Report and Accounts 2008

Banco Finantia

Macro Economic Environment

Global environment in 2008 and Forecasts
After experiencing the highest sustained rate of growth since the early 1970s by growing at an average rate of 5% p.a. over the last four years, the global GDP has now entered its most serious downturn since the 1930s. In August 2007, the financial markets were hit by the collapse of the US subprime mortgage market that has since led to a series of bankruptcies, forced mergers, and public interventions in the financial institutions of the US and the EU. Due to the falling trust among counterparties, the interbank markets virtually shutdown and market liquidity dried up. The US and EU authorities rapidly announced widespread drastic measures aimed at assisting key institutions and bolstering confidence.

According to the IMF, the advanced economies are expected to have grown at an annualized rate of only 1.4% in 2008, down from 2.6% in 2007. The US economy, the first to be hit by the financial and mortgage crisis is now projected by the IMF to have grown by 1.4% in 2008, a sharp fall from the 2% of 2007. For 2009, the IMF projects a negative real GDP growth of 0.7%.

Similarly, the Eurozone is expected to have grown at 1.2% in 2008 with an expected negative growth of 0.5% in 2009. The IMF projects a recovery only at the end of 2009 given the continued financial market deleveraging.

The strong global real GDP growth levels of the past few years have also been accompanied by the broad-based push in the emerging economies, principally that of the BRIC countries. The emerging and developing economies are forecasted by the IMF to have grown strongly at 6.6% in 2008 and projected to grow by 5.1% in 2009. These rates are down from the robust 8% growth in 2007.

The CIS countries that collectively posted 8% rates in the last few years are now expected to have grown at 6.9% in 2008 further falling to a forecasted 3.2% growth in 2009.

Turkish 2008 GDP growth is expected at a range from 1.9% to 3.5%, below the 4.6% of 2007. In 2009, growth is expected to fall below 3% with some forecasters projecting negative levels as low as 1%.

At an expected real GDP growth slightly above 5% in 2008, the still resilient Brazilian economy is projected to slow to a range of 1.5% to 3% in 2009. This mirrors the sharp mark-down in price projections of all commodity exporters, the rapidly slowing world demand for its exports coupled with the added effects of external financing and liquidity problems.

Economic environment in the Iberian Peninsula
In line with the Euro zone and the global economy, and after an investment recovery in 2007, 2008 saw a considerable slowdown in the economic activity in Portugal. The tight financing conditions created by the international turbulence in the financial markets, the fall in exports on the back of the global trade slowdown and the appreciating euro, the rising cost of commodity and oil prices all contributed to an expected reduction in the 2008 real GDP growth to a range of 0.3% to 0.6% from the 1.9% registered in 2007.

For 2009, projections vary from Banco de Portugal's minus 0.8% to IMF's more optimistic 0.1% as both internal and external factors of demand worsen. According to the IMF, the inflation rate increased to a little over 3% in 2008, but stands as one of the lowest rates in the eurozone. The high unemployment levels (7.6% estimated in 2008 and 7.8% forecasted for 2009) will result in a fall in private consumption which could deteriorate further in the absence of more stimulating economic measures from the State.

Spain that has grown at strong levels over the past decade has been sharply hit since mid-2007 by the global financial crisis. Its economy grew at 3.7% in 2007 and is estimated to have fallen by 1.4% in 2008 and turn a negative 0.7% in 2009. The rapidly increasing unemployment levels and falling consumer confidence could dampen domestic demand. Inflation should recede as a large negative output gap opens up and commodity prices moderate.

Operational Activities

Reacting to the crisis that affected the markets in 2008, Banco Finantia adapted a defensive posture in the face of decreased business levels. This was translated into a reduction in fixed income assets, a decline in Consumer Finance approvals, and a shift in the Banking activity – with a reduction of primary markets and capital intensive business and a focus on intermediation and advisory business. The Private Banking area managed to maintain a stable activity in spite of the turbulence in the markets.

Consumer Finance

In 2008 the Group's Consumer Finance activities in the Iberian Peninsula undertaken by its subsidiaries Sofinloc (Portugal) and Banco Finantia Sofinloc (BFS – Spain) continued to focus on financing the acquisition of passenger and light commercial vehicles. The targeted segment has continued to be individuals, self-employed professionals and small and medium sized companies through the well established products of instalment credit, hire-purchase and leasing. These products are primarily sold via auto dealers and traders assisted by the Bank's commercial teams based in 25 agencies, of which 21 are in Portugal and 4 in Spain. During 2008 and as economic conditions deteriorated, we have reduced our presence in Spain to Madrid, Barcelona, Valencia and Zaragoza.

The Iberian market for new light vehicles declined by 24% year-on-year in 2008 with 1,430 thousand units sold versus 1,885 thousand in 2007. This negative variation, was due to a 28% decline of sales in Spain and around 1% in Portugal. These market conditions coupled with the implementation of more stringent credit approval policies resulted in a decline in new operations. The auto financing activity of the Group reached an annual disbursed amount of EUR 394 millions, equivalent to a monthly average of EUR 33 millions.

In spite of the reduction in new activity, Sofinloc remained a market leader in Portugal with 11% of market share (as per ASFAC Sept. 3, 2008), while in Spain it accounted for 1% of the total market in 2008.

The Consumer Finance portfolio of the Group reached EUR 1,289 million at year-end, a decline of about 4% over 2007. Portugal represented 67% of the total (EUR 862 million), and Spain the remaining (EUR 427 million).

The Consumer Finance area also sells insurance (as a broker) related and unrelated to vehicle finance operations. The commissions earned via this activity have been increasing and in 2008 reached to EUR 5 million.

Investment Banking

The Investment Banking area faced one of the biggest challenges in its history in 2008, which was ranked as the worst and the most volatile year on record for financial markets. That challenge came from an environment conditioned by:

– Global equity markets that fell sharply leading several banks and companies to apply for bankruptcy protection or for bail out by governments, the most striking case being the filing for Chapter 11 by Lehman Brothers in September;

– Credit spreads that widened to extreme levels, arguably comparable to those of the Great Depression, spreading concerns over possible recessions in most parts of the world;

– Commodity prices that experienced huge volatility during the year with crude oil reaching USD147 per barrel in July and then falling to USD37 in December;

– Massive intervention by Central banks around the world cutting interest rates and injecting liquidity to help boost economies and avoid a prolonged recession.

Faced with such challenging markets, Banco Finantia reacted rapidly by streamlining its Banking activities and by focusing on advisory services and intermediation, while redirecting its cross border operations to regions less affected by the slowdown like the Iberia/Brazil corridor and selected CIS markets. At the same time it undertook to deleverage its balance sheet and to reduce risk assets, primarily the bond portfolio.

Operational Activities

Capital Markets

In the area of Capital Markets, primary market activity saw some small windows of opportunity opening during the first semester, where Banco Finantia actively participated on behalf of its clients. But conditions deteriorated sharply in the second half of the year, particularly from September as the collapse of Lehman Brothers led to a drastic fall in confidence levels. As a consequence, the primary market for issuers particularly from emerging markets dried out.

On the secondary markets, Banco Finantia reoriented its distribution capacity and expanded its core business to selected high grade fixed income products in addition to its emerging markets niche. Additional sales efforts and new distribution strategies have been implemented in the Lisbon, London, Sao Paulo, New York and Madrid offices. This allowed the Bank to increase its client base, particularly in the Iberian Peninsula, by assisting clients to rebalance their portfolios and take advantage of the market volatility and arbitrage trades. As a result, secondary market intermediation revenues have been increasing.

Corporate Finance

In the Corporate Finance area the Bank focused in Financial Advisory Services continuing to give particular emphasis to cross border advisory work in the Iberia/ Brazil and Iberia/CIS corridors as well as expanding its advisory portfolio in Portugal and Spain.

Taking advantage of its position as the principal independent investment bank operating in the Portuguese market, the Bank assisted several international entities in analysing business opportunities in Portugal and abroad, including advising Energias do Brazil (EDP Group) in the privatisation process of Companhia Energética de Sao Paulo (CESP); providing project finance advisory to Via Nordeste, a consortium led by Eiffage (France), in the international public tender for the Portuguese Douro Interior roads concession; and the valuation of the Alarms/Security Systems division of Siemens in Spain for a Private Equity Fund.

Banco Finantia has several mandates both domestically and in the Iberia/CIS corridors which were put on hold by the clients at the end of 2008 due to the deteriorated market conditions and uncertainty. This work will resume once favourable market conditions return.

Trade Finance

In the Trade Finance area in spite of the volatility and severe market conditions since the beginning of the credit crunch, Banco Finantia managed to maintain a stable level of revenues in comparison to the previous year. As in other world markets, our primary and secondary activities have been heavily concentrated in the first nine months of the year, being virtually shut down in the last quarter, after the Lehman collapse.

Following a strategy to reduce the overall level of risk, the portfolio was reduced by almost 30% which was more than offset by an overall increase in margins. Due to the lack of liquidity during most of the year, trading volumes were down compared to the previous year but structuring fees reached a record level.

The activities of the area continued to be focused on Latin America, Eastern Europe and Turkey and were highlighted by a consolidation of the efforts made to become a major player in arranging syndicated loans for financial institutions in countries such as Russia, Belarus and the Ukraine.

Among the main transactions where Banco Finantia was Mandated Lead Arranger and Bookrunner in 2008 it is worth mentioning the trade related syndicated loans in the amount of USD 200 Million for Akbars Bank, USD 80 Million for International Industrial Bank and USD 70 Million for Transcapital Bank of Russia, USD 55 Million for Belagroprombank and USD 78 Million for Belpromstroibank of Belarus and USD 42.5 Million for Bank Finance and Credit of the Ukraine. These syndications were all oversubscribed despite difficult market conditions.

Private Banking

The Private Banking division of Banco Finantia (Finantia Private) maintained its development strategy during 2008. There was an increase in clients' base, in line with the positive trend of previous years.

In a particularly difficult year for financial markets, Finantia Private had a very positive performance in the management of the financial assets entrusted to it. This was possible because it adapted its value proposition, in order to present an integrated and independent offer of financial products and services of recognised excellence, as well as risk management tailored to each client's profile.

The increased proximity and deeper knowledge of clients, the rigorous and independent research of products on offer, the choice of financial applications with lower volatility, the increased risk diversification and the strong reduction in exposure to the equity market allowed adjustments in portfolios during the year, aiming to increase flexibility and optimizing the risk/return relation.

Finantia Private will continue to pursue growth objectives in 2009, through a selective search for new clients and the increased involvement with existing ones. Activity will be focused on improving quality of service, on innovation and on diversification of the range of financial solutions on offer. Our mission is undertaken in an environment of discretion, confidentiality and independence, and with permanent attention to the returns on portfolios and the protection of clients' assets.

