

# **Annual Report and Accounts**

**2010**

In accordance with the provisions laid down in Article 21 of Decree-Law No 345/98 of 9 November 1998, the Management Committee submitted the Annual Report and Accounts for the year 2010 for approval to the Minister of Finance, together with the opinion of the Board of Auditors of Banco de Portugal.

The Annual Report and Accounts of the Mutual Agricultural Credit Guarantee Fund were approved by Decision No 469/11-SETF of 2 April 2011 of the Secretary of State for the Treasury and Finance.

**Mutual Agricultural Credit Guarantee Fund**

**Annual Report and Accounts**

**2010**

# **Annual Report and Accounts for 2010**

## **Annual Report**

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## **Opinion of the Board of the Auditors of Banco de Portugal**

## 1. Introduction

The *Fundo de Garantia do Crédito Agrícola Mútuo* (Mutual Agricultural Credit Guarantee Fund – hereinafter referred to as “the Fund” or “FGCAM”) was established by Decree-Law No 182/87 of 21 April 1987 and its legal framework was redefined by Decree-Law No 345/98 of 9 November 1998, as amended by Decree-Law No 126/2008 of 21 July, Decree-Law No 211-A/2008 of 3 November and Decree-Law No 162/2009 of 20 July. Its main tasks are:

- to guarantee, under legally defined terms and conditions, the repayment of deposits with *Caixa Central de Crédito Agrícola Mútuo* (Central Mutual Agricultural Credit Bank) and with *caixas de crédito agrícola mútuo* (mutual agricultural credit banks – hereinafter referred to as “agricultural banks”) that are members of the *Sistema Integrado do Crédito Agrícola Mútuo – SICAM* (Integrated Mutual Agricultural Credit Scheme – hereinafter referred to as “SICAM”), which pay the Fund an annual contribution, in compliance with the provisions laid down in Notice of Banco de Portugal No 3/2010.
- to promote and carry out the actions deemed necessary to ensure the liquidity and solvency of member banks.

In 2010 and within the framework of its business purpose, the Fund signed one new financial assistance agreement, which did not imply the disbursement of funds. In the course of 2010, the Fund granted subsidies to mutual agricultural credit and continued to monitor the business activities of the liquidator of CREDIVALOR – *Sociedade Parabancária de Valorização de Créditos, S.A., Sociedade em liquidação* (hereinafter referred to as “CREDIVALOR”) (in the process of winding up since 9 November 2006), through which the Fund had purchased credits and other assets in previous years, within the scope of initiatives aimed at the financial assistance to SICAM.

The Fund has its head office in the premises of Banco de Portugal, which provides the necessary technical and administrative support. The Fund is managed by a Management Committee composed of the chairperson – who is a member of the Board of Directors of Banco de Portugal – and two other members, one of them as the representative of the Ministry of Finance and Public Administration and the other of the Central Mutual Agricultural Credit Bank.<sup>(1)</sup>

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<sup>(1)</sup> Decision No 22346/2008 of 31 July of the Secretary of State for the Treasury and Finance, published in the Official Gazette No 167, Series II, of 29 August:

Pursuant to the law, the Board of Auditors of Banco de Portugal is responsible for monitoring the Fund's activities. The opinion of the Board of Auditors of Banco de Portugal on the Annual Report and Accounts of the Fund for 2010 has been included as an annex to this Report. All the required information is sent to the Court of Auditors, which monitors the business activities of the Fund, in accordance with the legal provisions in force.

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- (i) Reappointed José António da Silveira Godinho, who is a member of the Board of Directors of Banco de Portugal, as the chairperson of the Management Committee;
  - (ii) Reappointed Licínio Manuel Prata Pina as member of the Management Committee, as the representative of the Central Mutual Agricultural Credit Bank; and
  - (iii) Appointed Maria Helena Maio Ferreira de Vasconcelos as member of the Management Committee.

## 2. Activities of the Mutual Agricultural Credit Guarantee Fund

In 2010 the *Fundo de Garantia do Crédito Agrícola Mútuo* (Mutual Agricultural Credit Guarantee Fund – hereinafter referred to as “the Fund” or “FGCAM”) continued to monitor and provide financial assistance to mutual agricultural credit, pursuing the policy followed in previous years.

The Fund made the following interventions:

- Signed one new financial assistance agreement with 1 agricultural bank. This, however, has not implied the disbursement of funds, but only the extension of the subordinated loan maturity;
- Granted a subsidy to *Federação Nacional das Caixas de Crédito Agrícola Mútuo* – FENACAM (National Federation of Mutual Agricultural Credit Banks) to the amount of €250,000, in compensation for the auditing of agricultural banks at the request of the Fund.

On 31 December 2010 the financial assistance agreements in force involved loans granted by the Fund to the amount of €102.3 million and purchases of claims in previous years through CREDIVALOR, to the amount of €23 million.

Since its setting-up, the Fund has granted loans to SICAM to the overall amount of €239.7 million, broken down as follows: €33.5 million to the Central Mutual Agricultural Credit Bank and €206.2 million to agricultural banks, of which €119.8 million have been fully repaid by 34 agricultural banks, while two agricultural banks have made a partial repayment of their loans, to the amount of €17.6 million.

### Financial assistance agreements as at 31 December 2010

unit: EUR thousands

Financial assistance agreements	Number of agricultural banks	FGCAM (subordinated loans)	CREDIVALOR (purchases of claims and/or capital)
<b>In force</b>	11	102,301	22,957
- <i>Partially repaid</i>	2	17,581	<i>n.a.</i>
<b>Fully repaid</b>	34	119,846	68,089
<b>TOTAL</b>	<b>45</b>	<b>239,728</b>	<b>91,046</b>

On a regular basis, the Fund assesses and monitors developments in agricultural banks that are members of SICAM, particularly those benefiting from the Fund’s financial assistance, with a

view to assessing compliance with the objectives established in their recovery plans, which are an integral part of the financial assistance agreements. The Fund also assesses other agricultural banks, monitoring their economic and financial situation for preventive purposes.

On an annual basis, the Fund establishes and collects the annual contributions to be paid – in two instalments (April and October) – by the agricultural banks that are members of SICAM.

2010 saw the publication of Notice of Banco de Portugal No 3/2010, which revoked Notice of Banco de Portugal No 14/2003 and redefined the scheme of contributions to the Fund. In accordance with the provisions laid down in the new Notice, the amount of the contribution of each agricultural bank is determined by applying a contribution base rate (0.10% for 2010; 0.20% in 2009) and a multiplier to the average value of eligible deposits. The multiplier applied to each agricultural bank and to the Central Mutual Agricultural Credit Bank is calculated according to their solvency ratio, the lower multiplier being applied to agricultural banks with the higher solvency ratio. The following table shows agricultural banks that are members of SICAM broken down by multiplier over the last three years:

**Breakdown by multiplier of agricultural banks that were members of SICAM**

Multiplier	Average solvency ratio (SR)	2008		2009		2010	
		Count	Percentage	Count	Percentage	Count	Percentage
1.20	SR < 8%	1	1.0%	1	1.0%	0	0.0%
1.10	8% ≤ SR < 10%	6	5.9%	2	2.2%	1	1.1%
1	10% ≤ SR < 12%	6	5.9%	5	5.4%	8	9.0%
0.90	12% ≤ SR < 14%	20	19.8%	13	14.0%	12	13.5%
0.80	SR ≥ 14%	68	67.4%	72	77.4%	68	76.4%
<b>TOTAL</b>		<b>101</b>	<b>100%</b>	<b>93</b>	<b>100%</b>	<b>89 *</b>	<b>100%</b>

\* As at 31 December 2010, 86 agricultural banks were members of SICAM (including the Central Mutual Agricultural Credit Bank); however, contributions for 2010 were calculated when 89 agricultural banks (including the Central Mutual Agricultural Credit Bank) were operating.

With regard to the calculation of contributions for 2010, the minimum multiplier (0.8) was applied to 68 (76.4%) of the 89 agricultural banks that were members of SICAM, which corresponds to the agricultural banks with a solvency ratio equal to or above 14%, while no agricultural banks recorded an average solvency ratio below 8%. Compared with 2009, the share of agricultural banks to which both the maximum and minimum multipliers were applied declined, while only

the share of agricultural banks to which the 1.0 multiplier was applied increased (from 5.4% in 2009 to 9.0% of agricultural banks in 2010).

The Fund calculates on a semi-annual basis the amount of deposits covered by the guarantee. As in previous years, in 2010 no situation of unavailability of deposits<sup>(2)</sup> was recorded in SICAM.

Other specialised studies related to the operation of the Fund were conducted, focusing on its role as an instrument to protect depositors.

The Fund became a member of the European Forum of Deposit Insurers (EFDI) in 2006. In co-operation with this organisation, in 2010 the Fund participated in a number of projects with a view to collecting and processing information on deposit guarantee and co-operating with similar organisations.

In the beginning of 2010, the Fund's webpage was launched ([www.fgcam.pt](http://www.fgcam.pt)), where it is possible to consult relevant information on the Fund's activity, e.g. Annual Reports and Accounts, as well as a selection of the most important legal acts applicable to the Fund.

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<sup>(2)</sup> In accordance with the provisions of Article 14 (4) of Decree-Law No 345/98 of 9 November 1998, which governs the reimbursement of depositors by the Fund.

### 3. Information on banks belonging to SICAM

At the cut-off date of this report the consolidated accounts of SICAM had not yet been released, wherefore the analysis was made on the basis of the accounts of the Central Mutual Agricultural Credit Bank and the combined accounts of agricultural banks belonging to SICAM.

On 31 December 2010 SICAM comprised the Central Mutual Agricultural Credit Bank and 85 associate agricultural banks<sup>(3)</sup> (five less than in the previous year, due to the completion of five merger processes, three of which had started in 2009, involving 10 agricultural banks).

#### 3.1 Central Mutual Agricultural Credit Bank

According to its accounts, the financial situation of the Central Mutual Agricultural Credit Bank as at 31 December 2010 was as follows:

- Net assets of the Central Mutual Agricultural Credit Bank amounted to €5.6 billion, i.e. up by €964 million from 31 December 2009, and were broken down as follows:

CENTRAL MUTUAL AGRICULTURAL CREDIT BANK			(EUR millions)
Assets	31 Dec. 2010	31 Dec. 2009	Change
Cash and cash equivalents	201	211	-10
Investments in credit institutions	112	928	-816
(Net) claims on customers	1,410	1,762	-352
Financial assets	3,618	1,525	2,093
Other assets	292	243	49
<b>TOTAL NET ASSETS</b>	<b>5,633</b>	<b>4,669</b>	<b>964</b>

Source: ProClarity.

- Claims on customers, to the amount of €1.4 billion, accounted for 25% of total assets, while credit overdue stood at €60 million, i.e. down by €8 million from 31 December 2009.

<sup>(3)</sup> Annex III to this Report lists the banks that were members of SICAM on 31 December 2010. In accordance with the provisions of Article 3 of Decree-Law No 345/98 of 9 November 1998, these institutions are compulsory members of the Fund.

Provisions, to the overall amount of €133.6 million, include provisions for credit overdue, amounting to €52.7 million and accounting for 88% of the value of that credit (compared with 64% on 31 December 2009).

- Investments in credit institutions corresponded to €112 million, accounting for a decrease of €816 million from 2009.
  - Financial assets, to the amount of €3.6 billion, accounted for 64% of total net assets and increased by €2.1 billion from 31 December 2009.
- As at 31 December 2010 the liabilities of the Central Mutual Agricultural Credit Bank accounted for 97% of assets, amounting to €5.5 billion, i.e. up by €966 million from 31 December 2009.

**CENTRAL MUTUAL AGRICULTURAL CREDIT BANK** (EUR millions)

Liabilities	31 Dec. 2010	31 Dec. 2009	Change
Resources from credit institutions	5,108	4,069	1,039
Resources from customers	205	268	-63
Subordinated liabilities	84	102	-18
Provisions	19	21	-2
Other liabilities	70	60	10
<b>TOTAL LIABILITIES</b>	<b>5,486</b>	<b>4,520</b>	<b>966</b>

Source: ProClarity.

- Resources from credit institutions, totalling €5.1 billion, accounted for 93% of total liabilities, corresponding mostly – 61% – to resources from associate banks.
- Subordinated debt amounted to €84 million, of which €2.4 million corresponded to the subordinated loan granted by the Fund related to the Central Mutual Agricultural Credit Bank's intervention in the financial reorganisation of *Central Banco de Investimento*. In 2010 the Central Mutual Agricultural Credit Bank repaid the €7.5 million subordinated loan granted by the Fund in 2002, within the scope of the financial reorganisation of agricultural banks in the Algarve region and partially repaid €2.4 million of the subordinated loan granted by the Fund in 2003, within the scope of the Central Mutual

Agricultural Credit Bank's intervention in the financial reorganisation of *Central Banco de Investimento*.

