(9,624)
Deferred taxes	-	-	350	-	350	-	350
Currency translation differences	-	-	(2,569)	-	(2,569)	(1)	(2,570)
Total comprehensive income	**-**	**-**	**(9,290)**	**12,096**	**2,806**	**8**	**2,814**
Transfer to reserves	-	-	10,843	(10,843)	-	-	-
Changes in treasury stock	-	(1,542)	(3,107)	-	(4,649)	-	(4,649)
	-	**(1,542)**	**7,736**	**(10,843)**	**(4,649)**	**-**	**(4,649)**
Balance as at 31.12.09	**175,000**	**(3,380)**	**169,300**	**12,096**	**353,016**	**214**	**353,230**
Net profit	-	-	-	10,875	10,875	7	10,882
Changes in AFS reserve	-	-	(11,782)	-	(11,782)	-	(11,782)
Changes in cash flow hedge reserve	-	-	9,197	-	9,197	-	9,197
Net investment hedge	-	-	(8,901)	-	(8,901)	-	(8,901)
Deferred taxes	-	-	(1,513)	-	(1,513)	-	(1,513)
Currency translation differences	-	-	594	-	594	-	594
Total comprehensive income	**-**	**-**	**(12,405)**	**10,875**	**(1,530)**	**7**	**(1,523)**
Transfer to reserves	-	-	12,096	(12,096)	-	-	-
Fair value hedge [(a)]	-	-	(741)	-	(741)	-	(741)
Changes in treasury stock	-	(971)	(757)	-	(1,728)	-	(1,728)
	-	**(971)**	**10,598**	**(12,096)**	**(2,469)**	**-**	**(2,469)**
Balance as at 31.12.10	**175,000**	**(4,351)**	**167,492**	**10,875**	**349,016**	**221**	**349,238**

[(a)] amounts net of taxes

The following notes form an integral part of these financial statements

Banco Finantia

Consolidated Statement of Cash Flows
for the years ended 31 December 2010 and 2009

EUR thousand	**Note**	**2010**	**2009**
Cash flows arising from operating activities			
Interest and similar income received		163,067	212,970
Interest and similar charges paid		(60,521)	(112,708)
Fee and commission received		20,166	26,222
Fee and commission paid		(3,938)	(6,179)
Recoveries on loans previously written-off		589	143
Cash payments to employees and suppliers		(39,412)	(34,811)
		79,951	**85,636**
Changes in operating assets:			
Deposits with central banks		1,407	(2,059)
Securities portfolio		751	257,438
Due from banks		37,654	401,277
Loans and advances to customers		322,123	200,818
Changes in operating liabilities:			
Due to banks		(171,086)	(711,818)
Due to customers		47,879	88,595
Other operating liabilities		(23,570)	(71,308)
Net cash flow from operating activities before income taxes		**295,109**	**248,579**
Income taxes paid		(1,408)	1,387
		293,701	**249,966**
Cash flows arising from investing activities			
Purchase of property, equipment and intangible assets	19, 20	(622)	(1,381)
Proceeds from sale of property, equipment and intangible assets	19, 20	722	-
		100	**(1,381)**
Cash flows arising from financing activities			
Treasury shares	29	(1,728)	(4,649)
Proceeds from issue of bonds		-	100,000
Reimbursement of securitised debt		(329,025)	(212,602)
Proceeds/ reimbursement of subordinated debt		(2,487)	3,978
Net cash flow from financing activities		**(333,240)**	**(113,273)**
Effect of exchange rate changes on cash and cash equivalents		241	1,657
Net changes in cash and cash equivalents		**(39,198)**	**136,969**
Cash and cash equivalents at the beginning of the year	32	192,465	55,496
Cash and cash equivalents at the end of the year	32	153,267	192,465
		(39,198)	**136,969**

The following notes form an integral part of these financial statements

1. Basis of presentation

Banco Finantia, S.A. (the "Bank") and subsidiaries (the "Group" or "Banco Finantia Group") provide a broad range of financial services focused on capital markets, money markets, advisory services (including mergers and acquisitions) and credit operations and, indirectly, through its subsidiaries, leasing operations, management of equity interests, asset management, asset and funds management, forfaiting and financing of consumer credit.

The Bank is a privately-owned company headquartered in Lisbon, Portugal, resulting from the transformation in October 1992 of Finantia – Sociedade de Investimentos, S.A., which in turn had commenced its activity in July 1987. The Bank is authorised by the Portuguese authorities, central banks and other regulatory authorities, to operate in Portugal and in the countries where its international branches and subsidiaries are located.

The Bank has a branch in Madeira and its subsidiaries have branches and offices in Portugal, Spain, United Kingdom, Brazil, United States of America, Ireland, Cayman Islands, Malta and Netherlands.

The consolidated financial statements of the Bank are prepared in accordance with International Financial Reporting Standards ('IFRS'), issued by the International Accounting Standards Board ("IASB"), as adopted for use in the European Union ("EU"), and are consolidated by Finantipar - SGPS, S.A., a company headquartered in Rua General Firmino Miguel, nº 5 in Lisbon, Portugal.

During 2010, the Group adopted several changes issued by IASB and adopted by the EU with mandatory application in 2010 which had no significant impact in its consolidated financial statements.

Additionally, the Group chose not to early adopt the new standards and interpretations that have been issued, which are not effective in 2010, as described in Note 3.

These consolidated financial statements are expressed in thousands of euros ("t€") and have been prepared under the historical cost convention, as modified by financial assets and financial liabilities at fair value through profit or loss, available-for-sale financial assets, and recognised assets and liabilities that are hedged, in a fair value hedge, in respect of the risk that is hedged.

The preparation of financial statements in accordance with IFRS requires the use of accounting estimates and assumptions. The most significant estimates are disclosed in Note 4.

These consolidated financial statements have been approved for issue by the Board of Directors on 18 March 2011.

2. Significant accounting policies

2.1. Basis of consolidation

These consolidated financial statements comprise the financial statements of Banco Finantia, S.A and its subsidiaries (“the Group” or “Finantia Group”).

The accounting policies have been consistently applied by all Group companies.

Subsidiaries

Subsidiaries are entities over which the Group exercises control. Control is presumed to exist when the Group owns more than one half of the voting rights. Additionally, control also exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of the entity, so as to obtain benefits from its activities, even if its shareholding is less than 50%. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases.

Accumulated losses of a subsidiary that exceed the equity of the subsidiary attributable to the minority interest, is attributed to the Group and is taken to the income statement when incurred. If the subsidiary subsequently reports profits, such profits are recognised by the Group until the losses attributable to the minority interest previously recognised have been recovered.

When the accumulated losses of a subsidiary attributable to non-controlling interest exceed the equity of the subsidiary attributable to the non-controlling interest, these accumulated losses are attributed proportionally to the non-controlling interest even if this results in non-controlling interest having a deficit balance.

On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the noncontrolling interest’s proportionate share of the acquiree’s net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group’s share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

In a business combination achieved in stages (step acquisition) where control is obtained, any previously held non-controlling interest is remeasured to fair value and recognised the resulting gain or loss in the income statement when determining the respective goodwill. At the time of a partial sale, from which arises a loss of control of a subsidiary, any remaining non-controlling interest retained is remeasured to fair value at the date the control is lost and the resulting gain or loss is recognised against the income statement.

Associates

Associates are entities over which the Group has significant influence but no control. Generally when the Group owns more than 20% of the voting rights it is presumed that it has significant influence. However, even if the Group owns less than 20% of the voting rights, it can have significant influence through the participation in the policy-making processes of the associated entity or the representation in its executive board of directors. Investments in associates are accounted for by the equity method of accounting from the date on which significant influence is transferred to the Group until the date that such influence ceases.

On an acquisition-by-acquisition basis, the group recognises any non-controlling interest in the acquiree either at fair value or at the noncontrolling interest’s proportionate share of the acquiree’s net assets.

In a step acquisition that results in obtaining significant influence over an entity, any previously held stake in that entity is remeasured to fair value through the income statement when the equity method is first applied.

Special purpose entities ("SPE")

The Group consolidates certain special purpose entities ("SPE"), specifically created to accomplish a well defined objective, when the substance of the relationship with those entities indicates that they are controlled by the Group, independently of the percentage of the equity held, in accordance with SIC 12 – *Consolidation – Special Purpose Entities*.

Goodwill

Goodwill represents the difference between the cost of an acquisition over the fair value of the Group's share of identifiable net assets of the acquired entity at the date of acquisition.

The Group measures goodwill as the fair value of the consideration transferred including the fair value of any previously held non-controlling interest in the acquire, less the net recognised amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Transaction costs are expensed as incurred.

Foreign currency translation

The financial statements of each of the Group entities are prepared using their functional currency which is defined as the currency of the primary economic environment in which that entity operates or as the currency in which funds/receipts from its activities are generated/retained. The consolidated financial statements are prepared in euros, which is the Bank's functional and presentation currency.

The financial statements of each of the Group entities that have a functional currency different from the euro are translated into euros as follows: (i) assets and liabilities are translated into the functional currency using the exchange rate prevailing at the balance sheet date; (ii) income and expenses are translated into the functional currency at rates approximating the rates ruling at the dates of the transactions; and (iii) all resulting exchange differences are recognised in equity. When the entity is sold or partially disposed and there is a reduction in its ownership interest and control ceases, such exchange differences are recognised in the income statement as a part of the gain or loss on sale.

Balances and transactions eliminated in consolidation

Inter-company balances and transactions, including any unrealised gains and losses on transactions between Group companies, are eliminated in preparing the consolidated financial statements, unless unrealised losses provides evidence of an impairment loss that should be recognised in the consolidated financial statements.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment loss.

Transactions with non-controlling interests

The Group treats transactions with noncontrolling interests as transactions with equity owners of the group. For purchases from noncontrolling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Acquisitions of non-controlling interest are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognised as a result of such a transaction. Any difference between the consideration paid and the amount of non-controlling interest acquired is accounted for as a movement in equity.

When the group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Similarly, sales of non-controlling interest and dilutions from which does not result a loss of control, are accounted for as transactions with equity holders in their capacity as equity holders and therefore no gain or loss is recognised in the income statement. Any difference between the sale proceeds and the recognised amount of non-controlling interest in the consolidated financial statements is accounted for as a movement in equity.

2.2. Interest income and expense

Interest income and expense are recognised in the income statement under interest and similar income or interest expense and similar charges for all non-derivative financial instruments measured at amortised cost and for the available-for-sale investments, using the effective interest method.

Interest income arising from non-derivative financial assets at fair value through profit or loss is also included under interest and similar income.

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

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

For derivative financial instruments, except those classified as hedging instruments of interest rate risk and credit derivatives, the interest component of the changes in their fair value is not separated out and is classified under financial assets and liabilities at fair value through profit or loss. For hedging derivatives of interest rate risk and credit derivatives, the interest component of the changes in their fair value is recognised under interest and similar income or interest expense and similar charges.

2.3. Dividend income

Dividend income is recognised when the right to receive payment is established.

2.4. Fee and commission income

Fees and commissions are recognised as follows: (i) fees and commissions that are earned on the execution of a significant act, such as loan syndication fees, are recognised as income when the significant act has been completed; (ii) fees and commissions earned over the period in which services are provided are recognised as income in the period the services are provided; and (iii) fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognised as income using the effective interest method.

2.5. Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at the foreign exchange rates ruling at the dates the fair value was determined.

2.6. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to the equity holders of the bank by the weighted average number of ordinary shares outstanding during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury stock.

For the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to reflect the impact of all dilutive potential ordinary shares, such as convertible debt and share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

2.7. Loans and advances to customers

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

Loans and advances to customers are derecognised from the balance sheet when: (i) the contractual right to receive the respective cash flows has expired; (ii) the Group has transferred substantially all risks and rewards of ownership; or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred its control over the assets.

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

Impairment

The Group assesses, at each balance sheet date, whether there is objective evidence of impairment within its loan portfolio. Impairment losses identified are recognised in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the amount of the impairment losses decreases.

