Market Discipline

Banco Carregosa

Banco L. J. Carregosa, S.A. | Capital Social € 20.000.000,00
Incorporated in Oporto under the registration No. 503 267 015
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BANCO CARREGOSA

<u>INDEX:</u>

Note: *Chapter "Credit Risk – Internal Ratings Based Approach" is not included as it is not applicable (n.a.)*

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1. Introductory Note

The banking sector, following the procedure set out by Directives 2006/48/CE and 2006/49/CE of the European Parliament and the Council, of 14 June 2006, transposed into the Portuguese legal System by Decree-Law n. º 103/2007 and 104/2007, of April 3, has been developing more sophisticated techniques of evaluation and control of the risks inherent to banking activity, in order to adapt to the established in those policies commonly designated by "*Basel Accord II*".

As provided in notice nº 10/2007, of April 18, from Bank of Portugal, this document discloses information on capital investment and risk management of Banco L.J. Carregosa, S.A., hereinafter referred to as "Bank", "Company" or "Banco Carregosa".

Regarding the established in the referred normative documents, this report is set on the grounds of a predominantly prudential perspective, complying with the duty of public information disclosure, commonly referred to as "*Pilar III*" of "*Basel II*", under n. º 1 of the article 29.º from Decree-Law 104/2007, of April 3 and, following the terms set up in the Notice mentioned above.

The reference date of this report "*Market Discipline*" is 31 December 2012, that is to say, it regards the financial year of 2012, without prejudice to the disclosure of relevant events occurred between the report reference date and its publication date.

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2. Responsibility Statement

Concerning the information disclosed in this report, the Executive Committee of the Board of Directors:

- Certifies that all procedures considered necessary were developed and that, to its knowledge, all disclosed information is truthful and reliable;

- Ensures the quality of all disclosed information including the one referred to as well as information with origin in entities included in the economic group in which the Bank is inserted;

- Undertakes to promptly disseminate any significant amendments which occur during the financial year following the reference period, that is to say, in the current financial year of 2013.

It is added that, in the period between 31 December 2012 and the publication date of the present report, the Bank decided to divest its shareholding in *Optimize Investment Partners – Sociedade Gestora de Fundos de Investimento Mobiliário, SA*, thus eliminating the impairment of 340.000 EUR recognized last year.

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3. Scope of Application

Banco Carregosa is a joint stock company with headquarters in Av. da Boavista nº 1083, in Oporto, registered in the Conservatory of the Commercial Registry of Oporto with a single commercial and tax identification number 503.267.015. The Company is registered in the Bank of Portugal with the code 0235 and in the Portuguese Securities Market Commission as a Financial Intermediary under registration nº 169.

Currently, the Bank´s share capital is 20.000.000,00 EUR, represented by 200 millions of book-entry registered shares with the nominal value of 0,10 EUR each.

For prudential proposes, at the reference date, the Bank, presented consolidated accounts. For accounting purposes the Bank L. J. Carregosa, S.A. is integrated in an economic group, formed by itself as a parent company and, by the following subsidiaries:

- **Coolink – Serviços informáticos e de consultoria, Lda**., the company´s main activity comprises "*Trading, import, export, implementation and development of IT programs and solutions, software and other management and business support systems. Provision of IT consultancy services for financial and capital market business; economic and financial consultancy; elaboration of studies for companies and private persons. Marketing promotion and development for products and services for business and management support.* ", in which the parent company held, at the reference date of this report, a participation with the nominal value of 25.000,00 EUR, corresponding to 50% of this company´s share capital.

- **Francisco Marques Pereira – SGPS, S.A.** , company in process of dissolution, with the following main activity: "*Management of financial investments of other companies as an indirect form of carrying out economic activities",* in which the parent company held, at the reference date of the report, a participation of 76,5% of the share capital, representing 85% of the company´s voting rights.

- **Lisbon-Brokers – Sociedade Corretora, S.A.**., company in process of dissolution, with the following main activity: "Buying and selling securities for third parties as well as the following activities*: a) processing client portfolios and safekeeping of securities, being able to collect the income and, as long as autorized by the client, exercise other rights in the company; b) the exercise of other activities expressively authorized by the law, as provided for in Article 2 of Decree-Law nº 229/I-88 from July 4.*", in which the parent company held, at the reference date of the report, a direct participation of 34,95% of the share capital (representing 34,5% of the company´s voting rights) and an indirect participation resulting from the participation of its subsidiary Francisco Marques Pereira – SGPS, S.A.. The last held, in December 31 of 2012, 58,69% of the share capital of Lisbon Brokers – Sociedade Corretora, S.A., representing 59,09% of the company´s voting rights.

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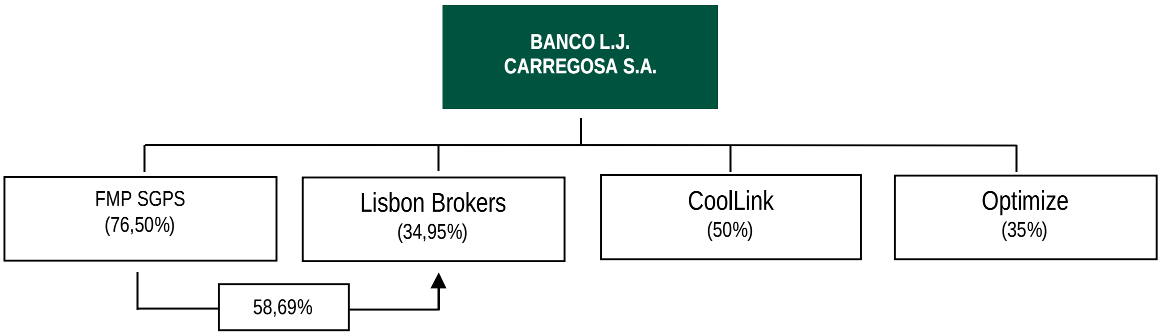
- **Optimize Investment Partners – Sociedade Gestora de Fundos de Investimento Mobiliário, SA.**, the company´s main activity is : "*Management of securities investment funds*", in which the parent company held, at the reference date of the report, a participation of 35% in the share capital which represented 35% of the company´s voting rights. This participation was disposed in May 2013.



