Montepio

REPORT AND ACCOUNTS

As at 30 September 2016

CAIXA ECONÓMICA MONTEPIO GERAL GROUP

Pursuant to Article 10 of the CMVM Regulation No. 5/2008

(Unaudited financial information under IFRS as implemented by the European Union)

This report is the English version of the document "Relatório e Contas a 30 de setembro de 2016" published by Caixa Económica Montepio Geral in the Portuguese Securities and Market Commission (CMVM) website. Should there be any doubts or contradictions between both documents, the aforementioned Portuguese version prevails.

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Montepio

KEY INDICATORS

	Sep 2015	Dec 2015	Sep 2016	YoY Change
ACTIVITY AND RESULTS (thousand euros)				
Net Assets	21 824 857	21 145 216	21 225 918	(2.7%)
Gross loans to Customers	15 946 845	15 944 015	15 385 770	(3.5%)
Customers' Deposits	12 553 667	12 969 431	12 593 244	0.3%
Net Income	(59 461)	(243 407)	(67 483)	(13.5%)
SOLVENCY				
Common Equity Tier 1 ratio (CRD IV / CRR, phasing-in)	9.3%	8.8%	10.4%	1.1 p.p.
Tier 1 ratio (CRD IV / CRR, phasing-in)	9.3%	8.8%	10.4%	1.1 p.p.
Total Capital ratio (CRD IV / CRR, phasing-in)	10.3%	9.7%	11.0%	0.7 p.p.
Risk Weighted Assets	14 470 484	13 962 350	13 243 635	(8.5%)
LEVERAGE RATIOS				
Net loans to Customers (a)	116.6%	113.1%	114.7%	(1.9 p.p.)
Net loans to Customers / On-Balance sheet Customers' resources (b)	99.6%	97.7%	99.5%	(0.1 p.p.)
CREDIT RISK AND COVERAGE BY IMPAIRMENTS				
Cost of credit risk	1.6%	1.6%	1.1%	(0.5 p.p.)
Ratio of loans and interest overdue by more than 90 days	7.9%	7.7%	9.1%	1.2 p.p.
Non-performing loans ratio (a)	8.4%	9.5%	11.1%	2.7 p.p.
Net non-performing loans ratio (a)	(0.1%)	1.6%	3.8%	3.9 p.p.
Coverage of loans and interest overdue by more than 90 days	106.5%	104.0%	82.5%	(24.0 p.p.)
Credit at risk ratio (a)	14.5%	14.3%	15.4%	0.9 p.p.
Net credit at risk (a)	6.6%	6.8%	8.5%	1.9 p.p.
Credit at risk coverage ratio	58.5%	56.1%	48.8%	(9.7 p.p.)
Credit at risk coverage ratio, factoring-in related real estate collateral	121.4%	126.9%	118.9%	(2.5 p.p.)
Restructured loans as a % of total loans (c)	10.7%	9.6%	9.0%	(1.7 p.p.)
Restructured loans not included in credit at risk as a % of total loans (c)	5.4%	4.0%	3.0%	(2.4 p.p.)
EFFICIENCY AND PROFITABILITY				
Net operating income / Average net assets (a)	2.3%	2.1%	1.8%	(0.5 p.p.)
Earnings before Tax and non-controlling interests / Average net assets (a)	(0.6%)	(1.2%)	(0.9%)	(0.3 p.p.)
Earnings before Tax and non-controlling interests / Average equity (a)	(8.9%)	(18.8%)	(13.1%)	(4.2 p.p.)
Cost-to-Income (Operating costs / Net banking income) (a)	68.2%	78.9%	94.0%	25.8 p.p.
Cost-to-Income, excluding res. from financial operations and costs with the operational reorganisation programme	101.8%	106.3%	91.2%	(10.6 p.p.)
Staff costs / Net banking income (a)	40.1%	44.8%	61.6%	21.5 p.p.
EMPLOYEES AND DISTRIBUTION NETWORK (Number)				
Employees				
Group total	4 432	4 404	4 182	(250)
CEMG	3 898	3 871	3 623	(275)
Branches				
Domestic - CEMG	422	421	331	(91)
International	30	30	30	-
Finibanco Angola (d)	21	21	21	-
Banco Terra Moçambique	9	9	9	-
Rep. Offices	6	6	6	-

(a) Pursuant to Banco de Portugal Instruction No. 16/2004, in its current version
(b) Total On-Balance sheet Customers' resources = Customers' Deposits and Debt securities issued
(c) Pursuant to Banco de Portugal Instruction No. 32/2013
(d) Includes Business Centers

MACROECONOMIC ENVIRONMENT

In 2015, the **Portuguese economy** accelerated its growth to 1.6%, having grown at very modest rates during the first half of 2016 (+0.2% and +0.3% in the 1st and 2nd quarters), but accelerated sharply in the 3rd quarter to a quarter-on-quarter growth of 0.8%. For 2016, an annual average growth of 1.2% is expected, in line with the Government's forecast in the State Budget for 2017 and above the forecast of the European Commission (EC) (+0.9%) and of the IMF (+1.0%). The economy should continue to be supported solely by the growth of domestic demand, but with net exports unlikely to penalise growth, contrary to the previous year. After the **budget deficit** of 4.4% of GDP in 2015 (excluding the capitalisation of Banif, INE - Statistics Portugal estimates a deficit of 3.0%), the fiscal adjustment process continued in 2016, with the deficit having reached 2.8% in the 1st half of 2016. This level is still above the 2.4% that the Government forecast in the State Budget for 2017 - although it has not been seasonally-adjusted -, which represents a year-on-year decrease of 1.8 p.p. and is three times better than the 0.6 p.p. improvement forecast for the entire year of 2016 (if we exclude the 1.4 p.p. arising from the resolution of Banif). The budget execution data (on a cash basis) regarding the 3rd quarter continued to be upbeat, with the Government forecasting a reduction of the deficit to 2.4% (EC: -2.7%; IMF: -3.0%). The **unemployment rate** maintained its downward trend in the first three quarters of this year (falling from 12.2%, in the 4th quarter of 2015, to 10.5% in the 3rd quarter of 2016, a record low since the 3rd quarter of 2009). A further reduction is forecast for 2016 (from 12.4%, in 2015, to 11.1%, slightly below the 11.2% set out in the State Budget for 2017). **Inflation** (HIPC) came to 0.5% in 2015, and is expected to accelerate to 0.8% in 2016 (in line with the State Budget for 2017).

At a **global level**, and after having consecutively outlined less optimistic prospects for the growth of the **world economy**, in its most recent forecasts published on 4 October, the IMF maintained its forecasts of a slight deceleration of the overall growth rate from an estimated 3.2% for 2015 to 3.1% for this year, and forecasts a growth rate of 3.4% for 2017.

Regarding the Euro Zone, after the increase of 2.0% of GDP in 2015, we forecast a slowdown to 1.6% in 2016 (IMF: +1.7%). For 2017, our prospects are conditioned by the developments surrounding the slowdown in China and the country's financial stability, the victory of the vote in favour of Brexit in the United Kingdom referendum and the uncertainty regarding the economic policy to be followed by Donald Trump, the elected President of the United States of America. With regards to **other markets where CEMG is represented**, for **Angola**, we forecast a GDP growth of 0.7% in 2016, decelerating from the estimated 3.0% for 2015 and below the Government's forecast in the Amending State Budget for 2016 (+1.1%), although above the IMF's forecast (0.0%). **Mozambique** is expected to grow 4.0% this year, at a slower rate than in 2015 (+6.6%), but, like Angola, is expected to accelerate once again in the following year. For **Cape Verde**, we forecast an acceleration to 3.6% in 2016 (+1.5% in 2015).

Financial market sentiment developed positively throughout the **3rd quarter**, underpinned by the resilience of the economies in the post-Brexit period and by the posture of central banks in addressing the risks posed by this event. Market sentiment tended to be positive, in particular between the second week of July and mid-September. During the quarter, **stock market indices** increased (S&P 500, Eurostoxx and PSI-20 appreciated by 2.1%, 4.8% and 3.2%, respectively). The **spreads of the public debt of the peripheral countries of the Euro Zone** decreased (with the exception of Portugal, over the 10-year horizon), in a context of reduction in risk aversion in markets of the Euro Zone, alongside reductions in the **credit spreads of private debt**. The **yields of two-year and 10-year US public debt** increased, whereas the yields of **German public debt** fell slightly over the two-year horizon and increased marginally over the 10-year horizon. The **yields of 10-year Portuguese public debt** increased by 3.006%, at the end of the 2nd quarter, to 3.330% at the end of the 3rd quarter, remaining below 4.107% (historical high since March 2014) registered on 11 February, but well above the historical low of 1.560% registered in mid-March 2015. **Libor** rates increased (due to the incorporation of the increase in the fed funds rates expected for December during that time period), but **Euribor** rates fell across all maturities, renewing historical lows.

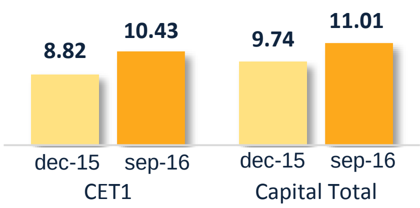
In the **foreign exchange market**, the euro (EUR) appreciated against the dollar (USD) and essentially against the pound (GBP), but depreciated slightly against the yen (JPY), with the effective nominal exchange rate of the euro having risen 0.4% in the 3rd quarter. The main exception to the improvement of markets was the decline in the **commodity** indices, reflecting the decreases in livestock and agriculture and the increases in energy, base metals and precious metals.

CAPITAL

The Capital of Caixa Económica Montepio Geral (CEMG) reached a total of 2,170 million euros at the end of the 3rd quarter of 2016. This figure includes the institutional capital increase of 270 million euros undertaken by Montepio Geral – Associação Mutualista (MGAM) in March 2016. Thus, as at 30 September 2016, CEMG's Capital was composed of 1,770 million euros of institutional capital, belonging to MGAM, and 400 million euros of Participation Units representing CEMG's Participation Fund, listed for trading on Euronext Lisbon Stock Exchange and included in the PSI-20 index.

The prudential solvency indicators are based on the legislation of Basel III, comprising Directive 2013/36/EU and Regulation (EU) 575/2013, both of the European Parliament and of the Council, as well as Banco de Portugal Notice 6/2013. The full application of the new Basel III regulations (Full Implementation) will be introduced gradually over a period up to 2018, with this process usually being referred to as Phasing-in.

Capital ratios (*phasing-in*) (%)



As at 30 September 2016, the CET1 ratio[1] came to 10.43% and the Total Capital ratio[1] came to 11.01%, representing increases of 161 bps and 127 bps, respectively, relative to the end of 2015. This rise was due to the reinforcement of own funds by 7.2%, combined with the reduction in Risk-weighted Assets (-5.1%) of 719 million euros, resulting from the management of the allocation of risk in the credit portfolio and in the debt securities portfolio. The capital ratios do not include the positive effects associated with the Deferred Tax Assets regime[2] (+37 million euros).

CAPITAL AND CAPITAL REQUIREMENTS

(thousand euros)

	Sep 2015	Dec 2015	Sep 2016	YoY Chg.		YtD Chg.
				Amount	%	%
Total Capital	**1 493 626**	**1 360 224**	**1 458 031**	**(35 595)**	**(2.4)**	**7.2**
Elegible instruments to CET I	1 885 321	1 890 019	2 151 044	265 723	14.1	13.8
Reserves and Net Income	(475 684)	(561 214)	(652 263)	(176 579)	(37.1)	(16.2)
Regulatory deductions	63 274	97 897	116 889	53 615	84.7	19.4
Common Equity Tier I Capital	**1 346 363**	**1 230 908**	**1 381 892**	**35 529**	**2.6**	**12.3**
Tier I Capital	**1 346 363**	**1 230 908**	**1 381 892**	**35 529**	**2.6**	**12.3**
Tier II capital	154 256	137 483	86 968	(67 288)	(43.6)	(36.7)
Other deductions	6 993	8 167	10 829	3 836	54.9	32.6
Minimum Own Funds Requirements	**1 157 639**	**1 116 988**	**1 059 491**	**(98 148)**	**(8.5)**	**(5.1)**
Risk-Weighted assets and equivalents	**14 470 484**	**13 962 350**	**13 243 635**	**(1 226 849)**	**(8.5)**	**(5.1)**
CRD IV Prudential Ratios - Phasing-in						
Common Equity Tier I	9.30%	8.82%	10.43%	113 pb		161 pb
Tier I	9.30%	8.82%	10.43%	113 pb		161 pb
Total Capital	10.32%	9.74%	11.01%	69 pb		127 pb
CRD IV Prudential Ratios - Full Implementation						
Common Equity Tier I	6.96%	6.73%	8.19%	123 pb		146 pb
Tier I	6.97%	6.75%	8.22%	125 pb		147 pb
Total Capital	8.04%	7.74%	8.89%	85 pb		115 pb
Leverage ratio - Phasing-in	6.03%	5.73%	6.39%	36 pb		66 pb
Leverage ratio - Full Implementation	4.54%	4.42%	5.09%	55 pb		67 pb

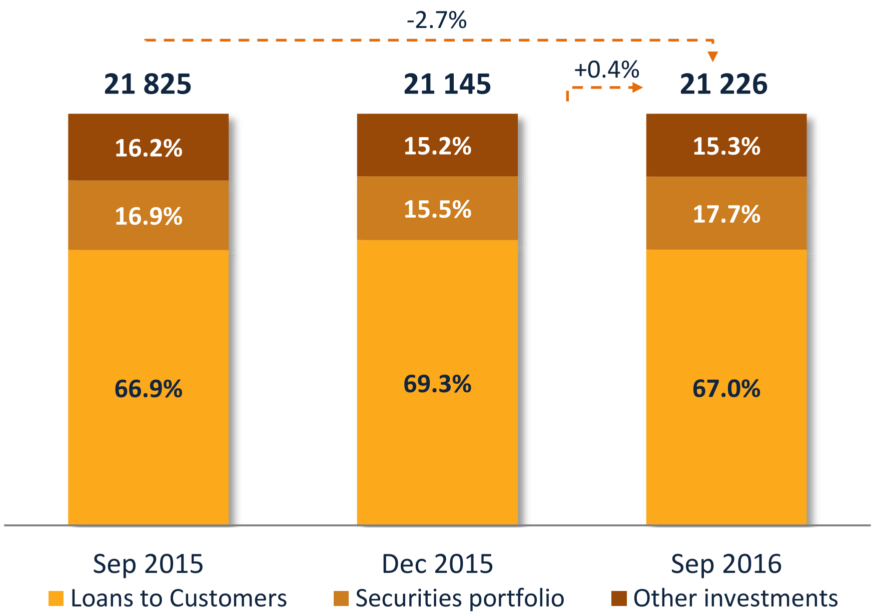
Calculations as per our interpretation to date.

[1] Calculations pursuant to CRD IV / CRR, Phasing-in.
[2] Adherence approved at the Extraordinary General Meeting held on 6 July 2016.

BALANCE SHEET

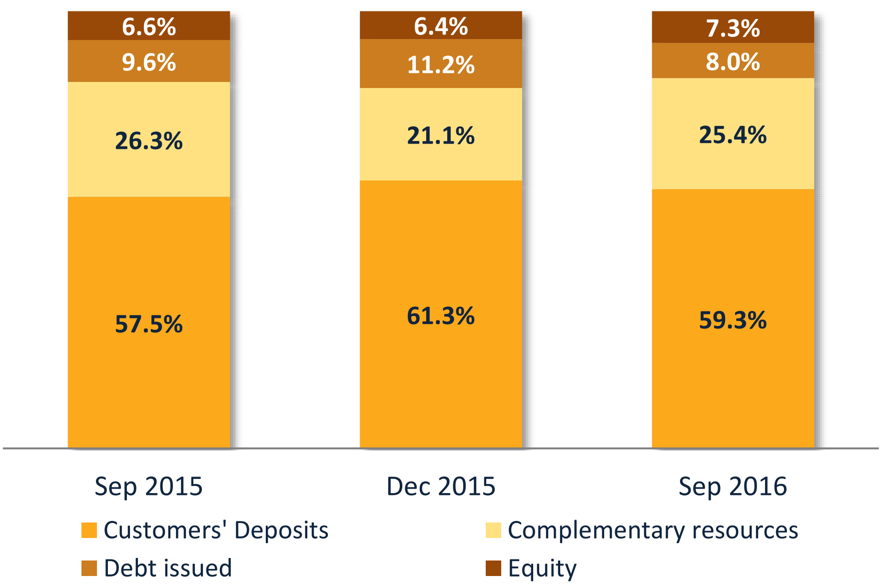
Net assets reached 21,225.9 million euros as at 30 September 2016, having decreased by 2.7% year-on-year (+0.4% since 31 December 2015), arising from the diversification of the balance sheet into financial assets with higher yields, but undermined by the still lukewarm demand for credit (-3.5% in relation to 31 December 2015).

NET ASSETS STRUCTURE (million euros)



At the end of the 3rd quarter of 2016, total liabilities stood at 19,680.5 million euros, compared to 20,392.7 million euros (-3.5%) in the same period of 2015, resulting mainly from the reduction of liabilities represented by securities and from the recourse to ECB refinancing. In addition, customer deposits - which increased by 0.3% - continue to be the main source of financing of the activity, representing 59.3%.

LIABILITIES AND EQUITY STRUCTURE



LOANS TO CUSTOMERS

Loans to customers (gross) reached a total of 15,385.8 million euros at the end of the 3rd quarter of 2016, reflecting a decrease of 3.5% relative to the same period of the previous year and relative to 31 December 2015, mainly due to the performance of domestic activity (-3.2%), as a result of a still fragile economic recovery and an increasingly stringent policy in terms of repricing and risk management in the concession of credit. It should be noted that domestic activity represents 98.4% of the total gross credit portfolio.

The performance of the credit portfolio, in relation to the same period of the previous year, continued to reflect the higher level of mortgage loan repayment in relation to new operations raised, giving rise to a year-on-year reduction of 4.6% (-3.5% in relation to the end of 2015) and the reduction in the companies segment (-2.1%), with emphasis on the decrease in credit for construction (-20.7%).

As such, as at 30 September 2016, loans to companies (excluding construction) increased marginally in terms of weight in the total credit portfolio to 41.9% (+1.3 p.p. year-on-year, while mortgage loans maintained their representativeness in the total credit portfolio with 47.0% (relative to 47.5% as at 30 September 2015) and the weight of construction loans in the total portfolio continued to fall, having reached a mere 3.1% (compared to 3.7% in the same period of the previous year).

LOANS TO CUSTOMERS

(thousand euros)

	Sep 2015	Dec 2015	Sep 2016	YoY Chg.	
				Amount	%
Individuals	**8 881 359**	**8 790 208**	**8 470 886**	**(410 473)**	**(4.6)**
Housing	7 575 809	7 488 079	7 228 810	(346 999)	(4.6)
Consumption and other purposes	1 305 550	1 302 129	1 242 076	(63 474)	(4.9)
Companies	**7 065 486**	**7 153 807**	**6 914 884**	**(150 602)**	**(2.1)**
Construction	594 659	521 213	471 821	(122 838)	(20.7)
Other purposes	6 470 827	6 632 594	6 443 063	(27 764)	(0.4)
Total Loans (gross)	**15 946 845**	**15 944 015**	**15 385 770**	**(561 075)**	**(3.5)**
Distributed by:					
Domestic activity	15 629 273	15 611 547	15 132 624	(496 649)	(3.2)
International activity	317 572	332 468	253 146	(64 426)	(20.3)

Credit quality has been conditioned by a reduced number of customers whose coverage is significant (the coverage of the 20 largest Credit at Risk exposures by impairments and associated asset-backed collateral comes to 94.6%). Regarding the more granular exposures, CEMG recorded a positive year-on-year evolution of credit at risk of -128.9 million euros (-6.6%). Consequently, in spite of the recurring quarterly reduction of the amount of credit at risk (variation of -0.6% from the 1st to the 2nd quarter and of -1.6% from the 2nd to the 3rd quarter of 2016), the contribution of the Top 20 CaR, the decrease of the credit balance and the still fragile economic recovery led to the stabilisation of the credit-at-risk ratio, relative to 30 June 2016, at 15.4%. Relative to the same period of the previous year, excluding the effect of the reduction of the loan portfolio, the pro forma credit-at-risk ratio would come to 14.8%, representing a decrease of 60 bps. At the end of the 3rd quarter of 2016, the coverage of credit-at-risk by impairments reached 48.8%, which rises to 118.9% when considering associated mortgage guarantees.