- Equity, accounting for 2.6% of the Central Mutual Agricultural Credit Bank's assets, amounted to €147 million, i.e. down by €2 million from 31 December 2009.

Equity capital, to the amount of €221 million, remained unchanged from end-2009.

As at 31 December 2010 loss brought forward stood at €71 million.

**CENTRAL MUTUAL AGRICULTURAL CREDIT BANK**

(EUR millions)

Equity	31 Dec. 2010	31 Dec. 2009	Change
Equity capital	221	221	0
Reserves	-5	-1	-4
Profit / loss brought forward	-71	-72	1
Profit / loss for the year	2	1	1
<b>EQUITY</b>	<b>147</b>	<b>149</b>	<b>-2</b>

Source: ProClarity.

- In 2010 net profit for the year amounted to €2 million, i.e. €1 million more than in 2009.

- Profit for the year of the Central Mutual Agricultural Credit Bank was broken down as follows:

**CENTRAL MUTUAL AGRICULTURAL CREDIT BANK**

(EUR millions)

<b>PROFIT AND LOSS ACCOUNT</b>	<b>2010</b>	<b>2009</b>	<b>Change</b>
Interest and similar income	153	156	-3
Interest expense and similar charges	103	109	-6
<b>Net financial income</b>	<b>50</b>	<b>47</b>	<b>3</b>
Income from net services and commissions	19	15	4
Gains on financial operations	5	2	3
Other operating income	4	3	1
<b>Gross income</b>	<b>78</b>	<b>67</b>	<b>11</b>
Operating costs	45	44	1
- Staff costs	24	23	1
- Administrative costs	21	21	0
Depreciation	1	1	0
Changes in provisions, value adjustments and impairment	31	21	10
<b>Income before taxes</b>	<b>1</b>	<b>1</b>	<b>0</b>
Taxes	-1	0	-1
<b>NET PROFIT / LOSS FOR THE YEAR</b>	<b>2</b>	<b>1</b>	<b>1</b>
<b>Cash flows net of corporate income tax</b>	<b>34</b>	<b>23</b>	<b>11</b>

Source: ProClarity.

In 2010 gross income amounted to €78 million, i.e. up by €11 million from 2009. Net financial income, totalling €50 million, was determined by interest and similar income, amounting to €153 million, and interest expense and similar charges, standing at around €103 million.

Operating costs, to the amount of €45 million, were up by €1 million from 2009, due to an increase of €1 million in staff costs. In 2010 the allocation to provisions amounted to €31 million, i.e. up by €10 million from 2009.

Net profit for the year totalled €2 million in 2010, i.e. up by €1 million from the previous fiscal year, while receivable taxes stood at €1 million.

Net cash flows for the year amounted to €34 million, i.e. up by €11 million from 2009.

### 3.2 Agricultural banks belonging to SICAM

The analysis of developments in agricultural banks belonging to SICAM was made on the basis of the 85 associate banks on 31 December 2010.

- As at 31 December 2010 the balance sheet resulting from the non-consolidated sum of individual balance sheets of the agricultural banks that belonged to SICAM amounted to €11.3 billion, i.e. €20 million more than on 31 December 2009. Assets were broken down as follows:

#### Mutual agricultural credit banks belonging to SICAM

(EUR millions)

Assets	31 Dec. 2010	31 Dec. 2009	Change
Cash and cash equivalents	261	306	-45
Investments in credit institutions	3,128	3,239	-111
(Net) claims on customers	6,736	6,705	31
Financial assets	281	180	101
Other assets	846	802	44
<b>TOTAL NET ASSETS</b>	<b>11,252</b>	<b>11,232</b>	<b>20</b>

Source: ProClarity.

- Claims on customers amounted to €6.7 billion, accounting for 60% of total net assets. Credit overdue, to the amount of €395 million, increased by €58 million from the previous year, and provisions for credit overdue, amounting to €263 million, increased by €51 million from 2009. 67% of credit overdue was thus provisioned, i.e. 4 percentage points (p.p.) more than in December 2009.

- Investments in credit institutions totalled €3.1 billion and corresponded almost entirely to investments in the Central Mutual Agricultural Credit Bank, which accounted for 28% of total assets of agricultural banks and around 57% of total liabilities of the Central Mutual Agricultural Credit Bank.
- The item “Other assets” totalled €846 million, accounting for 8% of total net assets. This item includes other tangible and intangible assets, with a gross value of €427 million, and the corresponding accumulated depreciation, amounting to €171 million, as well as investment, with a gross value of €229 million, covering the share in the equity capital of the Central Mutual Agricultural Credit Bank – €221 million – and CREDIVALOR – €2,000. Investment was provisioned at €4 million.
- Cash and cash equivalents reached €261 million, accounting for 2.3% of assets.
- Total liabilities of agricultural banks belonging to SICAM amounted to €10.2 billion, i.e. down by €10 million from 31 December 2009, broken down as follows:

**Mutual agricultural credit banks belonging to SICAM**

(EUR millions)

Liabilities	31 Dec. 2010	31 Dec. 2009	Change
Resources from credit institutions	27	10	17
Resources from customers	9,783	9,802	-19
Subordinated liabilities	173	184	-11
Provisions	69	68	1
Other liabilities	103	101	2
<b>TOTAL LIABILITIES</b>	<b>10,155</b>	<b>10,165</b>	<b>-10</b>

Source: ProClarity.

- Resources from customers, accounting for 96% of total liabilities, amounted to €9.8 billion, i.e. down by €19 million from 31 December 2009.
- Subordinated liabilities stood at €173 million, of which €99.9 million corresponded to subordinated loans granted by the Fund to agricultural banks belonging to SICAM.

- Equity of total agricultural credit banks belonging to SICAM amounted to €1.1 billion on 31 December 2010 and the coverage of assets by equity was 9.7%, i.e. 0.2 p.p. higher than on 31 December 2009.

At the end of 2010, equity was broken down as follows:

**Mutual agricultural credit banks belonging to SICAM** (EUR millions)

Equity	31 Dec. 2010	31 Dec. 2009	Change
Equity capital	823	777	46
Reserves	297	307	-10
Profit / loss brought forward	-58	-59	1
Profit / loss for the year	35	42	-7
<b>EQUITY</b>	<b>1,097</b>	<b>1,067</b>	<b>30</b>

*Source: ProClarity.*

- Equity capital totalled €823 million and reserves totalled €297 million;
- Loss brought forward stood at €58 million;
- Net profit for the year, to the amount of €35 million, was €7 million lower than in 2009.

Equity rose by €30 million, mainly due to the increase in equity capital, by €46 million, the decrease in reserves, by €10 million, and the coverage of part of the loss brought forward, by €1 million.

- The Profit and Loss Account, which is obtained by aggregating the operating accounts of total agricultural banks belonging to SICAM, posted a non-consolidated net profit of €35 million.

**Mutual agricultural credit banks belonging to SICAM**

(EUR millions)

<b>Profit and Loss Account</b>	<b>2010</b>	<b>2009</b>	<b>Change</b>
Interest and similar income	365	442	-77
Interest expense and similar charges	113	177	-64
<b>Net financial income</b>	<b>252</b>	<b>265</b>	<b>-13</b>
Income from net services and commissions	90	75	15
Gains on financial operations	0	0	0
Other operating income	20	14	6
<b>Gross income</b>	<b>362</b>	<b>354</b>	<b>8</b>
Operating costs	235	234	1
- Staff costs	132	131	1
- Administrative costs	103	103	0
Depreciation	15	14	1
Change in provisions, value adjustments and impairment	70	57	13
<b>Income before taxes</b>	<b>42</b>	<b>49</b>	<b>-7</b>
Taxes	8	8	0
<b>NET PROFIT / LOSS FOR THE YEAR</b>	<b>35</b>	<b>42</b>	<b>-7</b>
<b>Cash flow net of corporate income tax</b>	<b>120</b>	<b>113</b>	<b>7</b>

Source: ProClarity.

Gross income amounted to €362 million, i.e. €8 million higher than in 2009 (approximately 2.3%). Net financial income totalled €252 million, accounted for by interest and similar income to an amount of €365 million and interest expense and similar charges to an amount of €113 million.

In 2010 staff costs and administrative costs rose by €1 million, i.e. by approximately 0.4%, totalling €235 million.

Provisions increased by €70 million, i.e. €13 million more than in 2009, of which €62 million corresponded to provisions and value adjustments.

Income before taxes, totalling €42 million, decreased by €7 million from 2009, mainly due to an increase in provisions, which more than offset a rise in gross income. The overall amount of payable taxes stood at around €8 million.

In 2010 total agricultural banks belonging to SICAM recorded a €35 million net profit,<sup>(4)</sup> i.e. down by €7 million from 2009.

Net cash flows for the year amounted to €120 million, i.e. up by €7 million from 2009.

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<sup>(4)</sup> Obtained by aggregating net profit/loss for the year of each agricultural bank belonging to SICAM, given that the consolidated accounts of the Scheme have not been released yet.

- The following table shows some indicators regarding the 85 agricultural banks belonging to SICAM (10 of which had signed a financial assistance agreement with the Fund at the end of the year), grouped into classes according to the value of their net assets as at 31 December 2010.

**85 MUTUAL AGRICULTURAL CREDIT BANKS BELONGING TO SICAM - 31 December 2010**

(EUR millions)

	Value of net assets						Total
	[0;40[	[40;60[	[60;80[	[80;100[	[100;160[	>=160	
Number of agricultural banks	6	15	10	9	20	25	85
Number of agricultural banks with net loss for the year	3	2	0	0	2	1	8
Number of agricultural banks receiving financial assistance	0	0	1	1	4	4	10
Net assets * (EUR millions)	28	49	71	90	122	256	133
Range							
maximum	38	57	77	99	160	490	490
minimum	16	42	60	81	103	162	16
Equity * (EUR millions)	4	6	7	9	11	25	13
Range							
maximum	8	10	13	18	19	57	57
minimum	2	4	-3	-8	-1	1	-8
Number of agricultural banks (% in total agricultural banks belonging to SICAM)	7%	18%	12%	11%	23%	29%	100%
Resources from customers / Resources from customers of agricultural banks belonging to SICAM (%)	2%	6%	6%	7%	22%	57%	100%
Total credit / Total credit of agricultural banks belonging to SICAM (%)	1%	6%	6%	7%	21%	59%	100%
Credit overdue / Credit overdue of agricultural banks belonging to SICAM (%)	2%	5%	7%	6%	32%	48%	100%
Total credit / Resources from customers * (%)	65%	65%	72%	71%	70%	74%	72%
Range							
maximum	78%	80%	85%	82%	81%	87%	87%
minimum	48%	49%	61%	53%	54%	56%	48%
Total credit / Assets * (%)	54%	55%	62%	61%	62%	64%	63%
Range							
maximum	67%	68%	65%	71%	73%	74%	74%
minimum	41%	44%	54%	45%	47%	42%	41%
Credit overdue / Total credit * (%)	7%	5%	6%	5%	8%	5%	6%
Range							
maximum	19%	12%	12%	14%	22%	10%	22%
minimum	2%	2%	2%	1%	3%	2%	1%
Operating costs / Gross income * (%)	75%	65%	60%	64%	68%	64%	65%
Range							
maximum	122%	93%	76%	85%	86%	86%	122%
minimum	53%	52%	53%	47%	52%	39%	39%

Source: ProClarity.

\* Average value per class.

With regard to the table above, the following should be highlighted:

- Total average assets of all 85 agricultural banks amounted to €133 million; the assets of 6 agricultural banks stand below €40 million.

The assets of 15 agricultural banks, i.e. 18% of the total, stand between €40 million and €60 million.

The 6 agricultural banks with assets below €40 million account for 7% of total agricultural banks and for only 2% of resources raised and 1% of credit granted by SICAM, excluding the Central Mutual Agricultural Credit Bank. This class of agricultural banks also accounts for 2% of credit overdue of total agricultural banks belonging to SICAM.

This class also includes 3 of the 8 agricultural banks that recorded a loss in 2010 and which, however, do not receive financial assistance from the Fund.

- The 25 agricultural banks with assets over €160 million account for 29% of total agricultural banks and hold 57% of resources from customers, 59% of credit granted by the agricultural banks belonging to SICAM and 48% of total credit overdue. Of the 8 agricultural banks that recorded a loss in 2010, one bank has assets to an amount above €160 million and receives financial assistance from the Fund.

This class includes the agricultural bank with the highest equity, i.e. €57 million.

4 of these agricultural banks have signed a financial assistance agreement with the Fund. 10% of total credit overdue of the total agricultural banks belonging to SICAM is held by these 4 banks with a financial assistance agreement.

