

For Online Publication

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A The Banking Sector in Portugal in 2004

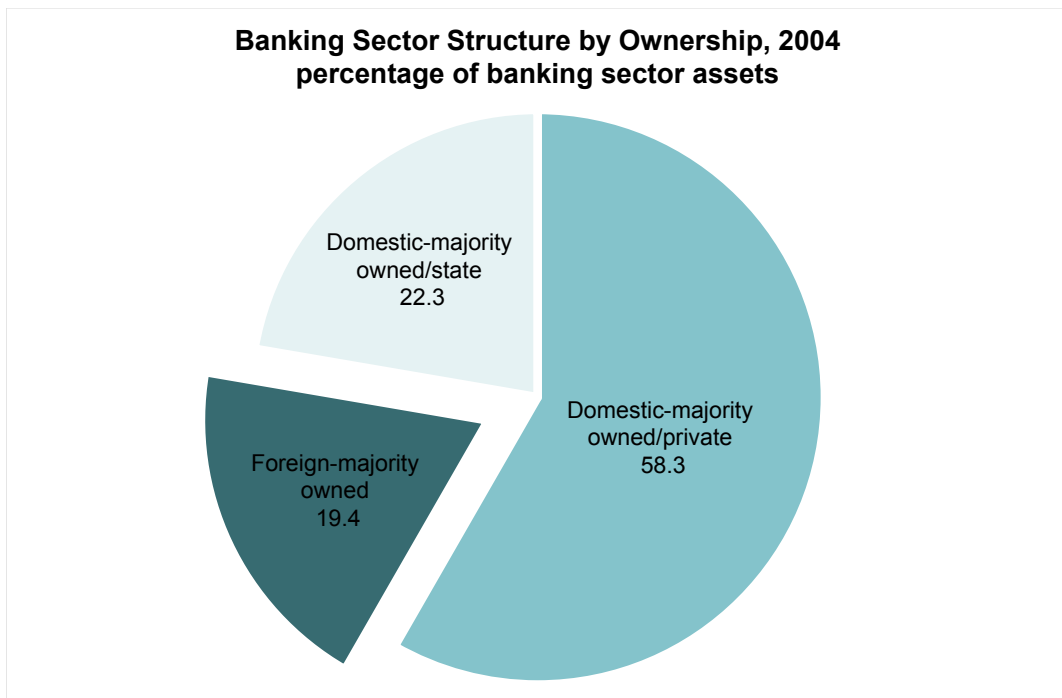
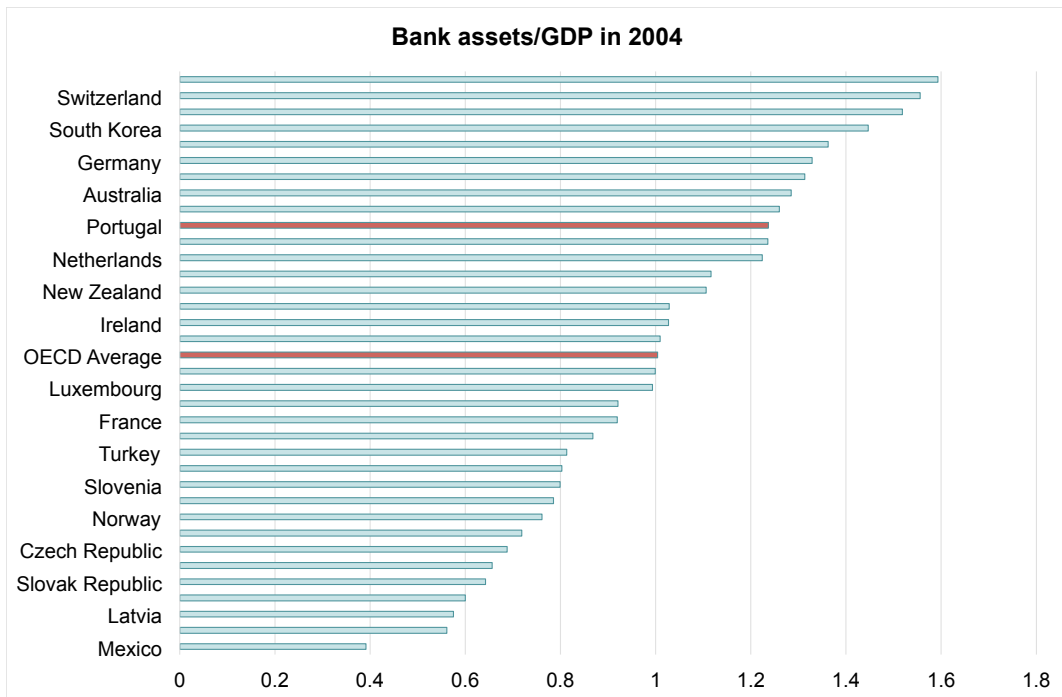


Figure A.1. Portuguese Banking Sector in 2004

Data are from the 2004 IMF Annual Report on the Portuguese Economy.