A loan or a loan portfolio, defined as a group of loans with similar credit risk characteristics, is impaired when: (i) there is objective evidence of impairment as a result of one or more events that occurred after its initial recognition; and (ii) that event (or events) has an impact on the estimated future cash flows of the loan or of the loan portfolio, that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for each loan. For this assessment, the Group uses the information that feeds the implemented credit risk models and takes into consideration, among others, the following factors:

- the aggregate exposure to the customer and the existence of non-performing loans;
- the viability of the customer's business model and capability to trade successfully

and to generate sufficient cash flows to service their debt obligations;

- the extent of other creditors' commitments ranking ahead of the Group;
- the existence, nature and estimated realisable value of collaterals;
- the exposure of the customer within the financial sector;
- the amount and timing of expected recoveries.

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

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

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

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics, taking into consideration the Group's credit risk management process. Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans in the Group and historical loss experience. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group with the purpose of reducing any differences between loss estimates and actual losses.

Additionally, the Group estimates the losses that have occurred but have not been identified specifically (incurred but not reported), through the collective impairment analysis above mentioned.

When a loan is considered by the Group as uncollectible after all recovery diligences in accordance with the Group policies have been made and an impairment loss of 100% has been recognised, it is written-off against the related allowance for loan impairment.

Subsequent recoveries of amounts previously written-off decrease the amount of the loan impairment loss recognised in the income statement.

2.8. Investment securities

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for depending on their classification as either fair value through profit or loss, available-for-sale, held-to-maturity or loans and receivables.

Fair value through profit or loss

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

They are recognised on a trade-date basis – which is the date the Group commits to purchase or sell the asset.

These financial assets are initially recognised at fair value and transaction costs are directly recognised in the income statement. Financial assets are derecognised when (i) the contractual rights to receive their cash flows have expired, (ii) the Group has transferred substantially all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred the control over the assets.

Financial assets at fair value through profit or loss are subsequently carried at fair value and gains and losses arising from changes in their fair value are included in the income statement in the period in which they arise.

Available-for-sale

Available-for-sale (AFS) financial assets are non-derivative financial assets (i) intended to be held for an indefinite period of time; (ii) designated as available-for-sale at initial recognition; or (iii) that are not classified as held for trading, designated at fair value through profit or loss, held-to-maturity, or loans and receivables.

They are recognised on a trade-date basis – which is the date the Group commits to purchase or sell the asset.

These financial assets are initially recognised at fair value plus transaction costs. Financial assets are derecognised when (i) the contractual rights to receive their cash flows have expired, (ii) the Group has transferred substantially all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred the control over the assets.

AFS financial assets are subsequently carried at fair value. However, gains and losses arising from changes in their fair value are recognised directly in equity, until the financial assets are derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is transferred to the income statement.

Foreign exchange differences arising from equity investments classified as available-for-sale are also recognised in equity, while foreign exchange differences arising from debt investments are recognised in the income statement. Interest, calculated using the effective interest method and dividends are recognised in the income statement.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

These investments are carried at amortised cost using the effective interest method and are assessed at each balance sheet date whether there is objective evidence that they are impaired, as described for AFS financial assets. If there is objective evidence that a held-to-maturity investment is impaired, the corresponding loss is recognised in the income statement, through the use of an allowance account. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

These assets are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method less impairment losses, as described for held-to-maturity financial assets.

Impairment

The Group assesses periodically whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment the recoverable amount of the asset is determined and impairment losses are recognised through the income statement.

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after their initial recognition, such as: (i) for debt instruments, significant financial difficulty of the issuer or obligor and default or delinquency in interest or principal payments, and (ii) for equity instruments, a significant or prolonged decline in the fair value of the instrument below its cost..

If there is objective evidence that an impairment loss on an available-for-sale financial asset has been incurred, the cumulative loss recognised in equity – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is taken to the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed through the income statement up to the acquisition cost if the increase is objectively related to an event occurring after the impairment loss was recognised, except in relation to equity instruments, in which case the reversal is recognised in equity.

Reclassifications

After initial recognition, financial assets may not be later reclassified into the Fair value through profit and loss category.

A financial asset, initially recognized as at fair value through profit and loss may be reclassified out of its category when it fulfils the following conditions:

- if a financial asset with fixed or determinable payments, initially held for trading purposes, is no more, after acquisition, negotiable on a active market and the Group has the intention and ability to hold it for the foreseeable future or until maturity, then this financial asset, may be reclassified into the Loans and receivables category, provided that the eligibility criteria to this category are met.

- If rare circumstances generate a change of the holding purpose of non-derivative debt or equity financial assets held for trading, then these assets may be reclassified into Available-for-sale financial assets or into Held-to-maturity financial assets, provided in that latter case, that the eligibility criteria to this category are met.

In any case, financial assets measured using fair value option shall not be reclassified out of the Fair value through profit and loss category.

A financial asset initially recognized as available-for-sale may be reclassified into the Held-to-maturity category, provided that the respective eligibility criteria are met.

Furthermore if a financial asset with fixed or determinable payments initially recognized as available-for-sale is subsequently no more negotiable on a active market and if the Group has the intention and ability to hold it for the foreseeable future or until maturity, then this financial asset may be reclassified into Loans and receivables provided that the eligibility criteria to this category are met.

These reclassified financial assets are transferred to their new category at their fair value on the date of reclassification and then are measured according to the rules that apply to the new category.

Amortized cost of these financial assets reclassified out of Financial assets at fair value through profit and loss or Available-for-sale financial assets to Loans and receivables and amortized cost of the financial assets reclassified out of Financial assets at fair value through profit and loss to Available-for-sale financial assets are determined on the basis of estimated future cash flows measured at the date of reclassification. In case of increase of estimated future cash flows, as a result of increased of their recoverability, the effective interest rate is adjusted prospectively. On the contrary, if there is objective evidence that financial asset has been impaired as a result of an event occurring after reclassification and that loss event has a negative impact on the estimated future cash flows of the financial asset, the impairment of this financial asset is recognized in the income statement.

2.9. Fair value of financial instruments

Fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale. Fair value price is obtained from quoted market prices or broker/dealer prices in active markets, if available, or are based on the established price of recent market transactions or in its absence on the usage of valuation techniques. Valuation techniques include net present value calculation procedures using direct observable market inputs.

2.10. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.11. Sale and repurchase agreements

Securities sold subject to repurchase agreements (“repos”) at a fixed price or at the sales price plus a lender’s return are not derecognised. The corresponding liability is included in amounts due to banks or to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities purchased under agreements to resell (“reverse repos”) at a fixed price or at the purchase price plus a lender’s return are not recognised, being the purchase price paid recorded as loans and advances to banks or customers, as appropriate. The difference between purchase and resale price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent under lending agreements are not derecognised being classified and measured in accordance with the accounting policy described in Note 2.8. Securities borrowed under borrowing agreements are not recognised in the balance sheet.

Securities received in a reverse repurchase agreement are disclosed as off-balance sheet items if the Group has the right to resell or repledge them, as well as securities that the Group has actually resold or repledged.

2.12. Financial guarantee contracts and irrevocable commitments

Financial guarantee contracts and irrevocable commitments are initially recognised in the financial statements at fair value on the date the contract was issued.

Subsequent to initial recognition, the Group’s liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date. Any increase in the liability relating to guarantees is taken to the income statement. Any liability remaining is recognised in the income statement when the guarantee is discharged, cancelled or expires.

2.13. Derivatives and hedge accounting

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is re-measured on a regular basis and the resulting gains or losses are recognised directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses of the derivatives designated as hedging instruments depends on the nature of the risk being hedged and of the hedge model used.

Fair values are obtained from quoted market prices, in active markets, if available or are determined using valuation techniques including discounted cash flow models and options pricing models, as appropriate.

Hedge accounting

Hedge accounting is used for derivative financial instruments designated as a hedging instrument provided the following criteria are met:

(i) At the inception of the hedge, the hedge relationship is identified and documented, including the identification of the hedge item and of the hedging instrument and the evaluation of the effectiveness of the hedge;

(ii) The hedge is expected to be highly effective, both at the inception of the hedge and on an ongoing basis;

(iii) The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis;

(iv) For cash flows hedges, their occurrence must be highly probable;

(v) The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting period for which the hedge was designated.

- Fair value hedge

In a fair value hedge, the book value of the hedged asset or liability, determined in accordance with the respective accounting policy, is adjusted to reflect the changes in its fair value that are attributable to risks being hedged. Changes in the fair value of the derivatives that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk being hedged.

When a hedging instrument expires or is sold or if the hedge no longer meets the criteria for hedge accounting or the entity revokes the designation, the derivative financial instrument is transferred to the trading portfolio and fair value hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity, under results from financial operations.

- Portfolio fair value hedge

In this type of hedge, interest rate derivatives are used to hedge structural interest rate risks arising from Consumer Banking activities. When accounting for these transactions, the Group applies the IAS 39 "carve-out" standard as adopted by the European Union, which facilitates:

- the application of fair value hedge accounting to macro-hedges used for asset-liability management;

- the carrying out of effectiveness tests required by IAS 39 as adopted by the European Union.

The accounting treatment for financial derivatives designated as a portfolio fair value hedge is similar to that for other fair value hedging instruments.

- Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in highly probable future cash flows, the effective portion of changes in the fair value of the hedging derivatives is recognised in equity. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects the income statement. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting or the entity revokes the designation, any cumulative gain or loss are retained in equity until its recognition in the income statement, under results from financial operations, that occurs in the moment that the hedged transaction also affects the income statement. When a hedged transaction is no longer expected to occur, the cumulative gain or loss reported in equity is recognised immediately in the income statement and the hedging instrument is reclassified for the trading portfolio.

- Net investment hedge

When a derivative (or a non-derivative financial liability) is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognised directly in equity, in the foreign currency translation reserve (other comprehensive income).

Any ineffective portion of changes in the fair value of the hedging instrument is recognised in profit or loss. The amount recognised in other comprehensive income is removed and included in profit or loss on the disposal or partial disposal of the foreign operation whenever there is a reduction in the entity's ownership interest in the subsidiary and control ceases.

Embedded derivatives

Derivatives that are embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement.

2.14. Non-current assets held for sale

Non-current assets held for sale are measured at the lower of their carrying amount or the corresponding fair value and are not depreciated. Any subsequent write-down of the acquired assets to fair value is recorded in the income statement.

These assets, classified as held for sale, are evaluated by external experts.

2.15. Property and equipment

Property and equipment is stated at cost less accumulated depreciation and impairment losses, if any.

Additions and subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Depreciation is provided on the depreciable amount of items of property and equipment on a straight-line method over their estimated useful lives, as follows:

Buildings:	up to 50 years
Equipment:	from 5 to 10 years
Computer equipment:	from 3 to 4 years
Furniture:	up to 10 years
Motor vehicles:	from 3 to 4 years
Other equipment:	from 4 to 10 years

Land is not depreciated.

When there is an indication that an asset may be impaired, IAS 36 requires that its recoverable amount is estimated and impairment loss recognised when the net book value of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The recoverable amount is determined as the greater of its net selling price and value in use which is based on the net present value of future cash flows arising from the continuing use and ultimate disposal of the asset.

Buildings classified as investment property relate to rented buildings held by the Group which are measured similarly to property and equipment.

2.16. Intangible assets

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of their expected useful lives.

Costs that are directly associated with the development by the Group of identifiable specific software applications, that will probably generate economic benefits beyond one year, are recognised as intangible assets. These costs include employee costs directly associated with the development of the referred software.

Maintenance costs associated with software are recognised as an expense as incurred.

2.17. Leases

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

Operating leases

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

Finance leases

- As lessee

Finance lease contracts are recorded at inception date, both under assets and liabilities, at the cost of the asset leased, which is equal to the present value of outstanding lease instalments. Instalments comprise (i) an interest charge, which is recognised in the income statement and (ii) the amortisation of principal, which is deducted from liabilities. Financial charges are recognised as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of liability for each period.

- As lessor

Assets leased out are recorded in the balance sheet as loans granted, for an amount equal to the net investment made in the leased assets.

Interest included in instalments charged to customers is recorded as interest income, while amortization of principal, also included in the instalments, is deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

2.18. Financial liabilities

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

Derivative financial liabilities and short-sales are classified as held for trading in accordance with IAS 39 and therefore are recognised at fair value in the balance sheet, being the gains or losses arising from the changes in their fair value recognised in the income statement.

Except for financial liabilities designated at fair value through profit or loss, other non-derivative financial liabilities, including repos (see Note 2.11), loans and advances from banks, deposits from customers and debt issued, are recognised (i) initially at fair value less transaction costs and (ii) subsequently at amortised cost, using the effective interest method.