- Agricultural banks holding assets between €40 million and €160 million account for 64% of total agricultural banks belonging to SICAM and hold 41% of resources raised, 40% of credit granted and 50% of credit overdue of total agricultural banks belonging to SICAM. This class includes the remaining 6 of the 10 agricultural banks that have signed a financial assistance agreement with the Fund. Of the 8 agricultural banks that recorded a loss in 2010, 4 have assets between €40 million and €160 million.
- On average, the ratio of resources from customers to total credit granted stood at 72%.
- With regard to the indicators total credit / resources from customers, total credit / assets and credit overdue / total credit, the values recorded within each class were rather heterogeneous.
- Operating costs absorbed on average 65% of the gross income of agricultural banks. Again, there is great heterogeneity within each class. In fact, the class of agricultural banks holding

assets below €40 million includes the bank whose operating costs have absorbed the highest share of the respective gross income, while the class of agricultural banks holding assets above €160 million includes the bank whose operating costs have absorbed the lowest share of the respective gross income.

- The following table shows some indicators regarding the 85 agricultural banks belonging to SICAM, broken down into classes according to the value of their equity as at 31 December 2010.

**85 MUTUAL AGRICULTURAL CREDIT BANKS BELONGING TO SICAM - 31 December 2010**

(EUR millions)

	Equity value						Total
	< 0	[0;5[	[5;7,5[	[7,5;10[	[10;25[	>=25	
Number of agricultural banks	3	13	14	13	33	9	85
Number of agricultural banks with net loss for the year	0	5	0	2	1	0	8
Number of agricultural banks receiving financial assistance	3	3	1	1	2	0	10
Equity * (EUR millions)	-4	3	6	8	16	38	13
Range							
maximum	-1	5	7	10	24	57	57
minimum	-8	1	5	8	10	28	-8
Net assets * (EUR millions)	97	66	62	79	158	334	133
Range							
maximum	116	201	109	169	380	490	490
minimum	77	16	26	38	67	166	16
Number of agricultural banks (% in total agricultural banks belonging to SICAM)	4%	15%	16%	15%	39%	11%	100%
Resources from customers / Resources from customers of agricultural banks belonging to SICAM (%)	2%	8%	8%	9%	47%	26%	100%
Total credit / Total credit of agricultural banks belonging to SICAM (%)	3%	8%	7%	9%	45%	28%	100%
Credit overdue / Credit overdue of agricultural banks belonging to SICAM (%)	4%	12%	5%	11%	49%	19%	100%
Total credit / Resources from customers * (%)	74%	71%	69%	72%	70%	76%	72%
Range							
maximum	77%	81%	80%	84%	85%	87%	87%
minimum	71%	48%	59%	54%	53%	56%	48%
Total credit / Assets * (%)	64%	63%	61%	62%	62%	65%	63%
Range							
maximum	65%	73%	71%	74%	72%	74%	74%
minimum	63%	41%	46%	46%	45%	42%	41%
Credit overdue / Total credit * (%)	8%	9%	4%	7%	6%	4%	6%
Range							
maximum	12%	22%	9%	11%	16%	8%	22%
minimum	5%	2%	1%	2%	2%	2%	1%
Operating costs / Gross income * (%)	69%	69%	64%	64%	64%	65%	65%
Range							
maximum	76%	122%	93%	72%	86%	79%	122%
minimum	61%	53%	55%	52%	47%	39%	39%

Source: ProClarity.

\* Average value per class.

With regard to the table above, the following should be highlighted:

- The average equity of agricultural banks is €13 million, although the equity of 19% of total agricultural banks belonging to SICAM still stood below €5 million.
- 3 agricultural banks belonging to SICAM recorded negative equity, all of which have signed a financial assistance agreement with the Fund.

Agricultural banks with negative equity held 4% of the credit overdue portfolio of total agricultural banks belonging to SICAM and only 3% of total credit granted.

- Agricultural banks holding equity above €5 million account for 81% of total agricultural banks belonging to SICAM. They also hold 90% of resources from customers, 89% of credit granted and 84% of the credit overdue portfolio.
- 42 agricultural banks hold equity above €10 million, accounting for 50% of the total, of which 1 recorded a loss in 2010 and 2 have a financial assistance agreement with the Fund.

The analysis of the information as at 31 December 2010 for the group of 85 agricultural banks belonging to SICAM shows favourable developments in the following indicators:

- €5 million increase in the average value of assets;
- 6% increase in equity capital, i.e. €46 million;
- 4 p.p. increase in the coverage of credit overdue by specific provisions;
- 2% increase in gross income, i.e. €8 million, and 6% increase in the cash flows, i.e. €7 million;
- €2 million decline in the overall level of insufficient equity, which amounted to €17 million on 31 December 2010.

However, a few economic and financial problems persist, namely the following:

- 17% decline in profit for the year, i.e. €7 million compared with 2009;
- the number of banks that recorded a loss for the year increased by 3;
- 18% increase in credit overdue, i.e. €59 million;
- 0.8 p.p. increase, to 5.6%, in the average value of the credit overdue / total credit indicator;
- 1% increase, i.e. €2 million, in asset write-offs.

## 4. Analysis of the Mutual Agricultural Credit Guarantee Fund's accounts for 2010

The accounts of the Fund were prepared in accordance with the Chart of Accounts<sup>(5)</sup> proposed by the Accounting Department of Banco de Portugal and approved by the Management Committee of the Fund.

### 4.1. Balance sheet as at 31 December 2010

As at 31 December 2010 and according to the balance sheet included in the annex:

- The Fund's net assets amounted to €297.7 million, i.e. up by €12.3 million from 31 December 2009, and were broken down as follows:

<b>Mutual Agricultural Credit Guarantee Fund</b>			
(EUR thousands)			
<b>Assets</b>	<b>31 Dec. 2010</b>	<b>31 Dec. 2009</b>	<b>Change</b>
<b>Current assets</b>			
Financial investments			
Investments for the guarantee of deposits	146,806	117,004	29,802
Free investments	46,608	48,951	-2,343
Loans to SICAM	15,868	11,959	3,909
State and other public entities	1,061	1,565	-504
Other receivables	940	1,251	-311
	<b>211,283</b>	<b>180,730</b>	<b>30,553</b>
<b>Non-current assets</b>			
Loans to SICAM	86,434	104,701	-18,267
Participating interests	0	0	0
<b>TOTAL NET ASSETS</b>	<b>297,717</b>	<b>285,431</b>	<b>12,286</b>

<sup>(5)</sup> The current Chart of Accounts entered into force on 1 January 2010 and is based on the International Accounting Standards (IAS), as approved by Regulation (EC) No 1606/2002 of the European Parliament and of the Council.

- Investments for the guarantee of deposits with banks belonging to SICAM amounted to €146.8 million, i.e. up by €29.8 million from end-2009. Their value corresponded to approximately 1.52% of the average monthly value of the credit balances of eligible deposits<sup>(6)</sup> with banks belonging to SICAM in 2010. These investments were in compliance with the provisions laid down in Article 11 of Decree-Law No 345/98 of 9 November 1998, and their purpose is to guarantee that the Fund covers, up to €100,000,<sup>(7)</sup> per depositor and per credit institution, the repayment of deposits with the Central Mutual Agricultural Credit Bank and its associate agricultural banks.

Of total investments for the guarantee of deposits as at 31 December 2010, €61.4 million corresponded to the market value of the government debt securities portfolio, which comprises bonds and Treasury bills issued in euro area countries, and the remaining €85.4 million corresponded to fixed-term deposits with credit institutions. The maturity of these investments in credit institutions, i.e. between 3 and 6 months, is chosen taking into account the Fund's liquidity and profitability.

The management of the Fund's government debt portfolio used as a reference the benchmark portfolio structure selected by the Management Committee of the Fund. The investment strategy was guided by the objective of limiting exposure to credit, market and liquidity risks. Against a background of a deteriorating fiscal position in most euro area countries, risk exposure was diversified across issuers, as illustrated in the following table.

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<sup>(6)</sup> Eligible deposits correspond to deposits that are the incidence basis of the annual contribution to the Fund, not taking into account the guarantee limit established by law.

<sup>(7)</sup> In accordance with the provisions of Article 12 (1) of Decree-Law No 345/98 of 9 November 1998 in conjunction with Article 12 (1) of Decree-Law No 211-A/2008 of 3 November.

### Geographical distribution of the government debt portfolio

Countries	Amount (€) as at 31 Dec. 2010	Weight in portfolio
Germany	999,778	1.6%
Belgium	4,477,198	7.3%
Spain	14,250,309	23.2%
France	9,114,017	14.8%
Netherlands	8,590,176	14.0%
Ireland	3,721,141	6.1%
Italy	11,345,117	18.5%
Portugal	8,884,431	14.5%
<b>Total</b>	<b>61,382,167</b>	<b>100%</b>

Considering the importance attached to the objective of preserving the portfolio value and expectations of rising interest rates, which stood at historically low levels, a decision was made to maintain a low exposure to interest rate risk, which resulted in a 0.48 average modified duration of the portfolio. As at 31 December 2010 the modified duration of the portfolio was 0.44.

The market risk of the government debt portfolio measured by the Value at Risk (VaR) for a one-month time horizon and at a 95% confidence level has remained, since the beginning of the portfolio management, at an average value of 0.23%. As at 31 December 2010 the VaR stood at €150,800, which corresponded to 0.25% of the portfolio value.

Against a background of rising interest rates on euro area government debt, longer maturities generally translated into gradually lower yields.

Overall, gross potential yields, in non-annualised terms, on the government debt portfolio stood at -0.10%, accounting for a potential yield, net of taxes, of -0.15%. Portfolio losses, calculated on the basis of the market valuation of the securities that comprise it, over a reduced period of time where few issues matured, were due to the sharp upward movement in interest rates associated with euro area sovereign risk, particularly in countries with lower credit quality, in a context of higher sovereign credit risk.

The increase in the value of investments for the guarantee of deposits – €30 million – includes around €1.8 million corresponding to income generated in 2010 by the investment of capital earmarked for the guarantee of deposits, determined by interest, totalling €2 million,

less potential losses, amounting to €0.2 million, related to changes in the market value of government debt securities in the Fund's portfolio.

On 31 December 2010 the value of investments for the guarantee of deposits exceeded by 39 p.p. the minimum value established in Article 11 of Decree-Law No 345/98 of 9 November 1998, corresponding to around 49% of the value of the Fund's net assets.

- Free investments, to the amount of €46.6 million, relates to investments in demand and fixed-term deposits.
- The overall outstanding amount of loans to SICAM reached €102.3 million, i.e. €14.4 million less than on 31 December 2009, given that in 2010 loans were repaid to the amount of €14.4 million and no new loans were granted.
- The outstanding amount of "State and other public entities" and "Other receivables" amounted to €2 million, i.e. down by €0.8 million from 31 December 2009.
- The net value of participating interests stood at zero, given that the share in the equity capital of CREDIVALOR, the value of financing loans granted and the amount of additional capital granted are fully adjusted.
  - The share in the equity capital of CREDIVALOR stood at €46,000;
  - Financing loans to CREDIVALOR, as additional payments, totalled €3,360,000;
  - Additional capital granted to CREDIVALOR amounted to €1,959,000. The amount of additional capital granted declined by €310,000 from 31 December 2009, given that the repayment of additional capital by CREDIVALOR exceeded, by €310,000, additional capital granted by the Fund in 2010.

**Mutual Agricultural Credit Guarantee Fund**

(EUR thousands)

Own resources and liabilities	31 Dec. 2010	31 Dec. 2009	Change
<b>Own resources</b>			
Contributions	268,817	260,915	7,902
Reserves	23,907	18,065	5,842
Net profit / loss for the year	3,710	4,634	-924
	<b>296,434</b>	<b>283,614</b>	<b>12,820</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
State and other public entities	1,052	1,566	-514
<b>Non-current liabilities</b>			
Deferred tax liabilities	231	251	-20
	<b>1,283</b>	<b>1,817</b>	<b>-534</b>
<b>TOTAL OWN RESOURCES AND LIABILITIES</b>	<b>297,717</b>	<b>285,431</b>	<b>12,286</b>

- On 31 December 2010 the Fund's own resources amounted to €296.4 million:
  - Contributions<sup>(8)</sup> of €268.8 million, received from 1998 to 2010, of which €7.9 million were received in 2010, as annual contribution of SICAM.
 

Pursuant to Article 9 of Decree-Law No 345/98 of 9 November 1998, the value of the annual contribution shall be based on the average amount of the monthly credit balances of deposits over the previous year which are eligible for this purpose, and shall be paid in two instalments, the first of which in April and the second in October of the year to which they refer.
  - General reserves to the amount of €23.9 million.
 

The increase of €5,842,000 in the value of general reserves in 2010 was broken down into: €4,634,000 corresponding to the transfer of profit for 2009, according to the proposal for profit distribution approved by a Decision of the Secretary of State for the Treasury and Finance, and €1,208,000 corresponding to the partial recovery of credit relating to the financial assistance granted to 1 agricultural bank.
  - Profit for 2010: €3,710,000.

<sup>(8)</sup> As of 1998 contributions are entered as own resources.