LOAN QUALITY INDICATORS

(%)

	Sep 2015	Dec 2015	Sep 2016	YoY Chg.
Ratios				
Loans and interest overdue by more than 90 days	7.9	7.7	9.1	1.2 p.p.
Non-performing loans (a)	8.4	9.5	11.1	2.7 p.p.
Net non-performing loans (a)	-0.1	1.6	3.8	3.9 p.p.
Credit-at-Risk (a)	14.5	14.3	15.4	0.9 p.p.
Net Credit-at-Risk (a)	6.6	6.8	8.5	1.9 p.p.
Restructured loans (b)	10.7	9.6	9.0	(1.7 p.p.)
Restructured loans not included in Credit-at-Risk (b)	5.4	4.0	3.0	(2.4 p.p.)
Coverage				
Loans and interest overdue by more than 90 days	106.5	104.0	82.5	(24.0 p.p.)
Credit-at-Risk	58.5	56.1	48.8	(9.7 p.p.)
Credit-at-Risk factoring in associated real estate collateral	121.4	126.9	118.9	(2.5 p.p.)

(a) Pursuant to Banco de Portugal Instruction No. 16/2004, in its current version.

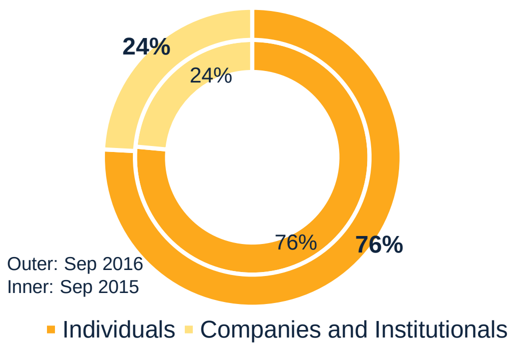
(b) Pursuant to Banco de Portugal Instruction No. 32/2013.

CUSTOMERS' RESOURCES

Total customers' resources reached 14,613.1 million euros, which includes 13,898.4 million euros of balance sheet funds, of which 90.6% refer to customer deposits (88.0% in the same period of the previous year).

The portfolio of customer deposits, which stood at 12,593.2 million euros, is essentially made up of individual customers, a segment that registered a residual decrease of -0.5% in relation to the same period of the previous year, maintaining its predominance by accounting for 76% of total deposits.

Customers' Deposits structure



The portfolio of deposits showed a year-on-year growth of 39.6 million euros (+0.3% and -2.9% relative to the end of 2015) in an environment of interest rates at historically low levels and the continued deposit repricing policy applied by CEMG, with particular impact on the company and institutional segments that are most sensitive to the price variable.

As a result, deposits from individuals continue to be the main base of customer deposits, having increased by 0.3% relative to the 1st half of 2016. The corporate and institutional segment, due to its more volatile nature, decreased -4.0% over the same period, in spite of the year-on-year growth of 2.9%.

CUSTOMERS' RESOURCES

(thousand euros)

	Sep 2015	Dec 2015	Sep 2016	YoY Chg. Amount	YoY Chg. %
Deposits from individuals	9 596 901	9 794 095	9 551 133	(45 768)	(0.5)
Deposits from companies and institutionals	2 956 766	3 175 336	3 042 111	85 345	2.9
Total Deposits	**12 553 667**	**12 969 431**	**12 593 244**	**39 577**	**0.3**
Sight deposits	2 904 840	2 831 931	3 305 688	400 848	13.8
Term deposits	9 648 827	10 137 500	9 287 556	(361 271)	(3.7)
Securities placed with customers	1 715 317	1 621 339	1 305 107	(410 210)	(23.9)
Total On-balance sheet resources	**14 268 984**	**14 590 770**	**13 898 351**	**(370 633)**	**(2.6)**
Off-balance sheet resources	825 373	809 944	714 751	(110 622)	(13.4)
Total customers' resources	**15 094 357**	**15 400 714**	**14 613 102**	**(481 255)**	**(3.2)**

From the viewpoint of the active management of funding needs, in the 3rd quarter of 2016, securities placed with customers came to 1,305.1 million euros, relative to 1,715.3 million euros in the same period of the previous year, as a result of the maturities of debt securities that occurred and substitutions by less costly market operations.

Off-balance sheet customer funds reached 714.8 million euros as at 30 September 2016, which compares with 825.4 million euros in the same period of 2015, mainly due to the year-on-year decrease in mutual funds, namely treasury funds, real estate investment funds and capitalisation insurance.

LIQUIDITY

During the first nine months of 2016, there was a gradual recovery of economic activity, with CEMG having strengthened the liquidity position of its balance sheet, based on a balanced loan-to-deposit ratio, the maintenance of a stable pool of eligible assets for refinancing operations at the European Central Bank (ECB) and a consistent liquidity coverage ratio (LCR) of 109.0%, above the minimum requirement of 70%, compared to 89.0% recorded in September 2015 and to 111.4% as at 31 December 2015.

The evolution of customers' resources and loans granted led to a positive commercial gap of 66.5 million euros as at 30 September 2016, giving rise to a loan-to-deposit ratio of 99.5%, considering the entire amount of customers' resources on the balance sheet, and of 114.7% considering only customers' deposits, complying with the maximum indicative level of 120%.

CTD RATIOS

(%)

	Sep 2015	Dec 2015	Sep 2016	YoY Chg.
Net loans to customers / Customers' deposits [a]	116.6	113.1	114.7	(1.9p.p.)
Net loans to customers / Total On-balance sheet customers' resources [b]	99.6	97.7	99.5	(0.1p.p.)

(a) In accordance w ith Banco de Portugal Instruction No. 16/2004, in its current version.

(b) Total On-Balance Sheet Customers' Resources = Customers' resources + debt securities issued

The medium and long term debt that is scheduled to fall due up to the end of 2016 and during the next 5 years reaches 1,881.7 million euros. Of this total amount, 619.8 million euros refer to resources obtained from institutions in international debt markets (wholesale), and the remaining 67.1% refer to the maturity of resources obtained in the retail network, the vast majority through individual offers.

As at 30 September 2016, the use of ECB resources stood at 2.6 billion euros, compared to 3.0 billion euros in the same period of the previous year and 2.3 billion at the end of 2015. The increased refinancing from the ECB in the current year was due to the use of the new series of Targeted Longer-Term Refinancing Operations (TLTRO II) to substitute and strengthen the funds obtained in the first Targeted Longer-Term Refinancing Operations (TLTRO), as well as the increase of resources obtained in the weekly operations. Indeed, up to the end of the 3rd quarter of 2016, CEMG changed the profile of its liquidity operations conducted at the ECB, through early repayment of part of the amounts financed through TLTRO and by taking advantage of the more favourable conditions of rates and terms of TLTRO II.

Consistent with a policy of dynamic management of the bond portfolio, the portfolio of eligible assets to back Eurosystem Monetary Policy operations and for operations in the new Secured Interbank Market showed an increase of 153.5 million euros as at 30 September 2016 in relation to the 3rd quarter of the previous year, to stand at 3.8 million euros. One of the factors that most contributed to this increase was the reinforcement of the public debt portfolio in the current year of 2016, whose effect was mitigated by the sale of 301.2 million euros of Class A bonds, of the Pelican SME no. 2 credit securitisation operation.

In this way, the pool of available assets, net of haircut, increased from 706.6 thousand euros, at the end of September 2015, to 1.2 billion euros at the end of the 3rd quarter of 2016.

POOL OF ELIGIBLE ASSETS FOR REFINANCING OPERATIONS WITH THE ECB

(thousand euros)

	Sep 2015	Dec 2015	Sep 2016	YoY Chg.	
				Amount	%
Pool of eligible assets [a]	3 688 507	4 019 674	3 842 021	153 514	4.2
Use of the pool	2 981 917	2 277 258	2 618 614	(363 303)	(12.2)
Pool of available assets	**706 590**	**1 742 416**	**1 223 407**	**516 817**	**73.1**

(a) Includes eligible assets, not used, for operations in the new-MIC.

Repurchase agreements (repos) recorded a stable performance, standing at approximately 1.1 billion euros, as at 30 September 2016, compared to an equal amount at the end of the 3rd quarter of 2015, reflecting a high degree of stability in the financial markets around this instrument.

EARNINGS

Net income for the 3rd quarter of 2016 stood at 144 thousand euros, enabling the accumulated result of the first 9 months of the year to stabilise at -67.5 million euros relative to the value recorded in the 1st half of 2016 (-67.6 million euros and -59.5 million euros in the same period of the previous year). Net income in the 3 months ended on 30 September 2016 indicates a reversal of the trend of negative quarterly results, reflecting the impact of the management measures implemented within the scope of the Strategic Plan 2016-2018, aimed at the sustainable recovery of the levels of profitability. It is also important to note that net income for the first nine months of 2016, excluding the specific impacts identified below, which occurred during the 1st half of 2016, came to 22.6 million euros. The net specific impacts, which amounted to 90.1 million euros, are broken down as follows:

- Costs with the process to redimension the operating structure of the value of 32 million euros;
- Contribution levied on the banking sector for the Single Resolution Fund and National Resolution Fund, amounting to 26.4 million euros, compared to 12.9 million euros in the same period of the previous year;
- Impact on specific financial investments of the value of 52.2 million euros.[3]
- Tax effect of 20.5 million euros relative to the aforementioned specific impacts.

SUMMARIZED INCOME STATEMENT

(thousand euros)

	Sep 2015	Sep 2016	YoY Chg.	
			Amount	%
Net interest income	**182 378**	**201 109**	**18 731**	**10.3**
Commercial net interest income	*193 895*	*206 695*	*12 800*	*6.6*
Net interest income from securities and other	*(11 517)*	*(5 586)*	*5 931*	*51.5*
Net fees and commissions	75 469	75 871	402	0.5
Commercial Net banking income (Commercial NII + Commissions)	**269 364**	**282 566**	**13 202**	***4.9***
Dividends from equity instruments	1 470	3 879	2 409	>100
Results from financial operations	124 901	26 381	(98 520)	(78.9)
Other operating income	(5 111)	(20 869)	(15 758)	(<100)
Net banking income	379 107	286 371	(92 736)	(24.5)
Staff costs	152 114	176 388	24 274	16.0
General administrative expenses	86 749	72 711	(14 038)	(16.2)
Depreciation and amortisation	19 863	20 001	138	0.7
Operating expenses	258 726	269 100	10 374	4.0
Operating expenses, excluding costs with the operational reorganisation programme	***258 726***	***237 078***	***(21 648)***	***(8.4)***
Net operating income	120 381	17 271	(103 110)	(85.7)
Net provisions and impairments	213 514	165 266	(48 248)	(22.6)
Share of profit of associates under the equity method	(3 894)	274	4 168	>100
Earnings before tax and non-controlling interests	(97 027)	(147 721)	(50 694)	(52.2)
Tax and non-controlling interests	37 566	80 238	42 672	>100
Net income for the period	**(59 461)**	**(67 483)**	**(8 022)**	**(13.5)**

[3] Considers the devaluation of financial assets of the telecommunications sector and business restructuring funds, as well as the accounting statement of the earn-out of a financial asset.

It is also worth noting the significant year-on-year growth, from 10.6 million euros to 45.5 million euros (+328%) at the end of the 3rd quarter of 2016, of net income of commercial activity, which arises from the sum of the commercial net interest income[4] and net fees and commissions, minus operating costs (excluding the costs incurred with the redimension of the operating structure).

NET INTEREST INCOME

Net interest income registered a significant year-on-year growth of 10.3%, having reached 201.1 million euros, compared to 182.4 million euros at the end of the 3rd quarter of 2015. This performance was influenced by the application of a strict repricing policy and the reduction of issued debt, which was substituted by less costly sources of funding. As a result, commercial net interest income and net interest income associated to securities and other financial instruments grew 12.8 million euros (+6.6%) and 5.9 million euros, respectively. These positive signs continued to be confirmed in the 3rd quarter of the year, during which net interest income reached 73.8 million euros, corresponding to a 10.7% increase in relation to the previous quarter. It should be emphasised that this growth occurred in a context of historically low interest rates, which continues to constrain the performance of financial intermediation.

NET INTEREST INCOME

(thousand euros)

	Sep 2015	Sep 2016	Change	
			Amount	%
Interest and similar income				
Loans to Customers (a)	370 252	321 824	(48 428)	(13.1)
Securities portfolio	126 334	104 228	(22 106)	(17.5)
Derivative instruments	118	307	189	>100
Other interest and income	1 260	1 855	595	47.2
Sub-total	**497 964**	**428 214**	**(69 750)**	**(14.0)**
Interest and similar expense				
Customers' resources (b)	176 357	115 129	(61 228)	(34.7)
Issued debt	124 814	97 198	(27 616)	(22.1)
Derivative instruments	485	20	(465)	(95.9)
Other interest and expense	13 930	14 758	828	5.9
Sub-total	**315 586**	**227 105**	**(88 481)**	**(28.0)**
Net interest income	**182 378**	**201 109**	**18 731**	**10.3**
Commercial Net interest income (a - b)	193 895	206 695	12 800	6.6
Net interest income from securities and other	(11 517)	(5 586)	5 931	51.5

[4] Interest received on loans to customers – interest paid on customers' resources

OTHER OPERATING INCOME AND NET BANKING INCOME

Net fees and commissions remained stable in relation to the same period of the previous year, having reached a total of 75.9 million euros, corresponding to a slight increase of 0.5%.

The results of financial operations reached 26.4 million euros, compared to 124.9 million euros in the same period of the previous year, which included 76.6 million euros derived from the divestment of Portuguese public debt securities, compared to 3.1 million euros recorded up to 30 September 2016.

RESULTS FROM FINANCIAL OPERATIONS

(thousand euros)

	Sep 2015	Sep 2016	Change	
			Amount	%
Net gains/losses arising from assets and liabilities at fair value through profit or loss	9 384	(27 604)	(36 988)	(<100)
Net gains/losses arising from available for sale financial assets	102 066	40 861	(61 205)	(60.0)
Net gains/losses arising from foreign exchange differences	13 451	13 124	(327)	(2.4)
Results from financial operations	**124 901**	**26 381**	**(98 520)**	**(78.9)**
Results from the sale of Portuguese sovereign debt	*76 584*	*3 077*	*(73 507)*	*(96.0)*

Hence, the evolution of net operating income in the first 9 months of 2016, which stood at 286.4 million euros, compared to 379.1 million euros in the same period of the previous year, was negatively affected due to the aforementioned earnings from divestment of securities in the previous year.

It is also important to mention that commercial net banking interest, arising from the sum of the commercial net interest income and net commissions, grew 4.9% year-on-year, as a result of the 6.6% increase in commercial net interest income and stability in terms of commissions (+0.5%).

OPERATING EXPENSES

Consolidated operating costs, excluding costs incurred with the process to redimension the operating structure, which took place during the 1st half of 2016, amounted to 237.1 million euros. This corresponds to a year-on-year decrease of 8.4%, which was influenced by the 7.3% reduction in terms of domestic activity and 18.9% reduction in international activity.

The aforesaid process to redimension the operating structure, implemented within the scope of the Strategic Plan 2016-2018 and which represented a cost of 32 million euros, aimed to optimise the levels of operating efficiency, rationalise the resources allocated to banking activity and adjust CEMG's offer to the needs of its Customers. Accordingly, 90 branches were closed during the first nine months of 2016 (89 of which during the first six months), with the number of CEMG Group employees having fallen from 4,404 at the end of 2015 to 4,182 employees, under a programme of early retirement and employment termination by mutual agreement that took place during the first half of the year.

After these impacts, operating costs amounted to 269.1 million euros, compared to 258.7 million euros as at 30 September 2015, as a result of the combined effect of the 16.0% increase in staff costs (+24.3 million euros), the 16.2% reduction in general administrative expenses (-14.0 million euros) and the stabilisation of depreciation and amortisation (+0.7%).

Following the conclusion of the process to redimension the operating structure, staff costs, general administrative costs and depreciation and amortisation fell 35.3%, 27.8% and 9.6%, respectively.

OPERATING EXPENSES

(thousand euros)

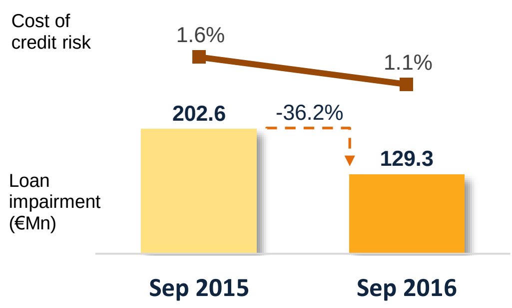
	Sep 2015	Sep 2016	Change	
			Amount	%
Staff costs	152 114	176 388	24 274	16.0
General administrative expenses	86 749	72 711	(14 038)	(16.2)
Functioning expenses	**238 863**	**249 099**	**10 236**	**4.3**
Depreciation and amortisation	19 863	20 001	138	0.7
Operating expenses	**258 726**	**269 100**	**10 374**	**4.0**
Domestic activity	235 338	250 124	14 786	6.3
Excluding costs with the operational reorganisation programme	*235 338*	*218 102*	*(17 236)*	*(7.3)*
International activity	23 388	18 976	(4 412)	(18.9)
Operating expenses, excluding costs with the operational reorganisation programme	***258 726***	***237 078***	***(21 648)***	***(8.4)***
Efficiency ratios				
Cost to Income (Operating Expenses / Net Banking Income) (a)	68.2%	94.0%		
Cost to Income, excluding results from financial operations and costs with the operational reorganisation programme	101.8%	91.2%		

(a) In accordance with Banco de Portugal Instruction No. 16/2004, in its current version.

PROVISIONS AND IMPAIRMENTS

The maintenance of a prudent policy of assessment of the risk levels of the asset portfolio was reflected in the 22.6% year-on-year reduction of provisions and impairments (-48.2 million euros) to 165.3 million euros. This performance was particularly influenced by the 36.2% reduction in credit impairments to 129.3 million euros, reflecting the stringent policy of risk analysis in credit concession. This prudent action led to a substantial reduction in the cost of credit risk from 1.6%, at the end of the 3rd quarter of 2015, to 1.1% as at 30 September 2016, reflecting the improvement in impairment losses in credit.

Impairments and Cost of credit risk



Impairments constituted for securities showed an increase of 25.1 million euros, as a result of the devaluation of financial assets of the telecommunications sector, which occurred in the 1st half of 2016, while impairments for other assets decreased 0.7%.

PROVISIONS AND IMPAIRMENTS

(thousand euros)

	Sep 2015	Sep 2016	Change	
			Amount	%
Loans impairment	202 617	129 254	(73 363)	(36.2)
Other financial assets impairment	6 720	31 864	25 144	>100
Other assets impairment and other provisions	4 177	4 148	(29)	(0.7)
Total provisions and impairments	**213 514**	**165 266**	**(48 248)**	**(22.6)**

INTERNATIONAL ACTIVITY

The CEMG Group's international activity is carried out by the entities Finibanco Angola, S.A. (FNB-A), Banco Montepio Geral Cabo Verde, Sociedade Unipessoal, S.A. (MGCV) and by BTM, S.A. which operates in Mozambique.

DEPOSITS AND LOANS

In September 2016, customer deposits attracted by the entities that develop the international activity of the CEMG Group, expressed in euros, reached 639.5 million euros, reflecting a year-on-year decrease of 23.9%.

The attraction of resources in the Angolan market, of the value of 385.1 million euros, represents 60.2% of the international activity, having declined by 9.9% in relation to the same period of the previous year, as a result of the 21.9% deterioration of the EUR/AOA exchange rate. Nonetheless, the performance in the presented currency is positive with an 11.0% increase in activity, based on the policy aimed at penetrating the Angolan market, with the opening of 2 new branches and 1 business centre in 2015 and consolidation of the branches opened in recent years.

In MGCV, customer deposits decreased by 48.1%, having stood at 234.4 million euros, which represent 36.7% of the total deposits of the international activity.

BTM made a more modest contribution, with a balance of deposits of 20.0 million euros, which is expected to increase under the current business plan, which foresees an increase of the bank's physical presence to take advantage of the identified market potential, through the opening of new business centres (branches and other customer support services) and expansion of the offer of products and services.