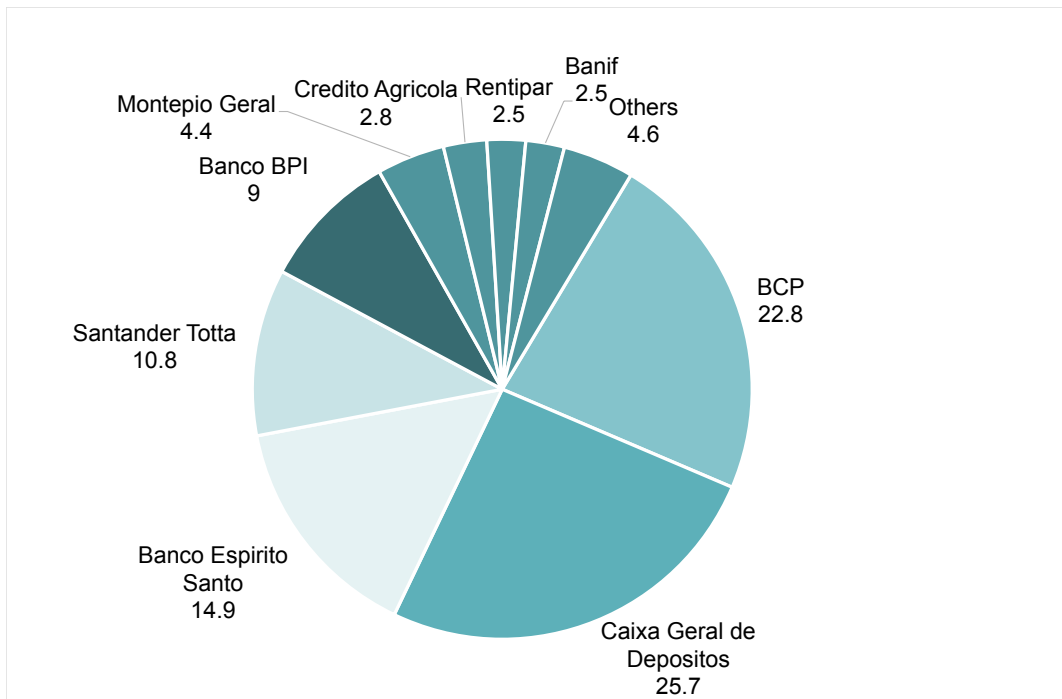


Figure A.2. Market Share of the Main Portuguese Banks in 2004

Data are from the 2004 IMF Annual Report on the Portuguese Economy.

Table A.1. Financial Intermediation in Portugal and Euro Area

	Euro Area		Portugal	
	2001	2004	2001	2004
Bank credit to non-monetary private sect	113	116	132	136
Stock market capitalization	38	39	25	28
Domestic debt securities	70	72	42	44
Total	221	226	199	208
Memorandum items:				
Total bank assets	251	263	215	221
Bank deposits	94	96	116	115

in percent of GDP

B Bank DB Plan Regulation in Portugal prior to IAS19

While bank DB plans appeared in Portugal in the late 80s, Bank of Portugal issued its first regulation on bank DB pension plans in 1995. This first regulation - Notice No. 6/1995 - defines both the funding and the reporting rules of Bank DB plans.¹

Funding Rules

Notice No. 6/1995 requires DB plans to be funded at 100% for pensions in payment and at 95% for employees in service by the closing of each accounting year.

A DB plan is funded when the value of its assets matches the net present value of its liabilities, which depends on the number of employees covered by the DB plan, their age but also actuarial assumptions such as the discount rate, the expected growth rate of wages, the expected inflation rate, and their life expectancy.

If a pension plan becomes underfunded in a given year, the sponsoring bank has to make direct cash contributions.

Reporting Rules

Notice No. 6/1995 requires banks to report their DB plans off the balance sheet as separated financial institutions. The balance sheet of the DB plans includes pensions obligations in the liability side and the assets dedicated to their funding in the asset side.

Pension expenses, which include annual pension commitments, the interest costs net of the expected return on the plan's assets, as well as the amortization amounts of deferred costs, are reported in the income statement of the sponsor bank.

¹Available in Portuguese at: <http://www.bportugal.pt/sibap/application/app1/docs1/avisos/textos/6-95a.pdf>

Gains or losses resulting from changes in the DB plan coverage or changes in actuarial assumptions can be amortised over the average remaining service period of the participants in the pension plan, i.e. 15 to 20 years on average. The deferred amount is reported in the balance sheet of the sponsor bank.

Notice 12/2001 and Notice 7/2002 of Bank of Portugal brought about three refinements to the existing reporting rules:²

1. **Actuarial assumptions:** Banks have limited discretion when fixing the value of the actuarial assumptions.
2. **The corridor approach:** Banks can only defer the reporting of actuarial gains or losses that exceed the corridor limits defined by the regulator.
3. **Prudential Deductions:** Deferred costs resulting from actuarial losses should be deducted from bank Tier 1 capital to protect the integrity of bank capital. As a result, since 2002 we observe prudential deductions from bank Tier 1 capital due to variations in the valuation of pension funds.

²The two notices are available at: <http://www.bportugal.pt/sibap/application/app1/docs1/avisos/textos/12-2001a.pdf> and <http://www.bportugal.pt/sibap/application/app1/docs1/avisos/textos/7-2002a.pdf>

Pension Fund Balance Sheet (31 December 2005)

Assets	Liabilities
100	100+50
50	Transition liability in 2005
Sponsor contribution to cover the transition liability	

Assuming funding requirements of 100% of the PBO and following an increase of 50 due to introducing IAS 19, plan sponsors need to increase contributions by 50.

Sponsor Bank Balance Sheet (31 December 2005)

Assets	Liabilities
100 Cash	200 Equity
100 Loans	-3.5 Annual P&L
-50	-46.5
Δ due to contribution to the pension plan	Δ in the funding status of the bank pension plan

On the asset side of the bank balance sheet, the pension contribution is recognized through a compensating account. On the liability side, the contribution is split between the P&L balance, and the remaining amount.

Bank Profit and Loss Statement (P&L, 2005)

Income	Expenses
	3.5
	Annual amortisation of deferred costs

Note: Assuming no past deferred costs, the value of the corridor at 31 December 2005 is equal to $15 = 10\% \cdot \max(\text{Pension Assets}, \text{Pension Liabilities})$. After incorporating the transition liability, deferred costs amount to $35 = 50 - 15$. Assuming an amortisation horizon of 10 years, the annual amortisation of deferred costs equals $3.5 = 35/10$.