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

Treasury

The Treasury Department is the unit responsible for liquidity management at Banco Finantia Group, as well as the implementation of hedging strategies for the financial risks (interest rate and foreign exchange) that arise from the Bank's activities.

The year 2008 was marked by significant changes in the operating conditions of the main financial markets, giving rise to added difficulties for the treasury management of all Banks.

Of the most relevant operations, we highlight a) the financing of EUR 175 million in a syndicated loan, placed with several international entities in July 2008 and maturing in 2010, and b) the renewal of a EUR 400 million securitization operation.

The interbank markets were particularly affected by the financial crisis particularly after September but the Bank managed to rollover all repo transactions related to its bond portfolio albeit at higher cost and haircuts.

Deposits from institutions and corporates were affected by the financial turmoil and the confidence crisis generated by the failures of two small domestic banks. The decrease in deposits was offset by the increase in borrowings from Central Banks and other short term bank loans. The ongoing deleveraging process should diminish the need for this type of financing.

Information Systems and Operations

With respect to the Systems Department, several projects were concluded in 2008, the main goals being the reduction of operational costs and the increase of synergies between the different areas of the Group. Of these, we highlight the centralization of the main Madrid hardware infrastructure in Lisbon, taking advantage of the 2007 investment in the Lisbon datacenter and the significant improvement in the connections between Portugal and Spain.

In the Consumer Finance area in Portugal, the support application for the new AutoCare product was implemented; this product was integrated in the Web, as were all the services available to Partners and Clients, thus standardizing the image, access to the different services and all the security parameters.

Also within Consumer Finance, there was the introduction of a new document digitalization functionality, which allows online access to all the documentation underlying financing contracts. The digitalization has allowed the Litigation Department to benefit from the SITIUS programme, launched by the Ministry of Justice, from its inception.

The computer systems that support the Call Centre and Collections, have been upgraded so that they can be used in the same way in Portugal and Spain, within the company or outside (through outsourcing), while maintaining all the guarantees of confidentiality and security.

Finally, a new Scoring algorithm was implemented in Spain, requiring the reformulation of all the analysis and reporting tools, which will allow improved monitoring, as well as increased speed in the simulation of the impact of possible adjustments.

In the Banking area, improvements in process automation continued. The reporting and daily close batch processes were also revised, with the goal of minimizing human intervention and increasing their level of automation.

At Group level, a new Financial Consolidation package has been implemented, which allows a more efficient integration of all the companies and to reliably maintain all adjustments and changes that these processes normally entail.

A new bank reconciliation solution was also introduced, applicable to the entire Group in Portugal, which allows for the integrated and centralized control of all the liquidation accounts used by the Group in the Financial System.

The Intranet continued to be the preferred corporate communication tool, with specific areas for the sharing of information in the different departments being made available, as well as a new performance evaluation application.

Regarding the Operations Department, the minimization of operational risk was one of the main priorities in the organization in 2008.

The year was highlighted by the consolidation in the development of the different processes (procedures/applications) and by the restructuring of the employee teams, which had started in the previous year, with practical results being evident in the increased level of efficiency and in the reduction of operational risk.

Finally, the investment undertaken in the payments area should be highlighted, namely Target 2 and SEPA, projects whose conclusion is expected for the first quarter and the end of 2009, respectively.

Support Areas

Human Resources

Banco Finantia believes that people are its main asset and therefore its strategy has always been to emphasize reinforcing its employees' competences, preparing them for new challenges and motivating them in the pursuit of the objectives defined by the Group.

The Human Resources policies in 2008 continued in line with the previous years, namely in training, with the participation of about 30% of Group employees in an extended tailor-made academic programme, called Development Programme in Management and Leadership. The Programme included Specialization and Post-graduation courses attended by middle management and advanced management programmes in international schools attended by some members of senior management, as well as more specific training activities. Languages and computer skills were also the subject of training courses during the year.

Internal mobility, within a scope of functional versatility between departments, was again emphasized, permitting the creation of career and development opportunities within the Group.

Regarding the Performance Evaluation Process, simplifications and procedural automation were undertaken, with a direct impact on the integrated management of the Human Resources area of the Group, namely in what concerns Recruitment, Career Management and the inventory of Training needs.

At the end of 2008, the Group had a total of 499 employees, of which 356 in Portugal and 127 in Spain.

Social Responsibility, Cultural Patronage and Education

Banco Finantia continued in 2008 its interventions within the scope of Social Responsibility, Cultural Patronage and Education.

Social Responsibility

In the field of Social Responsibility, Banco Finantia continued to cooperate with the Serralves Foundation and to sponsor the "Serralves for Everyone!" programme. This programme was launched in 2007 and intends to strengthen the ties with institutions that support and accompany children and young people with special needs.

At Christmas time, as in the previous year, the Bank once again recognised the importance of social solidarity institutions in helping underprivileged children and young people. In view of this, it decided to support the "Banco do Bebé" (an association that helps the underprivileged families of babies born at Maternidade Alfredo da Costa), "CADin – Centro de apoio ao Desenvolvimento Infantil" (an institution that has the purpose of integrating in society children and young people with development disabilities) and "Diferentemente – Centro de Desenvolvimento Infantil" (an association that supports children with development disabilities in the Évora region).

The Bank also contributed to the "Casa dos Marcos" project of "Raríssimas", a building devised to give medical, therapeutical and residential support to young people with some form of mental disability.

Cultural Patronage

In the field of Cultural Patronage, the Palácio Nacional da Ajuda is the national institution that has attracted our support, and we have been an active patron for over 10 years.

Education

In the field of Education, we cooperated once again with the "ISEG – Instituto Superior de Economia e Gestão" of the Technical University of Lisbon by awarding a prize to the best first year Masters student in "International Economics and European Studies". The Bank is also a founding member of the "Fundação Económicas – Foundation for the Development of Economic, Financial and Corporate Sciences".

Future Prospects

The Consumer Credit area will continue to be affected by the negative macroeconomic environment and is only expected to post some positive growth towards the end of 2009. In Portugal, Sofinloc is expected to maintain its leading market position, while in Spain the recovery is likely to be somewhat slower.

In Private Banking we expect the area to benefit from the positive results it posted for its clients in 2008 and thus continue its steady growth.

The Banking area will pursue its restructuring – reducing the asset base and focussing on financial advisory services and intermediation of fixed income instruments.

Consolidated Results

The net consolidated profit in 2008 amounted to EUR 10.8 million. This includes exceptional impairment allowances of EUR 74.7 million (primarily related to the Lehman and Icelandic banks bankruptcies) and losses from discontinued products (the Express product of Consumer Finance in Spain) of EUR 11.7 million. Excluding Markets and extraordinary items, Profit before tax amounted to EUR 97.5 million, an increase of 8.1% over the EUR 90.2 million of the previous year. The table below presents the P&L of recurring activities, separating the extraordinary items mentioned above.

Consolidated P&L Statement

Amounts expressed in millions of Euros	**2008**	**2007**
Net interest income	146.3	146.1
Origination costs (net)	(11.7)	(12.0)
NII (net)	**134.7**	**134.2**
Net fee and other op. income	30.4	29.0
Markets	(28.6)	(11.2)
Sub-total	1.8	17.8
Total operating income	**136.5**	**151.9**
Staff costs	(24.0)	(26.6)
Other operating expenses	(21.3)	(27.4)
Total operating expenses	(45.3)	(54.1)
Impairment allowances	(22.3)	(18.8)
Profit before tax & non-recurrent	**68.9**	79.0
Exceptional impairment allowances	(74.7)	-
Discontinued products*	(11.7)	(7.2)
Tax expense	28.2	(8.0)
Net Profit	**10.8**	**63.9**

*Includes the net effect of the discontinuity of the Express product.

Consolidated Results

Net interest income reached EUR 134.7 million, in line with 2007 (EUR 134.2 million), while commissions and other operating income continued to grow, reaching EUR 30.4 million (EUR 29.0 million in 2007). Net results from financial operations (Markets) were negative EUR 28.6 million, compared to negative EUR 11.2 million in the previous year due to the volatile markets during 2008. Total operating income reached EUR 136.5 million, declining by 10.1% from the EUR 151.9 million of the previous year.

As a result of the cost cutting measures undertaken during the year, Total operating expenses decreased by 16.3%, amounting to EUR 45.3 million, which resulted in an improved efficiency ratio (operating costs over operating income) of 33.2% vs 35.6% in 2007.

Total consolidated assets amounted to EUR 3,895.3 million (excluding the reverse repos associated with short positions in the interest rate hedging operations discontinued in 2008), showing a decrease of 6.2%.

The Consumer Finance portfolio (net of provisions) reached EUR 1,226.5 million, decreasing by 4.6% relative to 2007, and the Banking portfolio reached EUR 1,697.9 million, decreasing by 18.1% from 2007.

Credit quality remained adequate, although showing some deterioration, with the non-performing loans ratio (amounts overdue over 90 days over total credit and excluding discontinued operations) standing at 3.3% and non-performing loans being covered by provisions of 105.7%.

Liquidity, solvability and capitalization were maintained at adequate levels, appropriate to the operational activities undertaken. Several medium and long term funding transactions were completed, including a syndicated loan and the renewal of a securitization operation, in order to reinforce the Group's funding position. At the end of the year, the Capital Adequacy Ratio (CAD) stood at 13.7% (9.7% Tier I), according to Basel II rules.

Return on Equity (ROE) stood at 2.7%, compared with 16% in the previous year, and Earnings per Share (EPS) stood at EUR 0.10 (EUR 0.58 in 2007). The Return on Risk Weighted Assets (RORWA) stood at 0.3% (1.7% in 2007). These indicators were adversely impacted by the extraordinary items mentioned above. Risk weighted assets decreased by 7.5%, standing at EUR 3,937.7 million at year-end 2008.

Treasury Stock | Appropriation of Results | Concluding Remarks

Treasury Stock

At the start of the 2008 fiscal year, the Group held 2,096,098 treasury shares of the Bank. Purchases and sales of treasury stock during the fiscal year, were made pursuant to the resolution of the Bank's AGM of 29 April 2008, which includes an authorization for the purchase and sale of shares, as part of an incentive programme for investment in company shares by Group employees. During the fiscal year, the Group bought 2,595,235 shares for a total amount of EUR 9,082 thousand (under the incentive programme) and sold 2,852,922 for a total amount of EUR 9,643 thousand. On 31 December 2008, the Group held 1,838,411 treasury shares.

Appropriation of Results

It is proposed that with reference to the fiscal year 2008, net income be used to reinforce Free Reserves, after the legal and statutory appropriation to Legal Reserves.

Concluding Remarks

In a year that has been extremely difficult for financial entities, the Board of Directors wishes to express a special appreciation to all those who have supported its activities.