Financial liabilities are classified as at fair value through profit or loss when their designation eliminates or significantly reduces valuation or recognition inconsistencies that would otherwise arise from measuring or recognising gains and losses on them, on different basis, and when are so designated by management.

The fair value designation, once made, is irrevocable. Measurement is initially at fair value, with transaction costs taken directly to the income statement. Subsequently, the fair values are remeasured and gains and losses from changes therein are recognised in the income statement. The amount of change during the period, and cumulatively, in the fair value of designated financial liabilities that is attributable to changes in their credit risk is determined as the amount of change in the fair value that is not attributable to changes in market conditions that give rise to market risk.

If the Group repurchases debt issued, it is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement.

2.19. Provisions

Provisions are recognised when: (i) the Group has present legal or constructive obligation, (ii) it is probable that settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

2.20. Equity instruments

An instrument is classified as an equity instrument when it does not contain a contractual obligation to deliver cash or another financial asset, independently from its legal form, being a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to the issue of equity instruments are recognised under equity as a deduction from the proceeds. Consideration paid or received related to acquisitions or sales of equity instruments are recognised in equity, net of transaction costs, as treasury stock.

Distributions to holders of an equity instrument are debited directly to equity as dividends, when declared.

2.21. Treasury stock

Where the Bank or any subsidiary purchases the Bank’s share capital, the consideration paid is deducted from total equity as treasury stock until they are cancelled, and are not revaluated. Where such shares are subsequently sold or reissued, any consideration received is included in equity.

2.22. Employee benefits

The Group is subject to the General Regime of the Social Security System in Portugal or to the equivalent system in the subsidiaries abroad and, therefore, has no obligations for the payment of pensions or pension complements to its employees.

2.23. Income tax

Income tax for the period comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rates enacted or substantively enacted at the balance sheet date in any jurisdiction.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax basis, and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in any jurisdiction and that are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets and liabilities correspond to the amount of payable/recoverable tax in future periods resulting from temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are not recognized for taxable temporary differences associated with investments in subsidiaries, branches and associates, to the extent that, it is not probable that the temporary differences will reverse in the foreseeable future.

2.24. Cash and cash equivalents

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

2.25. Operating segments

An operating segment is a component of an entity: (a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), (b) whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and (c) for which discrete financial information is available.

Geographical segment is a component of an entity which engages in business activities from which it may earn revenues and incur expenses in a specific economic environment different from other geographical segment.

3. IFRSs and Interpretations to be adopted in 2011 and later

Some accounting standards and interpretations have been published by the IASB during 2010. Some have been adopted and others have not been yet adopted by the European Union.

These accounting standards and interpretations are required to be applied from 1 January 2011 and were not earlier adopted by the Group as of 31 December 2010.

From these new accounting standards and interpretations we emphasize IFRS 9 Financial Instruments (issued by IASB in 12 November 2009 but not yet endorsed by the EU). This new standard is the first part of Phase 1 of the IASB project to replace IAS 39, which relates to classification and measurement of financial instruments. An entity shall apply this IFRS for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

IFRS 9 requires all financial assets under IAS 30 scope to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The designation is made at initial recognition.

IFRS 9 eliminates the “held to maturity”, “available-for-sale” and “loans and receivables” categories. It also eliminates the exemption related to cost measurement of derivatives and other instruments where fair value cannot be reliable determined.

To qualify for amortized cost accounting, the instrument must meet two criteria:

- the objective of the business model is to hold the financial instrument for the collection of the contractual cash flows; and

- the contractual cash flows under the instrument solely represent payments of principal and interest.

IFRS 9 requires that all other instruments are measured at fair value. It retains the requirements that all financial instruments held for trading purposes being recognized and measured at fair value trough profit and loss, including all derivatives not designated for hedging purposes.

The impact of adoption this new standard is still being analysed by the Group, being expected changes regarding the classification and measurement of financial assets.

The IASB issued various other pronouncements not mandatory for 2010 which were not early adopted by the Group for which it is expected not to have a material impact in the consolidated financial statements.

4. Use of estimates in the preparation of financial statements

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

Because in many cases there are other alternatives to the accounting treatment made by management, the Group's reported results would differ if a different treatment was chosen.

Management believes that their choices are appropriate and that the financial statements present the Group's financial position and results fairly in all material respects.

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

Impairment of investment securities

The Group determines that investment securities are impaired when there has been a significant or prolonged decline in the fair value below its cost or based on an individual assessment considering relevant impairment triggers. This determination requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in the securities prices and the current market environment.

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

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

Fair value of financial instruments

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

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

Impairment losses on loans and advances to customers and other assets

The Group reviews its loans and other assets portfolio to assess impairment on a regular basis.

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

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

Income taxes

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

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

The Portuguese Tax Authorities are entitled to review the Bank and its Portuguese subsidiaries' determination of its annual taxable earnings, for a period of four years. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors is confident that there will be no material tax adjustments within the context of the financial statements.

Securitisations and special purpose entities

The Group sponsors the formation of special purpose entities (SPE) primarily for asset securitisation transactions and for liquidity purposes.

The Group does not consolidate SPE that it does not control. As it can sometimes be difficult to determine whether the Group does control an SPE, it makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question.

The determination of the SPE that needs to be consolidated by the Group requires the use of estimates and assumptions in determining the respective expected residual gains and losses and which party retains the majority of such residual benefits and risks. Different estimates and assumptions could lead the Group to a different scope of consolidation with a direct impact in net income.

5. Net interest income

EUR thousand	**31.12.2010**	**31.12.2009**
Interest and similar income		
Loans and advances to customers	81,682	112,165
Investment securities	68,188	75,668
Trading derivatives	21,940	23,827
Due from banks	2,892	4,501
Origination commissions from consumer finance loans	4,326	5,059
Other interest and similar income	1,008	1,049
	180,036	**222,269**
Interest and similar expense		
Due to banks	(12,170)	(25,072)
Securitized debt issued	(11,694)	(20,791)
Repurchase agreements	(10,598)	(20,977)
Due to customers	(6,763)	(6,062)
Subordinated debt	(4,001)	(4,599)
Hedging derivatives	(17,489)	(13,297)
Origination commissions from consumer finance loans	(10,550)	(14,083)
Other interest and similar expense	(264)	(1,036)
	(73,529)	**(105,918)**
	106,507	**116,351**

As at 31 December 2010, interest expense accrued on financial liabilities designated as at fair value through profit or loss is € 5,669 thousand (2009: € 11,371 thousand).

6. Net fee and commission income

EUR thousand	**31.12.2010**	**31.12.2009**
Fee and commission income		
From consumer finance business	17,632	19,224
From banking business	3,567	3,884
	21,199	**23,108**
Fee and commission expense		
From consumer finance business	(2,698)	(4,164)
On third-party banking services	(1,391)	(2,015)
	(4,089)	**(6,179)**
	17,110	**16,929**

7. Net results from financial operations

EUR thousand	**31.12.2010**	**31.12.2009**
Financial assets at fair value through profit or loss	(23,140)	24,631
Available-for-sale financial assets	2,040	2,530
Other financial assets	8,566	3,712
Financial liabilities at fair value through profit or loss	6,664	(9,847)
Amortisation of discontinued hedge relationships (Note 17)	(26,537)	(21,659)
Hedge ineffectiveness (Note 17)	1,587	(639)
	(30,820)	**(1,272)**

Net results from financial assets at fair value through profit and loss includes: (i) the effect of buying and selling and changes in the fair value of debt securities and equities, (ii) the result of derivative financial instruments and (iii) foreign exchange gains and losses.

Included in net results from financial assets at fair value through profit and loss is the negative amount of € 26,779 thousand (2009: positive amount of € 20,481 thousand) related with interest rate swaps, foreign exchange and credit default swaps.

Other financial assets include the effect of debt securities sales from loans and receivables portfolio and the amortization of the fair value reserve from reclassified financial assets (see Note 30).

Included in net results from financial liabilities at fair value through profit and loss is the positive amount of € 6,664 thousand (2009: negative of € 9,838 thousand) related with financial liabilities designated at fair value (fair value option).

8. Staff costs

EUR thousand	**31.12.2010**	**31.12.2009**
Remuneration	12,399	13,894
Social security	2,467	2,798
Other	1,783	1,141
	16,649	**17,833**

At 31 December 2010 and 2009 the remunerations paid to the Bank and subsidiaries' Board of Directors and supervisory bodies amounted to € 1,802 thousand and € 2,227 thousand, respectively.

The number of employees at year end, by category, is as follows:

	31.12.2010	**31.12.2009**
Senior management	128	153
Management	98	113
Professional staff	115	121
	341	**387**

9. General and administrative expenses

EUR thousand	**31.12.2010**	**31.12.2009**
Specialised services	7,099	8,081
External credits recovery services	2,769	4,046
Maintenance and related services	1,944	2,213
Communication costs	1,429	1,832
Rental costs	1,055	1,266
Travelling and entertainment expenses	805	1,135
Other expenses	1,030	1,393
	16,131	**19,967**

10. Impairment and provisions

EUR thousand	**31.12.2010**	**31.12.2009**
Impairment on loans and investment securities, net of reversals (see Notes 15 and 16)	(43,496)	(74,807)
Impairment on other assets, net of reversals (see Note 21)	(1,752)	(2,492)
	(45,248)	**(77,299)**

The balance impairment on loans and investment securities, net of reversals, includes € 33,979 thousand (2009: € 44,707 thousand) of impairment on investment securities (see Note 15). During 2010, interest income accrued on impaired financial assets amounted to € 5,601 thousand (2009: € 3,534 thousand).

11. Earnings per share

Basic earnings per share

EUR thousand, except per share data	**31.12.2010**	**31.12.2009**
Profit attributable to the equity holders of the Bank	10,875	12,096
Weighted average number of ordinary shares outstanding (thousands)	111,088	112,112
Basic earnings per share (in Euros)	**0.10**	**0.11**
Number of ordinary shares outstanding at the end of the year (thousands)	110,649	111,620

Diluted earnings per share

At 31 December 2010 and 2009, the diluted earnings per share is not different from the basic earnings per share, since the Group does not have any potential ordinary shares with dilutive effects.

12. Cash and banks

EUR thousand	**31.12.2010**	**31.12.2009**
Cash	86	106
Deposits at central banks		
Bank of Portugal	3,322	5,297
Bank of Spain	1,700	1,133
	5,022	6,429
Deposits with banks in Portugal		
Deposits repayable on demand	3,338	7,103
Cheques clearing	387	464
Other deposits	75	69
	3,800	7,636
Deposits with banks abroad		
Deposits repayable on demand	45	8,843
	8,953	**23,014**

The balance deposits at central banks is intended to satisfy the legal requirements to maintain minimum cash reserves.

These deposits earn interest at the average rates for the main refinancing operations of the European System of Central Banks prevailing during the deposit period. In 2010, the rates stood at 1.00% (2009: ranged between 1.00% and 2.50%).

13. Financial assets and liabilities held for trading

The Group enters in operations with derivative financial instruments with the objective of hedging and managing the financial risks inherent to its activity, managing its own positions based on the perspective of market evolution, satisfying its client's needs or hedging structural positions (see Note 17).

The fair value and notional amounts of derivative instruments held for trading are set out in the following table:

EUR thousand	31.12.2010			31.12.2009		
	Notional amount	Fair value		Notional amount	Fair value	
		Assets	Liabilities		Assets	Liabilities
Currency swaps	343,137	5,549	4,563	494,933	351	12,735
Credit default swaps	886,146	48,822	48,952	911,632	63,986	56,182
Interest rate swaps	2,098,785	14,832	93,473	2,631,274	23,223	72,474
Currency forwards	-	-	-	6,626	56	26
	3,328,068	**69,204**	**146,988**	**4,044,464**	**87,616**	**141,417**

Currency swap, which represents a contract between two parties and consists in the swap of currencies at a determined forward exchange rate. It is an agreement for cash flow exchange, in which one of the parts agrees to pay interest on the principal in one currency, in exchange of receiving interest on the principal in another currency. In the end of the operation, the principal in foreign currency is paid and the principal in domestic currency is received. The purposes of these operations are the hedging and management of the currency risk inherent to future receivements and payments in foreign currency, through the elimination of the uncertainty of the future value of certain exchange rate.