The loan portfolio of the CEMG Group's international activity fell 23.0%, from 305.3 million euros in September 2015 to 235.1 million euros in September 2016.

EARNINGS

The activity developed by FNB-A achieved a positive net income of 9.4 million euros, compared to 9.1 million euros in the same period of the previous year. In spite of the reduction in net operating income of 2.8 million euros, the decrease in operating costs of 2.6 million euros and in impairment for credit of 0.8 million euros offset the impact on the reduced profitability in terms of net operating income.

BTM recorded a positive net income of 144 thousand euros in the first nine months of 2016, compared to the negative net income of 3.3 million euros in the same period of the previous year. The reversal of negative net income towards positive territory results from the 41.6% increase in net operating income and the 24.7% reduction in operating costs.

MGCV recorded a positive net income of 49 thousand euros, which compares with the positive result of 717 thousand euros as at 30 September 2015. This outcome was derived from the reduction of 742 thousand euros in net operating income due to the lower net interest income (-802 thousand euros) partially offset by the earnings arising from currency revaluation (+42 thousand euros). It is important to note that operating costs decreased by 74 thousand euros.

RATING

As at 30 September 2016, the ratings awarded to CEMG were the following:

Rating Agencies	Long Term	Short Term	*Outlook*
Fitch Ratings	B	B	Stable
Moody's Investors Service	B3	NP	Negative
DBRS	BB	R-4	Stable

On 28 September 2016, DBRS revised its long-term rating of CEMG to 'BB', from 'BB(high)', with the Outlook improving to Stable, as a result of the low interest rate environment, weak economic recovery in Portugal and the complex regulatory framework. The agency also highlighted that the rating attributed to CEMG continues to reflect its solid franchise, its loyal base of customers and the resilience of its fundamentals, which enabled it to avoid having to resort to State support during the period of economic and financial crisis. In the same communiqué, DBRS highlights the positive progress that CEMG has been making since the appointment of the new Executive Board of Directors and that it expects a gradual improvement of its medium-term profitability, as a result of the cost reduction programme which was implemented and the signs of stabilisation in asset quality deterioration, due to the management measures implemented.

During the 3rd quarter of 2016, the Meetings of Mortgage Bond Holders, held on 1 July, approved the implementation of the Conditional Pass-Through mechanism for the series issued under the Covered Bond Programme. Following the implementation of this decision, the agencies Moody's Investors Service, Fitch Ratings and DBRS decided to upgrade the rating of Covered Bonds issued by CEMG:

- Moody's Investors Service: upgrade by 1 notch, from 'Baa1' to 'A3';
- Fitch Ratings: upgrade by 3 notches, from 'BBB-' to 'A-';
- DBRS: upgrade by 1 notch, from 'A' to 'A(high)'.[5]

During the 4th quarter of 2016, on 14 November, Fitch Ratings announced the placement of the Covered Bond Programme of CEMG on Rating Watch Positive, reflecting the possibility of the programme being able to reach the 'A+' rating. This decision, which resulted from the review of the agency's assessment methodology, indicates an imminent upgrading of the rating of the Covered Bonds, currently classified as "A-" (in the 'Investment Grade' category).

[5] Revised to 'A', during the course of the 4th quarter, on 4 October 2016.

SIGNIFICANT EVENTS IN THE 3rd QUARTER OF 2016

Reorganisation of the CEMG Group is on track

The implementation of the Strategic Plan of CEMG for the three-year period 2016-2018, approved by the Extraordinary General Meeting held on 30 December 2015, continued on track during the 3rd quarter of 2016. The Extraordinary General Meeting held on 6 July approved the adherence to the special regime applicable to deferred tax assets, set out in Law No. 61/2014, of 26 August. This regime permits the conversion of specific types of deferred tax assets into tax credits, thus enabling the absorption of losses, regardless of the future profitablity of the credit institution.

Montepio Geral Associação Mutualista is the only qualifying shareholder of CEMG

The investors Eurico Hélder Reis Sousa Brito and Paulo Jorge Veríssimo Guilherme sold units of the Participation Fund, reducing their stake to less than 2% of the Participation Fund of CEMG, such that under the terms of article 20 of the Securities Code, they no longer hold a qualifying position.

Montepio Geral Associação Mutualista is now the only qualifying shareholder in the Participation Fund of CEMG, with a qualifying holding, as at 27 September 2016, of 66.7% of the Participation Fund.

Montepio supports social causes

On 17 August, the reinforcement of CEMG's support to the League of Portuguese Firefighters was announced. Under this agreement, and with the objective of supporting the Firefighters' Social Protection Fund, CEMG announced the opening of a solidarity account to which it contributed one euro for each euro donated by the Portuguese. Special credit lines were also announced, for individual and corporate customers affected by the fires.

CEMG has become the Local Sponsor of the "Street Football Project" for the years 2016-2017.

The "Street Football Project", promoted by the CAIS Association, aims to foment the practice of sports and use sport as an innovative intervention strategy in promoting social inclusion. It is supported by the Football For Hope Programme of FIFA, the Secretary of State for Youth and Sports / Youth and Sport Portuguese Institute, the National Sport Programme for All and by Montepio.

CEMG supports companies

In September, CEMG attended AgroGlobal – one of the most representative platforms of the agricultural business in Portugal.

Promote new businesses and support customers through the Agricultural Solution is one of the objectives of CEMG's participation in this initiative which focuses on the affirmation and growth of companies and entrepreneurs from each business area of the agricultural sector.

Montepio reinforced the Take Off offer with a line of credit of 20 million euros from the European Investment Bank. Take Off is a solution directed at start-ups.

From funding and treasury solutions to business protection, savings solutions or a platform for secure payments for integration into e-commerce websites, there are many benefits that entrepreneurs can count on. In addition, it is possible to resort to the services of two incubators, which were also created with the support of Montepio: Startup Lisboa Tech, an incubator specialised in technologically-based companies; and Startup Lisboa Commerce, specialised in hosting commerce and tourism sector projects.

CEMG reinforces the security of its Customers

CEMG adopted a new strong authentication system based on SMS messages: the SMS Code.

This authentication mechanism allowed to increase the level of security of the operations undertaken through CEMG's remote channels, combining security with the level of usability required for a simple and quick use of remote channels.

Alteration of the Articles of Association of Caixa Económica Montepio Geral

During the 4th quarter of 2016, the General Meeting of CEMG was convened to, at an extraordinary meeting on 22 November 2016, deliberate on the transformation of CEMG into a public limited company and the alteration of its articles of association.

The only item on the agenda of the General Meeting results from the implementation of the regulatory framework of the Savings Banks introduced by Decree-Law No. 190/2015 of 10 September, with the exclusive aim of ensuring that the legal requirements necessary to comply with the legal regime applicable to CEMG are met, not falling under any public listing process of the institution, which will depend on the approval of Montepio Geral Associação Mutualista.

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET AS AT 30 SEPTEMBER 2016 AND 31 DECEMBER 2015

	Sep 2016			Dec 2015
(thousand euros)	Gross Assets	Impairment and Amortization	Net Assets	Net Assets
Cash and deposits at central banks	326 344	-	326 344	424 450
Loans and advances to credit institutions repayable on demand	239 383	-	239 383	238 007
Financial assets held for trading	45 122	-	45 122	51 093
Financial assets available for sale	2 530 584	90 717	2 439 867	3 068 501
Other loans and advances to credit institutions	146 532	-	146 532	172 044
Loans and advances to customers	15 385 770	1 154 990	14 230 780	14 662 277
Held to maturity instruments	1 275 640	-	1 275 640	161 540
Hedging derivatives	-	-	-	9
Non-current assets held for sale	887 474	132 620	754 854	754 898
Investment properties	602 593	-	602 593	692 485
Property and equipment	458 692	185 572	273 120	89 115
Intangible assets	167 639	102 201	65 438	65 862
Investments in associated companies and others	4 438	341	4 097	3 908
Current tax assets	11 250	-	11 250	27 861
Deferred tax assets	480 130	-	480 130	403 506
Other assets	361 195	30 427	330 768	329 660
TOTAL ASSETS	**22 922 786**	**1 696 868**	**21 225 918**	**21 145 216**
Deposits from central banks			2 618 614	2 277 258
Financial liabilities held for trading			18 104	70 289
Deposits from other financial institutions			1 808 968	1 573 131
Deposits from customers			12 593 244	12 969 431
Debt securities issued			1 703 994	2 031 165
Financial liabilities relating to transferred assets			414 180	323 037
Hedging derivatives			-	439
Provisions			15 136	16 587
Current tax liabilities			5 043	3 069
Other subordinated debt			249 958	333 039
Other liabilities			253 287	203 625
TOTAL LIABILITIES			**19 680 528**	**19 801 070**
Capital			2 170 000	1 900 000
Institutional Capital			1 770 000	1 500 000
Participation Fund			400 000	400 000
Other equity instruments			6 323	8 273
Treasury stock			(81)	(31 581)
Fair value reserves			6 997	646
Other reserves and retained earnings			(591 777)	(318 454)
Net income for the period			(67 483)	(243 407)
Non-controlling interests			21 411	28 669
TOTAL EQUITY			**1 545 390**	**1 344 146**
TOTAL LIABILITIES AND EQUITY			**21 225 918**	**21 145 216**

THE CHARTERED ACCOUNTANT

(Luís Miguel Lines Andrade)

THE EXECUTIVE BOARD OF DIRECTORS

(José Manuel Félix Morgado - CEO)

(João Carlos Martins da Cunha Neves)

(Luís Gabriel Moreira Maia Almeida)

(Fernando Ferreira Santo)

(João Belard da Fonseca Lopes Raimundo)

(Jorge Manuel Viana de Azevedo Pinto Bravo)

(Luís Miguel Resende de Jesus)

CONSOLIDATED INCOME STATEMENT AS AT 30 SEPTEMBER 2016 AND 2015

(thousand euros)	Sep 2016	Sep 2015
Interest and similar income	428 214	497 964
Interest and similar expense	227 105	315 586
NET INTEREST INCOME	**201 109**	**182 378**
Dividens from equity instruments	3 879	1 470
Fee and commission income	101 228	100 289
Fee and comission expense	25 357	24 820
Net gains/losses arising from assets and liabilities at fair value through profit or loss	(27 604)	9 384
Net gains/losses arising from available for sale financial assets	40 861	102 066
Net gains/losses arising from foreign exchange differences	13 124	13 451
Net gains/losses arising from sale of other assets	12 748	(18 218)
Other operating income	(33 617)	13 107
NET BANKING INCOME	**286 371**	**379 107**
Staff costs	176 388	152 114
General administrative expenses	72 711	86 749
Depreciation and amortisation	20 001	19 863
Loans impairment	129 254	202 617
Other financial assets impairment	31 864	6 720
Other assets impairment	19 154	9 326
Other provisions	(15 006)	(5 149)
Share of profit of associates under the equity method	274	(3 894)
EARNINGS BEFORE TAX AND NON-CONTROLLING INTERESTS	**(147 721)**	**(97 027)**
Tax		
Current	(2 212)	1 256
Deferred	84 253	36 143
Non-controlling interests	(1 803)	167
NET INCOME FOR THE PERIOD	**(67 483)**	**(59 461)**

THE CHARTERED ACCOUNTANT

(Luís Miguel Lines Andrade)

THE EXECUTIVE BOARD OF DIRECTORS

(José Manuel Félix Morgado - CEO)

(João Carlos Martins da Cunha Neves)

(Luís Gabriel Moreira Maia Almeida)

(Fernando Ferreira Santo)

(João Belard da Fonseca Lopes Raimundo)

(Jorge Manuel Viana de Azevedo Pinto Bravo)

(Luís Miguel Resende de Jesus)

Explanatory Notes to the Consolidated Financial Statements

Caixa Económica Montepio Geral

Consolidated Income Statement
for the nine months period ended at 30 september 2016 and 2015

(Thousands of Euro)

	Notes	30 september 2016	30 september 2015
Interest and similar income	3	428 214	497 964
Interest and simlar expense	3	227 105	315 586
Net interest income	3	201 109	182 378
Dividends from equity instruments	4	3 879	1 470
Fee and commission income	5	101 228	100 289
Fee and commission expense	5	(25 357)	(24 820)
Net gains / (losses) arising from financial assets and liabilities at fair value through profit or loss	6	(27 604)	9 384
Net gains / (losses) arising from financial assets available-for-sale	7	40 861	102 066
Net gains / (losses) arising from foreign exchange differences	8	13 124	13 451
Net gains / (losses) arising from sale of other financial assets	9	12 748	(18 218)
Other operating income	10	(33 617)	13 107
Total operating income		286 371	379 107
Staff costs	11	176 388	152 114
General and administrative expenses	12	72 711	86 749
Depreciation and amortisation	13	20 001	19 863
		269 100	258 726
Loans impairment	14	129 254	202 617
Other financial assets impairment	15	31 864	6 720
Other assets impairment	16	19 154	9 326
Other provisions	17	(15 006)	(5 149)
Operating profit		(147 995)	(93 133)
Share of profit of associates under the equity method	18	274	(3 894)
Profit before income tax		(147 721)	(97 027)
Tax			
Current	32	(2 212)	1 256
Deferred	32	84 253	36 143
Consolidated profit / (loss) for the period		(65 680)	(59 628)
Consolidated profit / (loss) for the period attributable to			
Institutional Capital and Participation Fund		(67 483)	(59 461)
Non-controlling interests	49	1 803	(167)
Consolidated profit / (loss) for the period		(65 680)	(59 628)

THE CERTIFIED ACCOUNTANT

THE EXECUTIVE BOARD OF DIRECTORS

The following notes form an integral part of these interim consolidated financial statements

Caixa Económica Montepio Geral

Consolidated Statement of Financial Position as at 30 september 2016 and 31 december 2015

(Thousands of Euro)

	Notes	30 september 2016	31 december 2015
Assets			
Cash and deposits at central banks	19	326 344	424 450
Loans and advances to credit institutions repayable on demand	20	239 383	238 007
Other loans and advances to credit institutions	21	146 532	172 044
Loans and advances to customers	22	14 230 780	14 662 277
Financial assets held-for-trading	23	45 122	51 093
Financial assets available-for-sale	24	2 439 867	3 068 501
Hedging derivatives	25	-	9
Held-to-maturity investments	26	1 275 640	161 540
Investments in associated companies	27	4 097	3 908
Non-current assets held-for-sale	28	754 854	754 898
Investment properties	29	602 593	692 485
Property and equipment	30	273 120	89 115
Intangible assets	31	65 438	65 862
Current tax assets		11 250	27 861
Deferred tax assets	32	480 130	403 506
Other assets	33	330 768	329 660
Total Assets		21 225 918	21 145 216
Liabilities			
Deposits from central banks	34	2 618 614	2 277 258
Deposits from other financial institutions	35	1 808 968	1 573 131
Deposits from customers	36	12 593 244	12 969 431
Debt securities issued	37	1 703 994	2 031 165
Financial liabilities relating to transferred assets	38	414 180	323 037
Financial liabilities held-for-trading	23	18 104	70 289
Hedging derivatives	25	-	439
Provisions	39	15 136	16 587
Current tax liabilities		5 043	3 069
Other subordinated debt	40	249 958	333 039
Other liabilities	41	253 287	203 625
Total Liabilities		19,680,528	19,801,070
Equity			
Institutional capital	42	1 770 000	1 500 000
Participation fund	43	400 000	400 000
Other equity instruments	44	6 323	8 273
Treasury stock	45	(81)	(31 581)
Fair value reserves	47	6 997	646
Other reserves and retained earnings	46 and 47	(591 777)	(318 454)
Consolidated profit / (loss) for the period attributable to the holders of Institutional Capital and Participation Fund		(67 483)	(243 407)
Total equity attributable to the holders of Institutional Capital and Participation Fund		1 523 979	1 315 477
Non-controlling interests	49	21 411	28 669
Total Equity		1 545 390	1 344 146
Total Liabilities and Equity		21 225 918	21 145 216

The following notes form an integral part of these interim consolidated financial statements

Caixa Económica Montepio Geral

Consolidated Income Statement
for the three months period between 1 july and 30 september 2016 and 2015

(Thousands of Euro)

	3rd Quarter 2016	3rd Quarter 2015
Interest and similar income	143 650	148 935
Interest and similar expense	69 836	92 579
Net interest income	73 814	56 356
Dividends from equity instruments	1 168	70
Fee and commission income	35 062	34 629
Fee and commission expense	(8 527)	(8 356)
Net gains / (losses) arising from financial assets and liabilities at fair value through profit or loss	1 474	(1 815)
Net gains / (losses) arising from financial assets available-for-sale	657	18 648
Net gains / (losses) arising from foreign exchange differences	3 155	6 212
Net gains / (losses) arising from sale of other financial assets	515	(10 370)
Other operating income	(15 240)	(1 687)
Total operating income	92 078	93 687
Staff costs	46 164	50 275
General and admnistrative expenses	20 383	28 992
Depreciation and amortisation	6 607	6 017
Total operating costs	73 154	85 284
Loans impairment	36 117	51 331
Other financial assets impairment	(6 196)	(3 950)
Other assets impairment	6 428	912
Other provisions	(4 037)	77
Operating profit	(13 388)	(39 967)
Share of profit of associates under the equity method	255	222
Profit before income tax	(13 133)	(39 745)
Tax		
Current	1 490	1 038
Deferred	12 479	8 473
Consolidated profit / (loss) for the period	836	(30 234)
Consolidated profit / (loss) for the period attributable to		
Institutional Capital and Participation Fund	144	(30 552)
Non-controlling interests	692	318
Consolidated profit / (loss) for the period	836	(30 234)

The following notes form an integral part of these interim consolidated financial statements

Caixa Económica Montepio Geral

Consolidated Satetement of Cash Flows
for the nine months period ended at 30 september 2016 and 2015

(Thousands of Euro)

	30 september 2016	30 september 2015
Cash flows arising from operating activities		
Interest income received	390 256	509 886
Commission income received	100 929	96 615
Interest expense paid	(258 025)	(372 240)
Commission expense paid	(25 294)	(25 518)
Payments to employees and suppliers	(230 221)	(245 782)
Recovery of loans and interests	5 401	7 130
Other payments and receivables	11 621	(49 695)
Interest tax payment	16 373	(17 565)
	11 040	(97 169)
(Increase) / decrease in operating assets		
Loans and advances to credit institutions	341 052	782 784
Other assets	(48 772)	(166 768)
	292 280	616 016
Increase / (decrease) in operating liabilities		
Deposits from customers	(346,986)	(1 722 492)
Deposits from credit institutions	235 221	895 453
Deposits from central banks	342 015	505 000
	230 250	(322 039)
	533 570	196 808
Cash flows arising from investing activities		
Dividends received	3 879	1 470
(Acquisition) / sale of financial assets held-for-trading	(18 546)	35 010
(Acquisition) / sale of financial assets available-for-sale	659 210	95 344
Interests received arising from financial assets available-for-sale	16 265	-
(Acquisition) / sale of hedging derivatives	-	134
(Acquisition) / sale of held-to-maturity investments	(1 094 459)	(29 980)
(Acquisition) / sale of shares in associated companies	43 972	(201)
Deposits owned with the purpose of monetary control	61 816	(371 757)
(Acquisition) / sale of other fixed assets	(2 737)	-
Fixed assets and investment properties acquisition	(217 096)	(43 470)
Fixed assets and investment properties sale	52 037	45 650
	(495 659)	(267 800)
Cash flow arising from financing activities		
Own securities	18 302	(28 301)
Capital increase	270 000	200 000
Other equity instruments	(2 320)	-
Proceeds from issuance of bonds and subordinated debt	-	71 150
Reimbursement of bonds and subordinated debt	(402 591)	(83 619)
Increase / (decrease) in other sundry liabilities	30 660	(140 506)
	(85 949)	18 724
Exchange effects on cash and cash equivalents	13 125	13 451
Net changes in cash and cash equivalents	(34 913)	(38 817)
Cash and cash equivalents at the beginning of the period		
Net changes in cash and cash equivalents		
Cash (note 19)	208 037	189 348
Loans and advances to credit institutions repayable on demand (note 20)	238 007	217 043
Cash and cash equivalents at the end of the period	411 131	367 574
Cash and cash equivalents at the end of the period includes:		
Cash (Note 19)	171 748	143 038
Loans and advances to credit institutions repayable on demand (note 20)	239 383	224 536
	411 131	367 574