To clients, shareholders and corporate bodies, a special word of thanks for the trust they have always held in us and that we strive to continue to deserve. To the Supervision Authorities, a word of appreciation for the cooperation that they have extended.

To all employees, a big thank you for the effort, loyalty and dedication shown during this year of so many and complex challenges.

Lisbon, 5 March 2009

The Board of Directors
António Manuel Afonso Guerreiro (Chairman)
Eduardo de Almeida Catroga
Eduardo José de Belém Garcia e Costa
Heinz Herbert Jackel
Jose María Iceta Berecibar
Martin Finegold
Maria Luisa Falcão Líbano Monteiro Antas
Stephen Clark

Consolidated Income Statement

for the years ended 31 December 2008 and 2007

	Note	2008	2007
Amounts expressed in thousands of Euros, except per share data			
Interest and similar income	5	348 274	405 866
Interest expense and similar charges	5	(213 008)	(271 716)
Net interest income		**135 266**	**134 150**
Dividend income		–	594
Fee and commission income	6	34 586	36 416
Fee and commission expense	6	(9 635)	(12 594)
Net results from financial operations	7	(28 557)	(11 207)
Other operating income		5 401	4 582
Operating income		**137 061**	**151 940**
Staff costs	8	(25 457)	(26 622)
General and administrative expenses	9	(20 348)	(24 984)
Depreciation and amortisation	20, 21	(2 422)	(2 461)
Operating expenses		**(48 227)**	**(54 067)**
Impairment and provisions	10	(106 181)	(25 982)
Profit before income tax		**(17 347)**	**71 891**
Current income tax	23	(2 043)	(10 230)
Deferred income tax	23	30 233	2 264
Net profit		**10 843**	**63 925**
Attributable to:			
Equity holders of the Bank		10 843	63 922
Minority interest		–	3
Weighted average number of ordinary shares outstanding (thousands)	11	113 401	109 600
Earnings per share for profit attributable to the equity holders of the Bank			
Basic (in Euros)	11	0.10	0.58
Diluted (in Euros)	11	0.10	0.58

The following notes form an integral part of these financial statements

Consolidated Balance Sheet

as at 31 December 2008 and 2007

	Note	2008	2007
Amounts expressed in thousands of Euros			
Assets			
Cash and banks	12	14 567	31 953
Financial assets held for trading	13	85 064	60 238
Due from banks	14	768 232	646 253
Investment securities	15	1 534 296	1 740 595
Loans and advances to customers	16	1 346 387	1 549 689
Hedging derivatives	18	–	11 395
Investment property		605	615
Property and equipment	20	18 943	19 985
Intangible assets	21	629	611
Current income tax assets		2 443	3 276
Deferred income tax assets	23	31 940	3 540
Other assets	22	92 222	84 633
		3 895 328	**4 152 783**
Operations with UST/Bunds	17	–	1 547 983
Total assets		**3 895 328**	**5 700 766**
Liabilities			
Due to central banks		271 417	165 478
Financial liabilities held for trading	13	132 704	38 247
Due to banks	24	877 867	678 028
Due to customers	25	169 880	473 394
Securities sold under repurchase agreements	26	883 141	1 222 501
Securitization debt issued	27	940 262	950 781
Hedging derivatives	18	86 243	–
Current income tax liabilities		443	4 654
Deferred income tax liabilities	23	2 156	2 842
Subordinated debt	28	155 553	187 822
Other liabilities	29	20 597	35 337
		3 540 263	**3 759 084**
Operations with UST/Bunds	17	–	1 530 611
Total liabilities		**3 540 263**	**5 289 695**
Equity			
Share capital	30	115 000	115 000
Share premium	30	60 000	60 000
Treasury stock	30	(1 838)	(2 096)
Reserves and retained earnings	31	170 854	174 020
Net profit attributable to the equity holders of the Bank		10 843	63 922
Total equity attributable to the equity holders of the Bank		**354 859**	**410 846**
Minority interest		206	225
Total equity		**355 065**	**411 071**
Total liabilities and equity		**3 895 328**	**5 700 766**

The following notes form an integral part of these financial statements

Consolidated Statement of Changes in Equity

for the years ended 31 December 2008 and 2007

Amounts expressed in thousands of Euros

	Share capital	Share premium	Treasury stock	Reserves and retained earnings (see Note 31)	Net profit	Total equity attrib. to the share-holders of the Bank	Minority interest	Total equity
Balance as at 1 January 2007	**115 000**	**60 000**	**(3 823)**	**169 413**	**60 585**	**401 175**	**239**	**401 414**
Dividends paid[a]	–	–	–	–	(28 880)	(28 880)	–	(28 880)
Transfer to reserves	–	–	–	31 705	(31 705)	–	–	–
Changes in treasury stock	–	–	1 727	5 842	–	7 569	(17)	7 552
Changes in AFS reserve[b]	–	–	–	(20 207)	–	(20 207)	–	(20 207)
Changes in cash flow hedge reserve	–	–	–	(4 692)	–	(4 692)	–	(4 692)
Currency translation differences	–	–	–	(8 041)	–	(8 041)	–	(8 041)
Net profit	–	–	–	–	63 922	63 922	3	63 925
Balance as at 31 December 2007	**115 000**	**60 000**	**(2 096)**	**174 020**	**63 922**	**410 846**	**225**	**411 071**
Dividends paid[a]	–	–	–	–	(29 052)	(29 052)	–	(29 052)
Transfer to reserves	–	–	–	34 870	(34 870)	–	–	–
Changes in treasury stock	–	–	258	303	–	561	(19)	542
Changes in AFS reserve[b]	–	–	–	(11 307)	–	(11 307)	–	(11 307)
Changes in cash flow hedge reserve	–	–	–	(23 017)	–	(23 017)	–	(23 017)
Currency translation differences	–	–	–	(4 015)	–	(4 015)	–	(4 015)
Net profit	–	–	–	–	10 843	10 843	–	10 843
Balance as at 31 December 2008	**115 000**	**60 000**	**(1 838)**	**170 854**	**10 843**	**354 859**	**206**	**355 065**

(a) Corresponds to a dividend per share of € 0.26 paid in 2008 to the shares outstanding (2007: € 0.26).
(b) Amounts net of taxes.

The following notes form an integral part of these financial statements

Consolidated Statement of Cash Flows

for the years ended 31 December 2008 and 2007

	Note	2008	2007
Amounts expressed in thousands of Euros			
Cash flows arising from operating activities			
Interest and similar income received		380 843	426 615
Interest and similar charges paid		(216 390)	(339 967)
Fee and commission received		34 586	30 302
Fee and commission paid		(9 635)	(9 423)
Recoveries on loans previously written-off		1 127	838
Cash payments to employees and suppliers		(45 805)	(51 606)
		144 726	**56 759**
Changes in operating assets:			
Deposits with central banks		5 181	(2 880)
Financial assets at fair value through profit or loss		137 440	(515 281)
Available-for-sale financial assets		120 893	207 797
Loans and receivables		(107 191)	–
Due from banks		1 093 189	211 272
Loans and advances to customers		223 564	(548 550)
Other operating assets		(39 052)	(14 539)
Changes in operating liabilities:			
Operations with UST/Bunds		(1 530 611)	(1 307 537)
Due to banks		(28 776)	1 530 292
Due to customers		(303 322)	376 147
Other operating liabilities		(14 744)	(4 796)
Net cash flow from operating activities before income taxes		**(298 703)**	**(11 316)**
Income taxes paid		(2 494)	(19 252)
		(301 197)	**(30 568)**
Cash flows arising from investing activities			
Dividends received		–	594
Purchase of property, equipment and intangible assets	20, 21	(1 263)	(4 291)
Proceeds from sale of property, equipment and intangible assets	20, 21	1 222	349
		(41)	**(3 348)**
Cash flows arising from financing activities			
Treasury shares	30	971	1 041
Reimbursement of bonds		12 759	(73 510)
Proceeds/ Reimbursement from subordinated debt		(29 895)	60 000
Dividends paid from ordinary shares		(29 052)	(28 880)
Net cash flow from financing activities		**(45 217)**	**(41 349)**
Effect of exchange rate changes on cash and cash equivalents		1 800	557
Net changes in cash and cash equivalents		**(344 655)**	**(74 708)**
Cash and cash equivalents at the beginning of the year	33	400 151	474 859
Cash and cash equivalents at the end of the year	33	55 496	400 151
		(344 655)	**(74 708)**

The following notes form an integral part of these financial statements

Notes to the Consolidated Financial Statements

31 December 2008

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, 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.

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.

The Group chose not to early adopt the new standards and interpretations that have been issued, which are not effective in 2008, as described in Note 3. The Group is evaluating the impact of implementing these recently issued pronouncements and has not yet completed the analysis.

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 5 March 2009.

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 "Banco 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.

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.

If the Group's share of losses in an associate equals or exceeds its interest in the associate, including any long-term interest, the Group discontinues the application of the equity method of accounting, except when it has a legal or constructive obligation to cover those losses or has made payments on behalf of the associate.

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.

In accordance with IFRS 3 – Business Combinations, goodwill is recognised as an asset at its cost and is not amortised. Goodwill relating to the acquisition of associated companies is included in the book value of the investment in that associated company determined using the equity method. Negative goodwill is recognised directly in the income statement in the period the business combination occurs.

The recoverable amount of the goodwill recognised as an asset is reviewed annually, regardless of whether there is any indication of impairment. Impairment losses are recognised directly in the income statement.

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, 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.

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, 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, 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.

For the available-for-sale portfolio 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.

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.

Reclassifications

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

A financial asset, initially recognized as at fair value through profit or 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 or 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 or 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 or 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. If the hedge no longer meets the criteria for hedge accounting, 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.

- 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, any cumulative gain or loss are retained in equity until its recognition in the income statement 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. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss. The amount recognised in equity is removed and included in profit or loss on disposal of the foreign operation.

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:

	Number of years
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.

3 IFRSs and Interpretations to be adopted in 2009 and later

Some accounting standards and interpretations have been published by the IASB as of 31 December, 2008. 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 during 2009 but they will not be applied earlier by the Group as of 31 December 2008.

Accounting standards, amendments or interpretations adopted by the European Union

IFRS 8 "Operating segment" (effective from 1 January 2009)
This standard will modify segment reporting definition and disclosure of related information.

IAS 1 (revised) "Presentation of financial statements" (effective from 1 January 2009)
This revised norm sets out overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.

Amendment to IAS 23 "Borrowing costs" (effective from 1 January 2009)
This amendment eliminates the option to expense immediately borrowing costs and mandatory requiring their capitalization when they are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

Amendment to IFRS 2 "Vesting conditions and cancellations" (effective from 1 January 2009)
This amendment to IFRS 2 clarifies the definition of vesting conditions and the accounting treatment of cancellations to a share-based payment.