Credit default swap that consists in an agreement through which it is possible to invest or hedge a certain issuer's credit risk. The Group undertakes the selling position of credit hedging, receiving an interest income in exchange of a payment conditioned to a credit event.
Once the credit event occurs, the seller of the credit hedging pays the buyer the amount contractually defined to cover the credit default.

Interest rate swap, which in conceptual terms consists of a contract between two parties who agree to exchange (swap) between them, for a specified amount and period of time, periodic payments of fixed rate for floating rate payments. Involving only one currency, this kind of instrument is mainly directed for the hedging and management of the interest rate risk related with a loan or advance's income or cost that one part is intended to take in a determined future moment.

Currency forward, which represents a contract between two parties for the exchange of currencies, at a determined exchange rate established at the moment of the accomplishment of the contract (forward) for a determined future date. These operations have the purpose of hedging and managing currency risk, through the elimination of the uncertainty of the future value of certain exchange rate, which is immediately fixed by the forward operation.

14. Due from banks

EUR thousand	**31.12.2010**	**31.12.2009**
Bank placements	279,879	319,871
Deposits	130,026	156,106
Reverse repurchase agreements *("reverse repos")*	18,561	13,142
Forfaiting loans	4,617	7,705
Accrued interest	750	223
	433,833	**497,047**

The analysis of this balance by period to maturity is presented in Note 34.

The balance Bank placements includes collateral deposits related to repurchase agreements operations, credit default swaps, interest rate swaps and foreign exchange swaps of € 221,190 thousand (2009: € 259,619 thousand).

15. Investments securities

Investment securities are classified in the following categories:

EUR thousand	**31.12.2010**	**31.12.2009**
Loans and receivables	947,869	1,233,233
Available-for-sale	264,202	123
Fair value through profit or loss	1,554	8,021
	1,213,625	**1,241,377**

Investment securities classified as loans and receivables

EUR thousand	**31.12.2010**	**31.12.2009**
Fixed income securities		
Issued by Portuguese government and other public entities	102	101
Issued by foreign governments and other public entities	98,887	131,643
Issued by other Portuguese entities	57,423	7,009
Issued by other foreign entities	820,508	1,125,338
	976,920	**1,264,091**
Impairment for investment securities		
Issued by foreign governments and other public entities	-	(2,617)
Issued by other foreign entities	(92,435)	(85,761)
	(92,435)	**(88,378)**
Interest rate hedge adjustment (see Note 17)	63,384	57,520
	947,869	**1,233,233**

During 2010, the interest income of the loans and receivables portfolio amounted to €57,132 thousand (2009: €68,415 thousand).

Movement of impairment for investment securities classified as loans and receivables can be analysed as follows:

EUR thousand	**2010**	**2009**
Balance at 1 January	88,378	44,449
Charge for the year (see Note 10)	33,979	44,707
Foreign exchange changes	4,167	(778)
Write-offs	(34,089)	-
Balance at 31 December	**92,435**	**88,378**

Renegotiated debt securities that would otherwise be past due or impaired totalled € 3,038 thousand at 31 December 2010 (2009: nil).

Investment securities available-for-sale

EUR thousand	**31.12.2010**	**31.12.2009**
Fixed income securities		
Issued by Portuguese government and other public entities	55,059	-
Issued by foreign governments and other public entities	36,363	-
Issued by foreign governments and other public entities	70,931	-
Issued by other foreign entities	95,631	-
	257,984	**-**
Equity securities		
Shares	6,218	123
	6,218	**123**
	264,202	**123**

During 2010, the interest income of the available-for-sale portfolio amounted to € 10,800 thousand (2009: €6,920 thousand).

In 2010 and 2009 there were no charges related to impairment losses for this portfolio (see Note 10).

Equity securities includes as at 31 December 2010 the amount of € 3,949 thousand related to instruments measured at cost (2009: nil).

Investment securities at fair value through profit or loss

As of 31 December 2010, investment securities classified as at fair value through profit or loss relate to debt securities in the amount of € 1,554 thousand (2009: € 8,021 thousand).

During 2010, the interest income of the portfolio of securities at fair value through profit or loss amounted to € 256 thousand (2009: € 333 thousand).

16. Loans and advances to customers

EUR thousand	**31.12.2010**	**31.12.2009**
Consumer finance loans		
Credit	584,379	847,811
Leasing and hire purchase	135,947	196,434
	720,326	1,044,245
Impairment allowance for consumer finance loans	(34,351)	(61,384)
Fair value hedge adjustment (see Note 17)	19,130	23,944
Consumer finance loans, net	**705,105**	**1,006,806**
Other loans	80,623	113,653
Impairment allowance for other loans	(1,036)	(8)
Other loans, net	**79,587**	**113,645**
	784,692	**1,120,451**

The analysis of this balance by period to maturity is disclosed in Note 34.

Loans and advances to customers include securitized loans held by SPEs sponsored by the Group. In accordance with SIC 12 - *Consolidation – Special Purpose Entities*, these SPEs are within the Group's consolidation scope, as described in the accounting policy disclosed in Note 2.1.

The gross amounts of securitized loans can be analyzed as follows:

EUR thousand	**31.12.2010**	**31.12.2009**
Credit	514,496	774,322
Leasing and hire purchase	116,338	181,883
	630,834	**956,205**

Loans and advances to customers are summarised as follows:

EUR thousand	**31.12.2010**	**31.12.2009**
Neither past due nor impaired	527,435	771,858
Past due but not impaired	116,155	172,366
Impaired	95,866	123,966
Gross	**739,456**	**1,068,190**
Less: allowance for impaired loans	(34,351)	(61,384)
	705,105	**1,006,806**

The fair value of collateral related to consumer finance loans past due but not impaired amounts to €79,627 thousand and €106,559 thousand for 2010 and 2009, respectively.

In addition to the allowance for impaired loans referred to above, the fair value of collateral related to those impaired loans amounts to €53,192 thousand and €57,945 thousand for 2010 and 2009, respectively.

The fair value of collateral is determined based on valuation techniques commonly used for the corresponding assets (mainly autos). In subsequent periods, the fair value is updated by reference to market price or indexes of similar assets.

Consumer finance loans less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of the consumer finance portfolio that was past due but not impaired was as follows:

EUR thousand	**31.12.2010**	**31.12.2009**
Past due up to 30 days	82,190	120,415
Past due 30-60 days	22,726	35,193
Past due 60-90 days	11,239	16,758
Total	**116,155**	**172,366**

Impaired loans can be analysed as follows:

EUR thousand	**31.12.2010**	**31.12.2009**
Overdues > 90 days	71,474	75,822
Remaining principal not yet due	24,392	48,144
Impaired loans	**95,866**	**123,966**

The gross amount of individually impaired consumer finance loans (in accordance with the accounting policy referred to in Note 2.7) along with the fair value of related collateral held by the Group as security as of 31 December 2009 amounts to € 234 thousand and € 237 thousand, respectively (2009: € 910 thousand and € 836 thousand).

The amount of the allowance for impaired loans takes into consideration, besides other factors, the fair value of collateral related to the impaired loans, as referred in the accounting policy described in Note 2.7. The allowance for impaired loans, by type of loan, and changes occurred in the years 2010 and 2009 can be analyzed as follows:

EUR thousand	**31.12.2010**	**31.12.2009**
Credit	31,624	57,308
Leasing and hire purchase	2,727	4,075
Other loans to customers	1,036	8
	35,387	**61,392**
Balance as at 1 January	61,392	62,935
Net charge for the year (see Note 10)	9,517	30,100
Loans written off during the year	(35,522)	(31,643)
Balance as at 31 December	**35,387**	**61,392**

During 2010, the Group recovered € 585 thousand (2009: €496 thousand) related to loans previously written off, in accordance with the accounting policy described in Note 2.7.

Renegotiated loans that would otherwise be past due or impaired totalled € 405 thousand at 31 December 2010 (2009: € 752 thousand).

Loans and advances to customers include finance lease receivables as follows:

EUR thousand	**31.12.2010**	**31.12.2009**
Gross investment in finance leases:		
Up to one year	20,733	23,068
From one to five years	99,747	140,108
More than five years	32,066	57,830
Unearned future income on finance leases:		
Up to one year	(207)	(199)
From one to five years	(9,934)	(12,779)
More than five years	(6,459)	(11,594)
Net investment in finance leases:		
Up to one year	20,527	22,869
From one to five years	89,814	127,329
More than five years	25,606	46,236
	135,947	**196,434**

17. Hedging derivatives

The Group enters into derivative transactions for the purposes of hedging interest rate risk from cash flows and fair value of assets and liabilities. The accounting treatment of hedge transactions varies according to the nature of the hedged instrument and whether the hedge qualifies as such for accounting purposes in accordance with Note 2.13. When hedge accounting is discontinued, despite maintaining the hedge relation on an economic basis, the respective hedge instruments are reclassified to financial assets and liabilities held for trading (see Note 13).

As of 31 December 2010 and 2009, the derivative instruments designated as hedging accounting derivatives can be analysed as follows:

EUR thousand	**31.12.2010**		**31.12.2009**	
	Notional amount	**Fair value Liabilities**	**Notional amount**	**Fair value Liabilities**
Fair value hedge	-	-	341,767	25,429
Cash flow hedge	-	-	-	-
	-	**-**	**341,767**	**25,429**

Fair value hedges of interest rate risk – investment securities

The Group's fair value hedges consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates, namely to protect a certain portion of its investment securities portfolio from fixed-rate exposure. The accumulated hedge adjustment as of 31 December 2010 amounts to €63,384 thousand (2009: 57,520 thousand) (see Note 15).

In 2010 the Group recognized in profit or loss the amount of € 25,826 thousand (2009: € 11,782 thousand) related to the fair value change of the hedge items and the amount of € 10,596 thousand as a loss from derecognized items and the amortization of previous relations that were discontinued (see Note 7).

During 2010 these hedge relationships were discontinued since the hedge criterion was no longer effective and/or the designation was revoked. The Group recognized a net gain of €1,430 thousand (2009: net loss of € 149 thousand) which represents the ineffective portions of fair value hedges, as defined in Note 2.13.

Fair value hedges of interest rate risk – car finance portfolio (fixed rate)

The Group also applies fair value hedge accounting of portfolio interest rate risk for its fixed-rate consumer finance loans. The change in fair value of the hedged items is recorded separately from the hedged item on the balance sheet. The accumulated hedge adjustment as of 31 December 2010 amounts to €19,130 thousand (2009: €23,944 thousand) (see Note 16).

In 2010 the Group recognized in profit or loss the amount of € nil thousand (2009: €8,813 thousand) from the fair value change of the hedge items and the amount of € 4,814 thousand (2009: €3,335 thousand) as a loss from the amortization of the discontinued relations (see Note 7).

These hedge relations were discontinued in 2009 since the hedge criterion was no longer effective. For the year ended 31 December 2010, the Group did not recognized any gain or loss (2009: net loss of € 642 thousand) from the ineffective portions of fair value hedges, as defined in Note 2.13.

Cash flow hedges

In order to eliminate the interest rate risk associated to the floating payments of debt securities issued by the securitization vehicles and part of its subordinated debt, the Group entered into interest rate swap contracts in order to receive floating and pay fixed interest thus converting floating rate debt securities issued into fixed rate liabilities with an underlying hedge cost (see Note 26).

During 2010 these hedge relations were discontinued since its designation was revoked, having the Group derecognised in the cash-flow hedge reserves (see Note 30) an amount of € 9,197 thousand (2009: recognized € 5,192 thousand). The amounts of € 11,090 thousand (2009: €2,492 thousand) from the amortisation of the reserve of the discontinued relations (see Note 7) and of € 1,893 thousand (2009: € 7,684 thousand), related to the changes in fair value of the interest rate swaps, were recognized in profit or loss, as described in Note 2.15.

The impacts of the hedge relationships referred to above can be analysed as follows:

EUR thousand	**31.12.2010**	**31.12.2009**
Losses on hedging instruments	**(24,496)**	**(21,386)**
Investment securities	(24,496)	(11,931)
Car finance	-	(9,455)
Gains on hedge items attributable to the hedge risk	**25,826**	**20,595**
Investment securities	25,826	11,782
Car finance	-	8,813
Ineffective portions of fair value hedges from L&R portfolio	**1,330**	**(791)**
Ineffective portions of fair value hedges from AFS portfolio	100	-
Ineffective portions of cash flow hedges	157	152
Ineffectiveness from interest rate risk hedges (see Note 7)	**1,587**	**(639)**

Additionally, for the available-for-sale portfolio the Group recognized in 2010 a loss in hedging instruments in the amount of €945 thousand and a gain in the respective hedged items in the amount of €1,045 thousand. These gains in the hedged items attributable to the hedge risk are reclassified from the fair value reserve to profit or loss, net from the amortization of the hedge relationship that amounted to €37 thousand (see Notes 7 and 30).