The following notes form an integral part of these interim consolidated financial statements

Caixa Económica Montepio Geral

Consolidated Statement of Changes in Equity
for the nine months period ended at 30 september 2016 and 2015

(Thousands of Euro)

	Institutional Capital	Participation fund	Other equity instruments	Fair value reserves	Other reserves and retained earnings: General and special reserve	Other reserves and retained earnings: Other reserve	Total equity attributable to holders of institutional capital and participation fund	Non-controlling interests	Total Equity
Balance on 1 january 2015	1 500 000	196 720	8 273	14 958	255 805	(587 672)	1 388 084	26 440	1 414 524
Other comprehensive income:									
Exchange difference arising from the consolidation	-	-	-	-	-	(3 913)	(3 913)	(1 182)	(5 095)
Deferred taxes related to balance sheet changes accounted for against reserves (note 32)	-	-	-	-	-	(1 142)	(1 142)	-	(1 142)
Fair value changes (note 47)	-	-	-	(124 652)	-	-	(124 652)	-	(124 652)
Deferred taxes related to fair value changes (note 32)	-	-	-	36 464	-	-	36 464	-	36 464
Consolidated profit / (loss) for the period	-	-	-	-	-	(59 461)	(59 461)	(167)	(59 628)
Total comprehensive income for the period	-	-	-	(88 188)	-	(64 516)	(152 704)	(1 349)	(154 053)
Increase in capital by subscription of participation fund (note 43)	-	200 000	-	-	-	-	200 000	-	200 000
Cost related to the issue of perpetual subordinated instruments	-	-	-	-	-	(758)	(758)	-	(758)
Acquisition of participation fund	-	(28 301)	-	-	-	-	(28 301)	-	(28 301)
Other consolidation reserve	-	-	-	-	-	717	717	-	717
Balance on 30 september 2015	1 500 000	368 419	8 273	(73 230)	255 805	(652 229)	1 407 038	25 091	1 432 129
Other comprehensive income:									
Exchange difference arising from the consolidation	-	-	-	-	-	(17 558)	(17 558)	2 174	(15 384)
Actuarial losses in the period	-	-	-	-	-	22 492	22 492	-	22 492
Deferred taxes related to balance sheet changes accounted for against reserves (note 32)	-	-	-	-	-	1 680	1 680	-	1 680
Fair value changes (note 47)	-	-	-	56 164	-	-	56 164	-	56 164
Deferred taxes related to fair value changes (note 32)	-	-	-	(14 267)	-	-	(14 267)	-	(14 267)
Disposal of the participation in Montepio Seguros, S.G.P.S., S.A. (note 27)	-	-	-	31 979	-	-	31 979	-	31 979
Consolidated profit / (loss) for the period	-	-	-	-	-	(183 946)	(183 946)	1 404	(182 542)
Total comprehensive income for the period	-	-	-	73 876	-	(177 332)	(103 456)	3 578	(99 878)
Own perpetual subordinated instruments (note 44)	-	-	-	-	-	-	-	-	-
Acquisition of participation fund	-	-	-	-	-	5 837	5 837	-	5 837
Other consolidation reserves	-	-	-	-	-	6 058	6 058	-	6 058
Balance on 31 december 2015	1 500 000	368 419	8 273	646	255 805	(817 666)	1 315 477	28 669	1 344 146
Other comprehensive income:									
Exchange difference arising from the consolidation	-	-	-	-	-	(17 581)	(17 581)	(9 061)	(26 642)
Deferred taxes related to balance sheet changes accounted for against reserves (note 32)	-	-	-	-	-	(1 990)	(1 990)	-	(1 990)
Fair value changes (note 47)	-	-	-	10 090	-	-	10 090	-	10 090
Deferred taxes related to fair value changes (note 32)	-	-	-	(3 739)	-	-	(3 739)	-	(3 739)
Consolidated profit / (loss) for the period	-	-	-	-	-	(67 483)	(67 483)	1 803	(65 680)
Total comprehensive income for the period	-	-	-	6 351	-	(87 054)	(80 703)	(7 258)	(87 961)
Institutional capital increase (note 42)	270 000	-	-	-	-	-	270 000	-	270 000
Own perpetual subordinated instruments (note 44)	-	-	(1 950)	-	-	-	(1 950)	-	(1 950)
Cost related to the issue of perpetual subordinated instruments (note 44)	-	-	-	-	-	(370)	(370)	-	(370)
Acquisition of participation fund	-	31 500	-	-	-	(13 198)	18 302	-	18 302
Other consolidation reserves	-	-	-	-	-	3 223	3 223	-	3 223
Balance on 30 september 2016	1 770 000	399 919	6 323	6 997	255 805	(915 065)	1 523 979	21 411	1 545 390

The following notes form an integral part of these interim consolidated financial statements

Caixa Económica Montepio Geral

Consolidated Statement of Comprehensive Income
for the nine months period ended at 30 september 2016

(Thousands of Euro)

	Notes	30 september 2016 Total	Holders of institutional capital and participation fund	Non-controlling interests
Items that may be reclassified into the Income Statement				
Fair value reserves				
Financial assets available-for-sale	47	10 090	10 090	-
Taxes	32 and 47	(3 739)	(3 739)	-
Exchange difference arising from the consolidation		(26 642)	(17 581)	(9 061)
		(20 291)	(11 230)	(9 061)
Items that won't be reclassified into the Income Statement				
Deferred taxes		(1 990)	(1 990)	-
		(1 990)	(1 990)	-
Other comprehensive income for the period		(22 281)	(13 220)	(9 061)
Consolidated profit / (loss) for the period		(65 680)	(67 483)	1 803
Total comprehensive income for the period		(87 961)	(80 703)	(7 258)

Caixa Económica Montepio Geral

Consolidated Statement of Comprehensive Income
for the three months period between 1 july and 30 september 2016

(Thousands of Euro)

	Notes	3rd Quarter 2016 Total	Holders of institutional capital and participation fund	Non-controlling interests
Items that may be reclassified into the Income Statements				
Fair value reserves				
Financial assets available-for-sale	47	(22 081)	(22 081)	-
Taxes	32 and 47	5 872	5 872	-
Exchange difference arising from the consolidation		(4 819)	(2 461)	(2 358)
		(21 028)	(18 670)	(2 358)
Items that won't be reclassified into the Income Statement				
Deferred taxes		(663)	(663)	-
		(663)	(663)	-
Other comprehensive income for the period		(21 691)	(19 333)	(2 358)
Consolidated profit / (loss) for the period		836	144	692
Total comprehensive income for the period		(20 855)	(19 189)	(1 666)

The following notes form an integral part of these interim consolidated financial statements

Caixa Económica Montepio Geral

Consolidated Statement of Comprehensive Income
for the nine months period ended at 30 september 2015

(Thousands of Euro)

	Notes	30 september 2015 Total	Holders of institutional capital and participation fund	Non-controlling interests
Items that may be reclassified into the Income Statement				
Fair value reserves				
Financial assets available-for-sale	47	(124 652)	(124 652)	-
Taxes	32 and 47	36 464	36 464	-
Exchange difference arising from the consolidation		(5 095)	(3 913)	(1 182)
		(93 283)	(92 101)	(1 182)
Items that won't be reclassified into the Income Statement				
Deferred taxes		(1 142)	(1 142)	
		(1 142)	(1 142)	-
Other comprehensive income for the period		(94 425)	(93 243)	(1 182)
Consolidated profit / (loss) for the period		(59 628)	(59 461)	(167)
Total other comprehensive income for the period		(154 053)	(152 704)	(1 349)

Caixa Económica Montepio Geral

Consolidated Statement of Comprehensive Income
for the three months period between 1 july and 30 september 2015

(Thousands of Euro)

	Notes	3rd Quarter 2015 Total	Holders of institutional capital and participation fund	Non-controlling interests
Items that may be reclassified into the Income Statement				
Fair value reserves				
Financial assets available-for-sale	47	(21 682)	(21 682)	-
Taxes	32 and 47	2 338	2 338	-
Exchange difference arising from the consolidation		5 086	3 907	1 179
		(14 258)	(15 437)	1 179
Items that won't be reclassified into the Income Statement				
Deferred taxes		(660)	(660)	-
		(660)	(660)	-
Other comprehensive income for the period		(14 918)	(16 097)	1 179
Consolidated profit / (loss) for the period		(30 234)	(30 552)	318
Total other comprehensive income for the period		(45 152)	(46 649)	1 497

The following notes form an integral part of these interim consolidated financial statements

1 Accounting policies

a) Basis of presentation

Caixa Económica Montepio Geral ("CEMG") is a credit institution held by Montepio Geral – Associação Mutualista, established on 24 March, 1844, and authorised to operate in accordance with Decree-Laws no. 298/92 of 31 December, and no. 136/79 of 18 May, which regulate the activity of savings banks and establish some restrictions to their activities. However, CEMG is authorised to carry out banking operations in addition to those mentioned in its by-laws, if previously authorised by the Bank of Portugal. This fact conducts to the practice of banking operations in general.

In 2010, Montepio Geral – Associação Mutualista, CEMG sole shareholder, has made an acquisition of 100% of Finibanco Holding, S.G.P.S., S.A. share capital through an Initial Public Offering (IPO) in the amount of Euro 341,250 thousand.

As at 31 March, 2011, Montepio Geral – Associação Mutualista sold its participation in Finibanco Holding, S.G.P.S., S.A. to CEMG. Under the change in the structure of the Group arising from this acquisition, as at 4 April, 2011, CEMG acquired a set of assets and liabilities of Finibanco, S.A. (excluding properties owned by Finibanco, SA and acquired as a result of loans and advances to costumers and a leasing portfolio (securities and real estate) in which Finibanco, S.A. is lessor and the fixed assets that materially support the operating leasing activities), and all associated liabilities and provisions.

As at 3 September 2013, Finibanco Holding, S.G.P.S., S.A. changed its designation to Montepio Holding, S.G.P.S., S.A. and as at 12 July 2013, Finibanco S.A. changed its designation to Montepio Investimento, S.A.

On 10 September 2015 it was published the Decree-Law no. 190/2015, which introduces amendments in the Legal Framework of Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras) and in the Mutual Association Code (Código das Associações Mutualistas). Following the publication of this Decree-Law, CEMG changed its classification to "Caixa Económica Bancária" (Economical Savings Bank).

In accordance with Regulation (EC) no. 1606/2002 from the European Parliament and the Counsel, of 19 July, 2002 and Regulation no. 5/2015 of Bank of Portugal, from 7 December, Group's consolidated financial statements are required to be prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU"). IFRS comprise accounting standards issued by the International Accounting Standards Board ("IASB") and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body. The interim consolidated financial statements presented herein were approved by the Executive Board of Directors of CEMG on 9 November 2016. The financial statements are presented in Euro rounded to the nearest thousand.

All references regarding normatives in this document report to the current version.

The consolidated financial statements for the nine-month period ended at 30 September 2016 have been prepared in accordance with the IFRS, as adopted by the European Union and effective at that date, considering the disclosures required by the standards defined in IAS 34. These financial statements also present the income statement for the third quarter of 2016 compared with the same period of the previous year. The financial statements for the nine-month period ended at 30 September 2016 do not include all the information required to be disclosed in the annual financial statements.

The Group has adopted IFRS and interpretations mandatory for accounting periods beginning on or after 1 January 2016.

The accounting policies in this note were applied consistently to all entities of the Group, and are consistent with those used in the preparation of the financial statements of the previous period.

The financial statements were prepared under the historical cost convention, as modified by the application of fair value for derivative financial instruments, financial assets and liabilities at fair value through profit or loss (trading and fair value option) and available for sale assets, except those for which a reliable measure of fair value is not available. Financial assets and liabilities that are hedged under hedge accounting are stated at fair value in respect of the risk that is being hedged.

The preparation of the financial statements in accordance with IFRS's requires the Executive Board of Directors to make judgments, estimates and assumptions that affect the application of the accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The issues involving a higher degree of judgment or complexity or where assumptions and estimates are considered to be significant are presented in the accounting policy described in note 1 aa).

b) Basis of consolidation

The consolidated financial statements now presented reflect the assets, liabilities, profits and losses of CEMG and its subsidiaries ("Group"), and the results attributable to the Group by its financial investments in associates firms, for the period ended at 30 September 2016 and 2015 and for the period ended at 31 December 2015.

Investment in subsidiaries

Subsidiaries are entities (including investment funds and securitisation vehicles) controlled by the Group. The Group controls an entity when has exposure, or rights, to variable returns derived of its involvement with this entity, and can reclaim them with the power that have over the entity relevant activities (de facto control). The financial statements of the subsidiaries are included on the consolidated financial statements since the moment that the Group acquire the control until the moment that the control ends.

Accumulated losses are attributed to non-controlling interests in the respective proportion, implying that the Group can recognise negative non-controlling interests.

On a step acquisition process resulting in the acquisition of control the revaluation of any participation previously acquired is booked against the profit and loss account, when goodwill is calculated. On a partial disposal resulting in loss of control over a subsidiary, any participation retained is revaluated at market value on the sale date and the gain or loss resulting from this revaluation is booked against the income statement.

Investments in associates

Investments in associated companies are consolidated by the equity method between the beginning date that the Group acquires significant influence and the ending date it ceases. Associates are those entities, in which the Group has significant influence, but not control, over the financial and operating policy decisions of the investee. It is assumed that the Group has significant influence when it holds, directly or indirectly, 20% or more of the voting rights of the investee. If the Group holds, directly or indirectly less than 20% of the voting rights of the investee, it is presumed that the Group does not have significant influence, unless such influence can be clearly demonstrated.

The existence of significant influence by the Group is usually evidenced in one or more of the following ways:

- representation on the Executive Board of Directors or equivalent governing body of the investee;
- participation in policy-making processes, including participation in decisions about dividends or other distributions;
- material transactions between the Group and the investee;
- interchange of the management team; and
- provision of essential technical information.

The consolidated financial statements include the part that is attributable to the Group of the total reserves and results of associated companies accounted on an equity basis. When the Group's share of losses exceeds its interest in an associate, the carrying amount of the investment, including any medium or long-term interest in that associate, is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred in a legal or constructive obligation to assume those losses on behalf of an associate.

Goodwill – Differences arising from consolidation

Concentrations of business activities are recorded by the purchase method. The acquisition cost correspond to the fair value determined at the purchase date, of the given assets and incurred or assumed liabilities.

Costs directly related with a subsidiary acquisition is recognised directly in the income statement.

The positive goodwill that results of the acquisitions, is recognised as an asset carried at acquisition cost and not subject to amortisation.

Goodwill arising on the acquisition of subsidiaries and associates is defined as the difference between the total value or the total cost of acquisition and the total or corresponding share of the fair value of the net assets acquired, respectively, depending on the option taken.

Negative goodwill arising on an acquisition is recognised directly in the income statement in the period the business combination occurs.

The recoverable amount of the goodwill is assessed annually, regardless of the existence of any impairment triggers. Impairment losses are recognised in the income statement. The recoverable amount is determined based on the value in use of the assets, calculated using valuation methodologies supported by discounted cash flow techniques, considering market conditions, the time value of money and the business risks.

Goodwill is no longer adjusted due to changes in the initial estimate of the contingent purchase price and the difference is booked in the income statement, or reserves, if applicable.

Purchases and dilution of non-controlling interests

The acquisition of the non-controlling interests that does not impact the control position of a subsidiary is accounted as a transaction with shareholders and, therefore, is not recognised additional goodwill resulting from this transaction. The difference between the acquisition cost and the book value or fair value of non-controlling interests acquired is recognised directly in reserves. On this basis, the gains and losses resulting from the sale of non-controlling interests, that does not impact the control position of a subsidiary, are always recognised against reserves.

Loss of control

The gains and losses resulting from the dilution or sale of a financial position in a subsidiary, with loss of control, are recognised by the Group in the income statement.

In an acquisition (dilution) of non-controlling interests not resulting in a loss of control, the difference between the fair value of the non-controlling interests acquired and the consideration paid, is accounted against reserves.

Investments in foreign subsidiaries and associates

The financial statements of the foreign subsidiaries and associates of the Group are prepared in their functional currency, defined as the currency of the primary economic environment in which they operate or the currency in which the subsidiaries obtain their income or finance their activity. In the consolidation process, assets and liabilities, including goodwill, of foreign subsidiaries are converted into euro at the official exchange rate at the balance sheet date.

Regarding the investments in foreign operations that are consolidated in the Group accounts under the full consolidation and equity methods, for exchange differences between the conversion to Euros of the opening net assets at the beginning of the year and their value in Euros at the exchange rate ruling at the balance sheet date for consolidated accounts are charged against consolidated reserves. Exchange differences resulting from hedging instruments related with investments in foreign currency are exchange differences booked in reserves resulting from those investments. Whenever the hedge is no fully effective, the ineffective portion is accounted in the income statement.

The income and expenses of these subsidiaries are converted to Euros at an approximate rate of the rates ruling at the dates of the transactions. Exchange differences from the conversion to Euros of the profits and losses for the reporting period, arising from the difference between the exchange rate used in the income statement and the exchange rate prevailing at the balance sheet date, are recognised in reserves - exchange differences.

On disposal of investments in foreign subsidiaries for which there is loss of control, exchange differences related to the investment in the foreign operation and to the associated hedge transaction previously recognised in reserves, are transferred to profit and loss as part of the gains or loss arising from the disposal.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses arising from intragroup transactions, are eliminated in the preparation of the consolidated financial statements. Unrealised gains and losses arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity.

c) Loans and advances to customers

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

The derecognition of these assets occurs in the following situations: (i) the contractual rights of the Group to their respective cash flows have expired; or (ii) the Group transferred substantially all the associated risks and rewards of ownership; or (iii) notwithstanding the fact that the Group may have retained part, but not substantially all the associated risks and rewards of ownership, control over the assets was transferred.

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

Impairment

The Group's policy consists in a regular assessment of the existence of objective evidence of impairment in the loans portfolio. Impairment losses identified are recorded in the income statement being subsequently reversed, if there is a reduction of the estimated impairment loss, in a subsequent period.

After initial recognition, a loan or a loan portfolio, defined as a group of loans with similar credit risk characteristics, may be classified as impaired when there is objective evidence of impairment as a result of one or more events and when the loss event has an impact on the estimated future cash flows of the loan or of the loan portfolio that can be reliably estimated.

According to IAS 39, there are two basic methods of calculating impairment losses: (i) individually assessed loans; and (ii) collective assessment.

(i) Individually assessed loans

Impairment losses on individually assessed loans are determined by an evaluation of the exposures on a case-by-case basis. For each loan considered individually significant, the Group assesses, at each balance sheet date, the existence of any objective evidence of impairment. In determining such impairment losses on individually assessed loans, the following factors are considered:

- Group's aggregate exposure to the customer and the existence of overdue loans;
- The viability of the customer's business and it's ability to generate sufficient cash flow to cover their debt obligations in the future;
- The existence, nature and estimated value of the collaterals;
- A significant downgrading in the client rating;
- The assets available on liquidation or insolvency;
- The ranking of all creditor claims; and
- The amount and timing of expected receipts and recoveries.

Impairment losses are calculated by comparing the present value of the expected future cash flows, discounted at the original effective interest rate of the loan, with its current carrying value and the amount of any loss is charged in the income statement. The carrying amount of impaired loans is reduced through the use of an allowance account. For loans with a variable interest rate, the discount rate used corresponds to the effective annual interest rate, which was applicable in the period that the impairment was determined.

(ii) Collective assessment

Loans which have been individually assessed and for which no evidence of impairment has been identified, are grouped together based on similar credit risk characteristics for a collective assessment of impairment losses. This analysis allows the Group to recognise losses at the balance sheet date that would not be individually identified until sometime in the future.

Impairment losses are calculated on a collective basis under two different scenarios:

- for homogeneous groups of loans that are not considered individually significant; or
- in respect of losses which have been incurred but have not yet been reported ("IBNR") on loans for which no objective evidence of impairment is identified (see section (i)).

The collective impairment loss is determined considering the following factors:

- historical loss experience in portfolios of similar risk characteristics;
- knowledge of the current economic and credit conditions and its impact on the historical losses level; and
- the estimated period between a loss occurring and a loss being identified.

The methodology and assumptions used to estimate the future cash flows are reviewed regularly by the Group in order to monitor the differences between estimated and real losses.