IFRIC 13 "Customer loyalty programmes" (effective from 1 January 2008)
This interpretation explains the accounting treatment for loyalty programmes but is not relevant to the Group's operations. The current accounting treatment is similar to this interpretation.

IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective from 1 January 2008)
This interpretation clarifies the accounting treatment for the effect of any statutory or contractual funding requirements when a surplus in a pension plan can be recognized.

Amendments or interpretations not yet adopted by the European Union on 31 December, 2008

Improvements to IFRSs
As part of the Annual Improvements Project to International Financial Reporting Standards, the IASB has published 35 minor amendments to 20 accounting standards. These amendments have been adopted by the European Union on 23 January, 2009. They are required to be applied from 1 January, 2009, except for the amendments to IFRS 5 "Non-current Assets Held for Sale and Discounted Operations", which are required to be applied from 1 July, 2009.

IFRIC 12 "Service Concession Arrangements" (effective from 1 January 2008)
This interpretation explains the concession accounting treatment but is not relevant to the Group's operations.

IFRIC 15 "Agreements for the Construction of Real Estate" (effective from 1 January 2009)
The interpretation clarifies the accounting treatment for the recognition of revenue among real estate developers for sales of units, such as apartments or houses.

IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective from 1 October 2008)
The interpretation clarifies the accounting treatment for the hedge of a net investment in a foreign operation in an entity's consolidated financial statements.

IFRIC 17 "Distribution of Non-cash Assets to Owners"
The interpretation provides guidance on the measurement and on the accounting treatment of distribution of non cash assets to owners.

IFRS 3 (revised) "Business Combinations" and IAS 27 (revised) "Consolidated and Separate Financial Statements" (effective from 1 July 2009)
These revised standards will modify the accounting treatment for acquisitions and disposals of consolidated subsidiaries.

Amendments to IAS 32 and IAS 1 "Puttable Financial Instruments and Obligations Arising on Liquidation"
These amendments, adopted by the European Union on 22 January, 2009, explain the accounting classification of puttable financial instruments and obligations arising on liquidation.

Amendments to IAS 27 and IFRS 1 "Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate"
These amendments, adopted by the European Union on 23 January, 2009, will have to be applied by IFRS first-time adopters only.

Amendment to IAS 39 "Eligible Hedged Items" (effective from 1 July 2009)
The amendment provides additional guidance on two particular situations in relation to hedge accounting under IAS 39: the identification of inflation as a hedged risk and how to consider the time value of an option in a hedge relationship.

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

Amounts expressed in thousands of Euros	2008	2007
Interest and similar income		
Loans and advances to customers	148 481	149 789
Investment securities	119 674	120 270
Due from banks	43 999	111 994
Trading derivatives	24 559	11 722
Hedging derivatives (see Note 18)	2 612	2 041
Origination commissions from consumer finance loans	7 468	7 519
Other interest and similar income	1 481	2 531
	348 274	**405 866**
Interest and similar expense		
Repurchase agreements	(68 264)	(87 619)
Securitized debt issued	(46 687)	(37 978)
Due to banks	(38 003)	(31 077)
Due to customers	(25 942)	(18 648)
Subordinated debt	(11 904)	(8 890)
Operations with UST/Bunds	(1 747)	(63 784)
Origination commissions from consumer finance loans	(19 534)	(19 509)
Other interest and similar expense	(928)	(4 211)
	(213 008)	**(271 716)**
	135 266	**134 150**

As at 31 December 2008, interest expense accrued on financial liabilities designated as at fair value through profit or loss is € 27,646 thousand (2007: € 12,450 thousand).

6 Net fee and commission income

Amounts expressed in thousands of Euros	2008	2007
Fee and commission income		
From consumer finance business	25 336	25 816
From corporate finance business	6 936	6 667
From specialised banking services	1 318	2 502
Other commissions	997	1 431
	34 586	**36 416**
Fee and commission expense		
From consumer finance business	(8 002)	(10 511)
On third-party banking services	(1 633)	(2 083)
	(9 635)	**(12 594)**
	24 951	**23 821**

7 Net results from financial operations

Amounts expressed in thousands of Euros	2008	2007
Financial assets at fair value through profit or loss	(54 708)	(12 372)
Financial liabilities at fair value through profit or loss	27 268	1 165
Ineffectiveness on fair value hedges (see Note 18)	(1 117)	–
	(28 557)	**(11 207)**

Net results from financial assets at fair value through profit or 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 instruments held for trading and (iii) foreign exchange gains and losses.

Included in net results from financial assets at fair value through profit or loss are the negative amounts of € 67,242 thousand and € 10,576 thousand, in 2008 and 2007, respectively, related with trading interest rate, foreign exchange and credit default swaps.

Included in net results from financial liabilities at fair value through profit or loss is the amount of € 33,855 thousand (2007: € 24,618 thousand) related with financial liabilities designated at fair value (fair value option) and the negative amounts of € 6,588 thousand and € 23,453 thousand, in 2008 and 2007, respectively, related with short selling transactions.

8 Staff costs

Amounts expressed in thousands of Euros	2008	2007
Remuneration	20 997	22 115
Social security	3 780	3 920
Other	680	587
	25 457	**26 622**

At 31 December 2008 and 2007 the remunerations paid to the Bank and subsidiaries' Board of Directors and supervisory bodies amounted to € 3,184 thousand and € 3,860 thousand, respectively.

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

	2008	2007
Senior management	177	191
Management	157	221
Professional staff	165	212
	499	**624**

9 General and administrative expenses

Amounts expressed in thousands of Euros	2008	2007
Specialised services	7 605	7 329
External credits recovery services	2 473	2 141
Communication costs	2 457	2 380
Travelling and entertainment expenses	2 345	2 978
Maintenance and related services	1 889	2 113
Rental costs	1 374	1 347
Advertising costs	954	3 112
Insurance related services	316	177
Staff training costs	279	557
Consumable office materials	238	459
Other expenses	418	2 391
	20 348	**24 984**

10 Impairment and provisions

Amounts expressed in thousands of Euros	2008	2007
Impairment on loans and investment securities, net of reversals (see Notes 15 and 16)	(74 712)	(24 258)
Impairment on AFS financial assets, net of reversals (see Note 15)	(3)	(1 827)
Impairment on other assets, net of reversals (see Note 22)	(31 463)	106
Provisions, net of reversals (see Note 29)	(3)	(3)
	(106 181)	**(25 982)**

The balance Impairment on loans and investment securities, net of reversals, includes € 44,449 thousand of impairment on investment securities (see Note 15).

Once a financial asset has been recognized as impaired, interest income accrued is also subject to impairment calculation and therefore included in the respective impairment allowance. As at 31 December 2008, interest income accrued on impaired financial assets amounted to € 3,812 thousand (2007: € 3,683 thousand).

11 Earnings per share

Basic earnings per share

Amounts expressed in thousands of Euros, except per share data	2008	2007
Profit attributable to the equity holders of the Bank	10 843	63 922
Weighted average number of ordinary shares outstanding (thousands)	113 401	109 600
Basic earnings per share (in Euros)	**0.10**	**0.58**
Number of ordinary shares outstanding at the end of the year (thousands)	113 162	112 904

Diluted earnings per share

At 31 December 2008 and 2007, 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

	2008	2007
Amounts expressed in thousands of Euros		
Cash	98	143
Deposits at central banks		
Bank of Portugal	3 568	8 555
Bank of Spain	802	996
	4 370	**9 551**
Deposits with banks in Portugal		
Deposits repayable on demand	4 774	6 398
Cheques clearing	919	1 163
Other deposits	71	151
	5 764	**7 712**
Deposits with banks abroad		
Deposits repayable on demand	4 335	14 547
	14 567	**31 953**

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 2008, the rates ranged between 3.25% and 4.65% (2007: between 3.30% and 4.27%).

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 18).

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

	2008	2008 Fair value		2007	2007 Fair value	
31 December 2008	**Notional amount**	**Assets**	**Liabilities**	**Notional amount**	**Assets**	**Liabilities**
Amounts expressed in thousands of Euros						
Currency swaps	545 856	8 411	35 197	519 666	32 537	251
Credit default swap	998 840	58 779	67 646	593 776	19 016	22 384
Interest rate swaps	1 939 714	17 874	29 861	2 314 231	8 206	15 159
Currency forwards	–	–	–	40 764	479	453
	3 484 410	**85 064**	**132 704**	**3 468 437**	**60 238**	**38 247**

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 can be percept as an agreement between two parties who compromise 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

Amounts expressed in thousands of Euros	2008	2007
Deposits	31 451	318 176
Forfaiting loans	69 322	128 445
Bank placements	666 746	198 554
Accrued interest	713	1 078
	768 232	**646 253**

The analysis of this balance by period to maturity is presented in Note 35.

The balance Bank placements includes collateral deposits related to repurchase agreements operations, credit default swaps, interest rate swaps and foreign exchange swaps of € 601,566 thousand (2007: € 91,055 thousand).

15 Investments securities

Investment securities are classified in the following categories:

Amounts expressed in thousands of Euros	2008	2007
Loans and receivables	1 525 413	–
Fair value through profit or loss	8 862	1 572 077
Available-for-sale	21	135 342
Held-to-maturity	–	33 176
	1 534 296	**1 740 595**

Investment securities classified as loans and receivables

Amounts expressed in thousands of Euros	2008	2007
Fixed income securities		
Issued by Portuguese government and other public entities	2 183	–
Issued by foreign governments and other public entities	168 804	–
Issued by other foreign entities	1 333 844	–
	1 504 831	–
Impairment for investment securities		
Issued by foreign governments and other public entities	(1 249)	–
Issued by other foreign entities	(43 200)	–
	(44 449)	–
Interest rate hedge adjustment (see Note 18)	65 031	–
	1 525 413	–

During 2008, the interest income of the loans and receivables portfolio amounted to € 29,294 thousand.

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

Amounts expressed in thousands of Euros	2008	2007
Balance at 1 January	–	–
Charge for the year (see Note 10)	44 449	–
Balance at 31 December	**44 449**	**–**

Investment securities at fair value through profit or loss

Amounts expressed in thousands of Euros	2008	2007
Fixed income securities		
Issued by Portuguese government and other public entities	–	2 082
Issued by foreign governments and other public entities	–	268 760
Issued by other foreign entities	8 862	1 301 235
	8 862	**1 572 077**

During 2008, the interest income of the portfolio of securities at fair value through profit or loss amounted to € 53,636 thousand (2007: € 100,688 thousand).

Investment securities available-for-sale

Amounts expressed in thousands of Euros	2008	2007
Fixed income securities		
Issued by foreign governments and other public entities	–	62 244
Issued by other foreign entities	–	73 096
	–	**135 340**
Equity securities		
Shares	21	2
	21	2
	21	**135 342**

During 2008, the interest income of the available-for-sale portfolio amounted to € 18,745 thousand (2007: € 19,582 thousand).