There are impediments to the transfer of own funds or repayment of liabilities from Lisbon-Brokers – Sociedade Corretora, S.A. and Francisco Marques Pereira - SGPS, S.A. concerning Banco Carregosa, resulting from the dissolution process of both companies. Still, for the same reasons, Lisbon-Brokers – Sociedade Corretora, S.A. own funds are below the minimum level required.

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4. Risk Management Policies

The structure and organization of risk management, described below, are similar to all specific risk categories, given the Bank´s small size. Slight differences at this level will be described in the subparagraphs specific to each risk category.

Due to the statutory transformation of the company into a Bank, which occurred in October 2008, changes in the Internal Control System were introduced, namely in its risk management function, promoting a culture which is focused on this cross–sectoral function which is appropriated to each of the companies structures. The risk management function foresees the identification, evaluation, monitoring and control of all materially significant risks to which the Bank is subject, with the objective to maintain its levels within the limits decided by the Executive Committee.

The Executive Committee establishes the monitoring and risk management as well as capital allocation, according to the strategic goals defined for the organization.

In these functions, it is assisted by the Assets and Liabilities Commission (ALCO), which is an Executive Committee advisory body and, given its functions of investment forum and capture of resources, gives recommendations on assets and liabilities allocation.

The Finance Department executes the management of its own portfolio, according to ALCO recommendations and to the Executive Committee decisions. In the exercise of that assignment, manages the currency hedging positions intended by the Bank.

The Risk Department identifies, monitors and controls, in a qualitative and quantitative perspective, the risks, transmitting the results to the Executive Committee, through reports, both regular and sporadic, detecting possible deficiencies and proposing corrective measures. In these attributions presents a daily risk report with quantitative information about the various types of risk and static stress tests. On a monthly basis reports on the major operational risk events, as well as own funds calculations and their requirements. Quarterly presents more detailed effort tests with higher time horizons. Semiannually performs detailed stress tests in a dynamic basis.

The Accounting and Management Information Department carries out the accounting of transactions and preparing financial reports for strategic use and management for the Executive Board, in particular the analytical accounts.

The Internal Audit, through constant and timely action, is responsible for verifying compliance with internal standards under the annual plan from the perspective of operational improvement. Its function seeks to prevent the outbreak of fraud or other injurious behaviors, whether moral or material, unethical or simply of deviant nature for the Institution. It is set at the beginning of each year, together with the Executive Committee, the annual plan of interventions.

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The Compliance Department ensures constant compliance of prudential standards to which the Bank is subject, through, among others, monitoring and regular assessment of the adequacy and effectiveness of the measures and procedures adopted to detect any risk of non-compliance of legal duties to which the institution is subject, as well as the measures taken to correct any possible deficiencies in their compliance.

The central role of the Executive Committee in the organization chart provides agility in decision making and, with the support of the Central Management, disseminates strategies and decisions in terms of capital adequacy and risk management.

Segregation of duties and independence of all areas in Banco Carregosa is ensured by direct reporting to the Executive Committee.

The organizational structure seems to be appropriate to ensure segregation of duties and responsibilities in the management process, which facilitates compliance with the regulatory framework of risk control, minimizing conflicts of interest between business, risk and control areas.

Banco Carregosa develops its best efforts to ensure that the process of risk management is a process of continuous improvement and ongoing reassessment of the resources adequacy to the needs.

To achieve its objectives, the Bank is provided with integrated software tools which centralize all the information, with due respect for computer security policies. For the establishment of certain indicators the Bank uses external databases and tools from Bloomberg.

Credit Risk

Consists on the probability of negative impacts on earnings or capital due to the inability of a counterparty to meet its financial commitments to the institution, including possible restrictions on transferring payments from abroad. Credit risk exists mainly in credit exposures (including the securitized), lines of credit, guarantees and derivatives.

The Bank analyzes the credit risk on all its assets, with special focus on the loans to customers, investments in its own portfolio and bank deposits.

In most of the assets, investments in the Bank's own portfolio and bank deposits, the credit risk is evaluated based on external ratings, time to maturity and counterparty type.

By default, we adopt the credit quality ratings of Standard & Poor's for own portfolio investments and bank deposits. If this rating doesn't exist, we resort to Moody's and Fitch rating. Priority, we try to find ratings for the issues in question, and secondly ratings of issuers or other similar issues. Central administrations and central banks use the three types of rating as defined by Notice No. 5/2007. Ratings are analyzed and reviewed monthly by the Department of Risk for these positions.

The Executive Committee, the Finance Department and the Central management receive daily data from the Department of Risk on the exposure of such assets, for quick and efficient risk management. Preference

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is given to assets with higher ratings and short maturities. Nevertheless, 72% of these net positions were allocated in assets issued by Central Administration (67%) and Credit Institutions (5%) with a rating lower than A-.

Loans to customers occupy a small portion of the active (10%) and consist of 4 different types of operations:

Current accounts overdrafts;
Authorised overdrafts;
Other Financing;
Bank Guarantees

The current accounts overdrafts with limits up to € 100,000 may be approved by the Finance Director and an Executive Director. Those who have limits up to € 50,000 may also be approved by the Finance Director and the account manager. The remaining credits are approved by the Executive Committee. As shown by the value of loans to customers relating to assets, we selected transactions of this type with great prudence, based on knowledge of borrowers, their financial capabilities and by solid and liquid collateral.

Most of the current account overdrafts are intended to the acquisition of securities. The assets in these accounts serve as credit collateral and are valued at market prices deducting a specific volatility adjustment for each title. Assets that do not have a specific volatility adjustment are deducted in full, not being considered as collateral. Whenever the coverage of credit is reduced below critical levels the customer is warned, being prevented from acquiring new positions. In the last critical coverage level the Department of Risk orders the compulsive closing of all positions.

In late 2012, between loans to customers, there was a reverse repurchase agreement, which meanwhile achieved maturity, in the value of € 16.3 million, which was offset by a reverse repurchase agreement with the same credit institution in the value of € 16,250,000.

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Analysis of the concentration of credit risk passes through the regulatory metrics and internally developed metrics, taking into account the time to maturity and rating.

Market Risk

Is the probability of negative impacts on earnings or capital due to adverse movements in the market price of the instruments in the trading portfolio, including fluctuations in interest rates, exchange rates, stock prices and commodity prices. Market risk arises mainly from short positions in debt and equity instruments, currencies, commodities and derivatives.