In accordance with "Carta-Circular" no. 15/2009 of the Bank of Portugal, loans and advances to customers are charged-off when there are no realistic expectation, from an economic perspective, of recovering the loan amount. For collateralised loans, the charge-off occurs for the unrecoverable amount when the funds arising from the execution of the respective collaterals for the part of the loans which is collateralised is effectively received. This charge-off is carried out only for loans that are considered not to be recoverable and fully provided.

d) Financial instruments

(i) Classification, initial recognition and subsequent measurement

Financial assets are recognised on their trade date, which is the date on which the Group commits to acquiring the asset and are classified considering its underlying purpose, in the following categories:

1) Financial assets and liabilities at fair value through profit and loss

1a) Financial assets held for trading

The financial assets and liabilities acquired or issued with the purpose of sale or re-acquisition on the short term, namely bonds, treasury bills or shares or that are part of a financial instruments portfolio and for which there is evidence of a recent pattern of short-term profit taking or that can be included in the definition of derivative (except in the case of a derivative classified as hedging) are classified as trading. The dividends associated to these portfolios are accounted in gains arising on trading and hedging activities.

The interest from debt instruments are recognised as interest margin.

Trading derivatives with a positive fair value are included in the Financial assets held for trading and the trading derivatives with negative fair value are included in the Financial liabilities held for trading.

1b) Other financial assets and liabilities at fair value through profit and loss ("Fair value Option")

The Group has adopted the Fair value Option for certain owned issuances, money market operations and term deposits which contain embedded derivatives or with hedge derivatives associated.

The variations of the Group's credit risk related with financial liabilities accounted under Fair value Option are disclosed in Net gains / (losses) arising from assets and liabilities at fair value through profit or loss.

The designation of the financial assets and liabilities at fair value through profit and loss by decision of the entity is performed whenever at least one of the requirements is fulfilled:

- the assets and liabilities are managed, evaluated and reported internally at its fair value;
- the designation eliminates or significantly reduces the accounting mismatch of the transactions; and
- the assets and liabilities include derivatives that significantly change the cash flows of the original contracts (host contracts).

The financial assets and liabilities at Fair value Option are initially accounted at their fair value, with the expenses or income related to the transactions being recognised in profit and loss and subsequently measured at fair value through profit and loss. The accrual of interest and premium/discount (when applicable) is recognised in Net interest income according with the effective interest rate of each transaction, as well as for the derivatives associated to financial instruments classified as Fair value Option.

2) Financial assets available-for-sale

Financial assets available-for-sale held with the purpose of being maintained by the Group, namely bonds, treasury bills or shares, are classified as available for sale, except if they are classified in another category of financial assets. The financial assets available-for-sale are initially accounted at fair value, including all expenses or income associated with the transactions and subsequently measured at fair value. The changes in fair value are accounted for against fair value reserves until they are sold or an impairment loss exists. The accumulated gains or losses recognised as fair value reserves are recognised in the income statement. When it is not possible to estimate with reliability the fair value, the financial instruments are recognised at acquisition cost. Interest income from debt instruments is recognised in Net interest income based on the effective interest rate, including a premium or discount when applicable. Dividends are recognised in the income statement when the right to receive the dividends is attributed.

3) Held-to-maturity investments

Financial assets held-to-maturity include non-derivative financial assets with fixed or determinable payments and fixed maturity, that the Group has the intention and capacity to maintain until the maturity of the assets and that were not included in the category of financial assets at fair value through profit and loss or financial assets available-for-sale. These financial assets are initially recognised at fair value and subsequently measured at amortised cost. The interest is calculated using the effective interest rate method and recognised in Net interest income. The impairment losses are recognised in profit and loss when identified.

Any reclassification or sale of financial assets included in this category that does not occur close to the maturity, or if is not included in the exemptions of the standards, will require the Group to reclassify the entire portfolio as Financial assets available-for-sale and the Group will not be allowed to classify any assets under this category for the following two years.

4) Loans and receivables - Loans represented by securities

Non-derivative financial assets with fixed or determined payments, that are not quoted in a market and which the Group does not intend to sell immediately or in a near future, may be classified in this category.

In addition to loans granted, the Group recognises in this category unquoted bonds and commercial paper. The financial assets recognised in this category are initially accounted at fair value and subsequently at amortised cost net of impairment. The incremental direct transaction costs are included in the effective interest rate for these financial instruments. The interest accounted based on the effective interest rate method are recognised in Net interest income.

The impairment losses are recognised in profit and loss when identified.

5) Other financial liabilities

Other financial liabilities are all financial liabilities that are not recognised as financial liabilities at fair value through profit and loss. This category includes money market transactions, deposits from customers and from other financial institutions, issued debt, and other transactions.

These financial liabilities are initially recognised at fair value and subsequently at amortised cost. The related transaction costs are included in the effective interest rate. The interest calculated at the effective interest rate is recognised in net interest income.

The financial gains or losses calculated at the time of the repurchase of other financial liabilities are recognised as Net gains / (losses) arising from assets and liabilities at fair value through profit and loss when occurred.

(ii) Impairment

At each balance sheet date, an assessment of the existence of objective evidence of impairment, is made. A financial asset or group of financial assets are impaired when there is objective evidence of impairment resulting from one or more events that occurred after its initial recognition, such as: (i) for listed securities, a prolonged devaluation or a significant decrease in its quotation price, and (ii) for unlisted securities, when that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be estimated reasonably. According to the Group's policies, a 30% depreciation in the fair value of an equity instrument is considered a significant devaluation and the 1-year period is assumed to be a prolonged decrease in the fair value below the acquisition cost.

If an available for sale asset is determined to be impaired, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss) is removed from fair value reserves and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurred after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the income statement. Recovery of impairment losses on equity instruments classified as financial assets available-for-sale, is recognised as a gain in fair value reserves when it occurs (if there are no reversal in the income statement).

(iii) Embedded derivatives

Embedded derivatives should be accounted for separately as derivatives if the economic risks and benefits of the embedded derivative are not closely related to the host contract, unless the hybrid (combined) instrument is not initially measured at fair value with changes through profit and loss. Embedded derivatives are classified as trading and recognised at fair value with changes through profit and loss.

e) Derivatives hedge accounting

(i) Hedge accounting

The Group designates derivatives and non-financial instruments to hedge its exposure to interest rate and foreign exchange risk, resulting from financing and investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative hedging instruments are stated at fair value and gains and losses on re-measurement are recognised in accordance with the hedge accounting model adopted by the Group. A hedge relationship exists when:

- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is valuable in a continuous basis and highly effective throughout the reporting year; and
- for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

When a derivative financial instrument is used to hedge foreign exchange arising from monetary assets or liabilities, no hedge accounting model is applied. Any gain or loss associated to the derivative and to changes in foreign exchange risk related with the monetary items are recognised through profit and loss.

(ii) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedge instruments are recognised in profit and loss, together with changes in the fair value attributable to the hedged risk of the asset or liability or group of assets and liabilities. If the hedge relationship no longer meets the criteria for hedge accounting, the cumulative gains and losses recognised until the discontinuance of the hedge accounting are amortised through profit and loss over the residual period of the hedged item.

(iii) Hedge effectiveness

For a hedge relationship to be classified as such according to IAS 39, effectiveness has to be demonstrated. As such, the Group performs prospective tests at the beginning date of the initial hedge, if applicable and retrospective tests in order to demonstrate at each reporting period the effectiveness of the hedging relationships, showing that the changes in the fair value of the hedging instrument are hedged by the changes in the hedged item for the risk being covered. Any ineffectiveness is recognised immediately in profit and loss when incurred.

f) Reclassifications between financial instruments categories

In October 2008, the IASB issued a change to IAS 39 – Reclassification of Financial Assets (Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7: Financial Instruments Disclosures). This change allowed an entity, in that financial year, to transfer Financial assets from Financial assets at fair value through profit and loss – trading to Financial assets available-for-sale, to Loans and Receivables - Loans represented by securities or to Held-to-maturity investments.

The Group adopted this possibility for a group of financial assets.

Transfers of financial assets recognised in the category of Financial assets available-for-sale to Loans and receivables - Loans represented by securities and to Financial assets held-to-maturity are allowed, in determined and specific circumstances.

Transfers from and to Financial assets and financial liabilities at fair value through profit and loss by decision of the entity ("Fair value option") are prohibited.

g) Derecognition

The Group derecognises financial assets when all rights to future cash flows have expired. In a transfer of assets, derecognition can only occur either when risks and rewards have been substantially transferred or the Group does not maintain control over the assets.

The Group derecognises financial liabilities when these are discharged, cancelled or extinguished.

h) Equity instruments

A financial instrument is classified as an equity instrument when there is no contractual obligation at settlement to deliver cash or another financial asset to another entity, independently from its legal form, showing a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to an equity instruments issuance are recognised in equity as a deduction to the amount issued. Amounts paid or received related to sales or acquisitions of equity instruments are recognised in equity, net of transaction costs.

Income from equity instruments (dividends) are recognised when the right to receive this income is established and are deducted to equity.

i) Securities borrowing and repurchase agreement transactions

(i) Securities borrowing

Securities lent under securities lending arrangements continue to be recognised in the balance sheet and are measured in accordance with the applicable accounting policy. Cash collateral received in respect of securities lent is recognised as a financial liability. Securities borrowed under securities borrowing agreements are not recognised. Cash collateral placements in respect of securities borrowed are recognised under loans and advances to either banks or customers. Income and expenses arising from the securities borrowing and lending business are recognised on an accrual basis over the period of the transactions and are included in interest income or expense (net interest income).

(ii) Repurchase agreements

The Group performs acquisition/sale of securities under reselling/repurchase agreements of securities substantially equivalent in a future date at a predetermined price ('repos'/'reverse repos'). The securities related to reselling agreements in a future date have not been recognised on the balance sheet. The amounts paid are recognised in loans and advances to customers or loans and advances to credit institutions. The receivables are collateralised by the related securities. Securities sold through repurchase agreements continue to be recognised in the balance sheet and are revaluated in accordance with the applicable accounting policy. The amounts received from the proceeds of these securities are considered as deposits from customers and deposits from credit institutions.

The difference between the acquisition/sale and reselling/repurchase conditions is recognised on an accrual basis over the period of the transaction and is included in Interest and similar income and Interest and similar expense.

j) Non-current assets held for sale and discontinued operations

Non-current assets, groups of non-current assets held for sale (groups of assets together and related liabilities that include at least a non-current asset) and discontinued operations are classified as held for sale when there is an intention to sell the referred assets and liabilities and when the referred assets are available for immediate sale and its sale is highly probable.

The Group also classifies as non-current assets held for sale those non-current assets or groups of assets acquired exclusively with a view to its subsequent disposal, which are available for immediate sale and its sale is highly probable.

Immediately before classification as held for sale, the measurement of the non-current assets or all assets and liabilities in a disposal group, is performed in accordance with the applicable IFRS. After their reclassification, these assets or disposal groups are measured at the lower of their cost and fair value less costs to sell.

Discontinued operations and the subsidiaries acquired exclusively with the purpose to sell in the short term, are consolidated until the disposal.

The Group also classifies as non-current assets held for sale, the investments arising from recovered loans that are measured initially by the lower of its fair value net of selling costs and the loan's carrying amount on the date that the recovery occurs or the judicial decision is formalised.

The fair value is determined based on the expected selling price estimated through periodic valuations performed by the Group.

The subsequent accounting of these assets is determined based on the lower of the carrying amount and the corresponding fair value net of selling costs. In case of unrealised losses, these should be recognised as impairment losses against results.

k) Finance lease transactions

At the lessee's perspective, finance lease transactions are recorded as an asset and liability at fair value of the leased asset, which is equivalent to the present value of the future lease payments. Lease rentals are a combination of the financial charge and the amortisation of the capital outstanding. The financial charge is allocated to the periods during the lease term to produce a constant periodic rate of interest on the remaining liability balance for each period end.

At the lessor's perspective, assets held under finance leases are recorded in the balance sheet as a receivable at an amount equal to the net investment in the lease. Lease rentals are a combination of the financial income and amortisation of the capital outstanding. Recognition of the financial result reflects a constant periodical return rate over the remaining net investment of the lessor.

l) Interest income and expense

Interest income and expense for financial instruments measured at amortised cost are recognised in the interest and similar income or interests and similar expenses (net interest income) through the effective interest rate method. The interest related to financial assets available-for-sale calculated at the effective interest rate method are also recognised on the net interest income as well as those from assets and liabilities at fair value through profit and loss.

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

When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument (example: early payment options) but without considering future impairment losses. The calculation includes all fees paid or received considered as included in the effective interest rate, transaction costs and all other premiums or discounts directly related with the transaction except for assets and liabilities at fair value through profit and loss.

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

Specifically regarding the accounting policy for interest on overdue loans portfolio the following aspects are considered:

- Interest income for overdue loans with collaterals are accounted for as income up to the limit of the valuation of the collateral valued on a prudent basis. This income is registered against results in accordance with IAS 18, assuming that there is a reasonable probability of recoverability; and
- The interests accrued and not paid for overdue loans for more than 90 days that are not covered by collaterals are written-off and are recognised only when they are received, in accordance with IAS 18, on the basis that its recoverability is considered to be remote.

For derivative financial instruments, except those classified as hedging instruments of interest rate risk, the interest component is not separated from the changes in the fair value and is classified under Net gains / (losses) arising from assets and liabilities at fair value through profit and loss. For hedging derivatives of interest rate risk and those related to financial assets or financial liabilities recognised in the Fair value Option category, the interest component of the changes in their fair value is recognised under interest income or expense (Net interest income).

m) Financial results (Results arising from financial assets available-for-sale and net gains / (losses) arising from assets and liabilities at fair value through profit and loss)

Financial results includes gains and losses arising from financial assets and financial liabilities at fair value through profit and loss, that is, fair value changes and interest on trading derivatives and embedded derivatives), as well as the corresponding dividends received. This caption also includes gains and losses arising from the sale of financial assets available-for-sale and investments held to maturity. The changes in fair value of hedging derivatives and hedged items, when fair value hedge is applicable, are also recognised in this caption.

n) Fees and commissions income

Fees and commissions are recognised according to the following criteria:

- Fees and commissions which are earned as services are provided are recognised in income over the period in which the service is being provided; or
- Fees and commissions that are earned on the execution of a significant act, are recognised as income when the service is completed; and
- Fees and commissions that are an integral part of the effective interest rate of a financial instrument, are recognised in net interest income.

o) Fiduciary activities

Assets held in the scope of fiduciary activities are not recognised in the Group's consolidated financial statements. Fees and commissions arising from this activity are recognised in the income statement in the period to which they relate.

p) Property and equipment

Property and equipment are stated at acquisition cost less accumulated depreciation and impairment losses. Subsequent costs are recognised as a separate asset only when it is probable that future economic benefits will result for the Group. All other repairs and maintenance expenses are charged to the income statement during the financial year in which they are incurred.

Depreciation is calculated on a straight-line basis, over the following periods which correspond to their estimated useful life:

	Number of years
Premises	50
Expenditure on freehold and leasehold buildings	10
Other property and equipment	4 to 10

Whenever there is an indication that property and equipment might be impaired, its recoverable amount is estimated and an impairment loss shall be recognised if the net value of the asset exceeds its recoverable amount.

The recoverable amount is determined as the highest between the fair value less costs to sell and its value in use calculated based on the present value of future cash flows estimated to be obtained from the continued use of the asset and its sale at the end of the useful life.

The impairment losses of the property and equipment are recognised in profit and loss of the period.

q) Investment property

Real estate properties owned by the investment funds consolidated in the Group, are recognised as Investment properties considering, that the main objective of these buildings is the capital appreciation on a long term basis and not its sale in a short term period, or its maintenance for own use.

These investments are initially recognised at its acquisition cost, including the transaction costs and subsequently revaluated at its fair value. The fair value of the investment property should reflect the market conditions at the balance sheet date. Changes in fair value are recognised in results in the period in which they occur, as Other operating income.

The expertise responsible for the valuation of the assets are properly certified for that purpose, being registered in CMVM.

r) Intangible assets

Software

The Group accounts as intangible assets the costs associated to software acquired from external entities and depreciates them on a straight line basis by an estimated lifetime of three or six years. The Group does not capitalise internal costs arising from software development.

s) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the balance sheet date, including cash and deposits with banks.

t) *Offsetting*

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when the Group has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis.

u) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the operation at the foreign exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, are translated into the respective functional currency of the operation at the foreign exchange rate at the reporting date. Foreign exchange differences arising on translation are recognised in the profit and loss. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into the respective functional currency of the operation at the foreign exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the respective functional currency of the operation at the foreign exchange rate at the date that the fair value was determined against profit and loss, except for financial assets available-for-sale, for which the difference is recognised against equity.

v) Employee benefits

Defined benefit plan

Arising from the signing of "Acordo Colectivo de Trabalho" ("ACT") and subsequent amendments, the Group set up a pension fund to cover the liabilities with pensions on retirement and disability, widows' pension, health-care benefits and death subsidy.

On 1 January 2011, bank employees were integrated in the Social Security System which ensure their protection in maternity, paternity, adoption and old age. Protections associated with sickness, incapacity, survival and death remain under banks responsibility (Decree-Law No 1-A/2011, of 3 January).

The contribution rate is 26.6% in which 23.6% belongs to the employer, and 3.0% to employees, replacing the Caixa de Abono de Familia dos Empregados Bancários (CAFEB) extinguished by the same Decree-Law. As a result, the pension rights of the active employees started to be covered by the terms defined by Social Security System, considering the period of service rendered since 1 January 2011 until the retirement age. The difference to the minimum pension guaranteed is supported by the banks, in accordance with the terms defined in Collective Labor Agreement ("Acordo Colectivo de Trabalho").

Following the Government approval of the Decree-Law nº. 127/2011, which was published in 31 December, a three-party agreement between the Government, the Portuguese Bank Association and the Union of Bank employees was established, regarding the transfer to Social Security domain of the liabilities with pensions under payment to retired employers and pensioners, as at 31 December 2011.

This decree-law established that the liabilities to be transferred were the liabilities with pensions under payment at 31 December 2011 to retired employees and pensioners, at permanent values (discount rate 0%) in the terms set forth in Collective Labour Regulation Instrument (IRCT). The liabilities regarding the update of pensions, benefit plans, contributions to Social-Medical Assistance Services (SAMS) over retirement and survival pensions, death subsidy and deferred survival pension are still under the responsibility of the Institutions.

The actuarial calculation is made using the projected unit credit method and considering actuarial and financial assumptions, in accordance with the requirements of IAS 19.

The Group's liabilities with pension plans and other benefits are calculated annually, at 31 December of each year.

The pension liabilities and health care benefits are covered by the pension fund managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A.

The Group's net liability regarding defined benefit pension plans and other benefits is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted in order to determine its present value, using a discount rate determined by reference to interest rates associated with high quality corporate bonds and with a similar maturity to the date of termination of the plan. The net liability is determined after the deduction of the fair value of the assets of the Pensions Plan.

The income / cost of interests with the pension plan is calculated, by the Group, multiplying the net asset / liability with retirement pension (liabilities less the fair value of the plan's assets) by the discount rate used in the determination of the retirement pension liabilities, mentioned before. On this basis, the income / cost net of interests includes the interest costs associated with retirement pension liabilities and the expected return of the plan's assets, both measured based on the discount rate used to calculate the liabilities.

Gains and losses from the re-measurement, namely (i) gains and losses resulting from differences between actuarial assumptions used and the amounts actually observed (experience gains and losses) and changes in actuarial assumptions and (ii) gains and losses arising from the difference between the expected return of the plan's assets and the amounts obtained, are recognised against equity under other comprehensive income.

The Group recognises in its income statement a net total amount that comprises (i) the current service cost, (ii) the income / cost net of interest with the pension plan, (iii) the effect of early retirement, (iv) past service costs and (v) the effects of any settlement or curtailment occurred during the period. The net income / cost with the pension plan is recognised as interest and similar income or interest expense and similar costs depending on their nature. The costs of early retirements correspond to the increase in liabilities due to the employee's retirement before reaching the age of 65.

Other benefits non-related with pensions, namely retired employees' health expenses and benefits to spouses and descendants by death, are also used to calculate liabilities.

Payments to the Fund are made by the Group on an annual basis and according to a schedule of contributions in order to maintain the solvency of the fund. The liability related with pensions in payment shall be funded at a minimum level of 100% and 95% to past services cost with active employees.