The Group charged through the income statement the amount of € 3 thousand in 2008 (2007: charge of € 1,827 thousand), related with impairment losses on debt instruments issued by other foreign issuers (see Note 10).

Held-to-maturity investment securities

Amounts expressed in thousands of Euros	2008	2007
Fixed income securities		
Issued by foreign governments and other public entities	–	17 898
Issued by other foreign entities	–	15 278
	–	**33 176**

During 2008, the interest income of the held to maturity portfolio amounted to € 17,999 thousand.

Amendments to IAS 39 and IFRS 7, "Reclassification of financial assets"

Following the amendments to IAS 39 and IFRS 7, "Reclassification of Financial Assets", the Group reclassified certain trading assets and financial assets available for sale to loans and receivables. The Group identified assets, eligible under the amendments, for which at 1 July 2008 and 1 August 2008 (reclassification dates), it had a clear change of intent to hold for the foreseeable future rather than to exit or trade in the short term. Under IAS 39 as amended, the reclassifications were made with effect as of 1 July 2008 and 1 August 2008 at fair value at those dates. The disclosures below detail the impact of the reclassifications to the Group.

The following table shows carrying values, excluding the interest rate hedge adjustment, and fair values of the reclassified assets:

	As of Reclassification dates		2008	
	Carrying value	Fair value	Carrying value	Fair value
Amounts expressed in thousands of Euros				
Available-for-sale securities reclassified to loans	1 078 795	1 078 795	1 165 168	1 146 688
Trading securities reclassified to loans	285 669	285 669	295 214	289 122
Total financial assets reclassified to loans	**1 364 464**	**1 364 464**	**1 460 382**	**1 435 810**

As of the reclassification dates, effective interest rates on reclassified financial assets available for sale ranged from 1.33% to 11% with expected interest cash flows of € 506,719 thousand. Effective interest rates on reclassified trading assets ranged from 3.53% to 16.2% with expected interest cash flows of € 68,542 thousand. Ranges of effective interest rates were determined based on weighted average rates by business.

If the reclassification had not been made, the Group's income statement for the second half 2008 would have included unrealized fair value losses on the reclassified trading assets of € 6,092 thousand and a impairment of € 43,200 thousand related to available for sale securities (already recognised in the loans and receivables portfolio). For that period shareholders' equity would have included € 18,480 thousand of unrealized fair value losses on the reclassified financial assets available for sale which were not impaired.

The table below sets out the amounts recognised in the period following reclassification during 2008:

	Profit or loss
Amounts expressed in thousands of Euros	
Available-for-sale securities reclassified to loans:	
Interest income	36 407
Net impairment loss on financial assets (see Note 10)	(43 200)
Amortisation of AFS reserve (see Note 31)	(1 003)
	(7 796)
Trading securities reclassified to loans:	
Interest income	10 512
Net impairment loss on financial assets	(1 249)
	9 263
	1 467

The reclassification of trading and available-for-sale financial assets had the effect of increasing both basic and diluted earnings per share for 2008 by € 0.05.

16 Loans and advances to customers

Amounts expressed in thousands of Euros	2008	2007
Consumer finance loans		
Credit	1 045 408	1 081 623
Leasing and hire purchase	243 819	252 715
	1 289 227	1 334 338
Allowance for impaired loans	(62 923)	(49 065)
Fair value hedge adjustment (see Note 18)	18 466	–
Consumer finance loans, net	**1 244 770**	**1 285 273**
Other loans		
Forfaiting	70 605	86 860
Loans to corporates	31 024	177 561
	101 629	264 421
Allowance for impaired loans	(12)	(5)
Other loans, net	**101 617**	**264 416**
	1 346 387	**1 549 689**

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:

Amounts expressed in thousands of Euros	2008	2007
Credit	825 704	773 149
Leasing and hire purchase	188 820	188 475
	1 014 524	**961 624**

Loans and advances to customers are summarised as follows:

Amounts expressed in thousands of Euros	2008	2007
Neither past due nor impaired	1 103 497	1 413 057
Past due but not impaired	199 852	127 231
Impaired	105 974	58 471
Gross	**1 409 322**	**1 598 759**
Less: allowance for impaired loans	(62 935)	(49 070)
	1 346 387	**1 549 689**

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 were past due but not impaired were as follows:

Amounts expressed in thousands of Euros	2008	2007
Past due up to 30 days	129 951	93 712
Past due 30-60 days	47 686	23 488
Past due 60-90 days	22 215	10 031
Total	**199 852**	**127 231**
Fair value of collateral	**175 693**	**138 863**

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.

The breakdown of the gross amount of individually impaired loans and advances to customers along with the fair value of related collateral held by the Group as security are as follows:

Amounts expressed in thousands of Euros	2008	2007
Individually impaired loans	1 506	787
Fair value of collateral	1 570	1 093

The changes occurred in the allowance for impaired loans can be analyzed as follows:

Amounts expressed in thousands of Euros	2008	2007
Balance as at 1 January	49 070	45 650
Net charge for the year (see Note 10)	30 263	24 258
Loans written off during the year	(16 398)	(20 838)
Balance as at 31 December	**62 935**	**49 070**

During 2008, the Group recovered € 1,127 thousand (2007: € 839 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 € 310 thousand at 31 December 2008 (31 December 2007: € 440 thousand).

The allowance for impaired loans, by type of loan, can be analyzed as follows:

Amounts expressed in thousands of Euros	2008	2007
Credit	59 516	45 687
Leasing and hire purchase	3 408	3 378
Other loans to customers	12	5
	62 935	**49 070**

The analysis of this balance by period to maturity is disclosed in Note 35.

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

	2008	2007
Amounts expressed in thousands of Euros		
Gross investment in finance leases, receivable		
Up to one year	22 022	10 535
From one to five years	179 984	191 897
More than five years	84 686	93 851
Unearned future income on finance leases		
Up to one year	(383)	(367)
From one to five years	(22 755)	(24 472)
More than five years	(19 735)	(18 728)
Net investment in finance leases		
Up to one year	21 639	10 167
From one to five years	157 229	167 425
More than five years	64 951	75 123
	243 819	**252 715**

17 Operations with UST/Bunds

	2008	2007
Amounts expressed in thousands of Euros		
Reverse repos (UST/Bunds)		
Reverse repurchase agreements ("reverse repos")	–	1 547 983
	–	**1 547 983**
Operations with UST/Bunds		
Securities sold under repurchase agreements ("repos")	–	1 341 167
Short sales	–	189 444
	–	**1 530 611**

UST – United States Treasury bonds/Bunds – German Federal Government Bundesobligations.

Reverse repurchase agreements ("reverse repos") relates to operations for interest rate risk economic hedging by borrowing fixed income securities issued by foreign governments and public entities, with AAA rating in USD or EUR, depending on the currency of the asset to be covered.

Short sales relates to transactions for interest rate risk economic hedging namely with the sale of the above referred fixed securities. These instruments are measured at fair value with changes recognized in the income statement (see Note 2.18).

During 2007, the Group unwound several short sales positions (UST/Bunds securities) through the purchase of similar securities and entering into corresponding repo transactions.

All of these transactions have been unwound during 2008.

18 Hedging derivatives

The Group enters into derivative transactions for the purposes of hedging fair values and cash flows. 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.

The hedging relationships used are as follows:

31 December 2008	2008 Notional amount	2008 Fair value Assets	2008 Fair value Liabilities	2007 Notional amount	2007 Fair value Assets	2007 Fair value Liabilities
Amounts expressed in thousands of Euros						
Fair value hedge	1 292 904	–	79 404	–	–	–
Cash flow hedge	451 202	–	6 839	517 865	11 395	–
	1 744 106	**–**	**86 243**	**517 865**	**11 395**	**–**

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.

During 2008 the Group entered into a fair value hedge accounting relationship to protect a certain portion of its investment securities portfolio from fixed-rate exposure (see Note 15).

As of 31 December 2008, this hedge relationship can be analysed as follows:

Hedged item	Notional	Derivative fair value	Changes in the derivative fair value[a]	Hedged item fair value (see Note 15)	Changes in the hedged item fair value[a]
Amounts expressed in thousands of Euros					
Investment securities (fixed rate)	692 163	(63 848)	(65 590)	65 031	65 031
	692 163	**(63 848)**	**(65 590)**	**65 031**	**65 031**

(a) Excludes accrued interest recognised in net interest income (see Note 5).

For the year ended 31 December 2008, the Group recognized a net loss of € 559 thousand which represents the ineffective portions of fair value hedges (see Note 7), 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 since 1 January 2008 for its fixed-rate consumer finance loans (see Note 16). The change in fair value of the hedged items is recorded separately from the hedged item on the balance sheet.

As of 31 December 2008, this hedge relationship can be analysed as follows:

Hedged item	Notional	Derivative fair value	Changes in the derivative fair value[a]	Hedged item fair value (see Note 16)	Changes in the hedged item fair value[a]
Amounts expressed in thousands of Euros					
Car finance portfolio (fixed rate)	600 741	(15 556)	(19 024)	18 466	18 466
	600 741	**(15 556)**	**(19 024)**	**18 466**	**18 466**

(a) Excludes accrued interest recognised in net interest income (see Note 5).

For the year ended 31 December 2008, the Group recognized a net loss of € 558 thousand which represents the ineffective portions of fair value hedges (see Note 7), 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, 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 27).

The effectiveness of this hedging relationship is documented and assessed on a semi-annual basis. The cash-flow hedging accounting policies are described in Note 2.13.

As at 31 December 2008, the hedging derivatives fair value are as follows:

Hedged item	**Notional**	**Derivative fair value**	**Changes in the derivative fair value[(a)]**	**Hedged item fair value**	**Changes in the hedged item fair value[(a)]**
Amounts expressed in thousands of Euros					
Debt securities LTR 4	16 003	(52)	(168)	52	168
Debt securities LTR 5	97 678	(648)	(2 805)	648	2 805
Debt securities LTR 6	337 521	(6 140)	(19 437)	6 140	19 437
	451 202	**(6 839)**	**(22 411)**	**6 839**	**22 411**

(a) Excludes accrued interest recognised in net interest income (see Note 5).

As at 31 December 2007, the hedging derivatives fair value are as follows:

Hedged item	**Notional**	**Derivative fair value**	**Changes in the derivative fair value[(a)]**	**Hedged item fair value**	**Changes in the hedged item fair value[(a)]**
Amounts expressed in thousands of Euros					
Debt securities LTR 4	34 560	244	4	(244)	(4)
Debt securities LTR 5	165 605	2 339	(276)	(2 339)	276
Debt securities LTR 6	317 700	8 812	(2 548)	(8 812)	2 548
	517 865	**11 395**	**(2 820)**	**(11 395)**	**2 820**

(a) Excludes accrued interest recognised in net interest income (see Note 5).