Profit for 2010 corresponds to a €924,000 decline from the value recorded in the previous year, according to the analysis of the Profit and Loss Account.

- On 31 December 2010 liabilities amounted to €1,283,000, i.e. down by €534,000 from 31 December 2009, and corresponded to debt to the State and other public entities and deferred tax liabilities.
- Overall, the following developments were observed in 2010:
  - €12.8 million increase in the value of own resources;
  - €12.3 million increase in the value of assets:
    - loans to SICAM: €14.4 million decrease;
    - funds earmarked for the guarantee of deposits: €29.8 million increase;
    - value of free investments: €2.3 million decrease;
    - State and other public entities and other receivables: €0.8 million decrease.

Therefore, the overall situation of the Fund as at 31 December 2010 was as follows:

- Negligible amount of liabilities;
- Own resources to the amount of €296.4 million;
- Loans to SICAM totalling €102.3 million and financial investments to the amount of €193.4 million.

## 4.2. Profit and Loss Account for the year ending 31 December 2010

Mutual Agricultural Credit Guarantee Fund		(EUR thousands)		
Profit and Loss Account	2010	2009	Change	
Interest and similar income and expenses	4,930	6,530	-1,600	
<i>Interest receivable from financial investments</i>	4,317	5,011	-694	
<i>Interest receivable from loans to SICAM</i>	613	1,519	-906	
Gains/losses on financial investments	-237	0	-237	
Income tax	1,031	1,306	-275	
<i>Financial investments</i>	892	1,002	-110	
<i>Loans to SICAM</i>	139	304	-165	
<b>Income from the allocation of available resources</b>	<b>3,662</b>	<b>5,224</b>	<b>-1,562</b>	
Staff costs	45	35	10	
Supplies and services to third parties	6	5	1	
Subsidies to mutual agricultural credit	250	250	0	
Other profit/loss	39	-30	69	
<i>Other income and gains</i>	40	1	39	
<i>Other costs and losses</i>	1	31	-30	
<b>Income before impairment charges and provisions</b>	<b>3,400</b>	<b>4,904</b>	<b>-1,504</b>	
Losses/reversals of impairment of assets	-310	270	-580	
<b>NET PROFIT / LOSS FOR THE YEAR</b>	<b>3,710</b>	<b>4,634</b>	<b>-924</b>	

Net profit for 2010, totalling €3,710,000, resulted from income from the allocation of available resources to the amount of €3,662,000, less subsidies granted and operating expenses of the Fund, plus reversals of impairment for additional capital granted to CREDIVALOR.

In 2010 net income of the Fund amounted to €3,662,000, which was generated by financial investments and loans to SICAM. Profitability (before corporate income tax) of investments in credit institutions was 2.60% in 2010 (corresponding to 2.08% net profitability). Return on investments in credit institutions was, on average, 1.7 p.p. above the Euribor rate.

Operating expenses to the amount of €51,000 covered staff costs (compensation of the Management Committee),<sup>(9)</sup> to the amount of €45,000, and supplies and services of third parties, totalling €6,000, as shown in the annex to the financial statements.

Subsidies amounted to €250,000, corresponding to the subsidy granted to FENACAM for the conduct of the audits requested by the Fund.

Other profit, which reached €39,000, resulted from other costs and losses (annual contribution to the EFDI and safekeeping fees), to the amount of €1,000, and other income and gains, to the amount of €40,000, corresponding to a fine imposed by Banco de Portugal on one agricultural bank.

Reversals of impairment for additional capital granted to CREDIVALOR amounted to €310,000, given that the repayment of additional capital by CREDIVALOR exceeded, by €310,000, additional capital granted in 2010.

By comparing the accounts for 2010 and 2009, it can be concluded that the difference between the results for both years, to the amount of €924,000, was explained by:

- €1,562,000 decrease in income from the allocation of available resources, mainly due to the significant fall in interest rates in 2010 and potential losses stemming from changes in the market value of the government debt portfolio;
- €11,000 increase in the operating expenses of the Fund;
- increase in other profit (by €69,000);
- higher reversals of impairment (€580,000 increase).

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<sup>(9)</sup> The monthly compensation of the Fund's Management Committee members was established by Decision of the Secretary of State for the Treasury and Finance No 7226/2009 of 10 March, which entered into force in April 2009.

### 4.3. Use of the resources of the Mutual Agricultural Credit Guarantee Fund

The analysis of developments in the value of the Fund's own resources and their use shows that in the course of its 23 years of existence:

- the Fund received contributions, interest and other credits to the overall amount of €406 million:
  - €111 million contributions by Banco de Portugal;
  - €288 million contributions by SICAM, of which:
    - €32 million by the Central Mutual Agricultural Credit Bank
    - €256 million by agricultural banks
  - €6 million net interest paid by SICAM, within the scope of the financial assistance granted;
  - €1 million as a result of credit recovery operations associated with financial assistance previously granted to agricultural banks belonging to SICAM.
- SICAM received €238 million from the Fund as financial assistance:
  - €102 million loans not yet repaid, of which €2.4 million were granted to the Central Mutual Agricultural Credit Bank;
  - €91 million through financial support to CREDIVALOR for the purchase of credits and equity securities within the scope of the financial assistance agreements signed with agricultural banks;
  - €45 million subsidies, of which €2 million were granted to the Central Mutual Agricultural Credit Bank in the 1999-2002 period.

Financial investments, to the amount of €193 million, corresponded to:

- €111 million regarding total contributions by Banco de Portugal;
- €57 million regarding the share of the total amount of contributions by SICAM (€288 million) that was not reinvested in SICAM;
- €25 million regarding income generated by the Fund, i.e. income from financial investments (€62 million) not absorbed by operating expenses (€1 million), financing expenses of CREDIVALOR's current activities (€32 million) and subsidies to FENACAM (€4 million).

Financial investments by the Fund, to the amount of €193 million, were broken down as follows:

- €147 million corresponding to investments for the guarantee of deposits with banks belonging to SICAM; and
- €46 million corresponding to free investments.

In 2010 the average monthly value of deposits with banks belonging to SICAM reached €9,959 million and the corresponding average value of eligible deposits is estimated to have reached around €9,671 million. Therefore, on 31 December 2010 the ratio of the total value of the Fund's investments to the average value of eligible deposits was 2.00%, while the ratio of the value of investments for the guarantee of deposits to the average value of eligible deposits was 1.52% (0.23 p.p. and 0.27 p.p. more than in the previous year respectively).

## **5. Summary of the Mutual Agricultural Credit Guarantee Fund's plan of activities for 2011**

In 2011 the Fund will continue to support the financial reorganisation of SICAM, based on the proposals of the Central Mutual Agricultural Credit Bank, and in articulation with Banco de Portugal. Thus, although the financial assistance granted to 1 agricultural bank will be extended, no funds will be disbursed by the Fund to this end.

A payment of approximately €250,000 to FENACAM is also foreseen, regarding audits to be conducted upon the request of the Fund.

Therefore, the financial assistance to SICAM projected for 2011 will give rise to an allocation of the Fund's resources to the amount of €250,000.

In 2011 contributions by SICAM (established by Notice of Banco de Portugal No 3/2010), which are the major financing source of the Fund's activities, are estimated to reach approximately €8 million. The contribution base rate is 0.1%.

In the course of 2011, the Fund's financial assistance to the winding-up of CREDIVALOR is expected to amount to around €350,000, which will be fully adjusted.

Co-operation with the EFDI is also expected to continue in 2011.

## **6. Proposal for profit distribution in 2010**

Profit for 2010 amounted to €3,710,151.74. Pursuant to the proposal of the Management Committee, profit shall be transferred in full to general reserves.

Porto, 18 March 2011

Management Committee

José António da Silveira Godinho

Licínio Manuel Prata Pina

Maria Helena Maio Ferreira de Vasconcelos

## **Accounts for the financial year 2010**

## Balance sheet

EUR thousands

	Notes	31 Dec. 10	31 Dec. 09
<b>ASSETS</b>			
<b>Current assets</b>			
Financial investments			
Investments for the guarantee of deposits	3	146,806.3	117,004.3
Other financial assets	4	-	1,500.8
Cash and bank deposits	5	46,608.5	47,450.0
Member institutions			
Loans granted	6	15,867.5	11,959.1
State and other public entities	7	1,061.3	1,565.1
Other receivables	8	939.6	1,250.7
		<b>211,283.3</b>	<b>180,729.9</b>
<b>Non-current assets</b>			
Member institutions			
Loans granted	6	86,433.9	104,701.4
		<b>86,433.9</b>	<b>104,701.4</b>
<b>TOTAL ASSETS</b>		<b>297,717.2</b>	<b>285,431.3</b>
<b>OWN RESOURCES</b>	9	<b>296,434.4</b>	<b>283,614.2</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
State and other public entities	7	1,051.9	1,565.9
		<b>1,051.9</b>	<b>1,565.9</b>
<b>Non-current liabilities</b>			
Deferred tax liabilities	12	230.9	251.1
		<b>230.9</b>	<b>251.1</b>
<b>TOTAL LIABILITIES</b>		<b>1,282.8</b>	<b>1,817.0</b>
<b>TOTAL OWN RESOURCES AND LIABILITIES</b>		<b>297,717.2</b>	<b>285,431.3</b>

## Profit and Loss Account

EUR thousands

	Notes	31 Dec. 10	31 Dec. 09
Interest receivable and similar income and expenses	10	4,930.0	6,529.6
Gains/losses on financial investments	11	- 237.2	-
Income tax	12	1,030.9	1,305.9
<b>INCOME FROM THE ALLOCATION OF AVAILABLE RESOURCES</b>		<b>3,661.9</b>	<b>5,223.6</b>
Staff costs	13	45.1	34.8
Supplies and services to third parties	14	5.6	5.4
Subsidies to mutual agricultural credit	15	250.0	250.0
Other income and gains	16	40.0	1.5
Other costs and losses	16	1.0	30.9
<b>INCOME BEFORE IMPAIRMENT CHARGES AND PROVISIONS</b>		<b>3,400.2</b>	<b>4,904.0</b>
Losses/reversals of impairment of assets	17	- 310.0	270.0
<b>NET PROFIT/LOSS</b>		<b>3,710.2</b>	<b>4,634.0</b>

## Statement of Changes in Own Resources

EUR thousands

	Contributions by:						Net profit/ loss	OWN RESOURCES
	Banco de Portugal		Central Mutual Agricultural Credit Bank		Agricultural Banks	Reserves		
	Decree-Law No 182/87	Decree-Law No 345/98	Decree-Law No 345/98	Agricultural Credit Bank				
<b>Position as at 31 December 2008</b>	4,988.0	73,423.4	15,279.5	152,926.0	11,141.2	6,119.2	263,877.2	
<b>Contributions</b>								
Contributions by member institutions								
1st instalment (April 2009)	-	-	86.8	7,464.5	-	-	7,551.3	
2nd instalment (October 2009)	-	-	86.8	7,465.0	-	-	7,551.8	
Contributions by institutions that have left SICAM	-	-	-	- 804.9	804.9	-	-	
<b>Profit distribution</b>	-	-	-	-	6,119.2	- 6,119.2	-	
	-	-	173.5	14,124.6	6,924.1	- 6,119.2	15,103.1	
<b>Net profit/loss for the year</b>						4,634.0	4,634.0	
<b>Position as at 31 December 2009</b>	4,988.0	73,423.4	15,453.0	167,050.6	18,065.2	4,634.0	283,614.2	
<b>Contributions</b>								
Contributions by member institutions								
1st instalment (April 2010)	-	-	39.7	3,910.9	-	-	3,950.6	
2nd instalment (October 2010)	-	-	39.7	3,911.8	-	-	3,951.4	
<b>Triggering of the deposit guarantee</b>								
Recovery of credit relating to financial assistance granted	-	-	-	-	1,208.0	-	1,208.0	
<b>Profit distribution</b>	-	-	-	-	4,634.0	- 4,634.0	-	
	-	-	79.3	7,822.7	5,842.0	- 4,634.0	9,110.0	
<b>Net profit/loss for the year</b>						3,710.2	3,710.2	
<b>Position as at 31 December 2010</b>	4,988.0	73,423.4	15,532.3	174,873.3	23,907.2	3,710.2	296,434.4	