Bank Tier 1 Regulated Capital (31 December 2005)

Equity	200
Annual P&L	-3.5
Prudential Deduction	-31.5
Total Tier 1 Capital	165

Note: According to Portuguese prudential regulation, the calculation of bank Tier 1 Capital should take into account the whole amount of deferred costs due to IAS 19. However, in practice, transitioning to IAS 19 would have imposed huge prudential deductions, which is why banks were given several years to split the deductions.

Figure B.1. The Impact of an Increase in the Accounting Value of Bank DB Plan Liabilities on Bank Financial Situation

This figure uses stylised numbers to show how, based on the IAS 19 accounting standards, an increase of 50 million Euro of a bank DB-plan liabilities will affect the bank balance sheet, its income statement and its regulated capital.

C Bank Exposure to Pension Plans and the Introduction of IAS19

Table C.1. The Bank DB Plan Characteristics of the 6 largest Portuguese banks

	CGD	BCP Millenium	Espirito Santo	Santander Totta	BPI	Montepio
<i>Bank Characteristics in 2004</i>						
Total Assets (<i>in billion Euros</i>)	78.35	71.32	43.05	32.8	30.16	12.41
Total Equity (<i>in billion Euros</i>)	3.32	3.61	2.56	1.56	1.18	0.652
Equity Ratio (Equity / Assets)	4.23%	5.06%	5.94%	4.75%	3.92%	5.26%
<i>DB Plan Coverage in 2004</i>						
Pension Plan Liability (<i>in billion Euros</i>)	0.65	4.60	1.50	0.90	1.58	0.35
DB Plan Size to Bank Assets	0.82%	6.45%	3.49%	2.75%	5.23%	2.8%
DB Plan Size to Bank Equity	19.45%	127.48%	58.80%	57.9%	133.40%	54.1%
Treatment Dummy	0	1	1	1	1	1
<i>2005 Contributions</i>						
Amount (<i>in billion Euros</i>)	0.04	1.23	0.24	0.64	0.63	0.06
Ratio to Bank Equity	1.24%	34.20%	9.43%	41%	53%	9.5%

This table illustrates the heterogeneous exposure of Portuguese banks to their pension plans. Data are from the 2004 and 2005 financial statements of the six largest Portuguese banks in 2004: Caixa Geral de Depositos, BCP, Banco Espirito Santo, Santander Totta, Banco BPI and Montepio Geral. These 6 largest banks stand for 87% market share in 2004.

Table C.2. The Detailed Impact of IAS19 on the Bank DB Plan Liability of the 6 largest Portuguese banks

	CGD	BCP Millenium	Espirito Santo	Santander Totta	BPI	Montepio	Total	Ratio to 2004 Liability
2004 Liability (<i>in million Euros</i>)	645	4,602	1,503	902	1,576	353	9,190	100%
<i>Change due to:</i>								
Change in Discount Rate	37	347	193	21	372	38	1,123	12%
Benefit Extension	82	626	-	133	152	15	1,008	11%
Change in Mortality Table	27	248	82	63	44	44	508	5%
2005 Liability (<i>in million Euros</i>)	791	5,471	1,778	1,235	2,144	449	12,294	127%

This table illustrates the effects of IAS 19 on bank DB plan liabilities. Data are from the 2004 and 2005 financial statements of the six largest Portuguese banks in 2004: Caixa Geral de Depositos, BCP, Banco Espirito Santo, Santander Totta, Banco BPI and Montepio Geral. These 6 largest banks stand for 87% market share in 2004.

Table C.3. The Impact of each IFRS reforms on Bank Equity - 6 largest banks - 87% Market Share

	CGD	BCP Mil- lenium	Espirito Santo	Santander Totta	BPI	Montepio	
<i>In thousand Euros</i>							
IAS 19	Pension Liability	-509,200	-625,855	-224,472	-374,048	-514,027	-117,499
IAS 38	Intangible assets	-29,800	-53,200	-49,198	-1,857	-13,704	
IAS 16	Tangible fixed assets available for sale					-1,988	
IAS 12	Deferred Taxes	317,500	561,010	109,947	98,731	196,011	
IAS 39	Derivative financial instruments and hedge accounting	-1,200	-40,500	-63,396			
IFRS 2	Share-based payment program					14,554	
IAS 19	Bonus and variable remuneration		-115,200	-43,247	-3,300		
IAS 19	Long service premium			-19,942	-29,731	-18,616	
IAS 39	Fair value and impairment of securities and investments portfolio	394,600	-276,600				2,865
IAS 39	Credit Impairment	-42,300	-140,900	-20,788			4,698
IAS 1	Interim dividends on preference shares		-97,703		260	-8,286	
IAS 22	Preference shares		500,000	16,694		-16,305	
IAS 37	Provisions not affected to specific risk				91,862		
Total		129,600	-288,948	-294,402	-162,048	-362,361	-109,936

This table illustrates the effect of each accounting reforms induced by the adoption of the IFRS standards by Portuguese banks in 2005. Data are from the 2004 and 2005 financial statements of the six largest Portuguese banks in 2004: Caixa Geral de Depositos, BCP, Banco Espirito Santo, Santander Totta, Banco BPI and Montepio Geral. These 6 largest banks stand for 87% market share in 2004.

D Results: Robustness Tests

Table D.1. Robustness Tests for the Analysis in Table 4 (I)

Dependent variable	Bank-Firm Credit Growth						
	Capital Buffers	Bank Cluster			Top 6 Banks		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Treatment dummy (I)	-0.163*** (0.030)	-0.168** (0.072)	-0.191** (0.069)	-0.177* (0.090)	-0.193*** (0.043)	-0.247*** (0.052)	-0.158*** (0.056)
Capital buffer (II)	0.087*** (0.029)						
(I)*(II)	0.241* (0.141)						
FirmCh	No	No	Yes	No	No	No	Yes
FirmFE	Yes	No	No	Yes	No	No	Yes
BankCh	Yes	No	Yes	Yes	No	Yes	Yes
N	298,631	426,119	426,119	319,197	323,536	323,536	206,408
R ²	0.462	0.005	0.130	0.457	0.005	0.128	0.484

This table reports the coefficients of OLS estimations that support the analysis in Table 4. In Column (1), we use Model (3) from Table 4 and add an interaction effect for each bank's capital buffer at the end of 2004 (i.e., the bank's existing capital on top of Tier 1 regulated capital). Columns (2) to (4) replicate the the main models (1) to (3) in Table 4, but with the coefficients clustered at banking group level. Finally, columns (5) to (7) replicate the same analysis, but by restricting the sample to credit exposures coming from the top six Portuguese banks by market share in terms of total assets. The joint market share of these six banks, at the end of 2004, is 87%.