18. Net investment hedge

The Group uses foreign currency denominated debt to hedge the foreign currency translation risk on its net investment in foreign subsidiaries.

The information on net investments held by the Group in foreign institutions and the funding used to hedge these investments as at 31 December 2010 is as follows:

Company	Functional Ccy	Net investment USD'000	Funding debt USD'000	Net investment EUR'000	Funding debt EUR'000
Banco Finantia International Ltd.	USD	40,000	40,000	29,936	29,936
Finantia Holdings BV	USD	55,430	55,430	41,483	41,483

The effective portion of the changes in fair value of the non derivative financial liability designated as hedging instrument for the hedge of a net investment in a foreign operation was recognised directly in equity in other comprehensive income. In 2010 and 2009 no ineffectiveness was generated in this hedge relationship, which was discontinued prospectively in accordance with the accounting policy described in Note 2.13, since its designation was revoked.

19. Property and equipment

EUR thousand	Buildings	Office equipment	IT equipment	Motor vehicles	Other assets	31.12.2010	31.12.2009
Cost							
At the beginning of the year	20,725	11,257	3,885	1,321	1,085	38,273	39,777
Additions	34	24	16	353	7	434	379
Disposals / write-offs	-	(136)	(29)	(477)	(45)	(687)	(2,735)
Fx translation / transfers	553	106	(87)	-	41	613	852
At the end of the year	**21,312**	**11,251**	**3,785**	**1,197**	**1,088**	**38,633**	**38,273**
Accumulated depreciation							
At the beginning of the year	6,211	9,793	3,667	1,116	819	21,606	20,834
Depreciation expense	560	493	122	210	103	1,488	1,801
Disposals / write-offs		(113)	(28)	(433)	(46)	(620)	(1,775)
Fx translation / transfers	(11)	129	(93)	-	8	33	746
At the end of the year	**6,760**	**10,302**	**3,668**	**893**	**884**	**22,507**	**21,606**
Net book value	**14,552**	**949**	**117**	**304**	**204**	**16,126**	**16,667**

20. Intangible assets

EUR thousand	**Software**	**Other assets**	**Work in progress**	**31.12.2010**	**31.12.2009**
Cost					
At the beginning of the year	2,429	394	308	3,131	2,794
Additions	120	4	64	188	331
Disposals / write-offs	-	-	-	-	-
Fx translation / transfers	70	-	(64)	6	6
At the end of the year	**2,619**	**398**	**308**	**3,325**	**3,131**
Accumulated amortisation					
At the beginning of the year	2,077	390	-	2,467	2,165
Amortisation expense	338	3	-	341	302
Disposals / write-offs	-	-	-	-	-
Fx translation / transfers	-	-	-	-	-
At the end of the year	**2,415**	**393**	**-**	**2,808**	**2,467**
Net book value	**204**	**5**	**308**	**517**	**664**

At 31 December 2010 and 2009, other assets and work in progress include software licenses and software implementation expenses, respectively.

21. Other assets

EUR thousand	**31.12.2010**	**31.12.2009**
Non-current assets held for sale	441	622
Debtors and other applications	25,197	28,176
Accrued income	1,575	542
Stock exchange transactions pending settlement (see Note 28)	9,545	6,951
Other transactions pending settlement	35,742	52,248
	72,500	**88,539**

The balance debtors and other applications is net of impairment allowances. Changes in the impairment allowances for debtors are analyzed as follows:

EUR thousand	**2010**	**2009**
Balance as at 1 January	33,806	31,653
Net charges for the year (see Note 10)	1,752	2,492
Foreign exchange changes	547	(339)
Write-offs	(657)	-
Balance as at 31 December	**35,448**	**33,806**

At 31 December 2010, the balance other transactions pending settlement includes the amount of € 35,314 thousand (2009: € 51,660 thousand) related to amounts that are settled on a quarterly basis related with the Group's securitization transactions.

22. Income taxes

The income taxes recognized in the income statement for the years 2010 and 2009 can be analyzed as follows:

EUR thousand	**31.12.2010**	**31.12.2009**
Current income tax		
Current year	(233)	(684)
Related to prior years	(77)	11
	(310)	**(673)**
Deferred income tax		
Origination and reversal of temporary differences	(137)	(1,664)
	(137)	**(1,664)**
Total income tax recognized in the income statement	**(447)**	**(2,337)**

The deferred taxes assets and liabilities recognized in balance sheet in the years 2010 and 2009 can be analyzed as follows:

EUR thousand	31.12.2010			31.12.2009		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Available-for-sale financial assets	4,126	-	4,126	-	(887)	(887)
Loans and advances to customers	9,308	(1,346)	7,962	14,331	(2,060)	12,271
Tax losses brought forward	16,293	-	16,293	16,016	-	16,016
Other	588	(1,882)	(1,294)	1,252	(182)	1,070
Deferred tax asset/(liability)	**30,315**	**(3,228)**	**27,087**	**31,599**	**(3,129)**	**28,470**
Set off of tax	(3,228)	3,228	-	(3,129)	3,129	-
Net tax asset/(liability)	**27,087**	**-**	**27,087**	**28,470**	**-**	**28,470**

Except for tax losses brought forward all remaining temporary differences do not have an expiration maturity date. Expiration dates for tax losses brought forward can be analyzed as follows:

EUR thousand	**31.12.2010**	**31.12.2009**
Expiration date		
2014	12,699	12,699
2015	266	-
2024	2,945	3,317
2025	383	-

As at 31 December 2010 and 2009 deferred tax assets related to tax losses not recognized in the balance sheet amount to €5,512 thousand and €350 thousand, respectively.

As at 31 December 2010, income taxes recognized in reserves related to the available-for-sale financial instruments and to fair value hedge (see Note 30) amounts to €5,013 thousand (2009: €350 thousand), and refers only to deferred taxes.

The reconciliation of the effective income tax rate is shown in the following table:

EUR thousand	**31.12.2010**		**31.12.2009**	
	%	**Amount**	**%**	**Amount**
Profit before income tax		11,329		14,443
Statutory income tax rate	26.5%		26.5%	
Income tax calculated based on the statutory tax rate		3,002		3,827
Income taxes recognized in the income statement				
Current taxes (effective tax rate)		(310)		673
Deferred taxes		(137)		1,664
Tax to reconciliate		**2,556**		**1,490**
Reconciliation:				
Tax assets not recognised from losses brought forward		(5,512)		(350)
Tax losses brought forward		-		(8,498)
Tax losses used		7,984		9,150
Tax related to prior years		(88)		43
Provisions and impairment		229		(284)
Other		(56)		1,429
		2,556		**1,490**

23. Due to banks

EUR thousand	**31.12.2010**	**31.12.2009**
Syndicated loans	150,000	512,207
Bank takings	254,757	189,682
Accrued interest	1,565	3,113
	406,322	**705,002**

Interest calculated by applying the effective interest rate for the year ended 31 December 2010 amounted to € 11,362 thousand (2009: € 8,573 thousand).

The main features of the syndicated loans in the Group's balance sheet can be analysed as follows:

EUR thousand	**Interest rate**	**31.12.2010**	**31.12.2009**
€150m syndicated loan due 2011	Euribor 6m + 33 bp	150,000	150,000
€190m syndicated loan due 2010	Euribor 6m + 28 bp	-	187,956
€175m syndicated loan due 2010	Euribor 3m + 75 bp	-	174,252
		-	**362,207**

The €190 million syndicated loan due 2010 and the €175 million syndicated loan due 2010 were designated upon their initial recognition as of 4 June 2007 and 17 July 2008, respectively, as at fair value through profit or loss, in accordance with the accounting policy described in Note 2.18. In 2010, the net change in fair value for these loans amounted to € (2,793) thousand (2009: € (11,160) thousand) (see Note 7).

24. Due to customers

EUR thousand	**31.12.2010**	**31.12.2009**
Time deposits	187,521	132,403
Demand deposits	13,208	20,447
Cheques clearing	-	1
Accrued interest	1,626	1,524
	202,355	**154,375**

25. Securities sold under repurchase agreements

EUR thousand	**31.12.2010**	**31.12.2009**
Banks	247,721	347,295
Other institutions	194,742	105,853
	442,462	**453,148**

26. Debt issued

EUR thousand	**31.12.2010**	**31.12.2009**
Securitization transactions	419,603	730,299
Bonds "Banco Finantia 2012"	103,013	103,021
	522,616	**833,320**

The Group's securitization programme follows the implemented strategy for the Consumer Finance business, for which funding is done primarily through medium-term securitization programs.

In 4 of May 2009 Banco Finantia issued non-subordinated bonds in the amount of €100 million. This issue bears a fixed interest rate of 3.60% and will be fully reimbursed in 4 of May 2012. These bonds have the guarantee of the Portuguese Republic, granted in accordance with Law no. 60-A/2008, of 20 of October and Portaria no. 1219-A/2008, of 23 of October.

At 31 December 2010, the securitization transactions outstanding are as follows:

(Amounts expressed in thousand of Euros)

Denomination	Issue date	Maturity date	Nominal amount	Nominal interest rate	Efective interest rate	Accrued interest	Carrying amount
LTR Finance no.5 plc							
Class B	1/Jul/04	1/Jul/15	5,753	Euribor 3m + 37bp	1.13%	15	5,768
Class C	1/Jul/04	1/Jul/15	16,600	Euribor 3m + 55bp	1.35%	49	16,649
LTR Finance no.6 plc							
Class A	25/Set/06	24/Nov/18	190,738	Euribor 3m + 14bp	0.89%	237	190,976
Class B	25/Set/06	24/Nov/18	35,000	Euribor 3m + 23bp	1.00%	47	35,047
Class C	25/Set/06	24/Nov/18	14,239	Euribor 3m + 30bp	1.07%	20	14,259
Class D	25/Set/06	24/Nov/18	11,150	Euribor 3m + 65bp	1.42%	18	11,168
LTR Finance no.8 plc [(a)]							
Senior facility	30/Mar/07	31/Ago/13	156,884	Euribor 1m + 100 bp	1.53%	79	139,896
Mezzanine facility	30/Mar/07	31/Ago/13	10,032	Euribor 1m + 150 bp	1.94%	7	5,840
			440,396			**472**	**419,603**

[(a)] formely LTR Warehouse no.2

At 31 December 2009, this balance comprises:

(Amounts expressed in thousand of Euros)

Denomination	Issue date	Maturity date	Nominal amount	Nominal interest rate	Efective interest rate	Accrued interest	Carrying amount
LTR Finance no.5 plc							
Class A	1/Jul/04	25/Jul/15	27,643	Euribor 3m + 20bp	1.89%	48	27,691
Class B	1/Jul/04	25/Jul/15	15,600	Euribor 3m + 37bp	1.74%	32	15,632
Class C	1/Jul/04	25/Jul/15	16,600	Euribor 3m + 55bp	1.92%	40	16,640
LTR Finance no.6 plc							
Class A	25/Set/06	24/Nov/18	343,169	Euribor 3m + 14bp	1.82%	309	343,478
Class B	25/Set/06	24/Nov/18	35,000	Euribor 3m + 23bp	1.90%	35	35,035
Class C	25/Set/06	24/Nov/18	14,174	Euribor 3m + 30bp	1.97%	12	14,187
Class D	25/Set/06	24/Nov/18	11,150	Euribor 3m + 65bp	2.32%	19	11,169
LTR Finance no.8 plc [(a)]							
Senior facility	30/Mar/07	22/Mar/18	284,206	Euribor 1m + 100 bp	1.83%	117	258,167
Mezzanine facility	30/Mar/07	22/Mar/18	10,031	Euribor 1m + 150 bp	2.30%	6	8,301
[(a)] formely LTR Warehouse no.2			**757,573**			**618**	**730,299**

During 2007, the LTR Finance no.8 plc Senior and Mezzanine facilities were designated upon its initial recognition as at fair value through profit or loss, in accordance with the accounting policy described in Note 2.18. In 2010, the net change in fair value for these facilities amounted to € (6,627) thousand (2009: € (5,537) thousand) (see Note 7).