Within this type of risk, the Bank considers the subtypes of interest rate risk, currency and settlement given the close relationship in their management

The Bank analyzes and manages the market risk of its applications in financial markets in the assets portfolios measured at fair value and assets available for sale, reported according to IAS 36, 38 and 39. Evaluation of these portfolios is made in the application Coolbiz several times a day, whenever the price is available. In accounting terms, we record the position at fair value. Unrealised losses or gains are taken to reserves in the case of the portfolio evaluated at fair value and to results in the available assets for sale.

Market risk is measured by the value at risk for each portfolio separately. Every day is sent to the Executive Committee, Finance Department and the Central Management the historical VAR of the last 3 years, with a time horizon of one week and with a confidence level of 95% as well as their development.

Quarterly Executive Committee and Central Management receive the same data over a time frame of 1 month and 3 months and confidence levels of 97.5% and 99%.

The interest rate risk is analyzed in positions in debt securities, loans and term deposits in assets and liabilities. For its measurement we use standard regulatory parameters and the yield at worst from Bloomberg method, which estimates the impact of a change in interest rate to a year. This data is taken quarterly and is used to determine the sensitivity of the results in own portfolios at the interest rate. Daily, the Executive Committee, the Central Management and the Finance Department receive a table with a lag of dates of interest rate resetting between assets and liabilities and an assessment of the impact of the variation in interest rates by 100 pbs. The coverage of this risk, when necessary, includes opening positions in futures or options.

Foreign exchange risk is reviewed by the Bank's total exposure to foreign currency and is mitigated by opening positions in FOREX for the purpose of hedging.

Settlement risk, which is a more mixed risk between credit risk, market and operational, concerns settlement of transactions executed by the Bank, more specifically those where external settlement exists. When the settlements of these transactions are delayed (beyond the value date scheduled) we register settlements which are symmetrical to the original in the Bank´s accounts, identical in technical terms to the customers.

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When settlement of these operations exists, we cancel these movements with the value date of the actual settlement. For prudential purposes we report potential loss which may arise from any resale or repurchase transactions in the market. Risk management is performed by the Operations Department and the Accounting and Information Management Department in the procedures for settlement of foreign exchange transactions and passes through the bank reconciliations and confirmation of transactions and custodians settlements and brokers used. Within the settlement risk the risk of incomplete transactions is eliminated, since the external settlements are always made using delivery against payment.

4.3 Operational Risk

Is the likelihood of negative impacts on earnings or capital arising from failures in the analysis, processing or settlement of transactions, internal and external fraud, the use of resources under “outsourcing" arrangements, from the existence of inadequate or inappropriate human resources or inoperability of infrastructures.

Within this type of risk, the Bank analyzes the not considered risks within the market risk or credit risk.

During the Basel II project and towards an appropriate estimation of this risk all relevant procedures and work processes have been documented and this work was used in Banco Carregosa Code. A matrix of risk and mitigation was created, according to Basel II definitions and a tool to record the occurrences of the respective risks. This work was coordinated in order to maintain relations with the procedures and allow their statistical analysis. The controls indicated in the matrix were tested by an external consultant.

The Bank directs the development projects based on the incidence of occurrences or in the mentioned risks.

In the mitigation of this risk we emphasize the internal reporting structures, contingency plans, and the actions of the Internal Audit and training plans for employees.

Information Systems Risk

Data systems contain private financial and personal information considered sensitive and confidential. Access to these systems is limited exclusively to the Bank's employees and personnel under contract, that with appropriate prior framework, is involved in the development or operation of the system or whose work involves recording, reviewing, or retrieving that data. Within the system, there are different permissions, depending on the functions of each entity.

Thus, recognizing the "information" as a valuable asset, Banco Carregosa has implemented sophisticated security systems and backups, at the level of servers, as well as at the level of communications with redundant machines and telephone lines, among others.

As support to the practice currently in force, the Bank's IT infrastructure and its use is regulated by the Policy for Use of Computers, which is known by employees. Systems redundancy and contingency are presented in the Business Continuity Plan.

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4.3.2 Strategy Risk

The process of strategic decision depends on the Board of Directors, which sets medium / long term targets. The Executive Committee, with direct monitoring of the Central Board, decides on the measures to be implemented to achieve the strategic objectives, by negotiating with the Managements, which are responsible for analyzing business opportunities and growth of the Bank, investment needs in areas of control, support and management.

4.3.3 Compliance Risk

Banco Carregosa Code plays a central role in mitigating the risk of Compliance. The code consists of several documents on the activities of the Bank, including proper management of internal regulations. Each document created or modified is revised, whenever possible, by all the Departments involved, and approved by entities compatible hierarchical powers. The management of the Code is assigned to the Compliance Department, which must evaluate their adequacy and compliance and study changes to the legal standards and their impact on the Bank, with the help of other participant Departments. The code is accessible to all staff in the Employee Portal.

Inside the monitoring of the existing rules compliance we give particular attention to the reports sent to the Supervisory entities where the Department provides a list of reports to issue during the month to the Departments responsible for their implementation, advising them again in case of delay. The Compliance Department archives all relevant communications with these entities as well as its corroborative evidence, when applicable.

The analysis of the adequacy and compliance of procedures depends primarily on the contribution of all Departments, by both the identification of difficulties in its implementation, as the presentation of failures in services between departments. Since the management of complaints and suggestions from customers is in charge of Compliance, the criticism received provides clues to analyze some procedures, either by Compliance, by Internal Audit or by Risk.

In this context, the training courses coordinated by the Human Resources Department also play a central role.

In the control of liabilities to third parties, the Bank pays special attention to the proper completion of the contracts, in particular the opening of account contracts. Contracts for companies and non-residents are still reviewed by Compliance. In addition to the above, all Bank contracts follow standardized models approved by the Legal Department.

Reports to customers are reviewed periodically by the Marketing Department with the Departments involved, seeking to improve the information produced for customers.

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In the year 2012 the Bank implemented a system of AML, with the support of an external consultant. Although this system is still being targeted for improvements, the ability the control money laundering / terrorist financing has increased significantly.

Liquidity Risk

Liquidity risk is analyzed and managed continuously by the Finance Department, with the guidelines of the Executive Committee. Every day, these organs receive a report that contains the relationship of maturity between assets and liabilities. They also receive a list of assets that would have to be redeemed to cover a possible need for identical liquidity to financial balances of customers, with its estimated cost of early redemption.