Bonus to employees and to the Executive Board of Directors

In accordance with IAS 19 Employee benefits, the bonus payment to employees and to the Executive Board of Directors is recognised in the income statement in the period to which they relate.

w) Income taxes

Until 31 December 2011, CEMG was an entity exempt from Income Tax ("IRC"), in accordance with subparagraph a) n. 1 of Article 10 of the IRC. This exemption had been recognised under the Order of 3 December 1993, of the Secretary of State for Fiscal Issues and confirmed by Law no. 10-B/96 of March 23, approving the State Budget for 1996.

With effect from 1 January 2012, CEMG is subject to the regime established by the Income Tax Code ("CIRC"). Additionally, deferred taxes resulting from the temporary differences between the accounting net income and the net income accepted by the Tax Authorities for Income Taxes calculation, are accounted for, whenever there is a reasonable probability that those taxes will be paid or recovered in the future.

Income tax recognised in profit or loss comprises current and deferred tax effects. Income tax is recognised in profit or loss, except to the extent that it relates to items recognised directly to reserves in which case it is recognised in reserves. Deferred taxes arising from the revaluation of financial assets available-for-sale and cash flow hedging derivatives are recognised in equity and are recognised in profit and loss in the moment the results were originated.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred taxes are calculated in accordance with the liability method based on the balance sheet, considering temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes using the tax rates approved or substantially approved at balance sheet date and that is expected to be applied when the temporary difference is reversed.

Deferred tax liabilities are recognised for all taxable temporary differences except for goodwill not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that probably they will not reverse in the foreseeable future.

Deferred taxes assets are recognised to the extent when it is probable that future taxable profits, will be available to absorb deductible temporary differences for taxation purposes (including reportable taxable losses).

The Group, as established in IAS 12, paragraph 74, compensates the deferred tax assets and liabilities if, and only if: (i) has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future year in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

x) Segmental reporting

The Group adopted the IFRS 8 – Operational Segments for the purposes of disclosure of financial information by operational segments. An operating segment is a Group's component: (i) that engages in business activities from which it may earn revenues or incur expenses; (ii) whose operational results are regularly reviewed by the main responsible for Group operational decisions about allocating resources to the segment and assess its performance; and (iii) for which distinct financial information is available.

The Group controls its activity through the following main segments: (i): Operational: Retail Banking, Corporate Banking and Others segments, and (ii) Geographical: National and International Area (Angola, Cabo Verde and Mozambique).

y) Provisions

Provisions are recognised when (i) the Group has a present obligation (legal or resulting from past practices or published policies that imply the recognition of certain responsibilities), (ii) it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation as a result of past events and (iii) a reliable estimate can be made of the amount of the obligation.

The provisions measurement is based on the defined principles on IAS 37 regarding the best prevision of the expected cost, the most probable result on the actions in course and having in present the risks and uncertainties inherent to the process. On the cases that the discount effect is material, provisions corresponds to actual value of the expected future payments, discounted by a rate that considers the associated risk of the obligation.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reverted through profit and loss in the proportion of the payments that are not probable.

The provisions are derecognised through their use for the obligations for which they were initially accounted or for the cases that the situations were not already observed.

z) Insurance and reinsurance brokerage services

The CEMG is duly authorised by the Insurance and Pension Funds Supervisory Authority (Autoridade de Supervisão de Seguros e Fundos de Pensões) to provide insurance brokerage services, in the Insurance Brokerage Services area, in accordance with the article 8, paragraph a), subparagraph i) of Decree-Law 144/2006 of 31 July, operating in the life and non life insurance brokerage areas.

In the insurance brokerage services area, CEMG sells insurance contracts. As remuneration for the insurance brokerage services rendered, CEMG receives commission for brokering insurance contracts, which is defined in agreements/protocols established between CEMG and the Insurers.

Commission received for insurance brokerage services refer to:

- Commission that includes a fixed and a variable component. The fixed component is calculated by applying a predetermined rate over the amounts of subscriptions made through CEMG and a variable component calculated based on predetermined criteria, total annual fees being the sum of the fees calculated monthly;
- Commission for participation in the results of insurance, which are calculated annually and paid by the insurer in the beginning of the year following that to which they refer (up to 31 January).

Commission received for insurance brokerage services are recognised in an accruals basis. Fees paid in a different period from that to which it relates are recorded as a receivable in the caption "Other assets" by corresponding entry to "Income from services and commissions - for insurance brokerage services".

aa) Accounting estimates and judgments in applying accounting policies

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

Considering that in some cases there are several alternatives to the accounting treatment chosen by the Executive Board of Directors, the Group reported results would differ if a different treatment was chosen. The Executive Board of Directors believes that the choices made are appropriate and that the financial statements present the Group's financial position and results fairly in all material aspects.

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

Impairment of financial assets available-for-sale

The Group determines that financial assets available-for-sale are impaired when there has been a significant or prolonged decrease in the fair value below its acquisition cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the volatility in the prices of the financial assets. According to the Group's policies, 30% depreciation in the fair value of an equity instrument is considered a significant devaluation and the 1 year period is assumed to be a prolonged decrease in the fair value below the acquisition cost.

In the case of debt instruments it is considered the existence of impairment whenever there is objective evidence of events that impact the recoverable value of future cash flows of these assets.

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

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

Impairment losses on loans and advances to customers

The Group reviews its loan portfolios to assess impairment losses on a regularly basis, as described in the accounting policy described in note 1 c).

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

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

Fair value of derivatives

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

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

Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity.

If the Group fails to keep these investments to maturity other than for the specific circumstances — for example, selling an insignificant amount close to maturity — it will be required to reclassify the entire class as available for sale. The investments would therefore be measured at fair value instead of amortised cost.

Held-to-maturity investments are subject to impairment tests made by the Group. The use of different assumptions and estimates could have an impact on the income statement of the Group.

Entities included in the consolidation perimeter

For the purposes of determining entities to include in the consolidation perimeter, the Group assess whether is exposed to, or has rights to, the variable returns from its involvement with the entity and can obtain those variable returns through the power it holds over that entity (de facto control).

The decision if an entity needs to be consolidated by the Group requires the use of judgment, estimates and assumptions to determine what extend the Group is exposed to the variable returns and its ability to use its power to affect those returns.

Different estimates and assumptions could lead the Group to a different scope of consolidation perimeter with a direct impact in net income.

Income taxes

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

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

The Portuguese Tax and Customs Authorities are entitled to review the Bank and its Portuguese subsidiaries' determination of its annual taxable earnings, for a period of four years, except in cases of existence of reportable tax losses, as well as any other deduction or tax credit reportable in the period for the exercise of that right. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law which for its probability, the Executive Board of Directors considers that there is no relevant material effect at the level of the Financial Statements.

Pension and other employees' benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections, estimated return on investments, and other factors that could impact the cost and liability of the pension plan.

Changes in these assumptions could materially affect these values.

Goodwill impairment

The goodwill recoverable amount recognised as a Group's asset, is revised annually regardless the existence of signs of impairment.

For this purpose, the carrying amount of the business units of the Group for which goodwill has been recognised is compared with the respective recoverable amount. A goodwill impairment loss is recognised when the carrying amount of the business unit exceeds the respective recoverable amount.

In the absence of an available market value, the recoverable amount is determined using cash flows projections, applying a discount rate that includes a risk premium appropriated to the business unit being tested. Determining the future cash flows to discount and the discount rate, involves judgment.

Provisions

The measurement of provisions considers the principles set out in IAS 37 regarding the best estimate of the expected cost, the most likely outcome of ongoing litigations and considering the risks and uncertainties of the process. Whenever the effect of discount is material, the provision corresponds to the present value of expected future payments, discounted at a rate that considers the risk associated to the liability.

Provisions are reviewed at each balance sheet date and adjusted to reflect the best estimate, being reversed through profit and loss in the proportion of the payments that are probable.

The provisions are derecognised through their use, for the obligations for which they were initially accounted or when they are no longer observable.

2 Net interest income and net gains arising from assets and liabilities at fair value through profit or loss and financial assets available-for-sale

IFRS requires a separate disclosure of net interest income, net gains arising from assets and liabilities at fair value through profit or loss and financial assets available-for-sale, as presented in notes 3, 6 and 7. A particular business activity can generate impacts either in net gains arising from assets and liabilities at fair value through profit or loss and financial assets available-for-sale or in net interest income captions. Therefore, the disclosure now presented highlights the contribution of the different business activities to the net interest income and to the net gains arising from assets and liabilities at fair value through profit or loss and financial assets available-for-sale.

The amount of this account is comprised of:

(Thousands of Euro)

	sep 2016	sep 2015
Net interest income	201 109	182 378
Net gains arising from assets and liabilities ar fair value through profit and loss	(27 604)	9 384
Net gains arising from financial assets available-for-sale	40 861	102 066
	214 366	293 828

3 Net interest income

The amount of this account is comprised of:

(Thousands of Euro)

	sep 2016	sep 2015
Interest and similar income		
Interest from loans to customers	321 824	370 252
Interest from deposits and other investments	1 847	1 251
Interest from available-for-sale financial assets	28 214	51 402
Interest from held-for-trading financial assets	56 148	67 585
Interest from held-to-maturity investments	19 866	7 347
Interest from hedging derivatives	307	118
Other interest and similar income	8	9
	428 214	497 964
Interest and similar expense		
Interest from deposits of customers	115 129	176 357
Interest from loans of Central Banks and other financial institutions	10 019	10 413
Interest from securities issued	38 780	51 896
Interest from subordinated liabilities	3 315	4 255
Interest from financial liabilities associated with transferred assets	1 517	860
Interest from held-for-trading financial liabilities	53 586	67 803
Interest from hedging derivatives	20	485
Interest from loans and advances to customers	4 716	3 487
Other interest and similar expense	23	30
	227 105	315 586
Net interest income	201 109	182 378

The balances Interest and similar income - loans to customers and Interest and similar expense - loans and advances to customers includes respectively, the positive amount of Euro 15,950 thousand and the negative amount of Euro 4,716 thousand (30 September 2015: the positive amount of Euro 16,938 thousand and the negative amount of Euro 3,487 thousand), related to commissions and other gains / losses which are accounted for under the effective interest rate method, as referred in the accounting policy, note 1 l).

4 Dividends from equity instruments

This balance includes dividends and income from investment fund units received during the period, relating to financial assets available-for-sale.

5 Net fee and commission income

The amount of this account is comprised of:

(Thousands of Euro)

	sep 2016	sep 2015
Fee and commission income		
Banking services	68 734	67 655
Transactions on behalf of third parties	15 504	16 882
Guarantees provided	5 610	6 186
Insurance activity	6 234	5 256
Commitments to third parties	2 117	2 616
Other fee and commission income	3 029	1 694
	101 228	100 289
Fee and commission expense		
Banking services rendered by third parties	14 464	15 507
Transactions with securities	394	396
Commitments from third parties	-	3
Other fee and commission expense	10 499	8 914
	25 357	24 820
Net fee and commission income	75 871	75 469

6 Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss

The amount of this account is comprised of:

(Thousands of Euro)

	sep 2016			sep 2015		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held-for-trading						
Securities						
Bonds and other fixed income securities						
Issued by public entities	5 226	5 044	182	14 071	16 885	(2.814)
Issued by other entities	2 052	-	2 052	114	137	(23)
Shares	7 252	7 958	(706)	11 919	11 551	368
Investment units	552	530	22	104	118	(14)
	15 082	13 532	1 550	26 208	28 691	(2.483)
Derivative financial instruments						
Intereste rate contracts	101 550	102 288	(738)	118 553	120 593	(2.040)
Exchange rate contracts	49 380	49 458	(78)	66 945	66 448	497
Futures contracts	4 997	4 854	143	3 220	3 020	200
Commodities contracts	7 751	7 716	35	82 958	83 048	(90)
Options contracts	8 197	8 222	(25)	15 124	15 256	(132)
Credit default contracts (CDS)	21 787	46 629	(24.842)	-	-	-
	193 662	219 167	(25.505)	286 800	288 365	(1.565)
Other financial assets	-	-	-	14 088	131	13 957
	-	-	-	14 088	131	13 957
Other financial assets at fair value through profit or loss						
Loans to customers	420	832	(412)	925	705	220
	420	832	(412)	925	705	220
Hedging derivatives						
Interest rate contracts	22	35	(13)	1 733	876	857
	22	35	(13)	1 733	876	857
Financial liabilities						
Deposits from other credit institutions	1 127	1 356	(229)	278	62	216
Deposits from customers	278	287	(9)	417	363	54
Debt securities issued	955	2 793	(1.838)	500	2 011	(1.511)
Other subordinated liabilities	-	878	(878)	1 427	3 056	(1.629)
	2 360	5 314	(2.954)	2 622	5 492	(2.870)
Other financial operations						
Loans to customers	-	815	(815)	-	813	(813)
Other	980	435	545	2 311	230	2 081
	980	1 250	(270)	2 311	1 043	1 268
	212 526	240 130	(27.604)	334 687	325 303	9 384

The balance Financial liabilities, includes fair value changes related with changes in the own credit risk (spread) of operations of Euro 4,911 thousand (30 September 2015: Euro 3,536 thousand), as described in note 23.

In accordance with the accounting policies followed by the Group, financial instruments are initially recognised at fair value. The best evidence of the fair value of the instrument at inception is deemed to be the transaction price. However, in particular circumstances, the fair value of a financial instrument at inception, determined based on valuation techniques, may differ from the transaction price, namely due to the existence of a built-in fee, originating a day one profit.

The Group recognises in the income statement the gains arising from the built-in fee (day one profit), generated, namely, on the trading of derivative and foreign exchange financial products, considering that the fair value of these instruments at inception and on subsequent measurements is determined only based on observable market data and reflects the Group access to the wholesale financial market.

7 Net gains/ (losses) arising from financial assets available-for-sale

The amount of this account is comprised of:

(Thousands of Euro)

	sep 2016			sep 2015		
	Gains	Losses	Total	Gains	Losses	Total
Fixed income securities						
Bonds						
Issued by public entities	25 931	300	25 631	80 886	2 865	78 021
Issued by other entities	5 908	6 770	(862)	25 681	5 101	20 580
Shares	16 454	3 049	13 405	3 017	2 317	700
Other variable income securities	4 112	1 425	2 687	2 922	157	2 765
	52 405	11 544	40 861	112 506	10 440	102 066

As at 30 September 2016, the balance Fixed income securities – Bonds – Issued by public entities includes the amount of Euro 3,008 thousand related with capital gains generated with the sale of Spanish and Italian treasury bonds. As at 30 September 2015, this balance includes the amount of Euro 77,948 thousand, related with capital gains generated with the sale of treasury bonds of Portuguese domestic debt.

The balance Shares includes the amount of Euro 11,294 thousand related with capital gain generated with the sale of Visa Europe Limited shares: (i) Euro 8,421 thousand regarding the up-front consideration; (ii) Euro 2,169 thousand regarding the received preference shares; and (iii) Euro 704 thousand regarding a deferred payment to be paid in 2019, as described in notes 24 and 33.

8 Net gains/ (losses) arising from foreign exchange differences

The amount of this account is comprised of:

(Thousands of Euro)

	sep 2016			sep 2015		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differences	192 176	179 052	13 124	319 316	305 865	13 451

This account comprises the results from foreign exchange differences of monetary assets and liabilities in foreign currency in accordance with the accounting policy described in note 1 u).

9 Net gains/ (losses) arising from the sale of other assets

The amount of this account is comprised of:

	(Thousands of Euro)	
	sep 2016	sep 2015
Sale of investment in associates	1 490	-
Sale of other assets	398	(721)
Sale of loans and advances to customers	13 230	6 025
Sale of non-current assets held-for-sale	(2.370)	(23.522)
	12 748	(18.218)

As at 30 September 2016, the balance Sale of investments in associates refers to the capital gain generated with the disposal of the shareholding in Iberpartners Cafés, S.G.P.S., S.A., as described in note 27.

As at 30 September 2016, the balance Sale of loans and advances to customers includes the capital gain of Euro 13,455 thousand, obtained through the sale of a portfolio of loans to customers which were in default and were booked outside the Statement of Financial Position. The nominal value of the loans sold amounted to Euro 380,726 thousand, as described in note 22.

As at 30 September 2015, the balance Sale of loans and advances to customers includes the gain on the sale of a portfolio of loans to customers which were in default and were booked outside the Statement of Financial Position. The nominal value of loans sold amounted to Euro 94,033 thousand, as described in note 22.

The balance Sale of non-current assets held for sale includes essentially the result obtained with the sale of real estate properties, as described in note 28.

10 Other operating income

The amount of this account is comprised of:

(Thousands of Euro)

	sep 2016	sep 2015
Other operating income		
Profits arising from investment properties revaluation	30 541	19 675
Services rendered	17 042	35 224
Profits arising from investment properties rentals	12 828	13 606
Profits arising from deposits on demand management	9 261	6 914
Staff transfer	6 239	4 221
Reimbursement of expenses	5 764	6 239
Repurchase of own securities	701	103
Other	11 519	8 534
	93 895	94 516
Other operating expense		
Revaluation losses in investment properties	62 743	35 174
Contributions for the banking sector	13 226	10 666
Ex-ante contribution for the Resolution Fund	10 050	-
Contribution for the resolution fund	3 077	2 278
Taxes	2 272	4 149
Donations and membership	734	829
Deposit Guarantee Fund	10	653
Repurchase of own securities	-	4 355
Other	35 400	23 305
	127 512	81 409
Other net operating income	(33 617)	13 107

As at 30 September 2016, the balance Other operating income – Services rendered includes the amount of Euro 12,404 thousand (30 September 2015: Euro 30,000 thousand), referring to the income charged to Montepio Geral Associação Mutualista, as described in note 33.

As at 30 September 2016, the balance Other operating income – Staff transfer includes the amount of Euro 6,239 thousand (30 September 2015: Euro 4,221 thousand) referring to the staff transfers from CEMG to Montepio Geral Associação Mutualista and to entities under its control.

As at 30 September 2016 and 2015, the balance Repurchase of own securities is calculated in accordance with accounting policy described in note 1 d) and refers to the re-acquisition of Euro Medium Term Notes and cash bonds.

The balance contribution of the banking sector is estimated according to the terms of the Decree-Law 55-A/2010. The determination of the amount payable focuses on: (i) the annual average liability developed in balance deducted from core capital (Tier 1) and supplementary capital (Tier 2) and deposits covered by the Deposit Guarantee Fund; and (ii) the notional amount of derivative financial instruments.

The item Ex-ante Contribution to the Resolution Fund corresponds to the annual contribution collected in 2016 by the Resolution Fund, in accordance with paragraph 1, article 153-H, of the Legal Framework of Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras – RGICSF) which transposed the articles 100 (4) (a) and 103 (1) of the Directive 2015/59/EU of the European Parliament and of the Council of 15 May 2014, and article 20 of the Delegated Regulation (EU) 2015/63 of 21 October 2014 (Delegated Regulation) and with the conditions provided by the Implementing Regulation 2015/81 of the Council from 19 December 2014 (Implementing Regulation).

This contribution was determined by the Bank of Portugal, in its quality of National Resolution Authority, based in the methodology defined in the Delegated Regulation in accordance with its articles 4, 13 and 20. Under the Single Resolution Mechanism this contribution must be transferred to the Single Resolution Fund until 30 September 2016, in accordance with the Agreement for the Transfer and Mutualisation of the contributions to the Single Resolution Fund signed in Brussels on 21 May 2014 and approved by Resolution No. 129/2015 of the Assembly of the Republic, from 3 September, according to paragraph 4 of Article 67 of Regulation (EU) No. 806/2014 of the European Parliament and of the Council, from 15 July 2014 ("Regulation MUR").

Additionally, the Single Resolution Board ("SRB"), in close cooperation with Bank of Portugal, as a national resolution authority, is responsible for the calculation of these contributions on an annual basis, according to and for the purposes of paragraph 2, Article 70, of Regulation MUR. In 2016, CEMG decided to use irrevocable payment commitments in the proportion of 15% of the contribution amount, in accordance with paragraph 3, Article 8, of the Implementing Regulation. On this basis, CEMG opted for the settlement of Euro 1,774 thousand, in the form of irrevocable payment commitments booked in the caption Loans and advances to credit institutions abroad - term deposits, as described in note 21. It should be noted that only cash collateral is accepted as collateral for irrevocable payment commitments.