27. Subordinated debt

EUR thousand	**Interest rate**	**31.12.2010**	**31.12.2009**
€10m subordinated bonds due 2012	Euribor 6m + 100 bp	10,000	10,000
€75m subordinated bonds due 2015	Euribor 3m + 135 bp	56,381	56,381
€50m subordinated bonds due 2016	Euribor 3m + 135 bp	42,853	42,702
€60m subordinated bonds due 2017	Euribor 3m + 125 bp	25,965	42,048
Accrued interest		806	532
		136,005	**151,663**

Interest calculated by applying the effective interest rate for the year ended 31 December 2010 amounted to € 2,262 thousand (2009: € 2,861 thousand).

The €60 million subordinated bonds due 2017 issue was designated upon its initial recognition as of 26 July 2007 as at fair value through profit or loss, in accordance with the accounting policy described in Note 2.18. In 2010, the net change in fair value for this loan amounted to € 16,083 thousand (2009: € 6,859 thousand) (see Note 7). These subordinated bonds are redeemable at par value on its maturity date, although they may be repaid earlier at the Group’s option, subject to the prior approval from the Bank of Portugal.

28. Other liabilities

EUR thousand	**31.12.2010**	**31.12.2009**
Provisions	408	923
Amounts owed to the public sector	3,092	3,431
Creditors from consumer finance business	475	996
Accrued expenses	2,654	9,286
Other sundry liabilities	15,379	12,174
	22,008	**26,810**

Provisions are intended to cover certain contingencies related to the Group's activity. During the year 2010, the Group wrote-off the amount of € 515 thousand (2009: € nil).

Other sundry liabilities include the amount of € 12,703 thousand (2009: € 10,255 thousand) related to stock exchange transactions pending settlement, following transactions made in the normal course of business of the Group (see Note 21).

29. Share capital, share premium and treasury stock

Share capital and share premium

At 31 December 2010, the Bank's share capital in the amount of € 115,000,000 is represented by 115 million ordinary shares with a par value of € 1 each. All issued shares are fully paid.

The share premium amount of € 60 million relates to the premium paid by shareholders in capital increases.

Treasury stock

During the years ended 2010 and 2009 the following changes occurred in treasury stock:

EUR thousand, except # of shares	**2010**		**2009**	
	# of shares	**Acq. cost**	**# of shares**	**Acq. cost**
Balance as at 1 January	3,380,152	10,937	1,838,411	6,288
Acquisitions	970,559	1,728	1,541,741	4,648
Disposals	-	-	-	-
Balance as at 31 December	**4,350,711**	**12,665**	**3,380,152**	**10,937**

30. Reserves and retained earnings

EUR thousand	**31.12.2010**	**31.12.2009**
Revaluation reserves	(28,839)	(30,259)
Legal reserve	23,156	21,432
Other reserves and retained earnings	173,176	178,127
	167,493	**169,300**

Revaluation reserves

The revaluation reserves represent the amount of the unrealised gains and losses arising from securities classified as available-for-sale, net of impairment losses recognised in the income statement in the year/previous years, the fair value reserve of assets reclassified and the effective part of the changes of the fair value from hedging instruments for the exposure to variability in future cash flows and fair value.

The amount of this reserve is shown net of deferred taxes, as follows:

EUR thousand	**AFS reserve**	**Cash-flow hedge reserve**	**Fair value hedge**	**Total**
Balance as at 1 January 2009	**(11,966)**	**(21,196)**	**-**	**(33,162)**
Net changes in AFS financial assets (Note 15)	321	-	-	**321**
Amortisation of reclassified assets reserve (Note 37)	7,604	-	-	**7,604**
Amortisation of HTM related reserve (Note 37)	(179)	-	-	**(179)**
Changes in cash flow hedge reserve (see Note 17)	-	(7,684)	-	**(7,684)**
Amortisation of cash flow hedge reserve (see Note 17)	-	2,492	-	**2,492**
Deferred taxes (see Note 22)	350	-	-	**350**
Balance as at 31 December 2009	**(3,871)**	**(26,388)**	**-**	**(30,259)**
Net changes in AFS financial assets (Note 15)	(13,710)	-	-	**(13,710)**
Amortisation of reclassified assets reserve (Note 37)	2,107	-	-	**2,107**
Amortisation of HTM related reserve (Note 37)	(179)	-	-	**(179)**
Changes in cash flow hedge reserve (see Note 17)	-	(1,893)	(1,045)	**(2,938)**
Amortisation of cash flow hedge reserve (see Note 17)	-	11,090	37	**11,127**
Deferred taxes (see Note 22)	4,746	-	267	**5,013**
Balance as at 31 December 2010	**(10,907)**	**(17,191)**	**(741)**	**(28,839)**

The legal reserve can only be used to cover cumulated losses or to increase capital. According to Article 97 of the General Regime for Credit Institutions and Financial Companies, approved by Decree-Law 298/92 of 31 December and amended by Decree-Law 201 /2002 of 25 September, Banco Finantia and other Portuguese Group financial companies must appropriate at least 10% of its net income each year to a legal reserve until the amount of the reserve equals the greater of the amount of share capital or the sum of the free reserves plus retained earnings (in accordance with the Article 296º of the Portuguese Companies Code).

The other Group companies with head offices in Portugal must transfer to a legal reserve at least 5% of their net annual profits until this reserve is equal to 20% of issued capital.

31. Off balance sheet items

EUR thousand	**31.12.2010**	**31.12.2009**
Guarantees issued		
Securities pledged under repos	1,105,041	1,123,592
Guarantees and standby letters of credit	26,676	22,967
	1,131,717	**1,146,559**
Guarantees received		
Guarantee from Portuguese Republic (see Note 26)	102,387	102,387
Assets received from Reverse repos	25,642	12,000
Other guarantees received	13,686	9,423
	141,715	**123,810**
Contingent liabilities		
Revocable committed lines	364	10,106
Other commitments	43	358
	407	**10,464**
Other off-balance sheet items		
Securitization assets under management	1,112,972	1,508,245
Securities and items held for safekeeping	664,860	940,496
	1,777,832	**2,448,741**

The balance Securities pledged under repos refers to the nominal amount of securities sold under repurchase agreements and includes transactions with central banks.

As a part of the reverse repurchase agreements, the Group has received securities that it is allowed to sell or repledge. The fair value of the securities accepted under these terms as at 31 December 2010 amounted to € 24,197 thousand (2009: €13,049 thousand).

32. Cash and cash equivalents

For purposes of the cash flow statement, cash and cash equivalents comprise the following balances with maturity less than three months, from the date of acquisition:

EUR thousand	**31.12.2010**	**31.12.2009**
Cash (see Note 12)	86	106
Deposits with banks (see Note 12)	3,845	16,479
Due from banks	149,336	175,881
	153,267	**192,465**

The balance due from banks relates only to balances with maturity less than three months and excludes collateral deposits referred to in Note 14.

33. Balances and transactions with related parties

The Group makes transactions in its normal course of business with other Group companies and other related parties. Group companies are identified in Note 38 and the respective balances and transactions are eliminated within consolidated accounts.

The Bank's shareholders with which as of 31 December 2010 the Group as balances outstanding can be analised as follows:

Shareholder	**Head-Office**	**Direct holding (%)**	**Effective holding (%)**
Finantipar - SGPS, S.A.	Portugal	52.7	54.7
Natixis	France	11.1	11.5
VTB Capital plc	UK	8.9	9.3
WestLB AG	Germany	8.3	8.7

The balances and transactions as of 31 December 2010 and 2009 can be analysed as follows:

EUR thousand	**31.12.2010**	**31.12.2009**
Assets		
Financial assets held for trading	16.105	30.499
Investment securities	-	6.057
Loans and advances to customers	34.153	34.790
Liabilities		
Financial liabilities held for trading	18.166	23.064
Due to banks	25.749	61.200
Due to customers	63	114
Securities sold under repurchase agreements	27.169	17.487
Debt issued	145.736	266.468
Subordinated debt	28.787	28.018
Income		
Interest income	604	339
Gains from financial operations	13.063	20.184
Expense		
Interest expense	1.916	3.517
Losses from financial operations	8.242	23.453
Other expense	12	-
Off balance sheet items		
Assets in guarantee	38.819	23.533
Foreign exchange swaps	41.162	3.471
Interest rate swaps	1.134.248	1.089.401
Credit default swaps	40.000	60.000

Transactions with related parties are made at normal market conditions.

The amount of remunerations paid to the Group's management and supervisory bodies is disclosed in Note 8. As at 31 December 2010 and 2009 there were no other balances and transactions with the Bank's directors.

34. Risk management activity

The Finance Committee, which meets monthly, is the body responsible for the integrated evaluation and monitoring of the various risks that Group Finantia is exposed to. They analyze and propose adequate methodologies, policies and procedures to control and mitigate such risks.

In organizational terms, the risk management function is centralized in the Risk and ALM Department (Assets and Liabilities Management), both for the Banking area and the Consumer Finance business, as an independent unit from the Group's origination departments, covering the various risks: credit, market, liquidity and operational, with the credit analysis being performed by the Credit Department. This structure facilitates a transversal and integrated analysis, considering the complementarily of the analysis and the correlations between the different types of risk.

In the Consumer Finance area, the credit risk management component is shared with the Risk Management Department, a more specialized unit in the Sofinloc business (Portugal and Spain).

Credit Risk

Credit risk, which arises not only from the possibility of a counterparty defaulting but also from the change in the economic value of a certain instrument due to the degradation in the credit quality, constitutes one of the most important risks for the Group, considering its asset structure.

The approval of any credit exposure is carried out according to a set of internal principles and procedures embodied in the Group's Credit Rules and Regulations, which define the different decision levels commensurate with the amount of exposure and type of product to be financed.

For the Consumer Finance business, the creditworthiness of credit applications is assessed through a comprehensive risk analysis process, including decision levels hierarchy, credit references from data agencies and a credit scoring system. The first decision level corresponds to an automatic approval of the credit applications based on scorecards computed by the credit scoring system. In order to generate an automatic approval, a credit application has to satisfy a minimum scorecard level. The credit application's scorecard results from the consideration of individual scorecards computed by the credit scoring system for the client and for the dealer. The credit scoring system is applied to the Portuguese and Spanish credit portfolios, using different parameters according to the corresponding specificities collected from the wide experience developed since the Group's first scoring model in 1995. In case there is no automatic approval, credit applications are passed on to higher decision levels including the underwriting department's manager, managers of the risk analysis department or members of the executive board.

The credit scoring system is also used by the Group for profitability calculations purposes. Since the credit application's scorecard reflects a probability of loss, based on such probability of loss and for a given return the Group is able to calculate the corresponding expected profitability.

In the Banking area, all operations are subject to limits defined by the Credit Department. Every individual limit is analyzed by this department with a cap on the maximum amount permitted based on the issuer's rating and category. Over and above the guidelines, new limits established also take into account the country and sectorial exposures. The Risk and ALM Department is responsible for the daily monitoring of the approved limits.

The credit portfolio risk profile is analyzed monthly by the Finance Committee, which also looks at credits with problems, both in the Banking and the Consumer Finance areas (the latter relating to only credits pertaining to higher levels of decision making, due to portfolio granularity). In these meetings, the evolution of the exposures is analyzed, including the Consumer Finance portfolio analysis that reflects the review of impaired loans, delinquency, coverage and asset quality ratios, as well as the allocation and consumption of capital. Other risks such as interest rate, currency and liquidity are also addressed.

Excluding the Consumer Finance portfolio (Portugal and Spain) which is analysed in Note 16, and considering the Group's credit risk exposure by external rating designation at 31 December 2010, around 92% of overall exposure is to OECD or investment grade countries, while the remaining is largely diversified over fifteen countries (2009: 90%).

The Group's maximum exposure to credit risk before collateral can be analysed as follows:

EUR thousand	**31.12.2010**	**31.12.2009**
Deposits with banks	3,845	16,479
Due from banks	433,833	497,047
Trading derivatives	20,381	23,630
Investment securities	1,213,625	1,241,377
Loans and advances to clients	784,692	1,120,451
Other assets	36,759	36,291
	2,493,135	**2,935,275**
Guarantees and standby letters of credit	26,676	22,967
Credit default swaps (notional amounts)	886,146	911,632
	912,822	**934,599**

Market risk

Market or price risk is defined as the likelihood of incurring losses due to unexpected changes in the price of financial instruments/positions resulting, besides other effects, from changes in interest rates and exchange rates.