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table D.2. Robustness Tests for the Analysis in Table 4 (II)

Dependent variable	Bank-Firm Credit Growth						
	(1)	(2)	Delta Log Specification			(8)	(9)
			(3)	(4)	(5)		
Treatment dummy	-1.247*** (0.019)	-1.085*** (0.132)	-1.016*** (0.122)			-1.204*** (0.131)	-1.172*** (0.121)
Treatment intensity				-0.819*** (0.206)	-0.505 (0.360)		
FirmCh	No	Yes	No	No	No	Yes	No
FirmFE	No	No	Yes	Yes	Yes	No	Yes
BankCh	No	Yes	Yes	Yes	Yes	Yes	Yes
N	426,119	426,119	319,197	319,197	236,685	333,788	269,181
R ²	0.010	0.164	0.449	0.447	0.475	0.165	0.454

This table replicates the estimations in Table 4, but using delta log instead of growth rates in order to measure changes in bank-firm exposures between the pre and post periods. We preserve column numbers. Models (6) and (7) are excluded, because the dependent variables in those cases are dummies. All other characteristics of the specifications in Table 4 are unchanged. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table D.3. Robustness Tests for the Analysis in Table 4 (III)

Dependent variable	Bank-Firm Credit Growth				New Lending	End Lending
	<i>Top 6 Banks</i>					
	(1)	(2)	(3)	(4)		
Treatment intensity	-0.276*** (0.080)	-0.129* (0.076)	-0.315*** (0.111)	-0.221* (0.122)	-0.624** (0.262)	0.493*** (0.134)
FirmCh	Yes	No	Yes	No	Yes	Yes
FirmFE	No	Yes	No	Yes	No	No
BankCh	Yes	Yes	Yes	Yes	Yes	Yes
N	426,119	319,197	323,536	206,408	426,119	426,119
R ²	0.125	0.453	0.127	0.466		
pseudo-R ²					0.229	0.030

In this table, we show additional results confirming the robustness of the estimations in Table 4, with respect to the definition of the main treatment variable. Here, we define the *Treatment intensity* variable as the ratio of bank-level *changes* in the pension liability as a result of the IAS 19 norms, to bank equity. Columns (1) and (2) are OLS estimations on the full sample, with firms controls and firm fixed effects, respectively. Columns (3) and (4) restrict the analysis to the top six banks, while Columns (5) and (6) show the results from logit regressions on the likelihood of starting a new lending relationships and, respectively, on the likelihood of ending an existing one. Standard errors are clustered at banking group*industry and reported in brackets. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table D.4. The Impact of the Introduction of IAS 19 on Total Firm Employment and By Worker Education. Disaggregated.

	Growth of Employment, at Firm Level						
	By Level of Education						
	Total (1)	4 years (2)	6 years (3)	9 years (4)	Highschool (5)	College (6)	Bachelor (7)
Treatment dummy	-0.017*** (0.003)	-0.012* (0.006)	-0.014** (0.006)	-0.023*** (0.007)	-0.021*** (0.007)	-0.021 (0.015)	-0.037*** (0.010)
FirmCh	Yes	Yes	Yes	Yes	Yes	Yes	Yes
IndustryFE	Yes	Yes	Yes	Yes	Yes	Yes	Yes
N	161,201	93,562	96,013	105,605	96,174	28,059	51,284
R ²	0.372	0.106	0.101	0.097	0.106	0.050	0.090

This table reports the coefficients of OLS regressions where the dependent variable is the growth rate of employment, at firm level, between the pre-period (2004) and the post-period (2005 to 2006). The independent variable *Treatment dummy* separates firms into treated or control groups, as in Table 4. All specifications are saturated with industry fixed effects (at two-digit SIC levels), and they include the same set of firm controls (credit history, total sales, firm age, legal nature, ownership structure, product per worker and workforce turnover). Model (1) is estimated on the full sample of firms and workers. Models (2) to (7) are estimations on restricted samples, comprising of the groups of workers with a given level of education in the firms. Standard errors are clustered at banking group * industry levels and reported in brackets, * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table D.5. The Impact of the Introduction of IAS 19 on Firm Employment: All Workers, and by Levels of Education and Occupation. Firms with 5 or More Workers.

Employment Growth, Firm Level						
By Worker Education						
	All Workers (1)	With College Degree (2)	With High School Degree (3)	With Middle School Education (4)	Up to Elementary School (5)	
Treatment dummy	-0.010*** (0.003)	-0.021** (0.010)	-0.017** (0.008)	-0.010* (0.005)	-0.014** (0.007)	
Firm Characteristics	Yes	Yes	Yes	Yes	Yes	
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	
Observations	79,386	39,901	58,127	74,402	61,327	
R ²	0.306	0.091	0.087	0.14	0.092	
By Official Worker Classification						
	Managers (6)	Higher-Skilled Workers (7)	Skilled Workers (8)	Semi-Skilled Workers (9)	Non-Skilled Workers (10)	
Treatment dummy	-0.004 (0.005)	-0.031** (0.014)	-0.004 (0.006)	-0.020* (0.010)	-0.010 (0.011)	
Firm Characteristics	Yes	Yes	Yes	Yes	Yes	
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes	
Observations	74,856	32,045	74,848	45,221	41,875	
R ²	0.125	0.040	0.121	0.054	0.045	