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5. Asset Allocation

In order to clarify some specificities of the Bank, it is presented in this section of the present report the allocation of its assets.

The demand deposits and term deposits in Credit Institutions represented about 6% of assets and 6% of capital requirements. Deposits with the Bank of Portugal represented 20% of assets.

The portfolios of securities at fair value held for sale and of investments held to maturity represent about 54% of the assets, largely made up of debt securities (98%). The institutions own portfolio is responsible for about 68% of the capital requirements. Note also that in January 2013, the Bank sold a large part of the investments portfolio held to maturity, allocating the remaining part to the portfolio held for sale.

Loans to customers are still a minor activity in the Bank's business activity, representing approximately 15% of assets and 17% of capital requirements. It is noteworthy that 40% of this value resulted from a series of repurchase transactions with a Credit Institution, which matured in January 2013. Concerning loans to customers, 30% is intended for the acquisition of securities in a pledge current account.

Other assets, which represented about 5% of assets and that we believe are of little relevance as to risk, were quite varied, particularly between gold, property, current and deferred tax assets and other tangible and intangible assets.

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Capital Adequacy

Qualitative Information

Based on the information presented in Section 6.2. - Quantitative information, we present below the summary of the main components of own funds, with reference to December 31, 2012:

- Paid-up capital: capital of the Bank is represented by 200 million nominative shares, with nominal value of € 0.10 each, being fully subscribed and paid;
- Issue Premium: refers to the premiums paid by shareholders in capital increases;
- Reserves: refers to the amount of income generated over the exercises, but retained in the Company in the form of legal reserves, other reserves and / or retained earnings;
- Intangible assets: amounts of intangible assets, in particular expenses on the establishment of brands and data processing system;
- Deductions from core capital and supplementary: reflected prudential deductions related to equity and subordinated loans to finance companies or for companies exercising control.

With regards to the calculation of capital provided for in Basel II, the Executive Committee decided to adopt the simple models, namely:

i) Credit Risk - Standard Method defined in Notice No. 5/2007 of Bank of Portugal;

ii) Market Risk - Standard Method defined in Notice No. 8/2007 of Bank of Portugal;

iii) Operational Risk - Basic Indicator Method defined in Notice No. 9/2007 of Bank of Portugal;

The Bank intends to use more complex methods for calculating minimum capital requirements, for which it is considered essential to proceed with the consolidation procedures and documentation. As it is possible to conclude, by observing the solvency ratios calculated by the simplest methods, at the present time, the development and implementation of more complex methods, which enables the release of capital, is not priority.

The Group´s own funds increased significantly in 2012 to around 26 million euros, well above the desirable lower limit of € 18 million. The solvency ratio remains at very comfortable levels.

The Bank analyzes each type of risk based on the analysis shown in the chart below, as presented in Section 4 - Risk Management Policies.

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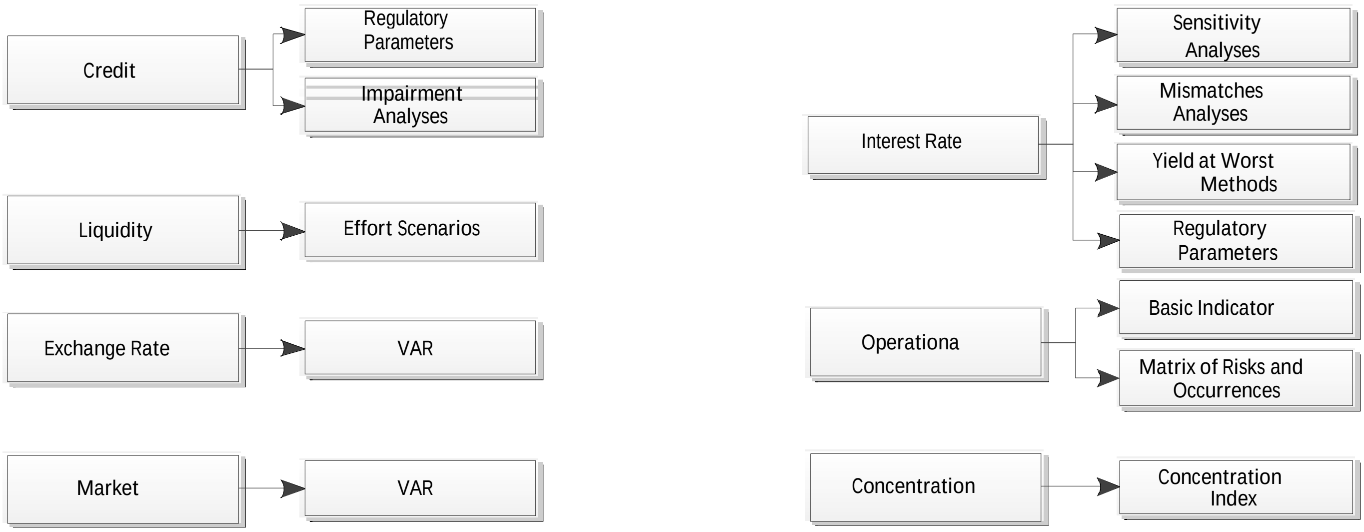

From the results of these indicators, the Bank assesses its capital as self-sufficient and its risk as moderate, in other words, that the probability of negative impacts on earnings or capital due to the current and expected risk is controlled.

Banco Carregosa's conducts its business through a network which is common to the various products traded, so it is not suitable to the allocation of capital by segment. Nevertheless, efforts to create a system for this purpose are being developed.