## Statement of Cash Flows

EUR thousands

	31 Dec. 10	31 Dec. 09
<b>Cash flows from operating activities</b>		
Receipts from contributions:		
Central Mutual Agricultural Credit Bank (1 <sup>st</sup> instalment)	39.7	86.8
Central Mutual Agricultural Credit Bank (2 <sup>nd</sup> instalment)	39.7	86.8
Mutual agricultural credit banks (1 <sup>st</sup> instalment)	3,910.9	7,464.5
Mutual agricultural credit banks (2 <sup>nd</sup> instalment)	3,911.8	7,465.0
Recovery of credit relating to financial assistance granted	1,208.0	-
Payment of income taxes abroad (withheld at source)	- 1.5	-
Other receipts/payments	- 310.3	- 318.9
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>8,798.2</b>	<b>14,784.1</b>
<b>Cash flows from investing activities</b>		
Payments relating to:		
Investments for the guarantee of deposits		
Collection of fixed-term deposits	- 260,204.0	- 179,500.0
Purchase of government debt securities	- 83,553.3	-
Purchase of short-term special debt certificates	- 42,500.0	- 25,500.0
Other investments		
Collection of fixed-term deposits	- 197,446.0	- 137,800.0
Purchase of short-term special debt certificates	- 7,500.0	- 4,500.0
Additional capital granted (Credivalor)	- 50.0	- 270.0
Receipts from:		
Investments for the guarantee of deposits		
Maturity of fixed-term deposits	313,300.0	188,000.0
Maturity/sale of government debt securities	22,009.0	-
Maturity of short-term special debt certificates	51,000.0	17,000.0
Other investments		
Maturity of fixed-term deposits	168,250.0	95,000.0
Maturity of short-term special debt certificates	9,000.0	3,000.0
Repayment of loans granted to member institutions	14,359.1	24,121.9
Repayment of additional capital granted (Credivalor)	360.0	-
Interest and similar income		
Investments for the guarantee of deposits		
Fixed-term deposits	2,296.7	3,374.9
Short-term special debt certificates	25.0	21.3
Other investments		
Fixed-term deposits	1,330.1	1,450.0
Short-term special debt certificates	4.4	3.8
Loans granted to member institutions	528.2	812.1
Demand deposits	3.3	5.9
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>- 8,787.4</b>	<b>- 14,780.1</b>
<b>Cash flows from financing activities</b>		
Payments relating to:		
Other financing operations	- 0.1	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>- 0.1</b>	<b>-</b>
<b>CHANGES IN CASH AND CASH EQUIVALENTS</b>	<b>10.7</b>	<b>4.0</b>
Cash and cash equivalents at the beginning of the reporting period	250.0	246.0
Cash and cash equivalents at the end of the reporting period	260.7	250.0

## **Annexes**

**I. Notes on the financial statements**

**II. Information on CREDIVALOR – 2010 fiscal year**

**III. List of institutions that were members of the Mutual Agricultural Credit Guarantee Fund on 31 December 2010**

**IV. Changes to the legal framework of the Mutual Agricultural Credit Guarantee Fund and Mutual Agricultural Credit**

## I. NOTES ON THE FINANCIAL STATEMENTS

## **Note 1 – Activities of the Fund**

The Mutual Agricultural Credit Guarantee Fund (hereinafter referred to as “the Fund” or “FGCAM”) is a public-law legal person with administrative and financial autonomy. The purpose of the Fund is to guarantee the repayment of deposits with the Central Mutual Agricultural Credit Bank and its associate agricultural banks, as well as to promote and carry out the actions deemed necessary to ensure the liquidity and solvency of these institutions, targeted at the protection of the *Sistema Integrado do Crédito Agrícola Mútuo* – SICAM (Integrated Mutual Agricultural Credit Scheme).

The Fund was established in 1987 by Decree-Law No 182/87 and has its head office in Oporto, in the premises of Banco de Portugal, which provides the technical and administrative support required for its regular operation.

As at 31 December 2010, 86 mutual agricultural credit banks, including the Central Mutual Agricultural Credit Bank, were members of the Fund (compared with 91 on 31 December 2009).

## **Note 2 – Basis for presentation and main accounting policies**

### **2.1. Basis for presentation**

In accordance with Article 19 of the legal framework of the Fund,<sup>10</sup> the accounting principles that guide the drawing up of the Fund’s financial statements are set out in its Chart of Accounts. Therefore, the financial statements of the Fund as at 31 December 2010 were prepared in accordance with its new Chart of Accounts, which entered into force on 1 January 2010. The new Chart of Accounts is based on the International Accounting Standards (IAS), approved by Regulation (EC) No 1606/2002 of the European Parliament and of the Council, with the amendments introduced up to 1 January 2010, with the exception of specific situations set out in that chart, which provide an appropriate framework for the legal and operational nature of the Fund.<sup>11</sup>

The financial statements have been drawn up on a historical cost basis, excluding those assets recorded at fair value, namely financial assets held for trading. To ensure the comparability of financial data, figures for 2009 include the reclassification of financial items in accordance with the 2010 Report, as described in Note 20.

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<sup>10</sup> The Fund’s legal framework is laid down in the consolidated version of Decree-Law No 345/98 of 9 November 1998.

<sup>11</sup> Up to 31 December 2009 the financial statements of the Fund were prepared in accordance with the Chart of Accounts in force up to that date, which was based on the Official Chart of Accounts (*Plano Oficial de Contabilidade* – POC) (Decree-Law No 410/89 of 21 November 1989).

## **2.2. Main accounting policies**

The main accounting policies and valuation criteria used in the preparation of the financial statements for the year 2010 are the following:

### **(a) Own resources: contributions**

The contributions paid to the Fund are one of the components of its own resources, in addition to the reserves after profit distribution of previous years, being recognised on the dates set out in Article 9 of the Fund's legal framework.

Member institutions pay an initial contribution to the Fund upon registration for the commencement of their activity and, subsequently, an annual contribution (in two instalments). Contributions are paid in cash and their calculation is based on: (i) the contribution rate annually set by Banco de Portugal, on a proposal of the Fund's Management Committee, (ii) the average value of monthly outstanding amounts of eligible deposits of the previous year, and (iii) the solvency ratio of member institutions. In exceptional cases, member institutions make special contributions, as provided for in Article 10 of the Fund's legal framework.

### **(b) Financial assets held for trading**

Financial assets are classified as held for trading on the acquisition date, when they are acquired with the main purpose of being traded in the short term.

Purchases and sales of financial assets held for trading are recognised on the trade date, i.e. the date the Fund commits itself to purchase or sell the asset. These financial assets are initially recognised at fair value<sup>12</sup> and the transaction costs are directly recognised in profit/loss. Subsequently, changes in fair value are recognised in profit/loss.

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<sup>12</sup> Fair value, in most cases, corresponds to the bid price.

### **(c) Loans granted to member institutions**

In the course of its activity, and in accordance with the provisions laid down in Article 15 (2) of the Fund's legal framework, the Fund may grant loans to member institutions facing liquidity and solvency constraints. These loans are recognised as assets, valued at cost (nominal value) less impairment losses.

### **(d) Provision of financial assistance to member institutions**

The Fund may provide other types of financial assistance to member institutions, in addition to those mentioned in the foregoing subparagraph. Fund outflows are recognised against a decline in the Fund's own resources, on the assumption that assistance is final or that there is high uncertainty about the amount and moment of repayment.

Where the Fund has been given a legal guarantee that such amounts will be repaid, they are recognised on the assets side of its balance sheet against an increase in own resources. This asset is valued at cost (nominal value) less impairment losses.

### **(e) Repayment of deposits covered by the guarantee**

In the course of its activity, the Fund may be called to repay deposits open with a member institution. In this case, a liability is recognised against a decrease in the Fund's own resources. This liability item is measured at the nominal value of the amount to be repaid and it declines as depositors are repaid. In the event of unclaimed amounts by the depositors, the remaining liabilities are offset against a corresponding increase in own resources.

Should the Fund receive compensation for the repayment of deposits covered by the guarantee, such amount is recognised on the assets side of the balance sheet offset against an increase in own resources, but only when the Fund is given a legal guarantee that it will be repaid and is aware of the amount to be recorded. This asset is valued at cost (nominal value) less impairment losses.

### **(f) Income tax**

The Fund, as a public-law legal person, is exempt from corporate income tax (IRC), in accordance with Article 9 of the *Código do Imposto sobre o Rendimento das Pessoas Colectivas* – CIRC (Corporate Income Tax Code), except for capital income as defined for personal income tax (IRS)

purposes (Article 5 of the *Código do Imposto sobre o Rendimento das Pessoas Singulares* – CIRS (Personal Income Tax Code) – Category E).

Capital income earned in Portugal is subject to tax withholding at source, at the final tax rate in force. As capital income earned abroad is not subject to tax withholding in Portugal, the Fund must submit an income tax statement to the Portuguese tax administration for tax payment purposes. Where capital income is not subject to taxation in the country of origin of income, the final tax rate in force in Portugal is applied. Where capital income is subject to tax withholding in the country of origin, the taxable amount shall correspond to the difference between the tax rate applicable in Portugal and the withholding tax rate applicable abroad.

The income tax recognised in profit/loss of the Fund comprises current taxes and deferred taxes resulting from: (i) future recovery of the amount recorded of assets recognised in the balance sheet, or (ii) transactions and other events in the current period recognised in the financial statements of the Fund.

### Note 3 – Investments for the guarantee of deposits

The item “**Investments for the guarantee of deposits**” is composed of the financial assets used to guarantee deposits with agricultural banks that are members of the Fund, in accordance with the first part of Article 2 (1) of Decree-Law No 345/98 of 9 November 1998 (the Fund’s legal framework).

	<i>EUR thousands</i>	
<b>Investments for the guarantee of deposits</b>	<b>31 Dec. 10</b>	<b>31 Dec. 09</b>
Demand deposits	48.2	-
Fixed-term deposits	85,404.0	108,500.0
Short-term special debt certificates	-	8,504.3
Government debt securities	61,354.1	-
	<b>146,806.3</b>	<b>117,004.3</b>

As at 31 December 2010 this item amounted to €146,806,329 (31 December 2009: €117,004,254), of which €61,354,106 corresponded to a portfolio composed of government debt securities issued in euro area countries, created as of the third quarter of 2010, and which includes the recognition, on an accruals basis, of interest due and unpaid on coupon-bearing

securities. Securities held in this portfolio are classified as financial assets held for trading and their accounting treatment is described in Note 2.2. (b).

On 31 December 2010 the average maturity of fixed-term deposits and government debt securities was 2 and 5 months, respectively.

#### **Note 4 – Other financial assets**

On 31 December 2009, this item amounted to €1,501,000, corresponding to short-term special debt certificates (CEDIC) issued by the *Instituto de Gestão da Tesouraria e do Crédito Público* – IGCP (Portuguese Treasury and Government Debt Agency), under Resolution of the Council of Ministers No 157/2006, with interest paid on maturity.

#### **Note 5 – Cash and bank deposits**

The item “**Cash and bank deposits**” consists of demand and fixed-term deposits with the following amounts:

<i>EUR thousands</i>		
<b>Cash and bank deposits</b>	<b>31 Dec. 10</b>	<b>31 Dec. 09</b>
<b>Bank deposits</b>		
Demand deposits	212.5	250.0
Fixed-term deposits	46,396.0	47,200.0
	<b>46,608.5</b>	<b>47,450.0</b>

#### **Note 6 – Loans granted to member institutions**

This item includes loans granted by the Fund within the scope of the financial assistance to member institutions, through long-term subordinated loans, bearing interest below the market rates. The following table shows movements recorded in this item over the course of 2010:

Loans granted to member institutions	31 Dec. 09	Movements in 2010			31 Dec. 10	Maturity
		Loans granted	Repayments	Transfers		
CENTRAL MUTUAL AGRICULTURAL CREDIT BANK	7,459.1	-	-9,859.1	4,800.0	2,400.0	2011
CCAM ALBERGARIA E SEVER, CRL	4,500.0	-	-4,500.0	-	-	-
CCAM ALCOBACA, CRL	-	-	-	9,976.0	9,976.0	2011
CCAM AREA METROPOLITANA DO PORTO, CRL	-	-	-	3,491.6	3,491.6	2011
<b>Total loans with a maturity of less than 1 year (Current assets)</b>	<b>11,959.1</b>	<b>-</b>	<b>-14,359.1</b>	<b>18,267.5</b>	<b>15,867.5</b>	
CENTRAL MUTUAL AGRICULTURAL CREDIT BANK	4,800.0	-	-	-4,800.0	-	-
CCAM ALCOBACA, CRL	9,976.0	-	-	-9,976.0	-	-
CCAM AREA METROPOLITANA DO PORTO, CRL	3,491.6	-	-	-3,491.6	-	-
CCAM VALE DO SOUSA E BAIXO TAMEGA, CRL	5,000.0	-	-	-	5,000.0	2013
CCAM COSTA VERDE, CRL	11,000.0	-	-	-	11,000.0	2018
CCAM DA BAIRRADA E AGUIEIRA	16,000.0	-	-	-	16,000.0	2021
CCAM DA BEIRA BAIXA (SUL)	4,000.0	-	-	-	4,000.0	2013
CCAM ENTRE TEJO E SADO, CRL	20,956.7	-	-	-	20,956.7	2014
CCAM ALCACER SAL E MONTEMOR-O-NOVO, CRL	12,000.0	-	-	-	12,000.0	2015
CCAM MORAVIS, CRL	8,000.0	-	-	-	8,000.0	2015
CCAM DO ALENTEJO CENTRAL	9,477.2	-	-	-	9,477.2	2015
<b>Total loans with a maturity of over 1 year (Non-current assets)</b>	<b>104,701.4</b>	<b>-</b>	<b>-</b>	<b>-18,267.5</b>	<b>86,433.9</b>	
	<b>116,660.6</b>	<b>-</b>	<b>-14,359.1</b>	<b>-</b>	<b>102,301.4</b>	

## Note 7 – State and other public entities

The item “**State and other public entities**”, recorded in assets, mainly corresponds to the amounts withheld at source by third parties from taxes on capital income earned over the period under review.