This table provides a robustness check to Table 7. We estimate the same econometric model, but we restrict the sample to firms that had at least five workers on their payroll in 2004. The dependent variable is the growth rate of employment, at firm level, between the pre-period (2004) and the post-period (2005 to 2006). The independent variable *Treatment dummy* separates firms into treated or control groups, as in Table 5. All specifications are saturated with industry fixed effects (at two-digit SIC levels), and they include the same set of firm controls as in Table 5: credit history, the logarithm of total sales, firm age, product per worker and workforce tenure, as well as indicators for legal nature and ownership structure, all measured in 2004. The initial sample includes all firms with positive credit exposure in 2004 and hiring at least five workers. In columns (2) to (5), the sample is restricted to firms hiring workers with the specified level of education. Standard errors are clustered at banking group \times industry levels and reported in brackets, * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table D.6. The Impact of the Introduction of IAS 19 on Firm Employment: All Workers, and by Levels of Education and Occupation. Weighted Treatment.

Employment Growth, Firm Level					
By Worker Education					
	All Workers (1)	With College Degree (2)	With High School Degree (3)	With Middle School Education (4)	Up to Elementary School (5)
Weighted Treatment	-0.035*** (0.007)	-0.081*** (0.017)	-0.038*** (0.014)	-0.034*** (0.010)	-0.023* (0.013)
Firm Characteristics	Yes	Yes	Yes	Yes	Yes
Industry Fixed Effects	Yes	Yes	Yes	Yes	Yes
Observations	161,202	59,421	96,174	131,094	93,562
R ²	0.372	0.106	0.106	0.150	0.106

By Official Worker Classification					
	Managers (6)	Higher-Skilled Workers (7)	Skilled Workers (8)	Semi-Skilled Workers (9)	Non-Skilled Workers (10)
Weighted Treatment	-0.026*** (0.009)	-0.010 (0.025)	-0.008 (0.011)	-0.035 (0.021)	-0.017 (0.018)
FirmCh	Yes	Yes	Yes	Yes	Yes
Firm Characteristics	Yes	Yes	Yes	Yes	Yes
Observations	140,849	44,578	125,712	63,859	55,619
R ²	0.167	0.071	0.143	0.075	0.059

This table provides a second robustness check to Table 7. We estimate the same econometric model, but we use as independent variable the measure of treatment intensity *Treatment dummy*, instead of the *Treatment dummy*. The initial sample includes all firms with positive credit exposure in 2004. In columns (2) to (5), the sample is restricted to firms hiring workers with the specified level of education. Standard errors are clustered at banking group \times industry levels and reported in brackets, * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table D.7. The Impact of the Introduction of IAS 19 on the Wage Outcome of Leavers by Education Level. Alternative Clustering

	Log(hourly wage)				
	All Workers (1)	College Degree (2)	High School Degree (3)	Middle School (4)	Up to Elementary School (5)
Switcher × Treated × Post	0.016 (0.011)	0.024** (0.012)	0.027 (0.018)	0.002 (0.007)	-0.004 (0.010)
Switcher	-0.006 (0.005)	0.003 (0.007)	-0.004 (0.009)	-0.012*** (0.004)	-0.011** (0.004)
Switcher × Treated	-0.007 (0.007)	-0.011 (0.012)	-0.017 (0.011)	-0.001 (0.004)	0.002 (0.006)
Switcher × Post	0.004 (0.007)	0.010 (0.009)	-0.002 (0.009)	0.010 (0.008)	0.012 (0.009)
Treated × Post	-0.002 (0.005)	-0.012 (0.008)	-0.010 (0.010)	0.001 (0.004)	0.002 (0.003)
Worker Fixed Effects	Yes	Yes	Yes	Yes	Yes
Year Fixed Effects	Yes	Yes	Yes	Yes	Yes
Observations	5,329,307	555,176	1,058,686	2,199,982	1,321,446
R ²	0.909	0.899	0.901	0.875	0.858

This table offers a robustness to the level of clustering used in Table 9. It reports the coefficients of a long term wage panel model, from 2002 to 2007, estimating the wage premium or discount when workers switch firms. The main dependent variable is the logarithm of average hourly wage at worker level. The main explanatory variable, *SwitcherXTreatedXPost*, is an indicator for workers who switch away from treated firms, in the post period. We include dummies for the double interactions, as well as a dummy for *Switchers*. The dummies for *Treated* and *Post* are included in the worker and, respectively, year fixed effects. The sample includes workers 1/ that were employed in 2004 at either treated or non-treated firms and, 2/ for which we have information on the yearly labor market history. We therefore work with a fully balanced panel at the worker-year level. In Columns 2 to 5, the sample is restricted to workers of each specified level of education. All models include a second-degree polynomial in worker age. Standard errors are clustered at two-digit industry level and reported in brackets. * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