As part of the market risk control and assessment process within the Group, emphasis is placed on the daily calculation of VaR for the entire consolidated balance sheet. The VaR is calculated using the historical simulation approach, with one year of historical price data, a one day holding period and a 99% confidence interval. Back-testing exercises have been satisfactorily concluded. For the year 2010, the average daily VaR was € 1.47 million (down from € 6.96 million in 2009), which corresponds to 0.5% of Tier 1 Capital (2.07% in 2009). The average daily VaR for foreign exchange risk was € 0.96 million (€ 3.77 million in 2009) and for interest rate risk was € 1.08 million (€5.54 million in 2009).

Interest rate risk

The monitoring of exposures to interest rate fluctuations constitutes one of the principal aspects for proper risk management. The Group has adopted a strategy of minimizing the interest rate risk related to its fixed rate assets (Consumer Finance and Banking Area assets), since the majority of its liabilities are indexed to floating rate.

For the Group's fixed rate assets, there is a permanent monitoring of their distribution across temporal buckets, net of corresponding fixed rate liabilities and interest rate hedging instruments, , with the risks that exceed the limits set by the Finance Committee being regularly hedged, using adequate financial instruments, typically interest rate swaps. The definition of which hedging instruments to use varies from time to time, as per the decisions of the Finance Committee.

Foreign currency exchange rate risk

It is Group policy to deal only in assets and liabilities denominated in EUR and USD. Positions in other currencies are sporadic and have no significant impact on the balance sheet and results. In order to neutralize the currency risk, exposures are monitored on a daily basis, both the spot position and the forward position, resulting from the expectations of the impact that the USD assets and liabilities can generate in the future.

This analysis is presented and discussed in the Finance Committee on a monthly basis, with a view to defining or correcting the measures to be adopted in order to reach the objective of minimizing exchange rate risk.

The assets and liabilities detail by currency can be analysed as follows:

EUR thousand	31.12.2010	
	USD	**Other**
Assets		
Cash and banks	1,358	168
Financial assets held for trading	16,644	-
Investment securities	530,360	-
Due from banks	85,249	-
Loans and advances to customers	22,028	-
Other assets	21,058	47
Total assets	**676,697**	**215**
Liabilities		
Financial liabilities held for trading	47,317	-
Due to banks	31,640	20
Securities sold under repurchase agreements	243,174	-
Due to customers	2,326	2
Hedging derivatives	-	-
Other liabilities	4,232	12
Total liabilities	**328,689**	**34**
Equity	(666)	-
Total liabilities and equity	**328,023**	**34**
Derivatives held for risk management		
FX Swaps	(343,137)	-
	(343,137)	**-**
Net position	**5,537**	**181**

EUR thousand	31.12.2009	
	USD	**Other**
Total assets	884,195	2,203
Total liabilities	415,098	2,030
Equity	(62)	-
	469,159	173
Derivatives held for risk management	(480,992)	-
Net position	**(11,833)**	**173**

Liquidity risk

Liquidity risk is defined as the potential that an institution will be unable to meet its obligations as they come due, because of an inability to liquidate assets, obtain funding or refinance liabilities under appropriate conditions.

The liquidity risk management is done on a global basis (Group), centralized (Treasury Department and Risk and ALM Department), kept within pre-defined limits and in accordance with two distinct parameters: i) cash flow management, through a system of cash flow controls that permits daily calculation of Treasury balances over an extended temporal horizon and the maintenance of excess liquidity that ensure normal functioning of the Group even under unfavourable conditions; ii) balance sheet management, allowing the maintenance of the main liquidity indicators within the limits pre-defined by the Finance Committee.

The Treasury Department is responsible for cash flow management, making a daily report to at least one member of the Executive Committee. The Risk and ALM Department is responsible for all the analysis pertaining to the Group's balance sheet management. The report is then presented on a monthly basis to the Finance Committee, which is responsible for defining the liquidity strategy of the Group, as well as for the adoption of all corrective measures whenever the pre-defined limits are not adhered to.

In the Banking area, the strategy defined consists in favouring high liquidity assets, easily tradable, that allow autofinancing through repos or other funding instruments.

Regarding the Consumer Finance activity, the option has been the back-to-back funding through securitization operations, which represented at the end of the period around 88% of the value of those assets.

The year 2010 was also characterized by Banco Finantia's continued efforts to diversify its sources of funding which has resulted in a more balanced distribution of its various liabilities.

Contributing to this achievement was the rise in retail deposits, the increment in the number of active counterparties in the collateralized and non-collateralized interbank market and the increase in the available volumes for collateralized funding as a result of the adjustment in the risk profile of the Bank's bond portfolio.

Regarding the other liability instruments used, the strategy is based on the diversification of funding sources, not only in terms of counterparties, but also in the types of instruments. Care is taken to comply with certain maximum counterparty concentration ratios.

Cash flows due related to non-derivative financial liabilities and assets held for managing liquidity risk are undiscounted and include principal and interest as contractually determined, adjusted based on the respective behavioral maturities.

As of 31 December 2010 can be analysed as follows:

EUR thousand	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
Liabilities					
Due to central banks	245,339	155,422	-	-	400,761
Due to banks	110,887	163,757	139,251	383	414,278
Due to customers	58,431	36,737	116,979	-	212,147
Securities sold under repurchase agreements	66,711	66,711	311,317	-	444,738
Debt issued	59,629	162,187	332,456	3,219	557,491
Subordinated debt	1,208	3,898	94,228	110,034	209,368
Liabilities by contractual maturity dates	**542,204**	**588,711**	**994,231**	**113,637**	**2,238,783**
Assets held for managing liquidity risk	**555,581**	**617,003**	**1,100,638**	**638,707**	**2,911,928**

As at 31 December 2009 can be analysed as follows:

EUR thousand	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
Liabilities					
Due to central banks	-	262,645	-	-	262,645
Due to banks	264,879	222,315	236,427	659	724,280
Due to customers	53,961	66,507	37,655	-	158,123
Securities sold under repurchase agreements	240,435	209,666	-	-	450,101
Debt issued	23,301	228,270	643,632	-	895,203
Subordinated debt	946	2,965	39,662	173,781	217,354
Liabilities by contractual maturity dates	**583,523**	**992,368**	**957,376**	**174,441**	**2,707,707**
Assets held for managing liquidity risk	**631,751**	**986,353**	**975,903**	**752,608**	**3,346,614**

For derivative instruments, the contractual undiscounted cash flows can be analysed as follows:

<u>31 December 2010</u>

EUR thousand	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
Assets cash flows	307,490	68,274	112,767	30,073	518,604
Liabilities cash flows	310,242	76,547	95,695	17,935	500,420

31 December 2009

EUR thousand	**Up to 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**More than 5 years**	**Total**
Assets cash flows	310,541	239,852	183,901	57,068	791,361
Liabilities cash flows	320,212	259,337	169,511	37,805	786,865

Operational risk

Operational risk may be defined as the risk of loss resulting from inadequate internal processes, human or IT system failures, or external factors

The operational risk management has always been an area of importance for the Group, which has undertaken a policy of systematically creating operational manuals and simultaneously making the head of each department accountable for compliance with established rules and procedures, with the purpose of mitigating operational risk. Having in mind the best market practices, the Group has been intensifying its efforts in implementing more advanced and effective measurement and risk control methods. The Group has kept its process of collecting and recording information on the various types of risk that may affect its activity (*loss event register* and *risk control self assessment*).

On a global perspective, there is a strong focus in identifying and analysing *ex-ante* the problems and risks, with the objective of preventing and controlling them. This is particularly relevant in the approval of new financial products, which is subject to the analysis and opinion of multidisciplinary and interdepartmental teams, as well as different levels of authorization. There are operational contingency plans and a Disaster Recovery Plan in place, which ensure the continuity of the Group's activities even in the more extreme situations.

35. Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the regulators of the banking markets where the entities within the Group operate;

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Group's management, employing techniques based on the guidelines developed by the Basel Committee and the European Community Directives, as implemented by the Bank of Portugal (the Authority), for supervisory purposes. The required information is filed with the Authority on a periodic basis.

The Authority requires each bank or banking group to: (a) hold the minimum level of the regulatory capital of € 17.5 million, and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'CAD ratio') at or above the internationally agreed minimum of 8%. In addition, those individual banking subsidiaries or similar financial institutions not incorporated in the European Union are directly regulated and supervised by their local banking supervisor.

The Group's regulatory capital as managed by its central Group Treasury is divided into two tiers:

- Tier 1 capital: share capital (net of any book values of the treasury shares), minority interests arising on consolidation from interests in permanent shareholders' equity, retained earnings and reserves created by appropriations of retained earnings; and

- Tier 2 capital: qualifying subordinated loan capital.

The risk-weighted assets are measured according to the nature of – and reflecting an estimate of credit, market and other risks associated with – each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of regulatory capital and the ratios of the Group for the year ended 31 December 2010 and 2009. During the year, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject.

EUR million	**31.12.2010**	**31.12.2009**
	Bal II	**Bal II**
Total equity	**349.2**	**353.2**
Increases/(deductions) to Tier I	(47.2)	(19.1)
Tier I capital	**302.0**	**334.1**
Add: Subordinated debt instruments	163.2	165.1
Increases/(deductions) to Tier II	(35.7)	0.6
Total qualifying capital	**429.6**	**499.8**
Risk-weighted assets	**3,114.5**	**3,552.1**
Tier I ratio (%)	**9.7**	**9.4**
CAD ratio (%)	**13.8**	**14.1**

Tier I ratio equals the Core Tier I ratio in accordance with Basel II definition.

36. Segmental reporting

The Group activities are exclusively focused on the financial sector providing a broad range of financial services focused on capital markets, money markets, advisory services, mergers and acquisitions, structured finance and credit operations and, indirectly, through its subsidiaries, leasing operations, management of equity interests, asset management, asset and funds management, forfaiting and financing of consumer credit.

When evaluating the performance by business area, the Group considers the following Operating

Segments: Banking and Consumer Finance. Each segment includes the structure that directly or indirectly relate to it, and also the other units of the Group whose activities are most related to one of these segments.

Additionally, the Group considers a second segmentation of its activities and results based on the country of domicile of counterparties.

Operating Segments Description

Each operating segment includes the following activities, products, customers and Group structures:

Banking

This operating segment includes all banking activities of the Group, including investment banking originated in Portugal and abroad, corporate loans, deposits, as well as advisory, mergers and acquisitions, restructuring, brokerage, capital markets and other investment banking related services. It includes also the *private banking* and assets management activity of the Group.

Consumer Finance

It relates to the activity performed by Sofinloc in Portugal and Spain from the financing of consumer credit, mainly auto loans for individuals and small businesses.

Allocation criteria and results of the operating segments

The financial information presented for each segment was prepared in accordance with the criteria followed for the preparation of internal information analysed by the decision makers of the Group, as required by IFRS.

The accounting policies applied in the preparation of the financial information related with the operating segments are consistent with the ones used in the preparation of these consolidated financial statements, which are described in Note 2.