Quantitative Information

For the purpose of own funds

CAPITAL ADEQUACY – PART 1	31-Dez-12	31-Dez-11
1. Own Funds for Solvency Purposes	**26.001.505**	**18.982.865**
1.1. Original Own Funds	**26.405.519**	**19.580.697**
1.1.1. Eligible capital	20.369.257	20.369.257
1.1.1.1. Paid-up capital	20.000.000	20.000.000
1.1.1.2. (-) Company´s own shares	0	0
1.1.1.3. Shares issuance premiums	369.257	369.267
1.1.1.4. Quase-equity instruments	0	0
1.1.2. Reserves and Elegible results	8.972.571	-118.082
1.1.2.1. Reserves	1.979.903	860.789
1.1.2.2. Elegible minority interests	0	0
1.1.2.3. Results of the last financial year and interim results for the current year	6.992.668	0
1.1.2.4. (-)Net profits arising from the capitalization of future income from the securitized assets	0	0
1.1.2.5. Revaluation differences eligible for own funds	0	-978.872
1.1.3. Fund for general banking risks	0	0
1.1.4. Other elements eligible for own funds	0	0

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CAPITAL ADEQUACY – PART 1	31-Dez-12	31-Dez-11
1.1.5. (-)Other deductible items to own funds	-2.936.309	-670.477
1.1.5.1. (-) Intangible assets	-537.932	-589.137
1.1.5.2. (-) Surplus regarding the eligibility limits of the instruments included in original own funds	0	0
1.1.5.3. (-) Other elements deductible from original own funds	-2.398.378	-81.340
1.2. Additional Own Funds	**0**	**440.492**
1.2.1. Additional own funds - Upper Tier 2	0	440.492
1.2.2. Additional own funds - Lower Tier 2	0	0
1.2.3. (-) Deductions from additional own funds	0	0
1.3. (-) Deductions from original and additional own funds	**-404.014**	**-1.038.324**
1.3.a. Of which: (-) from original own funds	-404.014	-597.832
1.3.b. Of which: (-) from additional own funds	0	-440.492
1.4. (-) Deductions from total own funds	**0**	**0**
1.5. Total additional own funds eligible to cover market risk	**0**	**0**
1.6. Memo items:		
1.6.1. (+) Surplus / (-) Insufficient value and "provisions" adjustments in risk weighted exposure amounts applying IRB approach	0	0
1.6.2. Nominal value of the subordinated loan capital recognised as a positive element of own funds	0	0
1.6.3. Minimum Capital Requirement	0	0
1.6.4. Reference own funds for purposes of limits for large exposures	26.001.505	18.982.865

Unit: Euros

Capital requirement purposes

CAPITAL ADEQUACY – PART 2	31-Dez-12	31-Dez-11
1. Capital requirement purposes	**9.946.113**	**5.248.749**
1.1. Capital requirement purposes for credit risk, counterparty credit risk and incomplete transactions - Standard Method	**5.488.162**	**1.371.382**
1.1.1. Exposure classes in standard method excluding securitization positions.	5.488.162	1.371.382
1.1.1.1. Central Governments or Central Banks	0	0
1.1.1.2. Regional Governments or Local Authorities	0	0
1.1.1.3. Administrative bodies and non-commercial undertakings	0	0
1.1.1.4. Multilateral Development Banks	0	0
1.1.1.5. International Organizations	0	0
1.1.1.6. Institutions	2.582.007	658.766
1.1.1.7. Companies	1.634.134	121.100
1.1.1.8. Retail Portfolio	0	0

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CAPITAL ADEQUACY – PART 2	31-Dez-12	31-Dez-11
1.1.1.9. Exposures secured by real estate property	17.556	11.033
1.1.1.10. Over-due items	5.778	2.842
1.1.1.11. Covered bonds	0	0
1.1.1.12. Exposures on collective investment undertaking (UCIs)	0	0
1.1.1.13. Other elements	1.267.619	586.131
1.1.2. Securitization positions in Standard Approach.	0	0
1.1.3. (-) Provisions for general credit risks	-236.667	-103.808
1.2. Settlement risk	**128**	**0**
1.3. Capital Requirements for Position risks, Exchange rate risks and commodities risk	**2.421.908**	**2.675.402**
1.3.1. Position risk, Exchange rate risks and commodities risks – Standard Method	2.421.908	2.675.402
1.3.1.1. Debt instruments	2.285.030	2.544.485
1.3.1.2. Equity	81.799	82.512
1.3.1.3. Exchange rate risks	55.079	48.405
1.3.1.4. Commodities risks	0	0
1.4. Capital requirement purposes for operational risk	**2.035.915**	**1.201.965**
1.4.1. Basic Indicator Approach	2.035.915	1.000.656
1.5. Capital requirement purposes – Fixed Overheads	**0**	**0**
1.6. Transitory capital requirements or other capital requirements	**0**	**0**

Unit: Euros

For the purpose of capital adequacy

CAPITAL ADEQUANCY – PART 3	31-Dez-11	31-Dez-10
Excess (+) / Shortage (-) of own funds	**16.055.392**	**13.734.116**
Solvency Ratio (%)	**20,9%**	**28,90%**

Unit: Euros

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Counterparty Credit Risk

Qualitative Information

In late 2012 the Bank held a sale with a repurchase agreement of approximately 16.2 million euros and a reverse repurchase agreement of about 16,300,000, with the same credit institution, on Portuguese treasury bonds with different maturities. The Bank used the method of valuation at the market price for these positions, for prudential purposes. The limit management of these positions is made together with the securities of the own portfolio, deposits and credits.

Quantitative Information

7.2.1. Counterparty credit risk for basic indicator method purposes

Exposures	Original Exposures	The risk weighted exposure amount	
		2012	2011
Repurchase operations	5.797.833	0	92.765
Total	**5.797.833**	**0**	**92.765**

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Credit Risk – General Aspects

Concepts and Definitions – Qualitative Information

Overdue loans: it is considered, also for account purposes, part of a credit transaction that has not been liquidated by its debtor within 30 days after the established date for its settlement. The systematization of overdue loans obeys the rules imposed by Notice 3/95 of the Bank of Portugal, where applicable, being established a mandatory report where the overdue loans are disaggregated by type and class (I, II, III, IV, V to IX and X to XII);

Credit as an impairment object: it is considered when the recorded value exceeds the recoverable amount, subject to the rules set forth in Notice No. 3/95 of the Bank of Portugal and IAS 36 and 39.

Credit Default: as imposed by Instruction No. 16/2004 from the Bank of Portugal, includes loans which are overdue for more than 90 days plus the outstanding credit of nonperforming loans whose provision is being carried out as if they are overdue credits.

Concentration risk is managed by the Executive Committee, with the support of ALCO recommendations and according to the proposed structure for the function of risk management.

On the initial recognition date, all credits are recorded at the nominal value in accordance with the notice 1/2005 of Bank of Portugal. Provisions made are in accordance with the rules contained in the notice 5/95 as criteria for risk hedging.