E The Portuguese Economy in 2004

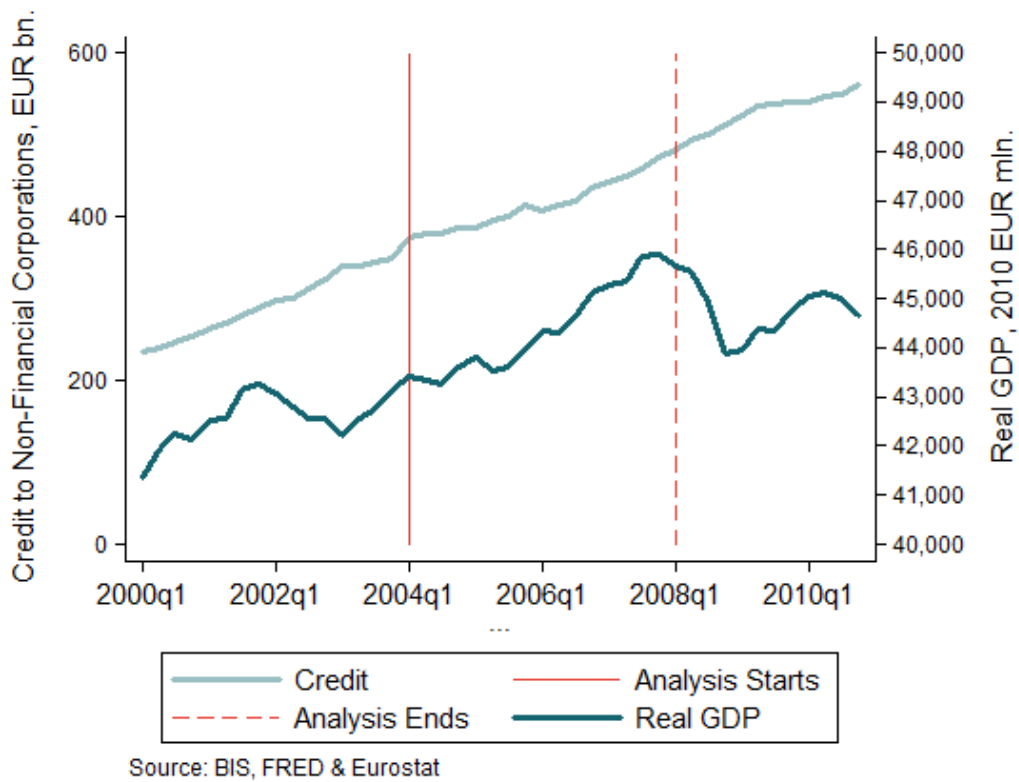


Figure E.1. Real GDP and Credit. Portugal. 2000-2010

This figure plots the quarterly evolution of total credit to non-financial firms, in Portugal, and of real Portuguese GDP, over the period 2000 to 2010. The red lines mark the start and end dates for most of the following empirical analysis and place emphasis on the fact that the credit shock occurs in good economic times.

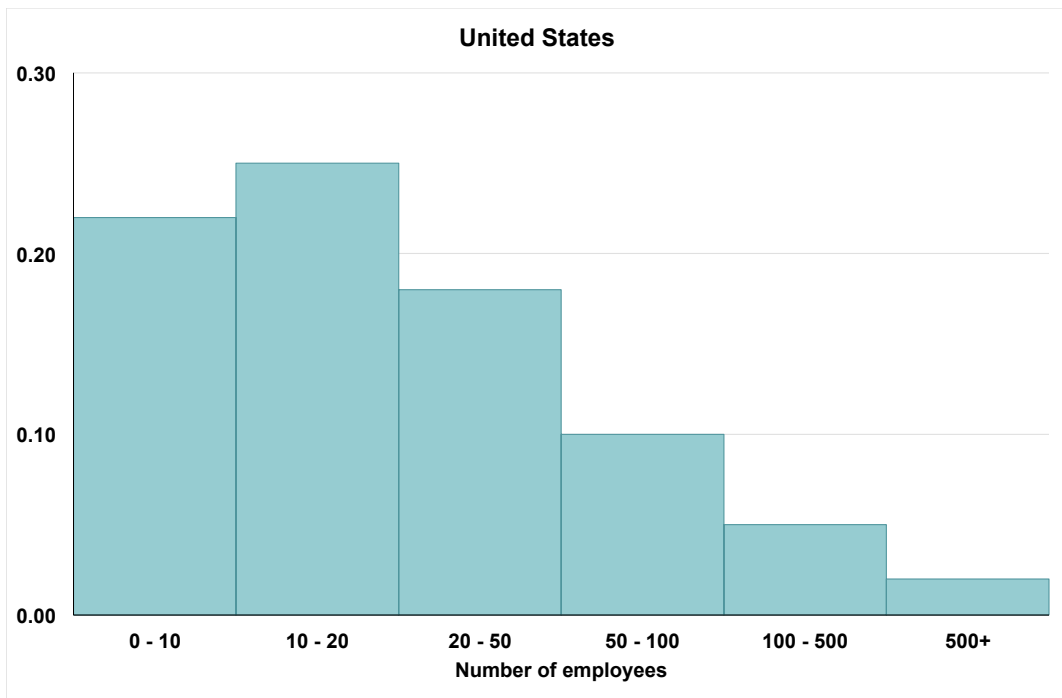
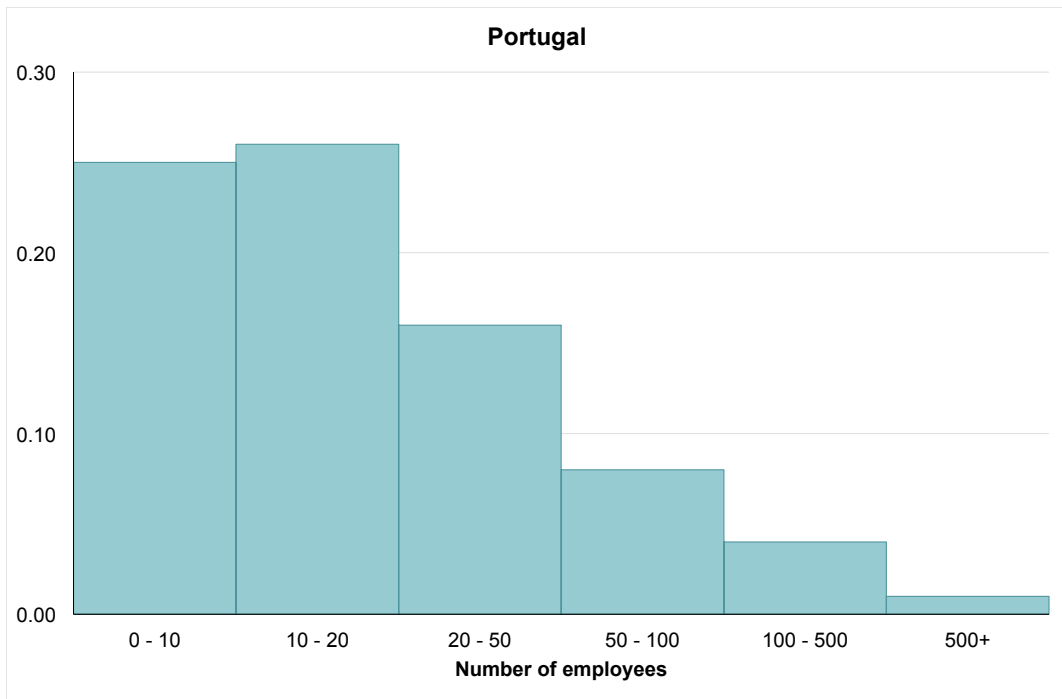