The item “**State and other public entities**”, recorded in liabilities, comprises: (i) the amount of taxes to be paid on capital income earned in 2010, (ii) the amounts withheld at source by the Fund regarding earnings of independent workers hired, and (iii) compulsory social charges, to be paid to the State within the legal deadlines.

## Note 8 – Other receivables

The item “**Other receivables**” is broken down as follows:

<i>EUR thousands</i>		
<b>Other receivables</b>	<b>31 Dec. 10</b>	<b>31 Dec. 09</b>
<b>Interest receivable</b>		
Demand deposits	0.5	0.5
Fixed-term deposits	487.7	395.8
Investments for the guarantee of deposits (fixed-term deposits)	261.9	657.4
Loans granted to member institutions	149.5	196.9
	899.6	1,250.7
<b>Fines imposed by Banco de Portugal</b>	40.0	-
	<b>939.6</b>	<b>1,250.7</b>

## **Note 9 – Own resources**

The “**Own resources**” of the Fund comprise the initial contributions of Banco de Portugal, the initial and periodical contributions of member institutions and income from the investment of the Fund’s resources. The increase of €12,820,000 recorded in 2010 is broken down in the Statement of Changes in Own Resources and includes:

- The receipt of annual periodical contributions by the Central Mutual Agricultural Credit Bank and agricultural banks (€79,000 and €7,823,000 respectively) made in April and October 2010, in accordance with the accounting policy described in Note 2.2. (a);
- The recovery of credit relating to financial assistance to one agricultural bank in the Algarve (€1,208,000 – see Note 18), in accordance with the accounting policy described in Note 2.2. (d);
- Net profit for the year (€3,710,000).

## Note 10 – Interest and similar income and expenses

The item “Interest and similar income and expenses” is broken down as follows:

<i>EUR thousands</i>		
<b>Interest and similar income and expenses</b>	<b>31 Dec. 10</b>	<b>31 Dec. 09</b>
<b>Interest received</b>		
<b>Bank deposits</b>		
Demand deposits	4.1	6.6
Fixed-term deposits	1,756.6	1,558.4
	<b>1,760.8</b>	<b>1,565.0</b>
<b>Investments for the guarantee of deposits</b>		
Fixed-term deposits	2,477.8	3,409.3
Government debt securities	47.0	-
Short-term special debt certificates	27.0	30.9
	<b>2,551.8</b>	<b>3,440.1</b>
<b>Loans granted to participating institutions</b>		
Subordinated loans	612.8	1,518.9
	<b>612.8</b>	<b>1,518.9</b>
<b>Other financial assets</b>		
Short-term special debt certificates	4.8	5.4
	<b>4.8</b>	<b>5.4</b>
<b>Total interest received</b>	<b>4,930.1</b>	<b>6,529.6</b>
<b>Total interest paid</b>	<b>0.1</b>	<b>-</b>
	<b>4,930.0</b>	<b>6,529.6</b>

## Note 11 – Gains/losses on financial investments

The item “**Gains/losses on financial investments**”, taken to the Profit and Loss Account, reflects fair value changes in financial assets held for trading, in accordance with the accounting policy described in Note 2.2. (b).

This item is broken down as follows:

<b>Gains/losses on financial investments</b>	<i>EUR thousands</i>		
	<b>31 Dec. 10</b>		
	Gains	Losses	Total
<b>Government debt securities</b>			
Treasury bonds	-	131.3	- 131.3
Treasury bonds (zero coupon)	-	7.9	- 7.9
Treasury bills	69.8	167.9	- 98.1
	<b>69.8</b>	<b>307.0</b>	<b>- 237.2</b>

The government debt securities mentioned above are recorded in the balance sheet under the item “**Investments for the guarantee of deposits**” (see Note 3).

## Note 12 – Income tax

The income tax recognised in the Profit and Loss Account in 2010 and 2009 is broken down as follows:

		<i>EUR thousands</i>	
<b>Income tax</b>		<b>31 Dec. 10</b>	<b>31 Dec. 09</b>
<b>Current tax</b>			
Demand deposits		0.8	1.2
Fixed-term deposits		333.0	414.1
Short-term special debt certificates		1.1	0.9
Investments for the guarantee of deposits	Fixed-term deposits	574.7	792.1
	Government debt securities	3.3	-
	Short-term special debt certificates	6.2	5.3
Loans granted to member institutions		132.0	351.4
		<b>1,051.2</b>	<b>1,565.1</b>
<b>Deferred tax</b>			
Demand deposits		-	0.2
Fixed-term deposits		25.7	- 102.4
Short-term special debt certificates		- 0.2	0.2
Investments for the guarantee of deposits	Fixed-term deposits	- 75.2	- 110.3
	Government debt securities	37.5	-
	Short-term special debt certificates	- 0.9	0.9
Loans granted to member institutions		- 7.2	- 47.6
		<b>- 20.2</b>	<b>- 259.2</b>
		<b>1,030.9</b>	<b>1,305.9</b>

The item “**Deferred tax liabilities**” reflects the taxation of income recognised in the Fund’s accounts, but whose tax will only be paid in subsequent periods, in accordance with the accounting policy described in Note 2.2. (f).

<i>EUR thousands</i>		
<b>Deferred tax liabilities</b>	<b>31 Dec. 10</b>	<b>31 Dec. 09</b>
<b>Deferred tax on capital income</b>		
Demand deposits	0.1	0.1
Fixed-term deposits	104.9	79.2
Other financial assets	-	0.2
Investments for the guarantee of deposits	56.3	131.5
Fixed-term deposits	37.5	-
Government debt securities	-	0.9
Short-term special debt certificates	32.1	39.4
Loans granted to member institutions	32.1	39.4
	<b>230.9</b>	<b>251.1</b>

### Note 13 – Staff costs

The item “**Staff costs**” records expenditure with the remunerated members of the Management Committee, as well as the corresponding social security charges.

<i>EUR thousands</i>		
<b>Staff costs</b>	<b>31 Dec. 10</b>	<b>31 Dec. 09</b>
Remuneration of the Management Committee	40.8	31.5
Remuneration charges	4.3	3.3
	<b>45.1</b>	<b>34.8</b>

The increase from the previous fiscal year is due to the fact that some members of the Management Committee only started to be remunerated in April 2009, following Decision No 7226/2009 of the Ministry of Finance and Public Administration. This effect is dampened by the 5% reduction in the basic remuneration decided by the members of the Management Committee of the Fund, to prevail as from and including June 2010.

## Note 14 – Supplies and services of third parties

This item is broken down as follows:

<i>EUR thousands</i>		
<b>Supplies and services of third parties</b>	<b>31 Dec. 10</b>	<b>31 Dec. 09</b>
Safekeeping fees (Euroclear)	1.8	-
Travelling, accommodation and transportation	3.7	5.4
	<b>5.6</b>	<b>5.4</b>

## Note 15 – Subsidies to mutual agricultural credit

As at 31 December 2010 and 2009 this item recorded the compensatory subsidies granted to FENACAM (National Federation of Mutual Agricultural Credit Banks), corresponding to the contribution to the costs of audits to agricultural banks conducted at the request of the Fund.

## Note 16 – Other profit/loss

As at 31 December 2010 and 2009 the item “**Other income and gains**” recorded the fines paid to the Fund, which were imposed by Banco de Portugal, in its banking supervisory capacity, on a bank belonging to SICAM.

The item “**Other costs and losses**” consisted mainly of the annual contribution of the Fund as member of the European Forum of Deposit Insurers (EFDI). As at 31 December 2009, in addition to this contribution, this item included the repayment to the Central Mutual Agricultural Credit Bank of the corporate income tax withheld at source that the Directorate General for Taxation deemed to be in default. This amount was calculated on the basis of interest received by the Fund on loans granted to the Central Mutual Agricultural Credit Bank, given that the rate applied to the tax withheld at source was below the rate legally established (€30,000).

## Note 17 – Losses/reversals of impairment of assets

The item “**Losses/reversals of impairment of assets**”, taken to the Profit and Loss Account, records impairment changes regarding the Fund’s share in the capital of CREDIVALOR (see Note 19).

<i>EUR thousands</i>		
<b>Impairment of assets: Credivalor</b>	<b>31 Dec. 10</b>	<b>31 Dec. 09</b>
<b>Opening balance</b>	5,675.0	5,405.0
Increases	50.0	270.0
Reversals	- 360.0	-
<b>Losses/reversals of impairment of assets</b>	<b>- 310.0</b>	<b>270.0</b>
<b>Closing balance</b>	<b>5,365.0</b>	<b>5,675.0</b>

## Note 18 – Contingent assets

As at 31 December 2010 the Fund recorded contingent assets, due to its participation in the financial assistance to one agricultural bank in the Algarve. This assistance, which started in 1999, amounted to €59,856,000. There is a prospect of recovery of at least part of this amount, given the existence of a contractual agreement envisaging the setting up of a repayment plan. In this context, the Fund received €1,208,000 during the 2010 fiscal year, as recorded in the Statement of Changes in Own Resources and Note 9.

However, it is not prudent to estimate the value of these assets, given that the repayment plan designed, which may be subject to variation depending on the annual results of that agricultural bank in the Algarve, does not allow for a reliable estimate of their measurement.

## Note 19 – Participating interests

The Fund has a share of 92% in the equity capital of CREDIVALOR – *Sociedade Parabancária de Recuperação de Créditos, S.A., Sociedade em liquidação* (in the process of winding up), corresponding to 9,200 shares with a nominal value of €5 each. In addition to these participating interests, the Fund granted loans to CREDIVALOR as additional payments and capital.

*EUR thousands*

<b>Participating interests: Credivalor</b>	Capital shares	Additional payments	Additional capital granted	<b>Total</b>
<b>Position as at 31 December 2009</b>	<b>46.0</b>	<b>3,360.0</b>	<b>2,269.0</b>	<b>5,675.0</b>
Additional capital granted	-	-	50.0	50.0
Additional capital repaid	-	-	- 360.0	- 360.0
Other movements	-	-	-	-
<b>Position as at 31 December 2010</b>	<b>46.0</b>	<b>3,360.0</b>	<b>1,959.0</b>	<b>5,365.0</b>

Capital shares and loans are fully impaired, due to the fact that this company is in the process of winding up, and its balance sheet value is zero.

## Note 20 – Adjustments regarding the transition to the Chart of Accounts based on the International Financial Reporting Standards (IFRS)

By virtue of the application of the principles and rules set out in the Chart of Accounts in force in the 2010 fiscal year (as described in Note 2.1.), the amounts recorded in the financial statements referring to 2009 have been reorganised for comparability purposes. No items were split as there is a direct correspondence between the items in the former Chart of Accounts and those in the Chart of Accounts currently in force.

A number of components were adjusted in the Fund's balance sheet as at 31 December 2009, which was prepared in accordance with the Chart of Accounts currently in force. However, the positive change in total assets was mainly due to the reorganisation of items that, according to the previous regulations, were recognised at their net value.