In accordance with the provisions of IAS 36 and IAS 28, the accounting values at which the investments in subsidiaries and associates are registered are reviewed periodically, being used the individual accounts of these companies, as well as any financial medium-term projections, which are available for these entities. If the value at which the investments are recorded is substantially higher than the value of the corresponding part of capital, then impairment is calculated and recorded in these participations.

On a consolidated basis, and if it was, upon initial recognition, calculated a goodwill for the participation, any identified impairment is recognized initially on this, and only then directly on the value of the participation, if the impairment is superior to goodwill.

It is also periodically evaluated the recoverable amount of values recorded as assets as credit claims, being determined the impairment resulting of any difference between the values recorded for accounting and recoverable value of credit claims.

In 2012, the Bank recognized, directly in the income, an impairment of € 340,000 on its participation in Optimize, result of individual losses accumulated by the society, and the advised by the Statutory Auditor. As a result of the revaluation of a Gordian - Emp. Industrial and Commercial SA property, the Bank annulled Goodwill on this company´s participation, worth € 45,102, as well as their respective impairment.

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Based on the price of the disposal of 30% of this company, the Bank recorded an impairment of € 40,850 on the remaining position held in the portfolio of available-for-sale assets.

There was also a net increase of 130,537 euros in provisions for general credit risks, due to the increase in loans to customers, and a net increase of 26,283 euros in provisions for overdue loans.

The Bank uses the prudential methods to analyze the concentration of credit risk, as provided in Instr. No. 5/2011 of the Bank of Portugal. To this end, the Bank analyzes its exposure to each customer and each customer group. Customers are grouped by the probability to go into default simultaneously, given their relations with each other. From exposure of each client group we determine a gini index. Simultaneously, we analyze the concentration by a similar rate, incorporating a rating factor and time to maturity. These indicators are sent to the Executive Board on a daily basis for most of the assets - own portfolio and Term Deposits.

8.2 Quantitative Information

8.2.1 Exposures

Exposures	**Original Exposures**		**Original Exposures (average)**	
	31-12-2012	**31-12-2011**	**2012**	**2011**
1. Original Exposures by Risk Class				
Central Governments or Central Banks	150.945.221	88.879.967	125.126.006	14.950.372
Regional Governments or Local Authorities	0	0		17.083
Multilateral Development Banks	0	0		30.972
Institutions	49.488.421	32.200.283	47.714.943	40.438.491
Companies	29.369.267	8.467.701	22.041.322	8.488.598
Retail Portfolio	0	0	0	0
Other Elements	18.569.117	12.494.445	18.182.268	22.172.407
Exposures secured by real estate property	629.647	401.500	590.334	33.458
Past due items	197.535	132.118	274.666	88.472
Total	**249.199.208**	**142.576.014**	**213.929.538**	**86.219.853**

Unit: Euros

Geographical Distribution of Exposures

Geographical Distribution of Exposures	**Region**									
	Portugal		**Europe**		**Brazil**		**Others**		**Total**	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
1. Original Exposures by Risk Class										
Central Governments or central banks	61%	65%	0%	0%	0%	0%	0%	0%	61%	65%
Institutions	8%	16%	9%	5%	2%	0%	1%	2%	20%	23%
Companies	9%	3%	2%	0%	0%	0%	1%	1%	12%	4%

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Exposures secured by real estate property	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other Elements	6%	6%	0%	0%	1%	1%	0%	0%	7%	7%
Past due items	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total	**84%**	**90%**	**11%**	**5%**	**3%**	**2%**	**2%**	**3%**	**100%**	**100%**

Unit: Percentage

Sectoral Distribution of Exposures

Sectoral Distribution of Exposures	Sector									
	Financial Sector		Other Companies		Pub. Adm.		Private		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
1. Original Exposures by Risk Class										
Central Governments or central banks	0%	0%	0%	0%	61%	65%	0%	0%	61%	65%
Institutions	20%	23%	0%	0%	0%	1%	0%	0%	20%	24%
Companies	5%	0%	7%	4%	0%	0%	0%	0%	12%	4%
Exposures secured by real estate property	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other Elements	2%	2%	0%	0%	0%	0%	5%	5%	7%	7%
Past due items	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total	**27%**	**25%**	**7%**	**4%**	**61%**	**66%**	**5%**	**5%**	**100%**	**100%**

Unit: Percentage

Breakdown of past due Exposures and Impaired Exposures

Exposures	Past due exposures	Impaired exposures	Valuation adjustments and provisions
Total Exposures	**207.183**	**1.427.848**	**1.255.111**
Sectotal Distribution			
Private	207.183	0	205.899
Financial Sector	0	1.427.848	940.000
Other Companies	0	0	109.212
Geographic distribution			
Portugal	207.183	1.427.848	1.234.349
Spain	0	0	70
Hong Kong	0	0	7.057
USA	0	0	35
Brazil	0	0	13.600

Unit: Euros

8.2.5 Value Adjustment and Positions

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Provisions Value adjustments	31-Dez-12	31-Dez-11
Initial Balance	**758.291**	**136.779**
Allocations	853.445	767.087
Utilizations	0	-5.026
Adjustments	-356.477	-140.078
Exchange Rate Adjustments	-148	-471
Final balance	**1.255.111**	**758.291**

Unit: Euros

8.2.6 Exposures by Residual Maturity

Risk Classes	Residual Maturity											
	0 days		Up to 1 year		Up to 5 years		Up to 10 years		More than 10 years		Total	
	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
1. Exposures by Risk Class												
Central Governments or central banks	21%	0%	22%	57%	15%	1%	2%	5%	1%	0%	61%	63%
Institutions	7%	9%	9%	11%	3%	1%	1%	1%	0%	0%	20%	22%
Companies	1%	0%	7%	6%	2%	0%	2%	0%	0%	0%	12%	6%
Other elements	2%	3%	4%	4%	1%	0%	0%	2%	0%	0%	7%	9%
Exposures secured by real estate property	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Past due items	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total	**31%**	**12%**	**42%**	**78%**	**21%**	**2%**	**5%**	**8%**	**1%**	**0%**	**100%**	**100%**

Unit: Percentage

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Credit Risk – Standard Method

Qualitative Information

Banco Carregosa adopts, by default, the credit ratings assigned by Standard & Poor's agency for debt securities. With regard to credit of Central Administrations we use, in addition to the Standard & Poor's, the ratings of Moody's and Fitch, in accordance with Notice No. 5/2007 of the Bank of Portugal.