Figure E.2. Distribution of Firm Size in Portugal and in the US in the late 90s

Portuguese Data are from QP, other Figures are from Cabral and Mata (AER, 2003).

F BCP 2005 Annual Report

50. Pensions

The Group assumed the responsibility to pay to their employees, pensions on retirement or disabilities and other responsibilities. These responsibilities also comply with the terms of the 'Acordo Colectivo de Trabalho do Sector Bancário' (ACT).

The Group's pension obligations and other responsibilities are covered through the Banco Comercial Português Pension Fund managed by PensõesGere – Sociedade Gestora de Fundo de Pensões, S.A. At 31 December, 2005 and 2004 the number of participants covered by this pension plan is analysed as follows:

	Euros '000	
	Dec 2005	Dec 2004
<i>Number of participants</i>		
Pensioners	14,971	14,167
Employees	11,317	12,259
	26,288	26,426

In accordance with the accounting policy, described in note 1 v), the pension obligation and the respective funding for the Group as at 31 December, 2005 and 2004 based on an actuarial valuation made using the projected unit credit method are analysed as follows:

	Euros '000	
	Dec 2005	Dec 2004
<i>Projected benefit obligations</i>		
Pensioners	4,256,913	3,738,983
Employees	1,235,105	863,827
	5,492,018	4,602,810
Fair value of plan assets	(5,015,958)	(3,659,282)
Unfunded liabilities	476,060	943,528
Liabilities not covered by the Pension Fund (see note 37)	(429,796)	(352,098)
Amounts payable to the Pension Fund (see note 37)	(35,144)	(586,211)
Liabilities not covered	11,120	5,219

As at 31 December 2005, the fixed assets owned by the pension fund and used by the companies of the Group Banco Comercial Português amounted to Euros 389,062,000 (2004: Euros 392,185,000).

The change in the present value of obligations during 2005 is analysed as follows:

	Euros '000		
	Pension Fund liabilities	Liabilities provided on balance sheet	Total
Balance as at 1 January	4,250,712	352,098	4,602,810
Service cost	57,570	5,248	62,818
Interests costs	217,206	17,873	235,079
Actuarial gains and losses			
Current	49,164	(3,128)	46,036
Arising from changes in actuarial assumptions			
discount rate	322,089	24,958	347,047
mortality tables	238,914	8,938	247,852
Payments	(234,418)	(22,905)	(257,323)
Early retirement programmes	153,141	46,714	199,855
Contributions of employees	12,543	-	12,543
Movements of employees	(8,716)	-	(8,716)
Other charges	4,017	-	4,017
Balance as at 31 December	5,062,222	429,796	5,492,018



Banco Comercial Português

The change in the fair value of assets of the Fund during 2005 is analysed as follows:

	Fair value of assets	Euros '000
Balance as at 1 January	3,659,282	
Expected return on plan assets	201,447	
Actuarial gains and losses	151,577	
Contributions to the Fund	1,234,927	
Payments	(234,418)	
Contributions of employees	12,543	
Movements of employees	(8,716)	
Other charges	(684)	
Balance as at 31 December	5,015,958	

The securities issued by companies of the Group accounted on the portfolio of the Fund are analysed as follows:

	Dec 2005	Dec 2004	Euros '000
Fixed income securities	39,104	92,479	
Variable income securities	218,051	138,206	
	257,155	230,685	

The change in the amounts payable to the Pension Fund related with the obligations, during 2005 and 2004 is analysed as follows:

	Dec 2005			Dec 2004	Euros '000
	Amounts payable			Total	
	To the Pension Fund	Provisions	Total		
Balance as at 1 January	586,211	352,098	938,309	789,636	
Service cost	57,570	5,248	62,818	63,033	
Interests costs	217,304	17,873	235,177	215,498	
Cost with early retirement programs	153,141	46,714	199,855	194,403	
Expected return on plan assets	(201,447)	-	(201,447)	(185,034)	
Actuarial gains and losses					
Current	(102,413)	(3,128)	(105,541)	(41,959)	
Arising from changes in actuarial assumptions					
discount rate	322,089	24,958	347,047	134,826	
mortality tables	238,914	8,938	247,852	-	
Contributions to the Fund	(1,234,927)	-	(1,234,927)	(214,999)	
Benefits paid	-	(22,905)	(22,905)	(14,700)	
Other charges	(1,298)	-	(1,298)	(2,395)	
Balance as at 31 December 2005	35,144	429,796	464,940	938,309	

The contributions to the Pension Fund, made by the companies of the Group, are analysed as follows:

	Dec 2005	Dec 2004	Euros '000
Shares	722,025	-	
Other securities	504,713	62,478	
Cash	8,189	152,521	
	1,234,927	214,999	

As at 31 December 2005, the value of the pensions paid by the Pension Fund amounted to Euros 234,418,000 (2004: Euros 195,933,000).