The item Contribution to the Resolution Fund corresponds to the mandatory periodic contributions paid to the Fund, in accordance with Decree-Law No 24/2013. The periodic contributions are determined using a base rate, established by the Bank of Portugal through regulatory instruments, to be applied in each year and which may be adjusted to the credit institution's risk profile. The year contributions focus on the liabilities of the member credit institutions, in accordance with article 10 of the referred Decree-Law, deducted from the liability elements that are part of the Tier 1 and Tier 2 capital and from the deposits covered by the Deposit Guarantee Fund.

11 Staff costs

The amount of this account is comprised of:

(Thousands of Euro)

	sep 2016	sep 2015
Remunerations	106 280	111 649
Mandatory social securities charges	26 586	28 231
Charges with the pension fund	28 019	8 403
Other staff costs	15 503	3 831
	176 388	152 114

Within the strategic plan of Caixa Económica Montepio Geral (CEMG) for 2016-2018, it was defined a set of measures with the purpose of, among others, recover CEMG's profitability, liquidity and capital levels. In this respect, and regarding the staff downsizing measures, it was developed a project that included, in a summarised manner, the following approaches:

- Active Retirement Scheme ("ARS") for the CEMG employees with more than 55 years of age;
- Termination by Mutual Agreement ("TMA"), subject to approval by the Chief Officer; and
- Other situations, subjected to a case-by-case analysis.

As at 30 September 2016, the implementation of this program was almost completed, being recorded in the consolidated financial statements of the third quarter of 2016 a cost of Euro 32,022 thousand related to the charges that CEMG intends to incur in relation to the agreements signed with each of the involved employees. On this basis, as at 30 September 2016, the caption Charges with the pensions fund includes the amount of Euro 20,184 thousand and the caption Other staff costs includes the amount of Euro 11,838 thousand, from which Euro 6,933 thousand are related to compensations paid during the first nine months of 2016.

Additionally, on 30 September 2016, the caption Charges with the pension fund includes the amount of Euro 7,835 thousand (30 September 2015: Euro 8,390 thousand) regarding the current service cost.

12 General and administrative expenses

The amount of this account is comprised of:

(Thousands of Euro)

	sep 2016	sep 2015
Rental costs	11 340	21 191
Specialized services		
IT services	6 808	8 046
Independent work	2 014	1 988
Other specialized services	18 150	19 400
Communication costs	6 017	6 513
Advertising costs	4 749	5 304
Maintenance and related services	5 466	5 343
Water, energy and fuel	3 824	3 800
Insurance	1 522	2 274
Transportation	2 309	2 030
Travel, hotel and representation costs	1 404	1 994
Consumables	1 249	1 410
Training costs	366	278
Other	7 493	7 178
	72 711	86 749

The Rental costs balance includes the amount of Euro 9,752 thousand (30 September 2015: Euro 19,394 thousand) related to rents paid regarding buildings used by the Group as lessee.

13 Depreciation and amortisation

The amount of this account is comprised of:

(Thousands of Euro)

	sep 2016	sep 2015
Intangible assets		
Software	9 741	10 245
Other tangible assets		
Real estate		
For own use	3 021	1 152
Leasehold improvements	1 940	2 126
Equipment		
IT	2 931	3 437
Interior installations	1 092	1 186
Furniture and material	541	666
Transportation	372	522
Security	240	293
Machinery and tools	35	61
Other	1	6
Operating lease	55	98
Other tangible assets	32	71
	10 260	9 618
	20 001	19 863

14 Loans impairment

The amount of this account is comprised of:

(Thousands of Euro)

	sep 2016	sep 2015
Other loans and advances to credit institutions		
Charge for the period	-	303
Write-back for the period	-	(165)
	-	138
Loans and advances to customers		
Charge for the period net of reversals	134 655	209 609
Recovery of loans and interest charged-off	(5 401)	(7 130)
	129 254	202 479
	129 254	202 617

The caption Loans and advances to customers relates to the estimate of the incurred losses determined according with the methodology for a regular evaluation of objective evidence of impairment, as described in note 1 c).

15 Other financial assets impairment

The amount of this account is comprised of:

(Thousands of Euro)

	sep 2016	sep 2015
Impairment for financial assets available-for-sale		
Charge for the period	55 926	57 340
Write-back for the period	(24 062)	(50 620)
	31 864	6 720

As at 30 September 2016, the balance Impairment for financial assets available-for-sale – Charge for the period includes the amount of Euro 7,348 thousand (30 September 2015: Euro 36 thousand) that corresponds to the impairment recognised for investment units in a Fund specialised in the recovery of loans, acquired under the sale of loans and advances to customers, as described in note 24.

As at 30 September 2016, this caption includes an impairment loss in the amount of Euro 30,823 thousand on the position held in Fixed income securities - Bonds issued by other entities – Foreign.

Additionally, this caption includes, as at 30 September 2015, the amount of Euro 1,144 thousand referring to the impairment recorded on Class B Notes acquired under the credit sale operation, as described in note 22.

16 Other assets impairment

The amount of this account is comprised of:

(Thousands of Euro)

	sep 2016	sep 2015
Impairment for non-current assets held-for-sale		
Charge for the period	24 086	17 837
Write-back for the period	(11 439)	(9 380)
	12 647	8 457
Impairment for intangible assets		
Charge for the period	5 966	-
Impairment for other assets		
Charge for the period	1 450	1 375
Write-back for the period	(909)	(506)
	541	869
	19 154	9 326

As at 30 September 2016, the caption Impairment for intangible assets – Charge for the period is related to the reinforcement of impairment for the goodwill in Finibanco Angola, S.A. and Banco Terra, S.A. Shareholdings, in the amount of Euro 4,605 thousand and Euro 1,361 thousand, respectively, as described in note 31.

17 Other provisions

The amount of this account is comprised of:

(Thousands of Euro)

	sep 2016	sep 2015
Provisions for guarantees and commitments		
Charge for the period	7 038	46
Write-back for the period	(17 733)	(186)
	(10 695)	(140)
Provisions for other liabilities and charges		
Charge for the period	16 274	5 334
Write-back for the period	(20 585)	(10 343)
	(4 311)	(5 009)
	(15 006)	(5 149)

18 Share of profit under the equity method

The contribution of the associated companies accounted under the equity method is analysed as follows:

(Thousands of Euro)

	sep 2016	sep 2015
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	274	82
Montepio Seguros, S.G.P.S., S.A.	-	(4 013)
Iberpartners Cafés, S.G.P.S., S.A.	-	37
	274	(3 894)

19 Cash and deposits at central banks

This balance is analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Cash	171 748	208 037
Deposits at central banks		
Bank of Portugal	89 083	159 199
Other central banks	65 513	57 214
	326 344	424 450

The caption Deposits at central banks – Bank of Portugal, corresponds to the deposits within Bank of Portugal, to satisfy the legal requirements to maintain a minimum cash reserve, calculated based on the value of deposits and other effective liabilities. The cash reserve requirements, according with the European Central Bank System for Euro Zone, establishes the maintenance of a deposit with the Central Bank equivalent to 1% of the average value of deposits and other liabilities, during each reserve requirements period.

Other deposits at central banks include deposits of Finibanco Angola, S.A. in the National Bank of Angola ("BNA") and of Banco Terra, S.A. in Banco de Moçambique ("BM"), in order to comply with the requirements in force to maintain mandatory reserves in Angola and Mozambique, respectively.

As at 30 September 2016, deposits from Bank of Portugal are not remunerated (31 December 2015: average rate of return: 0.05%), as well as deposits at Other central banks.

Regarding Finibanco Angola, mandatory reserves are currently calculated in accordance with the Instruction No. 02/2016 from 11 April and No. 04/2016 from 13 May, from BNA and are incorporated in kwanzas and dollars, depending on the designation of the liabilities that constitute its basis of assessment and should be maintained throughout the period to which they relate. On 30 September 2016, the requirement to maintain mandatory reserves is determined by applying a 30% rate on the arithmetical average of eligible liabilities in kwanzas and 15% in other currencies (31 December 2015: 25% in kwanzas and 15% in other currencies).

Regarding Banco Terra, the deposit in Banco de Moçambique allows to comply with the minimum mandatory reserve of 10.5% of total deposits authorised under Law No. 6/9 BM/09 from 3 August.

20 Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Credit institutions in Portugal	189 346	194 780
Credit institutions abroad	11 481	16 168
Amounts due for collection	38 556	27 059
	239 383	238 007

The balance Amounts due for collection represents essentially check receivable from other credit institutions due for collection.

21 Other loans and advances to credit institutions

This balance is analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Loans and advances to credit institutions in Portugal		
Term deposits	2 133	2 076
Other loans and advances	6 009	6 006
	8 142	8 082
Loans and advances to credit institutions in Portugal		
Purchase operations with resale agreement	13 582	63 193
CSA's	50 127	75 219
Term deposits	38 699	25 461
Subordinated investments	-	91
Very short term investments	30 000	-
Other loans and advances	5 982	-
	138 390	163 964
	146 532	172 046
Impairment for loans and advances to credit institutions	-	(2)
	146 532	172 044

The caption Loans and advances to credit institutions abroad - Term deposits includes the amount of Euro 1,774 thousand regarding the deposit performed as collateral under the ex-ante contribution to the Single Resolution Fund performed until 30 September 2016, as described in note 10.

The Credit Support Annex (hereinafter referred to as “CSA’s”) are contracts that regulate the delivery, reception and monitoring of delivered/received collateral to cover the exposure of a counterparty to the other, as a result of open positions in over-the-counter derivatives. According to most CSA’s executed by the Group, this collateral might be in the form of securities or cash, however, in the Group's particular case, collaterals are all in cash.

Collaterals in cash delivered (establishment or strengthening) or received (collateral release) result from the changes in the fair value of the several derivative instruments that the Group negotiated with each one of the counterparties and are an effective transfer of cash, through TARGET2 transfers, for each one of the counterparties, as a guarantee of the Group exposure towards the counterparty.

On this basis, and within operations of derivative financial instruments with institutional counterparties, and as defined in the respective contracts, the Group holds an amount of Euro 50,127 thousand (31 December 2015: Euro 75,219 thousand) related to deposits in credit institutions given as collateral for the referred operations.

The changes in impairment for loans and advances to credit institutions, in the period, are analysed as follows:

(Thousands of Euro)

	sep 2016	sep 2015
Balance on 1 january	2	313
Charge for the period	-	303
Write-back for the period	-	(165)
Transfers	(2)	(301)
Balance on 30 september	-	150

22 Loans and advances to customers

This balance is analysed as follows:

(Thousands of Euro)

	set 2016	dec 2015
Domestic loans		
Corporate		
Loans not represented by securities		
Loans	2 803 707	2 669 607
Commercial lines of credits	621 061	745 753
Finance lease	469 535	481 194
Discounted bills	83 811	94 817
Factoring	97 586	83 141
Overdrafts	6 131	33 412
Other loans	818 632	927 247
Loans represented by securities		
Commercial paper	210 042	339 054
Bonds	335 893	358 488
Retail		
Mortgage loans	7 116 867	7 391 219
Finance lease	66 274	70 232
Consumer and other loans	1 014 229	1 070 000
	13 643 768	14 264 164
Foreign loans		
Corporate	231 122	301 818
Retail	11 147	17 274
	13 886 037	14 583 256
Correction value of assets subject to hedge operations		
Other credits	1 282	2 509
Overdue loans and interest		
Less than 90 days	98 474	125 345
More than 90 days	1 399 977	1 232 905
	1 498 451	1 358 250
	15 385 770	15 944 015
Impairment for credit risks	(1 154 990)	(1 281 738)
	14 230 780	14 662 277

As at 30 September 2016, the balance Loans and advances to customers includes the amount of Euro 2,726,732 thousand (31 December 2015: Euro 2,727,400 thousand) related to the issue of covered bonds held by the Group, as described in note 37.

As at 30 June 2016, CEMG performed a Loans and advances to customers sale operation which were in default and recorded off balance sheet. The total amount of loans and advances sold amounted to Euro 380,726 thousand and generated a capital gain of Euro 13,455 thousand, as described in notes 9 and 33.

In March 2015, the Group sold three consumer credit portfolios and a car credit portfolio which were in default to a securitisation company ("Tagus - Sociedade de Titularização de Créditos, S.A."). These three portfolios presented a gross amount of Euro 94,033 thousand: (i) Euro 14,254 thousand in loans and advances to customers; (ii) Euro 39,229 thousand recorded in Financial assets available for trading (note 23) and (iii) Euro 40,550 thousand recorded off balance sheet.

Considering the nature of this transaction, the Executive Board of Directors conducted its analysis and accounting framework, under the requirements established in Regulation of Bank of Portugal No. 7/2007, from 18 April, in accordance with subparagraph c) of paragraph 4 of Instruction of Bank of Portugal No. 7/2008, from 15 May, for transfer the credit risk of a securitisation, namely:

- the exposure is out of sellers control as well as creditors control, namely in case of insolvency; and
- the seller does not maintain effective control, direct or idirect, on transferred exposures.

Once carried out this sale, the Group is not obligated to repurchase any of those credits, and there is also no right of recourse over the Group in case of default in the payment of obligations by the debtors of credits granted, in compliance with paragraph 6 of Article 4 of Securitisation Law, since it was not provided by the Group any guarantee regarding the solvency of the referred debtors.

On another hand, in the contract, it was only accepted the possibility of early amortisation of residual positions when an amount equal or less than 10% of Class A notes securitised (Principal Amount Outstanding of the Class A notes on the Closing Date) remains unamortised, namely Euro 1,430 thousand, and in the case of tax changes with impact in, inter alia, the Issuer, in the credits granted or in the securitised notes and in compliance with Article 45 of Securitisation Law.

Regarding Class B securities, the Group will fully withhold this portion, in the amount of Euro 1,144 thousand with a major degree of subordination with compliance of the disposed in Notice of Bank of Portugal No. 9/2010 and in the articles 405 to 410 of the Regulation (UE) No. 648/2012, of the European Parliament, of 4 July 2012. Additionally, considering that the securitisation has cash reserves, whose notes were bought by the Group, a provision for impairment losses of 100% over the paid amount, in the amount of Euro 1,144 thousand, was constituted, as described in note 15.

Towards the characteristics of the agreement, the sale of credits within the securitisation constituted, an effective and total sale, with a complete segregation of the credits object of the sale of Group's assets and consequently inclusion in the Tagus – Sociedade de Titularização de Créditos, S.A. assets.

The amount of the disposed credits portfolio was recorded in the financial statement position for Euro 6,702 thousand, being recorded as at 30 September 2015, a gain of Euro 6,025 thousand, as described in note 9.

As at 30 September 2016 and within the sale of credits and real estate properties performed, it is outstanding by SilverEquation the amount of Euro 163,534 thousand (31 December 2015: Euro 161,420 thousand), as described in note 33.

In the first nine months of 2016, the Group performed a sale operation of Loans and advances to customers to funds specialised in credit recovery. The global amount of credits sold in the first nine months of 2016 amounted to Euro 643 thousand, originating a capital gain of Euro 279 thousand.

As at 31 December 2015, the Group reclassified bonds from financial assets available-for-sale to loans and advances to customers, in the amount of Euro 358,488 thousand and with an associated fair value reserve of Euro 3,858 thousand, as described in note 24. Also within this transfer, the Group recorded an impairment in the amount of Euro 1,565 thousand, as described in note 24.

The balance loans and advances to customers includes the effect of traditional securitisation transactions, held by SPE's subject of consolidation under IFRS 10, according with the accounting policy described in note 1 b) and synthetics securitisation.

Securitisation operations performed by the Group are related to mortgages credits, consumer credits, leasings and loans to firms realised through special purpose entities (SPE's). As referred in accounting policy described in note 1 b), the SPE's are consolidated by full method when the substance of the relation with the entities show that the Group has control over his activities. As at 30 September 2016, the value of loans and advances to customers (net of impairment), includes the amount of Euro 154,768 thousand (31 December 2015: Euro 170,819 thousand) related to securitisation transactions where, in accordance with the accounting policy described in note 1 b), are consolidated under the full method.

As at 30 September 2016, the balance Loans and advances to customers includes the amount of Euro 3,972,949 thousand (31 December 2015: Euro 4,086,815 thousand) related with loans object of securitisation that, in accordance with note 1 g), were not subject of derecogniton.

In the balance Correction value of assets subject to hedge operations is accounted the fair value of portfolio that is hedged. The valuation is accounted for in the income statement, in accordance with note 1 e). The Group evaluates on an ongoing basis the effectiveness of the existing hedge operations.

The analysis of Loans and advances to customers, by type of rate, as at 30 September 2016 and 31 December 2015, is presented as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Variable interest rate contract	14 064 127	14 712 099
Fixed interest rate contract	1 321 643	1 231 916
	15 385 770	15 944 015

The analysis of Overdue loans and interest, by type of credit, is as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Asset-backed loans	1 013 891	838 063
Other guarantee loans	281 059	327 465
Financial leases	40 200	43 293
Secured loans	4 300	19 050
Other loans	159 001	130 379
	1 498 451	1 358 250

The balance Financial leases, as at 30 September 2016, by maturity, is analysed as follows:

(Thousands of Euro)

	Financial leases			
	Due within 1 year	1 to 5 years	Over 5 years	Total
Outstanding rents	71 129	261 808	151 736	484 673
Outstanding interests	(13 120)	(44 395)	(28 831)	(86 346)
Residuals values	17 024	68 830	51 628	137 482
	75 033	286 243	174 533	535 809

The balance Financial leases, as at 31 December 2015, by maturity, is analysed as follows:

(Thousands of Euro)

	Financial leases			
	Due within 1 year	1 to 5 years	Over 5 years	Total
Outstanding rents	71 532	279 073	163 821	514 426
Outstanding interests	(10 026)	(35 427)	(33 189)	(78 642)
Residual values	12 333	64 004	39 305	115 642
	73 839	307 650	169 937	551 426

Towards the Operating lease, the Group does not present significant contracts as a Lessor.

The analysis of Overdue loans and interest, by type of client, is presented as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Domestic loans		
Corporate		
Construction/Production	302 924	264 958
Investments	526 248	468 861
Treasury	327 637	298 540
Other loans	74 004	70 838
Retail		
Mortgage loans	111 943	96 860
Consumer credit	68 596	64 961
Other loans	76 109	77 123
	1 487 461	1 342 141
Foreign loans		
Corporate	9 599	13 570
Retail	1 390	2 539
	10 989	16 109
	1 498 451	1 358 250

The changes in impairment for credit risks are analysed as follows:

(Thousands of Euro)

	sep 2016	sep 2015
Balance on 1 january	1 281 738	1 385 872
Charge for the period net of reversals	134 655	209 609
Impairment charged-off	(232 566)	(242 299)
Transfers	(22 737)	-
Exchange differences	(6 100)	(3 730)
Balance on 30 september	1 154 990	1 349 452

The balance Transfers is related to the impairment associated with credit exposures off balance sheet, which in 2016 began to be registered in the balance Provisions, as described in note 39 and to the impairment associated with renting, which began to be registered in the balance Other assets, as described in note 33, in the amounts of Euro 22,340 thousand and Euro 397 thousand, respectively.

In compliance with note 1 c), interest on overdue loans for a period over 90 days not covered by asset-backed guarantees, is only recorded as income when received.

If the impairment loss decreases in a subsequent period to its initial accounting and this decrease can be objectively associated to an event that occurred after the recognition of the loss, the impairment in excess is reversed through profit and loss.

The impairment for credit risks, by type of credit, is as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Asset-backed loans	732 366	743 332
Other guaranteed loans	297 890	345 022
Unsecured loans	124 734	193 384
	1 154 990	1 281 738

In compliance with note 1 c), loans and advances to customers are charged-off when there are no expectations, from an economic point of view, of recovering the loan amount and for collateralised loans, when the funds arising from the execution of the respective collaterals were already received.

This charge-off is carried out for loans that are fully provided.

The analysis of the loans impairment charged-off, by type of credit, is analysed as follows:

(Thousands of Euro)

	sep 2016	sep 2015
Asset-backed loans	50 745	117 259
Other guaranteed loans	65 483	58 755
Unsecured loans	116 338	66 285
	232 566	242 299

The total recovered loans and overdue interest, regarding the credit recovery with real guarantees, booked in the first nine months of 2016 and 2015 amounts to Euro 5,401 thousand and Euro 7,130 thousand, respectively, as described in note 14.