EUR thousands

Revoked Chart of Accounts (POC)	31 Dec. 09 (POC)	Reclassifications / adjustments					31 Dec. 09 (IFRS)
		Share in Creditor	Loans to member institutions (current assets)	Withholding at source by third parties (IRS)	Accrued interest (CEDIC)	Deferred taxes on demand deposits	
<b>ASSETS</b>							
FIXED ASSETS							
Financial assets							
Capital shares	46.0	-46.0	-	-	-	-	-
Financing loans	3,360.0	-3,360.0	-	-	-	-	-
PROVISIONS FOR FINANCIAL INVESTMENTS							
Capital shares	-46.0	46.0	-	-	-	-	-
Financing loans	-3,360.0	3,360.0	-	-	-	-	-
DEBTS OF THIRD PARTIES							
Loans granted to SICAM:							
(Non-current assets)	116,660.6	-	-11,959.1	-	-	-	104,701.4
(Current assets)	-	-	11,959.1	-	-	-	11,959.1
State and other public entities	-	-	-	1,565.1	-	-	1,565.1
Additional capital granted	2,269.0	-2,269.0	-	-	-	-	-
ADJUSTMENT IN DEBTS RECEIVABLE							
Additional capital granted	-2,269.0	2,269.0	-	-	-	-	-
CASH INVESTMENTS							
Investments for the guarantee of deposits	117,000.0	-	-	-	4.3	-	117,004.3
Other cash investments	1,500.0	-	-	-	0.8	-	1,500.8
BANK DEPOSITS	47,450.0	-	-	-	-	-	47,450.0
ACCRUALS AND PREPAID EXPENSES							
Accruals	1,255.6	-	-	-	-5.0	0.1	1,250.7
<b>TOTAL ASSETS</b>	<b>283,866.1</b>	<b>-</b>	<b>-</b>	<b>1,565.1</b>	<b>-</b>	<b>0.1</b>	<b>285,431.3</b>
<b>OWN RESOURCES AND PROFIT AND LOSS</b>							
OWN RESOURCES							
Contributions	260,915.0	-	-	-	-	-	260,915.0
RESERVES							
General reserves	18,065.2	-	-	-	-	-	18,065.2
NET PROFIT/LOSS FOR THE YEAR	4,634.0	-	-	-	-	-	4,634.0
<b>TOTAL OWN RESOURCES AND PROFIT AND LOSS</b>	<b>283,614.2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>283,614.2</b>
<b>LIABILITIES</b>							
PAYABLES							
State and other public entities	0.8	-	-	1,565.1	-	-	1,565.9
ACCRUALS AND INCOME COLLECTED IN ADVANCE							
Accruals	251.0	-	-	-	-	0.1	251.1
<b>TOTAL LIABILITIES</b>	<b>251.9</b>	<b>-</b>	<b>-</b>	<b>1,565.1</b>	<b>-</b>	<b>0.1</b>	<b>1,817.0</b>
<b>TOTAL OWN RESOURCES, PROFIT AND LOSS AND LIABILITIES</b>	<b>283,866.1</b>	<b>-</b>	<b>-</b>	<b>1,565.1</b>	<b>-</b>	<b>0.1</b>	<b>285,431.3</b>

## **II. INFORMATION ON CREDIVALOR – 2010 fiscal year**

CREDIVALOR is in the process of winding up. The majority of its capital (92%) is held by the Mutual Agricultural Credit Guarantee Fund.

## 1. CREDIVALOR's activities in 2010

CREDIVALOR – *Sociedade Parabancária de Valorização de Créditos, S.A., Sociedade em liquidação* (in the process of winding up) was set up following the authorisation granted by Executive Order No 6/93 (Series II) of the Presidency of the Council of Ministers and the Ministry of Finance published on 7 January 1993. Following the guidelines defined in due time by the Management Committee of the Fund – the majority shareholder – CREDIVALOR's voluntary winding-up was unanimously decided at the General Meeting held on 9 November 2006. Hence, this company went into liquidation.

Given that the winding-up of CREDIVALOR was not concluded within the two-year period (which ended on 9 November 2008) established in Article 150 (1) of the Commercial Companies Code (*Código das Sociedades Comerciais*), this deadline was extended for one year, in accordance with Article 150 (2) of the Commercial Companies Code, by decision of the extraordinary general meeting of shareholders held on 31 October 2008.

As the winding-up process was not completed within the extended deadline (which ended on 9 November 2009), by decision of the extraordinary general meeting of shareholders that was held on 29 September 2010, the winding up process will continue on a voluntary and extrajudicial basis, according to the winding up plan presented to the shareholders and Banco de Portugal, and the expiry of the winding up period was set for 31 May 2011.

On 31 December 2009 the Fund's share in the equity capital of CREDIVALOR amounted to €46,000 (92%), and the cumulative value of additional capital and additional payments made by the Fund totalled €1,959,000 and €3,360,000 respectively. These values were fully adjusted.

In 2010 the Fund provided CREDIVALOR with additional capital to the amount of €50,000, and over the course of the year CREDIVALOR repaid additional capital to the amount of €360,000.

## 2. Accounts of CREDIVALOR for 2010

CREDIVALOR		(EUR thousands)		
Assets	31 Dec. 10	31 Dec. 09	Change	
Cash and cash equivalents	69	100	-31	
(Net) claims on customers	43	49	-6	
Gross value	11,697	15,281	-3,584	
Provisions	11,654	15,232	-3,578	
(Net) tangible and intangible assets	0	1	-1	
Gross value	439	439	0	
Depreciation	439	438	1	
(Net) non-current assets held for sale	1,656	2,872	-1,216	
Gross value	8,923	9,535	-612	
Provisions	7,267	6,663	604	
Other assets	420	127	293	
<b>GROSS ASSETS</b>	<b>21,548</b>	<b>25,482</b>	<b>-3,934</b>	
<b>NET ASSETS</b>	<b>2,188</b>	<b>3,149</b>	<b>-961</b>	

As at 31 December 2010 CREDIVALOR's net assets amounted to €2.2 million, broken down as follows:

- €69,000 – cash and cash equivalents;
- €11.7 million – credits purchased from agricultural banks (€3.6 million less than at end-2009, of which only €680,000 were actual receipts), provisioned at 99.6% of their value;
- €11.7 million – provisions for claims on customers (€3.6 million less than at end-2009);
- €8.9 million – non-current assets held for sale, provisioned at 81%, corresponding to real estate property received as a result of credit recovery operations.

In 2010 CREDIVALOR's net assets fell by €961,000, mainly due to a

- €1,216,000 decrease in the value of non-current assets held for sale.

**CREDIVALOR**

(EUR thousands)

<b>Equity and liabilities</b>	<b>31 Dec. 10</b>	<b>31 Dec. 09</b>	<b>Change</b>
<b>EQUITY</b>	<b>156</b>	<b>508</b>	<b>-352</b>
Equity capital (realised value)	50	50	0
Subordinated liabilities (a)	3,360	3,360	0
Reserves	0	0	0
Profit / loss brought forward	-2,902	-2,559	-343
Profit / loss for the year	-352	-343	-9
<b>LIABILITIES</b>	<b>2,032</b>	<b>2,641</b>	<b>-609</b>
Other resources (b)	1,959	2,269	-310
Resources from customers	0	224	-224
Provisions	7	35	-28
Other liabilities	66	113	-47
<b>EQUITY AND LIABILITIES</b>	<b>2,188</b>	<b>3,149</b>	<b>-961</b>

(a) Additional payments, due to the conversion by the Fund of part of the additional capital provided.

(b) Additional capital provided by the Fund.

As at 31 December 2010 CREDIVALOR's liabilities totalled €2 million, broken down as follows:

- €1,959,000 – Other resources, with additional capital provided by the Fund (€310,000 less than at end-2009);
- €73,000 – Other liabilities and provisions.

As at 31 December 2010 equity, amounting to €156,000, related to:

- the value of subordinated liabilities – €3.4 million – corresponding to additional payments with a subordination clause made by the Fund in previous years, due to the conversion of part of the amount of additional capital provided to CREDIVALOR;
- loss for 2010 amounted to €0.3 million; and
- losses brought forward amounted to €2.9 million.

**CREDIVALOR**

(EUR thousands)

<b>Profit and Loss Account</b>	<b>2010</b>	<b>2009</b>	<b>Change</b>
Interest and similar income	3	7	-4
Interest expense and similar charges	0	0	0
<b>NET FINANCIAL INCOME</b>	<b>3</b>	<b>7</b>	<b>-4</b>
Other operating income	605	-27	632
<b>GROSS INCOME</b>	<b>609</b>	<b>-20</b>	<b>629</b>
Staff costs	66	121	-55
Administrative costs	315	275	40
Depreciation for the year	1	1	0
Changes in provisions, value adjustments and impairment	847	-74	921
<b>INCOME BEFORE TAXES</b>	<b>-620</b>	<b>-343</b>	<b>-277</b>
Taxes	-268	0	-268
<b>NET PROFIT / LOSS FOR THE YEAR</b>	<b>-352</b>	<b>-343</b>	<b>-9</b>

In 2010 CREDIVALOR recorded a loss of €352,000, i.e. €9,000 more than in 2009.

Net financial income was €3,000, i.e. €4,000 less than in 2009.

Other operating income stood at €605,000, which compares with a loss of €27,000 in 2009.

Operating costs (staff costs and administrative costs) amounted to €381,000, i.e. €15,000 less than in 2009.

In 2010 net financial income and other operating income were not sufficient to offset operating costs and net provisioning.

Since the setting up of CREDIVALOR to date, the Fund has transferred to it €123.3 million, net of repayments, as capital and additional capital. Subsequently, the latter has been used to a large extent in the conversion of additional payments and to cover losses brought forward.

Of the €123.3 million provided to CREDIVALOR: €91 million were aimed at covering interventions within the scope of the financial assistance agreements; and €32.3 million were aimed at purchasing assets from institutions belonging to SICAM outside the scope of these agreements, at paying interest associated with liabilities to agricultural banks, and at funding CREDIVALOR's current activities.

**III. LIST OF INSTITUTIONS THAT WERE MEMBERS OF THE MUTUAL  
AGRICULTURAL CREDIT GURANTEE FUND ON 31 DECEMBER 2010**

**List of institutions that were members of the Mutual Agricultural Credit Guarantee Fund on 31 December 2010**

- 1 CENTRAL MUTUAL AGRICULTURAL CREDIT BANK
- 2 Caixa de Crédito Agrícola Mútuo da ÁREA METROPOLITANA DO PORTO
- 3 Caixa de Crédito Agrícola Mútuo da BARRADA E AGUIEIRA
- 4 Caixa de Crédito Agrícola Mútuo da BATALHA
- 5 Caixa de Crédito Agrícola Mútuo da BEIRA BAIXA (SUL)
- 6 Caixa de Crédito Agrícola Mútuo da BEIRA CENTRO
- 7 Caixa de Crédito Agrícola Mútuo da BEIRA DOURO
- 8 Caixa de Crédito Agrícola Mútuo da COSTA AZUL
- 9 Caixa de Crédito Agrícola Mútuo da COSTA VERDE
- 10 Caixa de Crédito Agrícola Mútuo da PÓVOA DE VARZIM, VILA DO CONDE E ESPOSENDE
- 11 Caixa de Crédito Agrícola Mútuo da REGIÃO DE BRAGANÇA E ALTO DOURO
- 12 Caixa de Crédito Agrícola Mútuo da REGIÃO DO FUNDÃO E SABUGAL
- 13 Caixa de Crédito Agrícola Mútuo da SERRA DA ESTRELA
- 14 Caixa de Crédito Agrícola Mútuo da ZONA DO PINHAL
- 15 Caixa de Crédito Agrícola Mútuo das SERRAS DE ANSIÃO
- 16 Caixa de Crédito Agrícola Mútuo de ALBERGARIA E SEVER
- 17 Caixa de Crédito Agrícola Mútuo de ALBUFEIRA
- 18 Caixa de Crédito Agrícola Mútuo de ALCÁCER DO SAL E MONTEMOR-O-NOVO
- 19 Caixa de Crédito Agrícola Mútuo de ALCANHÕES
- 20 Caixa de Crédito Agrícola Mútuo de ALCOBAÇA
- 21 Caixa de Crédito Agrícola Mútuo de ALENQUER
- 22 Caixa de Crédito Agrícola Mútuo de ALJUSTREL E ALMODÔVAR
- 23 Caixa de Crédito Agrícola Mútuo de ANADIA
- 24 Caixa de Crédito Agrícola Mútuo de AROUCA
- 25 Caixa de Crédito Agrícola Mútuo de ARRUDA DOS VINHOS
- 26 Caixa de Crédito Agrícola Mútuo de AZAMBUJA
- 27 Caixa de Crédito Agrícola Mútuo de BEJA E MÉRTOLA
- 28 Caixa de Crédito Agrícola Mútuo de BORBA
- 29 Caixa de Crédito Agrícola Mútuo de CADAVAL
- 30 Caixa de Crédito Agrícola Mútuo de CALDAS DA RAINHA, ÓBIDOS E PENICHE
- 31 Caixa de Crédito Agrícola Mútuo de CAMPO MAIOR
- 32 Caixa de Crédito Agrícola Mútuo de CANTANHEDE E MIRA
- 33 Caixa de Crédito Agrícola Mútuo de COIMBRA
- 34 Caixa de Crédito Agrícola Mútuo de CORUCHE
- 35 Caixa de Crédito Agrícola Mútuo de ELVAS
- 36 Caixa de Crédito Agrícola Mútuo de ENTRE TEJO E SADO