The operating segments information can be analysed as follows:

EUR million	31.12.2010				31.12.2009			
	Banking	**Consumer Finance**	**Overheads & other**	**Consolidated**	**Banking**	**Consumer Finance**	**Overheads & other**	**Consolidated**
Interest income	97,129	82,907	-	180,036	109,807	112,462	-	222,269
Interest expense	(33,149)	(40,380)	-	(73,529)	(54,600)	(51,318)	-	(105,918)
Other operating income	(29,142)	13,831	-	(15,311)	167	15,142	-	15,309
Operating income	34,838	56,358	-	91,196	55,373	76,285	-	131,660
Operating expenses	(8,446)	(16,549)	(9,624)	(34,619)	(7,517)	(22,051)	(10,350)	(39,918)
Operating profit	**26,392**	**39,809**	**(9,624)**	**56,577**	**47,856**	**54,235**	**(10,350)**	**91,742**
Impairment and provisions	(18,853)	(8,469)	(17,926)	(45,248)	(35,104)	(29,965)	(12,230)	(77,299)
Profit before tax	7,539	31,340	(27,550)	11,329	12,752	24,269	(22,580)	14,443
Income taxes				(447)				(2,337)
Net profit				**10,882**				**12,106**

The geographical segments information can be analysed as follows:

EUR million	31.12.2010			31.12.2009		
	Portugal	**Foreign**	**Total**	**Portugal**	**Foreign**	**Total**
Revenues	75,264	125,971	201,235	100,861	144,516	245,377
Segment asstes	821,755	1,806,620	2,628,374	935,993	2,169,686	3,105,680
Capital expenditure (Property and equipment)	386	48	434	103	276	379
Capital expenditure (Intangible assets)	187	1	188	215	116	331

37. Fair value of financial assets and liabilities

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Group's balance sheet at their fair value:

EUR thousand	Note	31.12.2010		31.12.2009	
		Carrying amount	Fair value	Carrying amount	Fair value
Assets					
Cash and banks	12	8,953	8,953	23,014	23,014
Due from banks	14	433,833	433,833	497,047	497,047
Investment securities	15	888,435	878,089	1,175,713	1,161,127
Loans and advances to customers	16	765,562	774,706	1,096,506	1,108,025
Liabilities					
Due to central banks		400,177	400,177	260,653	260,653
Due to banks	23	406,322	402,715	517,046	508,193
Due to customers	24	202,355	202,355	154,375	154,375
Debt issued	26	376,880	304,197	566,852	485,254
Subordinated debt	27	110,040	62,263	109,615	81,846

Fair value is based on market prices, whenever they are available. The main methods and assumptions used in estimating fair values of financial assets and liabilities accounted for at amortised cost, are analyzed as follows:

Cash and banks: Considering the short term nature of these financial instruments, its carrying amount is a reasonable estimate of its fair value.

Loans and advances to customers: The fair value of loans and advances to customers is estimated based on the discount of the expected future cash flows (capital and interest), considering that the instalments are paid in the contractually defined dates, excluding the interest rate hedge adjustment.

Investment securities: Investment securities relate to the loans and receivables portfolio which excludes the interest rate hedge adjustment and equity instruments mensured at cost. Fair value is estimated based on market prices or broker quotes in active markets or, in its absence, on the use of valuations techniques that take in consideration a liquidity premium for less liquid assets.

Due from/to banks: For repos and deposits with banks by their short term nature it is considered that its carrying amount is a reasonable estimate of its fair value. The fair value of medium and long term deposits and MLT loans with banks is estimated based on the discount of the expected future cash flows (capital and interest), considering that the instalments are paid in the contractually defined dates.

Due to customers: The fair value of these financial instruments is based on the discount of the expected future cash flows (capital and interest), considering that the instalments are paid in the contractually defined dates. Considering that the applicable interest rates are variable and that the period to maturity is substantially less than one year, there are no measurable differences in its fair value.

Debt securities issued and subordinated debt: Fair value of these financial instruments is based on market prices when available and, when unavailable, is estimated based on the discount of the expected future cash flows (capital and interest).

Fair value hierarchy

IFRS 7 requires that an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy shall have the following levels:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Group's fair value hierarchy for assets and liabilities measured at fair value can be analysed as follows:

EUR thousand	31.12.2010			31.12.2009		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets						
Trading derivatives	-	69,204	-	-	87,616	-
Financial assets at fair value through profit or loss	-	1,553	-	-	8,021	-
AFS financial assets	260,253	-	-	123	-	-
Liabilities						
Trading derivatives	-	146,988	-	-	141,417	-
Hedge derivatives	-	-	-	-	25,429	-
Financial liabilities at fair value through profit or loss	-	171,700	-	-	670,723	-

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available with transparency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves, and considering credit counterparty risk. Desconsidering credit counterparty risk the fair value of interest rate swaps is € 14,832 thousand and € 95,337 thousand, respectively as assets and liabilities (2009: € 23,223 thousand and € 97,903 thousand, respectively);
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;
- Other techniques, such as discounted cash flow analysis, adjusted by liquidity premiums as appropriate, are used to determine fair value for the remaining financial instruments, including credit default swaps.

Sensitivity of Fair Values to Changing Significant Assumptions to Reasonably Possible Alternatives

For the years ended 31 December 2010 and 2009, the Group used a valuation model for its credit default swaps portfolio. The model used to value these positions is based on observable market inputs (Level 2), derived from similar assets in similar and active markets, adjusted to reflect the current market environment.

Since this valuation model was adopted, the Group has calibrates it to market information and reviews the model's assumptions on a regular basis. There is no single market standard for valuation models in this area and such models have inherent limitations. Furthermore, different assumptions and inputs would generate different results.

To estimate the potential impact on the financial statements from the use of alternative valuation techniques or assumptions, the Group prepared a sensitivity analysis by scaling the level of the spreads.

The potential effect of using reasonably possible alternative valuation assumptions has been quantified as follows:

– Scaling the model spreads 10% upwards, in line with less favourable assumptions, would reduce fair value by approximately € 2.2 million at 31 December 2010 (2009: € 3.0 million);
– Scaling the model spreads 10% downwards, in line with more favourable assumptions, would increase fair value by approximately € 2.2 million at 31 December 2010 (2009: € 3.2 million).

Fair values of reclassified financial assets

During the second half of 2008 the Group reclassified non-derivative financial assets from its available for sale and trading portfolios to the loans and receivables portfolio as established in Note 2.8, in accordance with the amendment to IAS 39 – Reclassification of financial assets.

This reclassification can be analysed as follows:

EUR thousand	**31.12.2010**		**31.12.2009**		**Reclassification date**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
From AFS to Loans and receivables	671,222	685,526	818,404	808,944	1,078,795	1,078,795
From trading assets to Loans and receivables	23,652	24,986	123,269	125,148	285,669	285,669
	694,874	**710,512**	**941,673**	**934,092**	**1,364,464**	**1,364,464**

The carrying value of the reclassified financial assets as at 31 December 2010 and 2009 excludes the amount of the interest rate hedge adjustment.

The amount recognised in the income statement and in fair value reserves from the reclassified assets are as follows:

EUR thousand	**31.12.2010**				**31.12.2009**			
	Income statement		**Changes in**		**Income statement**		**Changes in**	
	Interest	**Impairment**	**Fair value reserve**	**Total equity**	**Interest**	**Impairment**	**Fair value reserve**	**Total equity**
From AFS to Loans and receivables	45.920	(27.616)	2.107	20.411	48.591	(36.067)	7.604	20.128
From trading assets to Loans and receivables	1.695	-	-	1.695	8.540	(8.340)	-	200
	47.615	**(27.616)**	**2.107**	**22.106**	**57.131**	**(44.407)**	**7.604**	**20.328**

As of 31 December 2010 the balance outstanding from fair value reserves from the reclassified assets amounts to € (883) (2009: € (3,871)) (see Note 30).

If the reclassification had not been made, the additional amounts recognised in the income statement and in equity would be as follows:

EUR thousand	**31.12.2010**			**31.12.2009**		
	Fair value change	**Income statement**	**Fair value reserves**	**Fair value change**	**Income statement**	**Fair value reserves**
From AFS to Loans and receivables	14,304	-	14,304	(9,460)	-	(9,460)
From trading assets to Loans and receivables	1,334	1,334	1,334	1,879	1,879	1,879
	15,638	**1,334**	**15,638**	**(7,581)**	**1,879**	**(7,581)**

No reclassifications were made in 2010 and 2009.

38. Group structure

As at 31 December 2010, the Group structure can be analyzed as follows:

Company	Year of constitution	Year of acquisition	Head-Office	Activity	% held	Consolidation method
Banco Finantia, S.A.	1987	1987	Portugal	Banking	-	-
Banco Finantia International, Ltd.	1997	1997	Cayman Islands	Banking	100	Full
Banco Finantia Sofinloc, S.A.	1993	2001	Spain	Banking	96.26	Full
Esprin - Española de Promociones, S.L.	2000	2001	Spain	Advisory services	100	Full
Finantia Brasil, Lda.	1997	1997	Brazil	Advisory services	100	Full
Finantia PH Limited	2004	2004	Malta	Holding company	100	Full
Finantia Securities Ltd	1993	1997	United Kingdom	Broker-Dealer	100	Full
Finantia Serviços - Prestação de Serviços Empr., Lda.	1989	1989	Portugal	Advisory services	100	Full
Finantia SGFTC, S.A.	2003	2003	Portugal	Securitisation funds management company	100	Full
Finantia USA, Ltd.	1995	1997	U.S.A	Broker-Dealer	100	Full
Sofinloc - Instituição Financeira de Crédito, S.A.	1983	1992	Portugal	Specialized credit	100	Full
Finantia EMEA, Ltd.	2004	2004	Malta	Finance	100	Full
Finantia Holding BV	2004	2004	Netherlands	Holding company	100	Full
LTR Finance no.5 plc	2004	2004	Ireland	Special purpose entity	100	Full
LTR Finance no.6 plc	2006	2006	Ireland	Special purpose entity	100	Full
LTR Finance no.7 plc	2009	2009	Ireland	Special purpose entity	100	Full
LTR Finance no.8 plc	2007	2007	Ireland	Special purpose entity	100	Full

Statutory Auditors Report in respect of the Consolidated Financial Information

(Free translation from the original version in Portuguese)

Introduction

1 As required by law, we present the Statutory Auditors Report in respect of the consolidated Financial Information included in the consolidated Board of Directors' Report and the consolidated financial statements of Banco Finantia, SA ("the Bank"), comprising the consolidated balance sheet as at December 31, 2010, (which shows total assets of €2.628.374 thousand and a total shareholders' equity of €349,238 thousand, including minority interests of €221 thousand and a net profit attributable to the shareholders of the Bank of €10,875 thousand), the consolidated statement of income, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and the corresponding notes to the consolidated financial statements.

Responsibilities

2 It is the responsibility of the Bank's Board of Directors (i) to prepare the consolidated Board of Directors' Report and consolidated financial statements which present fairly, in all material respects, the financial position of the group of companies included in the consolidation, the consolidated results and the consolidated comprehensive income of their operations, the consolidated changes in equity and the consolidated cash flows; (ii) to prepare historic financial information in accordance with International Financial Reporting Standards as adopted by the European Union and which is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code; (iii) to adopt adequate accounting policies and criteria; (iv) to maintain appropriate systems of internal control; and (v) to disclose any relevant matters which have influenced the activity, the financial position or results of the group of companies included in the consolidation.

3 Our responsibility is to verify the consolidated financial information included in the documents referred to above, namely if it is complete, true, timely, clear, objective and licit, as required by the Portuguese Securities Market Code, and to issue an independent and professional report based on our audit.

Scope

4 We conducted our audit in accordance with the Standards and Technical Recommendations approved by the Institute of Statutory Auditors which require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. Accordingly, our audit included: (i) verification that the subsidiary's financial statements have been properly examined and for the cases where such an audit was not carried out, verification, on a sample basis, of the evidence supporting the amounts and disclosures in the consolidated financial statements, and assessing the reasonableness of the estimates, based on the judgements and criteria of Management used in the preparation of the consolidated financial statements; (ii) verification of the consolidation operations[, and, when applicable, the utilization of

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the equity method]; (iii) assessing the appropriateness and consistency of the accounting principles used and their disclosure, as applicable; (iv) assessing the applicability of the going concern basis of accounting; (v) assessing the overall presentation of the consolidated financial statements; and (vi) assessing whether the consolidated financial information is complete, true, timely, clear, objective and licit.

5 Our audit also included verifying that the information included in the consolidated Board of Directors' Report is in agreement with the other documents comprising the financial statements as well as the verification set forth in paragraphs 4 and 5 of Article 451 of the Companies Code.

6 We believe that our examination provides a reasonable basis for our opinion.

Opinion

7 In our opinion, the consolidated financial statements referred to above, present fairly in all material respects, the consolidated financial position of Banco Finantia, SA as at December 31, 2010, the consolidated results and the consolidated comprehensive income of their operations, the consolidated statement of changes in equity and their consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union and the information therein included is complete, true, timely, clear, objective and licit.

Report on other legal requirements

8 It is also our opinion that the information included in the Directors' Report is in agreement with the financial statements for the year and that the Corporate Governance Report includes the information required under Article 245-A of the Portuguese Securities Code.

Lisbon, March 30, 2011

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represented by:

[This is a translation, not to be signed]

António Alberto Henriques Assis, R.O.C.