The registration process is based on the ratings for the issues in question, where available. When there are no ratings for issues, we look for the rating assigned to the issuer. Each month, the Risk Department checks the credit ratings of debt securities in the Bank's own portfolio and counterparty deposits or other relevant assets against Bloomberg registers. The differences are reported to the Operations Department for register correction.

Quantitative Information – Standard Method

CREDIT RISK (STANDARD METHOD)	Risk Weight					
	0%	20%	35%	100%	150%	Total
1. Exposures by Risk Class						
Central Governments or central banks	150.945.221	0	0	0	0	150.945.221
Institutions	0	20.814.282	0	28.674.139	0	49.488.421
Companies	0	261.278	0	25.013.599	4.094.390	29.369.267
Other elements	40.974	98.495	0	18.429.649	0	18.569.117
Exposures secured by real estate property	0	0	627.012	2.635	0	629.647
Past due items	0	0	0	197.535	0	197.535
Total	**150.986.195**	**21.174.055**	**627.012**	**72.317.556**	**4.094.390**	**249.199.207**
2. Exposures by Risk Class (risk weights reserve base)						
Central Governments or central banks	150.945.221	0	0	0	0	150.945.221
Institutions	0	18.004.771	0	28.674.139	0	46.678.910
Companies	0	261.278	0	14.232.840	4.094.390	18.588.507
Other elements	40.974	0	0	15.845.234	0	15.886.208
Exposures secured by real estate property	0	0	627.012	0	0	627.012
Past due items	0	0	0	72.227	0	72.227
Total	**150.986.195**	**18.266.049**	**627.012**	**58.824.439**	**4.094.390**	**232.798.085**
3. Total of risk-weighted exposures						
Central Governments or central banks	0	0	0	0	0	0
Institutions	0	288.076	0	2.293.931	0	2.582.007
Companies	0	4.180	0	1.138.627	491.327	1.634.134
Other elements	0	0	0	1.267.619	0	1.267.619
Exposures secured by real estate property	0	0	17.556	0	0	17.556

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Past due items	0	0	0	5.778	0	5.778
Total	**0**	**292.257**	**17.556**	**4.705.955**	**491.327**	**5.507.095**

Unit: Euros

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Techniques of Credit Risk Mitigation

Qualitative Information

Much of credits to customers aim the acquisition of securities. As such, the main technique for reducing credit risk is recourse to the provision of financial collateral by securities, liquid and traded on regulated markets, cash balances and term deposits. However, for other loans, the Bank accepts personal guarantees, real and real estate collateral. All guarantees are evaluated regularly, in particular traded securities, which are evaluated several times a day.

These amounts started being considered for prudential purposes in the year 2010 and are already consistent with the Bank´s conservative policy of risk-taking and therefore fundamental for the approval and management of credit risk process. From April 2010, financial collateral started being considered by the comprehensive method.

In 2011, the Bank started to include real estate collateral, where applicable, like exposures secured by real estate, pursuant to notice 5/2007 for prudential purposes.

In some cases, compensatory arrangements are also prudentially recognised, which concern bank overdraft that offset exposures from the same institutions. These compensatory arrangements are set out in the contracts held with the referred credit institutions. At the end of the year 2011 this method was responsible for reducing the exposure to institutions at around € 2,809,511.

Since that, for prudential purposes real estate collateral has small importance and were not considered personal credit protections, these values are not presented in the table: Techniques of Credit Risk Mitigation - Standard Method.

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Quantitative Information

Techniques of Credit Risk Mitigation – Standard Method

Techniques of Credit Risk Mitigation	Funded Credit Protection – Financial Collateral Comprehensive Method		
	Net Exposures	Financial Collateral (adjusted value)	Volatility Adjustments
Central Governments or central banks	150.945.221	0	0
Institutions	49.488.421	2.809.511	0
Companies	21.973.926	3.385.419	11.587.736
Other elements	17.164.882	1.278.674	995.660
Exposures secured by real estate property	627.012	0	0
Past due items	72.227	0	0
Total	**240.271.689**	**7.473.604**	**12.583.396**

Unit: Euros

Concentration Analysis – Funded or Unfunded Credit Protection

Concentration Analysis- Funded or Unfunded Credit Protection	Funded Credit Protection					
	Eligible Financial Collateral		Real Estate Collateral		Compensatory Arrangements	
	2012	2011	2012	2011	2012	2011
Total of hedged positions						
Financial Sector	0	0	0	0	2.809.511	3.248.239
Other companies	3.385.419	1.966.382	0	0	0	0
Private	1.278.674	2.549.066	627.012	401.500	0	0
Total	**4.664.093**	**4.515.448**	**627.012**	**401.500**	**2.809.511**	**3.248.239**

Unit: Euros

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Securitisation Transactions

The Bank did not have, at the reference date, any securitization operation, so at this point there is nothing to report.

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Position, Counterparty Credit and Trading Portfolio Settlement Risk

Qualitative Information

The minimum capital requirements for position risk are calculated over all positions in the trading portfolio, including their accrued interest, using the standard method described in Notice No. 8/2007 of Bank of Portugal. To calculate the general risk of debt instruments, we use a method based on maturity.

In parallel with the prudential methods, we evaluate daily the concentration of assets by issuer, in a simple and thoughtful way, using credit rating combined with time to maturity and the value at risk of the positions within a week.

We also analyze daily the value at risk in the trading portfolio using 3 years of historical data, time horizons of a week and a confidence level of 95%. Quarterly we calculate the value at risk, using 3 years of historical data and time horizons of 1 and 3 months and confidence levels of 97.5% and 99%.

For the values in the table below, we note that there were no operations pending of settlement of the trading portfolio at the reference date or counterparty credit exposures, according to Notice No. 5/2007 of Bank of Portugal.

Quantitative Information – Capital Requirements (Trading Portfolio)

Own Funds Requirements (TRADING PORTFOLIO)	31-Dez-12	31-Dez-11
Total	**2.366.957**	**2.626.996**
1. Trading Portfolio Risks	**2.366.829**	**2.626.996**
1.1. Standard Method on trading portfolio	2.366.829	2.626.996
1.1.1. Debt Instruments	2.285.030	2.544.485
1.1.1.1. Specific Risk	1.635.663	2.085.061
1.1.1.2. General Risk	459.424	459.424
1.1.2. Equities	2.560	55.104
1.1.2.1. Specific Risk	1.280	27.552
1.1.2.2. General Risk	1.280	27.552
1.2.3. Collective investment undertaking	79.239	27.407
2. Counterparty credit risk	**0**	**0**
3. Settlement Risk	**128**	**0**

Unit: Euros

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Exchange Rate Risk , Bank Portfolio Commodities Risk and Negotiation

Qualitative Information

The Bank is not subject to commodity risk.