- 37 Caixa de Crédito Agrícola Mútuo de ESTARREJA
- 38 Caixa de Crédito Agrícola Mútuo de ESTREMOZ, MONFORTE E ARRONCHES
- 39 Caixa de Crédito Agrícola Mútuo de FERREIRA DO ALENTEJO
- 40 Caixa de Crédito Agrícola Mútuo de LAFÕES
- 41 Caixa de Crédito Agrícola Mútuo de LOURES, SINTRA E LITORAL
- 42 Caixa de Crédito Agrícola Mútuo de LOURINHÃ
- 43 Caixa de Crédito Agrícola Mútuo de MOGADOURO E VIMIOSO
- 44 Caixa de Crédito Agrícola Mútuo de MORAVIS
- 45 Caixa de Crédito Agrícola Mútuo de OLIVEIRA DE AZEMÉIS
- 46 Caixa de Crédito Agrícola Mútuo de OLIVEIRA DO BAIRRO
- 47 Caixa de Crédito Agrícola Mútuo de OLIVEIRA DO HOSPITAL
- 48 Caixa de Crédito Agrícola Mútuo de PAREDES
- 49 Caixa de Crédito Agrícola Mútuo de PERNES
- 50 Caixa de Crédito Agrícola Mútuo de POMBAL
- 51 Caixa de Crédito Agrícola Mútuo de PORTO DE MÓS
- 52 Caixa de Crédito Agrícola Mútuo de S. BARTOLOMEU DE MESSINES-S.MARCOS DA SERRA
- 53 Caixa de Crédito Agrícola Mútuo de S. JOÃO DA PESQUEIRA
- 54 Caixa de Crédito Agrícola Mútuo de SALVATERRA DE MAGOS
- 55 Caixa de Crédito Agrícola Mútuo de SÃO TEOTÓNIO
- 56 Caixa de Crédito Agrícola Mútuo de SILVES
- 57 Caixa de Crédito Agrícola Mútuo de SOBRAL DE MONTE AGRAÇO
- 58 Caixa de Crédito Agrícola Mútuo de SOUSEL
- 59 Caixa de Crédito Agrícola Mútuo de TERRA QUENTE
- 60 Caixa de Crédito Agrícola Mútuo de TERRAS DE MIRANDA DO DOURO
- 61 Caixa de Crédito Agrícola Mútuo de TERRAS DE SOUSA, AVE, BASTO E TÂMEGA
- 62 Caixa de Crédito Agrícola Mútuo de TERRAS DE VIRIATO
- 63 Caixa de Crédito Agrícola Mútuo de TRAMAGAL
- 64 Caixa de Crédito Agrícola Mútuo de VAGOS
- 65 Caixa de Crédito Agrícola Mútuo de VALE DE CAMBRA
- 66 Caixa de Crédito Agrícola Mútuo de VALE DO DÃO E ALTO VOUGA
- 67 Caixa de Crédito Agrícola Mútuo de VALE DO SOUSA E BAIXO TÂMEGA
- 68 Caixa de Crédito Agrícola Mútuo de VALE DO TÁVORA E DOURO
- 69 Caixa de Crédito Agrícola Mútuo de VILA FRANCA DE XIRA
- 70 Caixa de Crédito Agrícola Mútuo de VILA VERDE E TERRAS DE BOURO
- 71 Caixa de Crédito Agrícola Mútuo do ALENTEJO CENTRAL
- 72 Caixa de Crédito Agrícola Mútuo do ALGARVE
- 73 Caixa de Crédito Agrícola Mútuo do ALTO CÁVADO E BASTO
- 74 Caixa de Crédito Agrícola Mútuo do BAIXO MONDEGO
- 75 Caixa de Crédito Agrícola Mútuo do BAIXO VOUGA

- 76 Caixa de Crédito Agrícola Mútuo do CARTAXO
- 77 Caixa de Crédito Agrícola Mútuo do DOURO, CORGO E TÂMEGA
- 78 Caixa de Crédito Agrícola Mútuo do GUADIANA INTERIOR
- 79 Caixa de Crédito Agrícola Mútuo do MÉDIO AVE
- 80 Caixa de Crédito Agrícola Mútuo do NORDESTE ALENTEJANO
- 81 Caixa de Crédito Agrícola Mútuo do NOROESTE
- 82 Caixa de Crédito Agrícola Mútuo do NORTE ALENTEJANO
- 83 Caixa de Crédito Agrícola Mútuo do RIBATEJO NORTE
- 84 Caixa de Crédito Agrícola Mútuo do RIBATEJO SUL
- 85 Caixa de Crédito Agrícola Mútuo do SOTAVENTO ALGARVIO
- 86 Caixa de Crédito Agrícola Mútuo dos AÇORES

#### **IV. CHANGES TO THE LEGAL FRAMEWORK OF THE MUTUAL AGRICULTURAL CREDIT GUARANTEE FUND AND MUTUAL AGRICULTURAL CREDIT**

In 2010 some changes were introduced in the legal framework of the *Fundo de Garantia do Crédito Agrícola Mútuo* – FGCAM (Mutual Agricultural Credit Guarantee Fund) and of mutual agricultural credit, in particular as a result of the publication of the following ordinances:

##### **(A) Changes regarding the Mutual Agricultural Credit Guarantee Fund:**

- **Law No 12-A/2010 of 30 June (Assembly of the Republic)**, which approves additional fiscal consolidation measures aimed at strengthening and accelerating the reduction of the excessive deficit and the control of public debt growth set out in the Stability and Growth Programme. Of these measures, the main are: 5% reduction in the remuneration of holders of political offices and changes to the Personal Income Tax Code, the Corporate Income Tax Code, VAT and stamp duty.
- **Notice of Banco de Portugal No 3/2010**, which establishes the contribution system for the Mutual Agricultural Credit Guarantee Fund by the Central Agricultural Credit Bank and mutual agricultural credit banks that are members of *Sistema Integrado do Crédito Agrícola Mútuo* – SICAM (Integrated Mutual Agricultural Credit Scheme) and set at 0.10% the contribution base rate for 2010. It revokes Notice of Banco de Portugal No 14/2003.
- **Instruction of Banco de Portugal No 20/2010**, which sets at 0.10% the contribution base rate applicable to the calculation of the contribution of each member institution to the Mutual Agricultural Credit Guarantee Fund in 2011.

##### **(B) Changes regarding mutual agricultural credit:**

- **Law No 36/2010 of 2 September (Assembly of the Republic)**, which introduces changes in the Legal Framework of Credit Institutions and Financial Companies, approved by Decree-Law No 298/92 of 31 December 1992, aimed at creating in Banco de Portugal a database on the bank accounts existing in the Portuguese banking system.
- **Decree-Law No 45/2010 of the Ministry of Finance and Public Administration** of 6 May, which establishes the own funds requirements applicable to investment firms and credit institutions, amending Decree-Law No 103/2007 of 3 April, and defines the requirements regarding the minimum level of own funds and limits to large exposures on an individual basis,

amending Decree-Law No 104/2007 of 3 April. The main changes are: the inclusion of country risk in the calculation of capital weightings of credit institutions, and the reduction to 3 months of the reporting frequency of prudential data by credit institutions and financial companies to Banco de Portugal.

- **Decree-Law No 52/2010 of the Ministry of Finance and Public Administration** of 26 May, which transposes into Portuguese law Directive No 2007/44/EC of the European Parliament and the Council of 5 September 2007, as regards procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector. This Directive establishes a 10% threshold for qualifying holdings in financial institutions. It also strengthens the co-operation mechanisms between the national supervisory authorities and the competent authorities in other Member States.
- **Notice of Banco de Portugal No 1/2010**, which lays down the information to be released regarding the remuneration policy of management and auditing board members of credit institutions and financial companies, as well as staff with a variable compensation and exercising control functions.
- **Notice of Banco de Portugal No 2/2010**, which establishes the minimum reporting requirements to be met by credit institutions, when negotiating or signing housing loans or during the life of a mortgage credit agreement.
- **Notice of Banco de Portugal No 5/2010**, which lays down the information requirements that must be complied with in the communication of projects to acquire and increase a qualifying holding in credit institutions, financial companies and investment firms, revoking Notice of Banco de Portugal No 3/94.
- **Notice of Banco de Portugal No 6/2010**, which sets out the own funds items of institutions subject to the supervision of Banco de Portugal, revoking Notice of Banco de Portugal No 12/92. The main change introduced is the establishment of a new category of eligible original own funds items, provided that the specific requirements are met.
- **Notice of Banco de Portugal No 7/2010**, which sets out the limits to the concentration of risks of credit institutions and investment firms, revoking Notice of Banco de Portugal No 6/2007.

- **Notice of Banco de Portugal No 8/2010**, which amends Notice of Banco de Portugal No 5/2007 on the calculation of risk-weighted assets, Notices of Banco de Portugal No 7/2007, 8/2007 and 9/2007 on own funds requirements, and Notice of Banco de Portugal No 10/2007 on the public disclosure of information.
  
- **Notice of Banco de Portugal No 9/2010**, which regulates the investment, assignment and sponsorship in securitisation operations.

## **OPINION OF THE BOARD OF AUDITORS OF BANCO DE PORTUGAL**

Pursuant to the applicable provisions of the Legal Framework of Credit Institutions and Financial Companies and the provisions laid down in Articles 20 and 21 of Decree-Law No 345/98 of 9 November 1998, the Board of Auditors of Banco de Portugal issued its opinion on the Annual Report and Accounts of the *Fundo de Garantia do Crédito Agrícola Mútuo* – FGCAM (Mutual Agricultural Credit Guarantee Fund, hereinafter referred to as “the Fund”) for 2010.

The financial statements of the Fund were prepared taking into account the provisions laid down in Article 19 of Decree-Law No 345/98 of 9 November 1998 on the drawing up of the Fund’s Chart of Accounts, which entered into force on 1 January 2010. The latter is based on the International Accounting Standards (IAS), approved by an EC regulation, as adjusted to the specific nature of the Fund’s activities. Figures for 2009 were reclassified in accordance with the IAS to ensure the comparability of financial statements.

The major purpose of the Fund is to guarantee, within the established limits, the repayment of deposits with the *Caixa Central de Crédito Agrícola Mútuo* (Central Mutual Agricultural Credit Bank) and its associate agricultural banks, as well as to promote and carry out the actions deemed necessary to ensure the solvency and liquidity of these institutions, targeted at the protection of the *Sistema Integrado de Crédito Agrícola Mútuo* – SICAM (Integrated Mutual Agricultural Credit Scheme).

On 31 December 2010 SICAM comprised the Central Mutual Agricultural Credit Bank and 86 associate agricultural banks.

Notice of Banco de Portugal No 3/2010 published in 2010, revoked Notice No 14/2003 and set the contribution base rate at 0.10%.

The Board of Auditors, within its field of competence, monitored the Fund’s activities, analysing the documents regularly sent by the Management Committee, together with data and additional information deemed necessary for the performance of its tasks.

During the preceding year, the Fund continued to monitor and to provide financial assistance to SICAM.

In 2010 loans were repaid to the Fund to the amount of €14.4 million and one new financial assistance agreement was signed, although no funds were disbursed, as this agreement concerned maturity extensions for an existing loan. At the end of 2010 the financial assistance agreements in force involved loans granted by the Fund to the amount of €102.3 million (€99.9 million to mutual agricultural credit banks and €2.4 million to the Central Mutual Agricultural Credit Bank).

The Fund's investments aimed at guaranteeing the repayment of deposits with the Central Mutual Agricultural Credit Bank and its associate agricultural banks, according to the provisions laid down in Article 2 (1) and in Article 11 of Decree-Law No 345/98 of 9 November 1998, amounted to €146.8 million; these investments correspond to approximately 1.52% of the average value of deposits within the scope of SICAM covered by the Fund's guarantee and represent more than 49% of the Fund's gross assets, in accordance with the lower limit set out in Article 11 of Decree-Law No 345/98.

Free investments consist of demand deposits (€212,500) and fixed-term deposits (€46,396,000) with credit institutions.

With regard to the share in the equity capital of CREDIVALOR, the Fund holds 9,200 shares with a nominal value of €5 each, totalling €46,000 and accounting for 92% of the equity capital of CREDIVALOR. This share is fully adjusted.

Loans granted to CREDIVALOR are fully adjusted (additional payments with a subordination clause to the amount of €3,360,000 and additional capital to the amount of €1,959,000). In 2010 additional capital was granted to CREDIVALOR to the amount of €50,000 and additional capital was repaid to the amount of €360,000.

The Management Committee continued to monitor the ongoing liquidation proceedings of CREDIVALOR, with the liquidation deadline being set at 31 May 2011.

The Fund's own resources amount to €296.4 million, including initial contributions by Banco de Portugal, initial and periodic contributions by the Central Mutual

Agricultural Credit Bank and its associate agricultural banks and income from investments.

The Management Committee proposes that the net profit for the year, to the amount of €3,710,151.74, be transferred in full to general reserves.

On the basis of the analysis carried out, and taking into account the above considerations and of the report prepared by the Audit Department of Banco de Portugal, the Board of Auditors raises no objection to the approval of the Report and Accounts of the Fund for the year 2010, nor to the proposal for profit distribution submitted by the Management Committee.

Lisbon, 29 March 2011

BOARD OF AUDITORS

Emílio Rui da Veiga Peixoto Vilar

Rui José da Conceição Nunes

Amável Alberto Freixo Calhau