During 2008, the Group recognised in the cash-flow hedge reserve (see Note 31) an amount of € (23,017) thousand (2007: € –4,692 thousand), that includes € (606) thousand (2007: € –1,872 thousand) from the amortisation of the reserve as of 31 December 2007 and the amount of € (22,411) thousand (2007: € –2,820 thousand), related to the changes in fair value of the interest rate swaps during 2008, as described in Note 2.15.

19 Net investment hedge

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

This relationship was established during the second half of 2008. The information on net investments held by the Group in foreign institutions and the funding used to hedge these investments as at 31 December 2008 is as follows:

Company	Ccy	Net investment Ccy'000	Funding debt Ccy'000	Net investment EUR'000	Funding debt EUR'000
Banco Finantia International Ltd.	USD	40 000	40 000	28 742	28 742
Finantia Holdings BV	USD	55 430	55 430	39 829	39 829

Gains and losses in the exchange rate translation of the debt to cover the investments in foreign subsidiaries, accounted for as exchange differences, are recognised in equity. No ineffectiveness was generated in this hedge relationship.

20 Property and equipment

	Buildings	Office equipment	IT equipment	Motor vehicles	Other assets	2008	2007
Amounts expressed in thousands of Euros							
Cost							
At the beginning of the year	20 863	11 629	3 868	2 382	1 061	39 803	37 803
Additions	282	216	183	95	130	906	4 078
Disposals/write-offs	–	(325)	(81)	(672)	(144)	(1 222)	(2 060)
Fx translation/transfers	274	7	(6)	–	15	290	(17)
At the end of the year	**21 419**	**11 527**	**3 964**	**1 805**	**1 062**	**39 777**	**39 803**
Accumulated depreciation							
At the beginning of the year	5 077	8 843	3 463	1 690	745	19 818	19 357
Depreciation expense	582	835	231	345	101	2 094	2 234
Disposals/write-offs	–	(323)	(81)	(556)	(144)	(1 104)	(1 711)
Fx translation/transfers	–	10	(10)	17	9	26	(61)
At the end of the year	**5 659**	**9 365**	**3 603**	**1 496**	**711**	**20 834**	**19 818**
Net book value	**15 760**	**2 162**	**361**	**310**	**351**	**18 943**	**19 985**

21 Intangible assets

	Software	Other assets	Work in progress	2008	2007
Amounts expressed in thousands of Euros					
Cost					
At the beginning of the year	1 672	393	393	2 458	2 245
Additions	265	1	91	357	213
Disposals/write-offs	–	–	–	–	–
Fx translation/transfers	286	–	(307)	(21)	–
At the end of the year	**2 223**	**394**	**177**	**2 794**	**2 458**
Accumulated amortisation					
At the beginning of the year	1 458	389	–	1 847	1 630
Amortisation expense	317	1	–	318	217
Disposals/write-offs	–	–	–	–	–
Fx translation/transfers	–	–	–	–	–
At the end of the year	**1 775**	**390**	**–**	**2 165**	**1 847**
Net book value	**448**	**4**	**177**	**629**	**611**

At 31 December 2008 and 2007, other assets and work in progress include software licenses and software implementation expenses, respectively.

22 Other assets

	2008	2007
Amounts expressed in thousands of Euros		
Non-current assets held for sale	782	811
Debtors and other applications	23 222	3 706
Accrued income	3 656	1 876
Stock exchange transactions pending settlement (see Note 29)	3 589	11 920
Other transactions pending settlement	60 974	66 320
	92 222	**84 633**

The balance debtors and other applications is net of impairment allowances. Changes in the impairment allowances for debtors are analyzed as follows (see Note 4):

	2008	2007
Amounts expressed in thousands of Euros		
Balance as at 1 January	190	296
Net charges for the year (see Note 10)	31 463	(106)
Balance as at 31 December	**31 653**	**190**

At 31 December 2008, the balance other transactions pending settlement includes the amount of € 58,591 thousand (2007: € 64,676 thousand) related to amounts that are settled on a quarterly basis related with the Group's securitization transactions.

23 Income taxes

The income taxes recognized in the income statement for the years 2008 and 2007 can be analyzed as follows:

Amounts expressed in thousands of Euros	2008	2007
Current income tax		
Current year	(2 058)	(11 562)
Related to prior years	15	1 332
	(2 043)	**(10 230)**
Deferred income tax		
Origination and reversal of temporary differences	30 233	2 264
	30 233	**2 264**
Total income tax recognized in the income statement	**28 190**	**(7 966)**

The income taxes recognized in reserves for the years 2008 and 2007 refers only to deferred taxes and can be analyzed as follows:

Amounts expressed in thousands of Euros	2008	2007
Deferred income tax		
Changes in fair value reserve (see Note 31)	(1 147)	2 488
Changes in other revaluation reserves (see Note 31)	–	52
Total income tax recognized in reserves	**(1 147)**	**2 540**

The deferred tax assets and liabilities recognized in balance sheet in the years 2008 and 2007 can be analyzed as follows:

	2008			2007		
Amounts expressed in thousands of Euros	Assets	Liabilities	Net	Assets	Liabilities	Net
Available-for-sale financial assets	–	(1 237)	(1 237)	–	(90)	(90)
Loans and advances to customers	13 017	(2 339)	10 678	6 182	(3 035)	3 147
Provisions	–	(1 497)	(1 497)	–	(525)	(525)
Tax losses brought forward	21 546	–	21 546	–	–	–
Other	415	(121)	294	403	(2 237)	(1 834)
Deferred tax asset/(liability)	**34 978**	**(5 195)**	**29 784**	**6 585**	**(5 887)**	**698**
Set off of tax	(3 039)	3 039	–	(3 045)	3 045	–
Net tax asset/(liability)	**31 940**	**(2 156)**	**29 784**	**3 540**	**(2 842)**	**698**

The amount of € 21,546 thousand as of 31 December 2008 relates to temporary differences recognised following tax losses brought forward which will have to be recovered within the next six years.

The deferred tax movements for the years 2008 and 2007 can be analyzed as follows:

	2008		2007	
Amounts expressed in thousands of Euros	Recognised in the income statement	Recognised in reserves	Recognised in the income statement	Recognised in reserves
Derivative financial instruments	–	–	(1 357)	–
Available-for-sale financial assets (see Note 31)	–	(1 147)	–	2 488
Loans and advances to customers	7 531	–	811	–
Provisions	(972)	–	3 412	–
Tax losses brought forward	21 546	–	–	–
Other	2 128	–	(602)	52
	30 233	**(1 147)**	**2 264**	**2 540**

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

	2008		2007	
	%	Amount	%	Amount
Amounts expressed in thousands of Euros				
Profit before income tax		(17 347)		71 891
Statutory income tax rate	26.5%		26.5%	
Income tax calculated based on the statutory tax rate		–		(19 051)
Income taxes recognized in the income statement				
Current taxes (effective tax rate)		2 043	14.2%	(10 230)
Deferred taxes		(30 233)		2 264
Tax to reconciliate		**28 190**		**(11 085)**
Reconciliation:				
Tax losses brought forward		(21 546)		–
Dividends not subject to tax		(3 252)		(4 565)
Income tax credits		(1 331)		(3 702)
Tax related to prior years		(958)		(991)
Provisions and impairment		1 079		1 090
Other		(2 182)		(2 917)
		(28 190)		**(11 085)**

24 Due to banks

	2008	2007
Amounts expressed in thousands of Euros		
Medium and long-term loans	501 048	495 052
Bank takings	369 320	179 676
Accrued interest	7 499	3 300
	877 867	**678 028**

Interest calculated by applying the effective interest rate for the year ended 31 December 2008 amounted to € 20,262 thousand (2007: € 14,289 thousand).

The main features of the medium and long-term loans in the Group's balance sheet can be analysed as follows:

	Interest rate	2008	2007
Amounts expressed in thousands of Euros			
€ 190m syndicated loan due 2010	Euribor 6m + 28 bp	181 597	185 052
€ 160m syndicated loan due 2008	Euribor 6m + 30 bp	–	160 000
€ 150m syndicated loan due 2011	Euribor 6m + 33 bp	150 000	150 000
€ 175m syndicated loan due 2010	Euribor 3m + 75 bp	169 451	–
		501 048	**495 052**

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 2008, the net change in fair value for these loans amounted to € 9,004 thousand (see Notes 7, 27 and 28).

25 Due to customers

Amounts expressed in thousands of Euros	2008	2007
Time deposits	147 582	434 399
Demand deposits	19 236	33 387
Cheques clearing	20	2 374
Accrued interest	3 042	3 234
	169 880	**473 394**

26 Securities sold under repurchase agreements

Amounts expressed in thousands of Euros	2008	2007
Banks	879 870	910 945
Customers	3 271	311 556
	883 141	**1 222 501**

27 Securitization debt issued

This balance relates to the Group's securitization programme. Following the implemented strategy for the Consumer Finance business, funding is done primarily through medium-term securitization programs.

At 31 December 2008, the securitization transactions outstanding are as follows:

Denomination	Issue date	Maturity date	Nominal amount	Interest rate	Effective interest rate	Interest	Carrying amount
Amounts expressed in thousands of Euros							
LTR Finance No 4 plc							
Class B	2/Dec/02	25/Nov/12	4 864	Euribor 3m + 50bp	4.52%	23	4 887
Class C	2/Dec/02	25/Nov/12	10 500	Euribor 3m + 75bp	4.77%	51	10 551
LTR Finance No 5 plc							
Class A	1/Jul/04	1/Jul/15	87 117	Euribor 3m + 20bp	5.12%	818	87 935
Class B	1/Jul/04	1/Jul/15	15 600	Euribor 3m + 37bp	5.29%	151	15 751
Class C	1/Jul/04	1/Jul/15	16 600	Euribor 3m + 55bp	5.47%	167	16 767
LTR Finance No 6 plc							
Class A	25/Sep/06	24/Nov/18	358 709	Euribor 3m + 14bp	4.22%	1 596	360 305
Class B	25/Sep/06	24/Nov/18	35 000	Euribor 3m + 23bp	4.31%	159	35 159
Class C	25/Sep/06	24/Nov/18	30 600	Euribor 3m + 30bp	4.38%	141	30 741
Class D	25/Sep/06	24/Nov/18	13 150	Euribor 3m + 65bp	4.73%	66	13 216
LTR Warehouse Nº 2							
Senior facility	30/Mar/07	31/Aug/13	384 466	Euribor 1m + 26 bp	3.10%	331	353 069
Mezzanine facility	30/Mar/07	31/Aug/13	13 569	Euribor 1m + 55 bp	3.39%	13	11 881
			970 175			**3 516**	**940 262**

At 31 December 2007, this balance comprises:

Denomination	Issue date	Maturity date	Nominal amount	Interest rate	Effective interest rate	Interest	Carrying amount
Amounts expressed in thousands of Euros							
LTR Finance No 4 plc							
Class A	2/Dec/02	25/Nov/12	24 810	Euribor 3m + 30 bp	3.88%	123	24 933
Class B	2/Dec/02	25/Nov/12	9 600	Euribor 3m + 50 bp	3.88%	50	9 650
Class C	2/Dec/02	25/Nov/12	10 500	Euribor 3m + 75 bp	3.88%	57	10 557
LTR Finance No 5 plc							
Class A	1/Jul/04	1/Jul/15	174 700	Euribor 3m + 20 bp	3.59%	1 594	176 294
Class B	1/Jul/04	1/Jul/15	15 600	Euribor 3m + 37 bp	3.59%	147	15 747
Class C	1/Jul/04	1/Jul/15	16 600	Euribor 3m + 55 bp	3.59%	162	16 762
LTR Finance No 6 plc							
Class A	25/Sep/06	24/Nov/18	371 250	Euribor 3m + 14 bp	3.67%	1 789	373 039
Class B	25/Sep/06	24/Nov/18	35 000	Euribor 3m + 23 bp	3.67%	172	35 172
Class C	25/Sep/06	24/Nov/18	30 600	Euribor 3m + 30 bp	3.67%	152	30 752
Class D	25/Sep/06	24/Nov/18	13 150	Euribor 3m + 65 bp	3.67%	70	13 220
LTR Warehouse Nº 2							
Senior facility	30/Mar/07	31/Aug/13	246 823	Euribor 1m + 26 bp	4.52%	262	236 479
Mezzanine facility	30/Mar/07	31/Aug/13	8 711	Euribor 1m + 55 bp	4.81%	10	8 175
			957 344			**4 589**	**950 781**

During 2007, the LTR Warehouse nº 2 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 2008, the net change in fair value for these facilities amounted to € 22,549 thousand (see Notes 7, 24 and 28).

28 Subordinated debt

	Interest rate	2008	2007
Amounts expressed in thousands of Euros			
€ 10m subordinated bonds due 2012	Euribor 6m + 100 bp	10 000	10 000
€ 75m subordinated bonds due 2015	Euribor 3m + 135 bp	66 740	75 000
€ 50m subordinated bonds due 2016	Euribor 3m + 135 bp	47 050	50 000
€ 60m subordinated bonds due 2017	Euribor 3m + 125 bp	30 222	51 209
Accrued interest		1 541	1 613
		155 553	**187 822**

Interest calculated by applying the effective interest rate for the year ended 31 December 2008 amounted to € 7,439 thousand (2007: € 7,393 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 2008, the net change in fair value for this loan amounted to € 2,302 thousand (see Notes 7, 24 and 27). 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.

29 Other liabilities

	2008	2007
Amounts expressed in thousands of Euros		
Provisions	923	919
Amounts owed to the public sector	2 153	1 542
Creditors from consumer finance business	1 135	1 181
Other creditors	1 218	1 366
Accrued expenses	5 408	15 154
Other sundry liabilities	9 761	15 175
	20 597	**35 337**

Provisions are intended to cover certain contingencies related to the Group's activity. During the year 2008, the Group charged through the income statement the amount of € 3 thousand (2007: € 3 thousand).

Other sundry liabilities include the amount of € 6,050 thousand (2007: € 11,814 thousand) related to stock exchange transactions pending settlement, following transactions made in the normal course of business of the Group (see Note 22).

30 Share capital, share premium and treasury stock

Share capital and share premium

At 31 December 2008, 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 the share capital increase occurred in 2006.

Treasury stock

During the years ended 2008 and 2007 the following changes occurred in treasury stock:

	2008		2007	
	Number of shares	Acquisition cost	Number of shares	Acquisition cost
Amounts expressed in thousands of Euros, except number of shares				
Balance as at 1 January	2 096 098	7 259	3 823 310	8 301
Acquisitions	2 595 235	9 082	5 148 829	22 770
Disposals	(2 852 922)	(10 053)	(6 876 041)	(23 811)
Balance as at 31 December	**1 838 411**	**6 288**	**2 096 098**	**7 260**

During 2008, under the treasury stock purchase program, the Bank acquired 2,595,235 shares (2007: 5,148,829 shares) in the total amount of € 9,082 thousand (2007: € 22,770 thousand), and placed 2,852,922 shares (2007: 6,876,041 shares) in the total amount of € 9,643 thousand (2007: € 30,339 thousand).

31 Reserves and retained earnings

	2008	2007
Amounts expressed in thousands of Euros		
Revaluation reserves	(33 162)	1 162
Legal reserve	21 320	22 524
Other reserves and retained earnings	182 696	150 334
	170 854	**174 020**

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, and the effective part of the changes in the cash flow hedging derivatives fair value.

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

	AFS reserve	Cash-flow hedge reserve	Other revaluation reserves	Total
Amounts expressed in thousands of Euros				
Balance as at 1 January 2007	**19 600**	**6 513**	**(52)**	**26 061**
Net changes in AFS financial assets	(22 569)	–	–	(22 569)
Amortisation of HTM related reserve	(178)	–	–	(178)
Deferred taxes (see Note 23)	2 488	–	52	2 540
Amortisation of cash flow hedge reserve (see Note 18)	–	(1 872)	–	(1 872)
Changes in cash flow hedge reserve (see Note 18)	–	(2 820)	–	(2 820)
Balance as at 31 December 2007	**(659)**	**1 821**	**–**	**1 162**
Net changes in AFS financial assets	(9 981)	–	–	(9 981)
Amortisation of HTM related reserve	(179)	–	–	(179)
Deferred taxes (see Note 23)	(1 147)	–	–	(1 147)
Amortisation of cash flow hedge reserve (see Note 18)	–	(606)	–	(606)
Changes in cash flow hedge reserve (see Note 18)	–	(22 411)	–	(22 411)
Balance as at 31 December 2008	**(11 966)**	**(21 196)**	**–**	**(33 162)**

Net changes in AFS financial assets recognised in reserves during 2008 include € 1,003 thousand related to the amortisation through profit or loss of the AFS reserve following the reclassification made (see Note 15).

During 2007, the Group reclassified as held-to-maturity the amount of € 33,176 thousand related with fixed income securities. The cumulative gain of € 1,488 thousand in equity as at the date of the reclassification is amortised to income during the remaining maturity of the bonds.

During 2008, due to sales and to the maturity of securities from the AFS portfolio, the amount of € (5,728) thousand (2007: € 29,127 thousand) included in the AFS reserve, was recognized in profit or loss, in accordance with the accounting policy disclosed in Note 2.9.

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.

32 Off balance sheet items

Amounts expressed in thousands of Euros	2008	2007
Guarantees issued		
Securities pledged under repos	1 318 717	2 293 724
Guarantees and standby letters of credit	50 355	23 038
	1 369 072	**2 316 762**
Contingent liabilities		
Revocable committed lines	51 295	25 328
Other commitments	7 368	18 370
	58 663	**43 698**
Other off-balance sheet items		
Securitization assets under management for clients	1 754 527	2 198 308
Securities received as collateral under reverse repos	–	1 483 320
Securities and items held for safekeeping	976 179	1 101 373
Other guarantees received	11 621	11 113
	2 742 327	**4 794 114**

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 2007 amounted to € 1,539,684 thousand.

The balance Securities pledged under repos refers to the nominal amount of securities sold under repurchase agreements (see Notes 17 and 26).

33 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:

Amounts expressed in thousands of Euros	2008	2007
Cash (see Note 12)	98	143
Deposits with banks (see Note 12)	10 099	22 259
Due from banks (see Notes 14 and 35)	45 299	377 749
	55 496	**400 151**

34 Balances and transactions with related parties

Amounts expressed in thousands of Euros	2008	2007
Assets		
Loans and advances to customers	–	17 032
Liabilities		
Due to customers	5 958	41
Income		
Interest and similar income	390	419
Costs		
Interest expense and similar charges	29	529

The balances and transactions stated above mainly relate with Finantipar – S.G.P.S., S.A. and Finantipar Finance Limited.

The amount of remunerations paid to the Group's management and supervisory bodies is disclosed in Note 8.

35 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 complementarity 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 and Banco Finantia Sofinloc business.

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 first decision level is the automatic decision through the Group's internally developed system, Siacc. This allows the Bank to balance the expected return and the use of capital for each operation. The Group has scoring models that are applied separately to the Portuguese and Spanish credit portfolios, based on the wide experience developed since the Group's first scoring model of 1995. Besides being the basis for the automatic decision process (a credit proposal has to satisfy a minimum score to have an automatic approval, along with other certain defined criteria and filters), the scoring model attributes a score to each proposal, based on the probability of loss. This permits calculating the expected profitability of each operation adjusted to the probable loss.

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 geographical exposure. 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 2008, nearly 83% of overall exposure is to investment grade countries, while the remaining is largely diversified over more than twenty countries (2007: 80%).

Market risk

Market or price risk is defined as the likelihood of incurring losses due to unexpected variations in the price of financial instruments or operations. These prices include interest rates, exchange rates and share prices.

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. This is in line with the Basel Committee recommendation. 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 2008, the average daily VaR was € 7.66 million (up from € 2.86 million in 2007), which corresponds to 2.16% of Tier 1 Capital (0.88% in 2007). The average daily VaR for foreign exchange risk was € 2.70 million (€ 1.56 million in 2007) and for interest rate risk was € 6.44 million (€ 2.35 million in 2007).

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, structuring the balance sheet in order to hedge the impact of movements in the yield curve on its securities portfolio.

In the case of assets related to Consumer Finance, the complete hedging of interest rate risk has been laid down as a general principle and is achieved through the contracting of interest rate swaps, with the goal of matching the maturities and the rate resetting dates of the assets with the liabilities resulting from the securitisation operations.

In the Banking area, the distribution of assets and liabilities by rate refixation periods is systematically monitored, with the risks that exceed the limits set by the Finance Committee being regularly hedged, using adequate financial instruments, such as 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:

	2008		
	EUR	**USD**	**Other**
Amounts expressed in thousands of Euros			
Assets			
Cash and banks	13 809	697	61
Financial assets held for trading	75 693	9 371	–
Investment securities	641 334	892 081	881
Due from banks	476 780	291 452	–
Loans and advances to customers	1 278 785	67 602	–
Other financial assets	158 710	21 870	–
Total assets	**2 645 111**	**1 283 073**	**942**
Liabilities			
Due to central banks	271 417	–	–
Financial liabilities held for trading	92 773	39 931	–
Due to banks	699 322	178 889	–
Securities sold with repurchase agreements	347 273	535 868	–
Due to customers	165 621	4 259	–
Hedging derivatives	56 245	29 998	–
Securitization debt issued	939 918	–	–
Subordinated debt	155 553	–	–
Other financial liabilities	21 819	1 377	–
Total liabilities	**2 749 941**	**790 322**	**–**
Equity	350 905	4 160	–
Total liabilities and equity	**3 100 846**	**794 482**	**–**
Derivatives held for risk management			
Forwards	–	–	–
Currency swaps	455 735	(479 780)	–
	455 735	**(479 780)**	**–**
Net position	**–**	**8 811**	**942**

	2007		
	EUR	**USD**	**Other**
Amounts expressed in thousands of Euros			
Total assets	3 493 493	2 171 461	4 550
Total liabilities	3 660 686	1 628 801	208
Total equity	411 868	(797)	–
	(579 061)	543 456	4 342
Derivatives held for risk management	579 061	(544 480)	–
Net position	–	**(1 024)**	**4 342**

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 or obtain adequate funding or that it cannot easily unwind or offset specific exposures without significantly lowering market prices, because of inadequate market depth or market disruptions.