Regarding exchange rate risk, the Bank measures the total exposure for foreign currency, according to the standard method, according to Notice No. 8/2007 of the Bank of Portugal.

Quantitative Information – Capital Requirements – Exchange Rate Risk and Commodities Risk

CAPITAL REQUIREMENTS – EXCHANGE RATE AND COMMODITIES RISK	31-Dez-12	31-Dez-11
1. Exchange Rate Risk	**55.079**	**48.405**
1.1. Standard Method	55.079	48.405
2. Commodities Risk	**0**	**0**

Unit: Euros

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Risk Exposures in the Equity Banking Portfolio

Qualitative Information

Positions in equities in the banking book are allocated to the portfolio of assets available for sale, whose changes in value are registered in fair value reserves. The shares allocated to this portfolio, for its specificity, reflect an adjusted rentability to the institution's business profitability, with medium / long term expected timeframes.

For quoted shares the information system of the Bank evaluates the positions several times a day at market prices, where available. In the absence of quoted market prices, reviews are requested to other intermediaries.

In the banking portfolio there are still some unquoted Portuguese stocks whose companies maintain business relationships with the Bank. Annually, we proceed with impairment tests on those assets. In late 2012, the Bank recognized an impairment of € 40,850 on its participation in Górdio - Emp. Industriais e Comerciais, S.A.

Qualitative Information

Risk Exposures in Equities (Bank Portfolio)	Quoted Shares		Unquoted Shares		Total	
	2012	2011	2012	2011	2012	2011
Acquisition cost/Notional value	2.070.060	0	708.750	0	2.778.810	0
Fair Value	1.949.300	0		0	1.949.300	0
Results arising from sales and settlements					18.260	0
Total of unrealised gains or losses					-120.760	0
Total earnings or losses inherent to internal revaluation					-40.850	0

Unit: Euros

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Operational Risk

Qualitative Information

Operational risk is the risk of loss resulting from defects or failures in internal processes, human resources, systems or external factors.

The calculation of capital requirements for operational risk is performed according to the basic indicator method, which corresponds to 15% of the average of the last three years of positive annual relevant indicator.

The accounting elements considered in this calculation are according to Instruction No. 23/2007 of Bank of Portugal.

On December 31, 2012, the capital requirements for operational risk on a consolidated basis corresponded to € 2,035,915, according to the method indicated.

Qualitative Information – Operational Risk

Operational Risk	**Relevant Indicator**		
	31-Dez-10	**31-Dez-11**	**31-Dez-12**
1. Basic Indicator Approach	**6.665.752**	**9.676.311**	**24.376.242**

Unit: Euros

In the table below we present the accounts whose balance contributes to the calculation of the values mentioned:

DESCRIPTION	**Headings**
(+) Interest and similar earnings	79
(-) Interest and similar charges	66
(+) Income from equity instruments	82 - 821
(+) Commissions Received	80 + 81
(-) Commissions paid	67 + 68
(+) Results on financial transactions	[83 - (831 + 833)] - [69- (691 + 693)]
Other incomes and operating income	[84 - (841 + 842 +843)] + 86*

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BANCO CARREGOSA

Sensitivity Analysis of Capital Requirements

Qualitative Information

The Bank identifies interest rate risk in its own portfolio, deposits and credits, assets and liabilities.

Daily, we consider the differences of the rate setting dates between term deposits and debt securities of the own portfolios. Quarterly, we determine the impact of a shock of 100 pbs. in interest rates on own portfolios applying Worst Yield at Bloomberg method . This risk is further analyzed based on the method stated in Instr. 19/2005 of Bank of Portugal.

In the half-yearly stress tests, we evaluate the impact of the interest rate variation by comparing the Bank´s base projections with the projections after a shock of the parameter in question. These latest projections result from the transformation of the base projection by hiring or renewing applications and resources planned by different interest rates. In interest rate sensitivity analysis we integrate the market risk associated with positions in own investment portfolios and trading. This impact is determined by Yield at Bloomberg Worst method.

We use, semiannually, the shocks defined by the Bank of Portugal for Instruction 4/2011 and the impacts are simulated. At the reference date the Bank has tested the impact of 5 shocks:

- Variation of 100 base interest rates points for all currencies and maturities points;

- Increase / Decrease of 100/50 base interest rates points for all currencies and maturities exceeding three months;

- Change in all the exchange rates by 15%;

- Change in equity markets by 30%;

- Variation of real estate market in 15%;

- Duplication and reduction by half of the implied volatility of all interest rates, exchange rates and equity markets.

With the exception of Tests 3, 4 and 5 where the impact was estimated immediately, the remaining was analyzed for 2 years in a dynamic and consolidated manner, namely, by incorporating group expectations. Below we present the impact of the increase of interest rate by 200 basis points over the banking portfolio, consisting of the loan portfolio, banking own portfolio and term deposits, according to the rules defined in Instruction 19/2005 of Bank of Portugal. Internally, the sensitivity of these assets is daily tested, excluding the loan portfolio, at a variation of 100 basis points on interest rates. This last test analyzes the lag periods between assets and liabilities, with a time horizon of one year.

In the table below we only present the hypotheses from which reductions in equity result. The shock of 200 p.b is calculated according to Instruction No. 19/2005. The shock of 100 p.b result of internal calculations from Instr. No. 4/2011.

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Qualitative Information – Interest Rate Risk

Interest Rate Risk			Impact 31-12-2012
Net worth effect with a 200 b.p. shock in the interest rate	Value	+200	-1.250.678
	% of Net worth	+200	-5,00%
Net worth effect with a 100 b.p. shock in the interest rate	Value	+100	-611.219
	% of Net worth	+100	-2,32%

Unit: Euros

Oporto, 28 June, 2013

The Executive Committee of the Board of Directors,

Francisco Oliveira Fernandes

Pedro José Malheiro Duarte

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