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In accordance with IAS 19, deferred actuarial losses, including the corridor, as at 31 December 2005 are analysed as follows:

		Euros '000	
		Actuarial losses	
	Corridor	Amount in excess of the Corridor	
Balance as at 1 January 2005	412,893	627,675	
Actuarial gains and losses			
Current	-	(105,541)	
Arising from changes in actuarial assumptions			
discount rate	-	347,047	
mortality tables	-	247,852	
Amortisation of actuarial gains and losses	-	(29,356)	
Reversal of the actuarial losses from the responsibilities of early retirement	-	(29,749)	
Variation in the corridor	136,308	(136,308)	
Balance as at 31 December 2005	549,201	921,620	

As at 31 December 2005, considering the value of the actuarial gains and losses registered in the calculation of the benefit obligations and in the value of the Fund, the value of the corridor calculated in accordance with paragraph 92 of IAS 19, amounted to Euros 549,201,000 (31 December 2004: Euros 412,893,000).

As at 31 December 2005, the net actuarial gains and losses in excess of the corridor amounted to Euros 921,620,000 (31 December 2004: Euros 627,675,000) and will be amortized against staff costs over a 20 year period considering the balance at the beginning of the year, as referred in the accounting policy presented in note 1 v).

In 2005, the Group accounted as pension costs the amount of Euros 357,381,000 (31 December 2004: Euros 366,034,000), including the effect of the curtailment costs in the amount of Euros 31,720,000. The cost of the year is analysed as follows:

			Euros '000	
	Dec 2005	Dec 2004		
Service cost	62,818	63,033		
Interest costs	235,079	215,498		
Expected return on plan assets	(201,447)	(185,034)		
Amortisation of actuarial gains and losses	29,356	32,222		
Costs with early retirement programs	199,855	194,403		
Other	31,720	45,912		
Cost of the year	357,381	366,034		

Considering the market indicators, particularly the estimations of the inflation and the long term interest rate for Euro Zone as well as the demographic characteristics of the participants, the Group changed the actuarial assumptions used for the calculation of the liabilities for the pension obligations with reference to 31 December 2005. The comparative analysis of the actuarial assumptions is shown as follows:

				Banco Comercial Português Fund	
	2005	2004			
Increase in future compensation levels	2,75%	2,75%			
Pensions increase rate	1,75%	1,75%			
Projected rate of return of fund assets	5,5%	5,5%			
Discount rate	4,75%	5,25%			
Mortality tables					
Men	TV 73/77 - 1st year		TV 73/77		
Women	TV 88/90		TV 73/77		
Disability rate	0%	0%			
Turnover rate	0%	0%			

The effect of the change in the discount rate and the mortality tables occurred in 2005, increased the liabilities of the Group in the amount of Euros 347,047,000 and Euros 247,852,000, respectively, values which are going to be amortized in 20 years in accordance with the accounting policy presented in note 1 v).

The assumptions used in the calculation of the pension liabilities are in accordance with the requirements of IAS 19.



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No disability retirements are considered in the calculation of the total liabilities, because it is covered by an insurance policy.

Net actuarial gains related to the difference between the actuarial assumptions used for the estimation of the pension liabilities and the actual liabilities for the year ended 31 December 2005 amounted to Euros 105,541,000 and includes the follows effects: i) actuarial losses in the amount of Euros 25,500,000 arising from the difference in the salaries growth rate; ii) actuarial losses in the amount of Euros 22,500,000 related with the difference in the pension growth rate; and iii) actuarial gains in the amount of Euros 151,600,000 related with the growth of the rate of return of the fund above expectations.

51. Major changes in the structure of the Group during 2005

During 2005, the main balances referring to disposals of subsidiaries which occurred within the Group are analysed as follows:

	Euros '000
	BCM
Assets	
Loans and advances to credit institutions	421,705
Loans and advances to customers	415,853
Other assets	126,476
	<u>964,034</u>
Liabilities	
Deposits from credit institutions	854
Deposits from customers	836,815
Other liabilities	64,171
	<u>901,840</u>
Minority interests	<u>769</u>
Equity (excluding minority interests)	61,425
Percentage acquired / sold	100,00%
Gain net of exchange gains and losses	113,473
Amount received	174,898

52. Related parties

The Group grants loans in the ordinary course of its business within the Group and to other related parties. Under the Collective Agreement of Labour for Employees of the Portuguese Banking Sector (the "ACTV") which includes substantially all employees of banks operating in Portugal, the Group grants loans to employees at interest rates fixed under the ACTV for each type of loan upon request by the employees. In addition, while it is the Group's policy not to grant loans to the Board of Directors, the Group grants loans to some of its members on substantially the same terms as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectability or present other unfavourable features.

As of 31 December, 2005, loans to members of the Board of Directors amounted to Euros 252,000, which represented 0.01% of shareholders' equity. Most of these loans are mortgage loans and have been granted for home acquisition.

As of 31 December 2005, the principal loans and guarantees (excluding interbank and money market transactions) the Group has made to shareholders holding, together with their affiliates, 2% or more of the share capital (who held in aggregate, together with their affiliates, represent 42.7% of the share capital as of 31 December 2004) amounted to approximately Euros 2,764,000,000. Each of these loans was made in the ordinary course of business, on substantially the same terms as those prevailing at the time for comparable transactions with other persons, and did not involve more than the normal risk of collectability or present other unfavourable features.

During 2005 the Group transferred a set of financial instruments classified as available for sale to the pension fund. The detail of these transactions is as follows:

Banco Comercial Português sold the investment held in Friends Provident

In June 2005 Banco Comercial Português sold the investment held in Friends Provident, in the total number of 53,333,333 shares, by two tranches, described as follows:

- 21,000,000 shares sold by the amount of Euros 53.8 millions (GBP 36.3 millions) in the London Stock Exchange at the closing price in the transaction date;
- 32,333,333 shares delivered to the BCP Pensions Fund by the amount of Euros 82.7 millions (GBP 56.1 millions) through an over-the-counter transaction.

The transactions were performed at the market value resulting in a gain in the amount of Euros 32.2 millions including the corresponding fair value reserve which was released from equity to profit.