The liquidity risk management is centralized at Group level and kept within pre-defined limits, in accordance with two distinct parameters: i) cash flow management, through a system of cash flow controls that permits daily calculation of Treasury balances up to a one year horizon; ii) balance sheet management, in order to maintain excess short-term liquidity ensuring normal functioning of the Group even under unfavourable conditions.

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 applications, easily marketable or 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 more than 80% of the value of those assets.

In 2008, the Group renewed a EUR 400 million securitization operation that is supplied monthly with Consumer Finance credits originated in the Iberian Peninsula. This operation contributed to the reduction of the Group's dependence on other sources of funding.

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 in deposits, money market and repos.

An analysis of the investment portfolios' exposure of the Group by period to maturity is presented as follows:

	Note	Carrying amount	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Undetermined
Amounts expressed in thousands of Euros							
31 December 2008							
Cash and banks	12	14 567	14 567	–	–	–	–
Due from banks	14	768 232	646 865	47 074	36 529	37 764	–
Investment securities	15	1 525 434	40 584	110 577	609 641	764 611	21
Loans and advances to customers	16	1 346 387	68 676	48 354	824 390	404 967	–
		3 654 620	**770 692**	**206 005**	**1 470 560**	**1 207 342**	**21**
Due to central banks		271 417	271 417	–	–	–	–
Due to banks	24	877 867	332 587	14 715	529 790	775	–
Due to customers	25	169 880	112 266	53 129	3 216	1 269	–
Securities sold under repurchase agreements	26	883 141	506 000	377 141	–	–	–
Securitization debt issued	27	940 262	3 860	–	379 626	556 776	–
Subordinated debt	28	155 553	1 541	–	10 000	144 012	–
		3 298 120	**1 227 671**	**444 985**	**922 632**	**702 832**	**–**

	Note	Carrying amount	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Undetermined
Amounts expressed in thousands of Euros							
31 December 2007							
Cash and banks	12	31 953	31 953	–	–	–	–
Due from banks	14	646 253	468 804	36 119	27 076	114 253	–
Investment securities	15	1 713 038	37 125	82 841	648 471	944 600	1
Loans and advances to customers	16	1 549 689	60 104	98 622	885 024	505 939	–
		3 940 933	**597 987**	**217 582**	**1 560 572**	**1 564 792**	**1**
Due to central banks		165 478	165 478	–	–	–	–
Due to banks	24	678 028	174 875	167 191	335 962	–	–
Due to customers	25	473 394	239 186	125 011	102 196	7 000	–
Securities sold under repurchase agreements	26	1 222 501	370 018	852 483	–	–	–
Securitization debt issued	27	950 781	4 589	–	289 292	656 900	–
Subordinated debt	28	187 822	1 613	–	10 000	176 209	–
		3 678 004	**955 759**	**1 144 685**	**737 450**	**840 109**	**–**

Operational risk

Operational risk may be defined as the risk of loss resulting from inadequate internal processes, human or system failures, or external factors, that include legal risk (excludes, however, the strategic and reputational risks).

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 practices established in the new Basel Accord (Basel II), the Group has been intensifying its efforts in implementing more advanced and effective measurement and risk control methods. The Group is currently in the 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).

Additional measures within the scope of evaluation and control of operational risk have been taken. Heads of the main areas of the Group's activities were advised on the importance of complying with the measures defined. In the Consumer Finance area, whose operational risk events are typically characterized by a high frequency and low severity, a task force was constituted that includes the directors of the different operational areas. This task force was formed with the objective of identifying the critical aspects in the processes and procedures, issuing opinions and taking corrective measures aimed at minimizing the incurred risk.

There is a Quality Control area, whose objective is the certification and validation of the data inserted in the proposals and contracts in line with the internal credit rules, representing an additional measure of control, along with the Bank's internal and external audit.

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.

36 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, which may differ from country to country.

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 years ended 31 December 2008 and 2007. During these two years, the individual entities within the Group and the Group complied with all of the externally imposed capital requirements to which they are subject.

	2008 Bal II	2007 Bal II
Amounts expressed in millions of Euros		
Total equity	**355.1**	**411.0**
Add: Subordinated debt instruments	153.6	186.7
Add/(Less): Amounts recognised in equity – cash flow hedges	21.2	(1.8)
Add/(Less): Revaluation reserve – AFS Investment	12.0	(0.9)
Less: Estimated dividend to be paid	–	(29.3)
Other increases/(deductions)	(0.7)	(0.7)
Total qualifying capital	**541.1**	**565.0**
Risk-weighted assets	**3 936.3**	**4 258.0**
CAD ratio	**13.7%**	**13.3%**

The decrease of the risk-weighted assets reflects the deleverage of the business in 2008.

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:

		2008		2007	
	Note	Carrying amount	Fair value	Carrying amount	Fair value
Amounts expressed in thousands of Euros					
Assets					
Cash and banks	12	14 567	14 567	31 953	31 953
Due from banks	14	768 232	768 232	646 253	646 253
Loans and advances to customers	16	1 346 387	1 362 878	1 549 689	1 590 742
Investment securities	15	1 525 413	1 500 840	33 176	29 398
Liabilities					
Due to central banks		271 417	271 417	165 478	165 478
Due to banks	24	877 867	866 226	678 058	672 780
Due to customers	25	169 880	169 880	473 394	473 394
Securitization debt issued	27	940 262	866 531	950 781	929 818
Subordinated debt	28	155 553	127 310	187 822	172 576

In 2008, the carrying amount and the fair value of Loans and advances to customers and Investment securities include the interest rate hedge adjustment in the amount of € 18,466 thousand and € 65,031 thousand, respectively.

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.

Investment securities

The fair value of Investment securities is based on market prices or broker quotes in active markets or, in its absence, on the use of valuations techniques. Valuation techniques consist in net present value calculation of expected future cash flows using observable market inputs.

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).

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

For the year ended 31 December 2008, 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, 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 sought to calibrate it to market information and to review 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 rates 10% upwards, in line with less favourable assumptions, would reduce fair value by approximately € 7.9 million at 31 December 2008;
- Scaling the model rates 10% downwards, in line with more favourable assumptions, would increase fair value by approximately € 8.0 million at 31 December 2008.

38 Group structure

As at 31 December 2008, the Group structure can be analyzed as follows:

Company	Year of constitution	Year of acquisition	Head Office	Activity	% held	Consoli-dation method
Banco Finantia International, Ltd.	1997	1997	Cayman Islands	Banking	100	Integral
Banco Finantia Sofinloc, S.A.	1993	2001	Spain	Banking	96.26	Integral
Esprin – Española de Promociones, S.L.	2000	2001	Spain	Advisory services	100	Integral
Finantia Brasil, Lda.	1997	1997	Brazil	Advisory services	100	Integral
Finantia Europe, Ltd.	1991	1991	Malta	Advisory services	100	Integral
Finantia PH Ltd	2004	2004	Malta	Holding company	100	Integral
Finantia Securities Ltd	1993	1997	United Kingdon	Broker-Dealer	100	Integral
Finantia Serviços – Prestação de Serviços Empresariais, Lda.	1989	1989	Portugal	Advisory services	100	Integral
Finantia SGFTC, S.A.	2003	2003	Portugal	Securitisation funds Management company	100	Integral
Finantia USA, Ltd.	1995	1997	U.S.A	Broker-Dealer	100	Integral
Sofinloc – Instituição Financeira de Crédito, S.A.	1983	1992	Portugal	Specialized credit	100	Integral
Finantia Emea Ltd	2005	2005	Malta	Financial	100	Integral
Finantia Madeira – S.G.P.S., S.A.	2004	2004	Portugal	Holding company	100	Integral
Finantia Holding BV	2004	2004	Netherlands	Holding company	100	Integral
LTR Finance nº 4 plc	2002	2002	Ireland	Special purpose entity	100	Integral
LTR Finance nº 5 plc	2004	2004	Ireland	Special purpose entity	100	Integral
LTR Finance nº 6 plc	2006	2006	Ireland	Special purpose entity	100	Integral
LTR Warehouse nº 2	2007	2007	Ireland	Special purpose entity	100	Integral

During 2008, Finantia Participações – SGPS, S.A. was extinguished and Sofinloc Mediadora – Soc. Mediação de Seguros, Lda. was merged into Sofinloc – Instituição Financeira de Crédito, S.A..

39 Subsequent events

In February 2009 the Group issued € 126,7 million secured fixed-rate notes under the LTR Finance nº7 Ltd. securitization transaction. The transaction included consumer finance loans originated from both Sofinloc and Banco Finantia Sofinloc and has a legal final maturity on February 2023.

Statutory Audit Report

(Free translation from the original presentation in Portuguese)
31 December 2008

Introduction

1. We have audited the consolidated financial statements of Banco Finantia, SA ("the Bank"), comprising the consolidated balance sheet as at December 31, 2008, (which shows total assets of €3,895,328 thousand and total shareholder's equity of €355,065 thousand, including minority interest of €206 thousand and a net profit attributable to the equity holders of the Bank of 10,843 thousand), the consolidated statement of income, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended and the corresponding notes to the accounts. The consolidated financial statements were prepared in conformity with International Financial Reporting Standards (IFRS) as adopted by the European Union.

Responsibilities

2. It is the responsibility of the Bank's Board of Directors to prepare consolidated financial statements which present fairly, in all material respects, the financial position of the Bank and its subsidiaries, and the consolidated statement of changes in equity, the consolidated results of their operations and their cash flows, as well as to adopt appropriate accounting policies and criteria and to maintain adequate systems of internal accounting controls.

3. Our responsibility is to express an independent and professional opinion on these consolidated financial statements based on our examination.

Scope

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

5. Our examination also covered the verification of the consolidated financial information included in the consolidated Management Report is in agreement with the consolidated financial statements.

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, 2008 and the consolidated statement of changes in equity, the consolidated results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Lisbon, March 10, 2009

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