The Group has adopted forbearance measures and practices, according to the risk, in order to adjust the disposable income or the financial capacity of customers to its debt service. On this basis, were adopted the recommendations legislated within the non-compliance regimes (Decree-Law No. 227/2012) and in the companies (SIREVE, PER), widely disclosed in the institutional website, in internal rules and communications, to disclosure and implementation within customers who show evidence of financial difficulties.

Regarding forbearance measures, the Group adopted the ones included in Instruction No. 32/2013 of the Bank of Portugal from 15 January 2014, namely contractual amendments (lack of capital, extension of the final date, deferral of capital, etc.) and consolidation of debts in another contract, with conditions adjusted to the customer's current situation.

The Group is applying physical collaterals and financial guarantees as instruments to mitigate the credit risk. The physical collaterals are mainly mortgages on residential buildings for the mortgage portfolio and other mortgages on other types of buildings related to other types of loans. In order to reflect the market value, these collaterals are regularly reviewed based on independent and certified valuation entities or through the application of evaluation coefficients that reflect the market trends for each specific type of property and the geographical area. The financial collaterals are reviewed based on the market value of the respective assets, when available, with the subsequent application of haircuts that reflect the volatility of their prices. Most of the physical collaterals are reevaluated at least once a year.

23 Financial assets and liabilities held for trading

The balance financial assets and liabilities held for trading is analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Financial assets held-for-trading		
Securities		
Shares	5 328	7 363
Bonds	25 703	12 435
Investment fund units	612	-
	31 643	19 798
Derivatives		
Derivative financial instruments with positive fair value	13 479	31 295
	45 122	51 093
Financial liabilities held-for-trading		
Securities		
Short sales	1 242	1 896
Derivatives		
Derivative financial instruments with negative fair value	16 862	68 393
	18 104	70 289

The balance Derivative financial instruments with positive fair value, includes as at 30 September 2016 the amount of Euro 4,627 thousand (31 December 2015: 7,921 thousand) referred to instruments associated to assets or liabilities at fair value through profit or loss.

The balance Derivative financial instruments with negative fair value, includes as at 31 December 2015 the valuation of the embedded derivatives separated from the host contract in accordance with the accounting policy described in Note 1 c), in the amount of Euro 35,166 thousand.

The balance Derivative financial instruments with negative fair value, also includes as at 30 September 2016 the amount of Euro 6,852 thousand (31 December 2015: Euro 8,394 thousand) referred to instruments associated to assets or liabilities at fair value through profit or loss, with the exception of loans and advances to customers in the amount of Euro 1,158 thousand (31 December 2015: Euro 1,449 thousand).

The trading portfolio is recorded at fair value through profit and loss, in accordance with the accounting policy described in note 1 d). As referred in this note, assets held for trading are those which were acquired with the purpose of sale or re-acquisition on the short term regardless of its maturity.

The balance of Derivative financial instruments as at 30 September 2016 and the comparison with the respective assets and liabilities registered at fair value are analysed as follows:

(Thousands of Euro)

		sep 2016						
		Derivative			Related asset/liability			
Derivative	Related financial asset/liability	Notional	Fair value	Fair value changes in the period	Fair value	Fair value changes in the period	Book value	Reimbursement amount at maturity date
Interest rate swap	Debt securities issued and other subordinated debt	87 656	424	(393)	(1 312)	2 716	82 790	82 469
Interest rate swap	Deposits from customers	15 900	(87)	404	17	9	15 636	15 636
Interest rate swap	Deposits from financial institutions	54 594	4 048	(2 489)	750	229	74 088	60 000
Interest rate swap	Covered bonds	5 408 299	(1 659)	1 376	-	-	-	-
Interest rate swap	Loans	42 870	(1 158)	291	921	(412)	43 036	42 870
Interest rate swap	Other	2 658 694	(5 026)	(161)	-	-	-	-
Currency swap	-	73 956	148	(388)	-	-	-	-
Futures (*Short*)	-	9 981	-	-	-	-	-	-
Futures (*Long*)	-	450	-	-	-	-	-	-
Forwards	-	39 409	(80)	(77)	-	-	-	-
Options	-	92 892	7	(24)	-	-	-	-
Credit Default Swaps	-	-	-	35 176	-	-	-	-
		8 484 701	(3 383)	33 715	376	2 542	215 550	200 975

The balance of Derivative financial instruments as at 31 December 2015, in comparison with the assets and liabilities associated, registered in the fair value, can be analysed as follows:

(Thousands of Euro)

		dec 2015						
		Derivative			Related asset/liability			
Derivative	Related financial asset/liability	Notional	Fair value	Fair value changes in the period	Fair value	Fair value changes in the period	Book value	Reimbursement amount at maturity date
Interest rate swap	Debt securities issued and other subrodinated debt	87 656	817	(2 010)	(4 028)	3 917	113 852	113 121
Interest rate swap	Deposits from customers	55 150	(491)	892	8	(12)	54 654	54 602
Interest rate swap	Deposits from financial institutions	59 620	6 537	(2 702)	521	(1 321)	71 065	60 000
Interest rate swap	Covered bonds	5 460 455	(3 035)	1 512	-	-	-	-
Interest rate swap	Loans	44 453	(1 449)	510	1 333	(519)	44 825	44 453
Interest rate swap	Other	2 773 877	(4 865)	10 551	-	-	-	-
Currency swap	-	94 521	536	(126)	-	-	-	-
Futures (*Short*)	-	4 676	-	-	-	-	-	-
Futures (*Long*)	-	805	-	-	-	-	-	-
Forwards	-	275 068	(3)	1	-	-	-	-
Options	-	107 034	31	(328)	-	-	-	-
Credit Default Swaps	-	85 000	(35 176)	(35 176)	-	-	-	-
		9 048 315	(37 098)	(26 876)	(2 166)	2 065	284 396	272 176

The fair value component of financial liabilities recognised at fair value through profit or loss attributable to the Group's credit risk is negative and the respective accumulated value amounts to Euro 1,710 thousand at 30 September 2016 (31 December 2015: Euro 7,458 thousand), as described in note 6.

24 Financial assets available-for-sale

This balance is analysed as follows:

(Thousands of Euro)

	sep 2016				
	Cost (1)	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Issued by public entities					
Domestic	1 415 309	2 914	(47 933)	-	1 370 290
Foreign	353 364	4 230	(7 102)	(3)	350 489
Issued by other entities					
Domestic	65 265	810	(1 367)	(27 444)	37 264
Foreign	135 306	2 840	(785)	(37 823)	99 538
Commercial paper	998	-	-	(998)	-
Variable income securities					
Shares					
Domestic	76 612	25 846	(1 625)	(1 719)	99 114
Foreign	75 067	13 827	(2 199)	(307)	86 388
Investment fund units	401 277	18 855	(924)	(22 424)	396 784
	2 523 198	69 322	(61 935)	(90 718)	2 439 867

(1) Acquisition cost related to shares and amortised cost by debt securities.

(Thousands of Euro)

	dec 2015				
	Cost (1)	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Issued by public entities					
Domestic	1 030 902	5 987	(22 954)	-	1 013 935
Foreign	1 251 882	11 566	(3 713)	(7 343)	1 252 392
Issued by other entities					
Domestic	66 360	1 521	(1 335)	(27 444)	39 102
Foreign	234 743	3 925	(25 681)	(8 709)	204 278
Commercial paper	998	-	-	(998)	-
Variable income securities					
Shares					
Domestic	80 992	9 534	(1 634)	(5 984)	82 908
Foreign	75 331	16 127	(12 430)	(2 114)	76 914
Investment fund units	397 703	16 482	(496)	(14 717)	398 972
	3 138 911	65 142	(68 243)	(67 309)	3 068 501

(1) Acquisition cost related to shares and amortised cost by debt securities.

As at 31 December 2015, the balance Financial assets available-for-sale includes securities subject to hedging operations, whose impact in the statement of financial position is positive and amounts to Euro 286 thousand, as referred in note 25.

IAS 39 – Financial instruments: Recognition and measurement allows the reclassification of unquoted financial instruments registered in the portfolio of financial assets available-for-sale to loans and advances to customers. This reclassification is allowed only if the unquoted financial instruments correspond to this definition and if there is the intention and the ability to hold the debt instruments for the foreseeable future or until maturity.

According to this standard, the unquoted financial instruments (securities) meet the definition of loans and receivables, which means that is a non-derivative financial asset with fixed or determined payments that are not quoted in an active market. Moreover, the Group has the intention and ability to hold these assets until maturity.

As at the date of reclassification the following aspects are observed:

- The reclassification of securities from financial assets available-for-sale portfolio to the loans and advances to customers category is realised at the fair value of the debt instrument at the date of reclassification;
- The fair value of securities at the reclassification date will become the new cost;
- As at the date of reclassification a new effective interest rate is determined as the basis of calculation and recognition of interest and amortised cost from that moment;
- The new effective interest rate is the rate that exactly discounts estimated future cash flows over the remaining expected life of the instruments fair value at the date of reclassification;
- A subsequent change in the fair value of the debt instrument over its new amortised cost is not recognised;
- It's performed a review of subsequent impairment taking into consideration the new amortised cost, the new effective interest rate and the expected future cash flows;
- Any impairment loss, measured as the difference between the new amortised cost and the present value of estimated future cash flows (excluding future credit losses that have not incurred) discounted at the new effective interest rate determined at the date of reclassification, is recognised in profit or loss.

In this context, as at 31 December 2015, the Group reclassified securities portfolio from financial Financial assets available-for-sale to loans and advances to customers, in the amount of Euro 358,488 thousand and impairment in the amount of Euro 1,565 thousand, as described in note 22. The fair value reserve of the securities transferred amounted, at the date of reclassification, to Euro 3,858 thousand, as described in note 47.

The impact of the reclassifications performed until 30 September 2016, is as follows:

(Thousands of Euro)

	At the reclassification date		sep 2016		
	Book value	Fair value	Book value	Fair value	Difference
Financial assets available-for-sale to:					
Loans and advances to customers	358 488	358 488	335 892	346 670	10 778
	358 488	358 488	335 892	346 670	10 778

The amounts recognised in profit or loss and in fair value reserves, as at 30 September 2016, regarding the financial assets reclassified in previous periods, are as follows:

(Thousands of Euro)

	Profit/ (loss) in the period	Variation	
	Interests	Fair value reserves	Equity
Financial assets available-for-sale to:			
Loans and advances to customers	10 136	(397)	(397)
	10 136	(397)	(397)

If the reclassifications mentioned above have not been performed, the additional amounts recognised in equity, as at 30 September 2016, would be as follows:

(Thousands of Euro)

	Profit/ (loss) in the period			
	Fair value variation	Retained earnings	Fair value reserves	Equity
Financial assets available-for-sale to:				
Loans and advances to customers	10 778	-	11 175	11 175
	10 778	-	11 175	11 175

As at 31 December 2015, the analysis of the impact of this reclassifications is as follows:

(Thousands of Euro)

	At the reclassification date		dec 2015		
	Book value	Fair value	Book value	Fair value	Difference
Financial assets available-for-sale to:					
Loans and advances to customers	358 488	358 488	358 488	358 488	-
	358 488	358 488	358 488	358 488	-

Additionally, as at 31 December 2015, financial assets available-for-sale include the shares held by the Group in Visa Europe Limited, amounting to Euro 7,900 thousand. During the first half of 2016, CEMG received an up front of Visa Inc. in the amount of Euro 8,421 thousand and recognised in the financial statements the earned-out (deferred cash: it shall be paid shortly after the 3rd year of the transaction conclusion), in the amount of Euro 704 thousand, as described in notes 7 and 33.

Additionally, the 3,057 preference shares of Visa Inc (Series C) were recorded in the portfolio of financial assets available-for-sale. Those preference shares were recognised in the balance sheet in the amount of Euro 2,169 thousand, at the date of completion of the transaction. Additionally, the revaluation of these preference shares, as at 30 June 2016, resulted in the recognition of a positive fair value reserve in the amount of Euro 477 thousand.

The movements occurred in Impairment of financial assets available-for-sale are analysed as follows:

(Thousands of Euro)

	sep 2016	sep 2015
Balance on 1 january	67 309	55 763
Charge for the period	55 926	57 340
Write-back for the period	(24 062)	(50 620)
Charge-off	(8 454)	(3 415)
Exchange differences	(1)	-
Balance on 30 september	90 718	59 068

The securities pledged as collateral recorded in Financial assets available-for-sale, are presented as follows:

- The market value of the assets pledged as collateral to the European Central Bank under liquidity providing operations amounts to Euro 3,954 million at 30 September 2016 (31 December 2015: Euro 3,758 million);
- The securities pledged as collateral to the Portuguese Securities Market Commission under the Investors' Compensation Fund amounts to Euro 845 million at 30 September 2016 and at 31 December 2015;
- The amount of the EIB loan obtained is collateralised by Portuguese and Greek states' securities with a nominal amount of Euro 700,685 thousand (31 December 2015: Euro 706,638 thousand), registered in the balance Financial assets available-for-sale; and
- Securities pledged as collateral to the Deposit Guarantee Fund with a nominal amount of Euro 25,000 thousand at 30 September 2016 and at 31 December 2015.

These financial assets pledged as collateral can be executed in case of default of contractual obligations assumed by the Group under the terms and conditions of signed contracts, as described in notes 34 and 35.

25 Hedging derivatives

This balance is analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Asset		
Interest rate swap	-	9
Liability		
Interest rate swap	-	439

Hedging derivatives are measured according to internal valuation techniques based on observable market data. Therefore, in accordance with the hierarquisation of the valuation sources, and as referred in IFRS 13, these instruments are classified as level 2.

The Group uses derivatives to hedge interest rate risks. The accounting method depends on the nature of the hedged risk, namely if the Group is exposed to fair value changes or probable forecast transactions.

The Group performs periodical effectiveness tests of the hedging relationships.

The adjustment performed to the assets and liabilities that includes hedged items is analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Financial assets available-for-sale	-	286

The analysis of the hedging derivatives portfolio by maturity date, as at 31 December 2015 is as follows:

(Thousands of Euro)

	dec 2015							
	Notional by maturity date				Fair value			
	Due within 3 months	3 months to 1 year	Over 1 year	Total	Due within 3 months	3 months to 1 year	Over 1 year	Total
Fair value hedge derivatives with interest rate risk:								
Interest rate swap	-	-	5 000	5 000	-	-	(430)	(430)
	-	-	5 000	5 000	-	-	(430)	(430)

As at 31 December 2015, the fair value hedge operations can be analysed as follows:

(Thousands of Euro)

	dec 2015						
Derivative	Hedged item	Hedged risk	Notional	Fair value derivative(1)	Changes in the fair value of the derivative in the period	Fair value hedged item(2)	Changes in the fair value of the hedged item in the period (2)
Interest rate swap	Financial assets available-for-sale	Interest rate	5 000	(430)	1 004	286	(944)
			5 000	(430)	1 004	286	(944)

(1) Includes the accrued interest.
(2) Attributable to the hedged risk.

26 Held-to-maturity investments

This balance is analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Fixed income securities		
Bonds issued by portuguese public entities	1127 397	26 130
Bonds issued by foreign public entities	148 243	135 410
	1275 640	161 540

The Group assessed, with reference to 30 September 2016, the existence of objective evidence of impairment on its held-to-maturity investments portfolio and no events with impact on the recoverable amount of the future cash flows associated with those investments were identified.

The held-to-maturity investments are valued in accordance with the established in note 1 d) of the accounting policy.

During the nine months period of 2016 and during 2015, the Group did not transfer from or to this assets category.

27 Investments in associated companies

This balance is analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3 383	3 210
Vogais Dinâmicas, S.G.P.S., S.A.	16	-
Iberpartners Cafés, S.G.P.S., S.A.	-	1 107
Montepio - Gestão de Activos Imobiliários, ACE	698	698
Pinto & Bulhosa, S.A.	191	191
Naviser – Transportes Marítimos Internacionais, S.A.	150	150
	4 438	5 356
Impairment for investments in associated companies	(341)	(1 448)
	4 097	3 908

The subsidiaries and associates included in the consolidation perimeter are presented in note 54.

At 27 June 2016, the Group sold its shareholding in Iberpartners Cafés, S.G.P.S., S.A. in the amount of Euro 1,490 thousand. This sale generated a capital gain of Euro 1,490 thousand, as described in note 9.

On 30 December 2015, the Group sold its shareholding in Montepio Seguros, S.G.P.S., SA, for Euro 46,350 thousand and also received the supplementary capital contributions in the amount of Euro 18,750 thousand. This sale generated a capital gain of Euro 17,217 thousand.

Additionally, after this transaction, the existent fair value reserve was recycled in the amount of Euro 31,979 thousand.

The financial information concerning associated companies is presented in the following tables:

(Thousands of Euro)

	Assets	Liabilities	Equity	Income	Profit/(Loss) for the period	Acquisition cost
30 september 2016						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	39 991	23 304	16 687	6 721	1 108	3 200
Montepio - Gestão de Ativos Imobiliários, ACE	3 619	1 169	2 450	3 395	-	698
31 december 2015						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	40 685	24 635	16 050	7 934	327	3 200
Iberpartners Cafés S.G.P.S., S.A.	5 571	1 807	3 764	194	127	1 000
Montepio - Gestão de Ativos Imobiliários, ACE	3 762	1 312	2 450	4 489	-	698

(Thousands of Euro)

	Percentage held		Book value		Associated companies net profit	
	sep 2016 %	dec 2015 %	sep 2016	dec 2015	sep 2016	dec 2015
Montepio Seguros, S.G.P.S., S.A.	-	-	-	-	-	(4 013)
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	20.00%	20.00%	3 383	3 210	274	66
Iberpartners Cafés S.G.P.S., S.A.	-	29.41%	-	-	-	37
Montepio - Gestão de Activos Imobiliários, ACE	28.50%	28.50%	698	698	-	-
Pinto & Bulhosa, S.A.	16.00%	16.00%	-	-	-	-
Naviser - Transportes Marítimos Internacionais, S.A.	20.00%	20.00%	-	-	-	-
Vogais Dinâmicas - S.G.P.S, S.A.	32.20%	-	16	-	-	-

The movement for this balance is analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Balance on 1 january	5 356	24 991
Acquisitions	16	-
Disposals	(1 107)	(15 725)
Share of profit of associates	274	(3 910)
Other reserves and retained earnings	(101)	-
Balance on 30 september	4 438	5 356

The movements of impairment in investments in associated companies and others are analysed as follows:

(Thousands of Euro)

	sep 16	sep 2015
Balance on 1 january	1 448	341
Charge-off	(1 107)	-
Balance on 30 september	341	341

The Group analyses, on a regular basis, the impairment related to in investments in associated companies.

28 Non-current assets held for sale

This balance is analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Investments arising from recovered loans	887 473	892 163
Impairment for non-current assets held-for-sale	(132 619)	(137 265)
	754 854	754 898

The assets included in this balance are accounted for in accordance with the note 1 j).

The balance Investments arising from recovered loans includes the amount of Euro 2,076 thousand (31 December 2015: Euro 2,098 thousand) related with other non-current assets held for sale resulting from the foreclosure of loans to customers' contracts, which have an associated impairment in the amount of Euro 1,954 thousand (31 December 2015: Euro 1,593 thousand).

The foreclosure of loans to customers contracts, is originated by (i) delivery of the assets, with option to repurchase or leasing, accounted with the celebration of the contract or the promise to deliver the asset and the respective irrevocable power of attorney issued by the customer in the name of the Group; or (ii) the adjudication of the assets as a result of a judicial process of guarantees execution, accounted with the title of adjudication or following the adjudication request after the record of the first (payment prosolvency).

The Group has implemented a plan to sale immediately the non-current assets held for sale. According to Group's expectation, these assets are available for sale in a period less than 1 year and the Group has a strategy for its sale. Nevertheless, given the current market conditions, in some situations it is not possible to conclude these sales before the expected deadline. This balance includes buildings and other assets for which the Group has already established contracts for the sale in the amount of Euro 17,403 thousand (31 December 2015: Euro 18,980 thousand).

The movements, in the first nine months of 2016 and during 2015, for non-current assets held-for-sale are analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Balance at the beginning of the period	892 163	934 230
Acquisitions	95 684	212 976
Disposals	(99 972)	(255 071)
Exchange differences	(337)	(26)
Other movements	(65)	54
Balance at the end of the period	887 473	892 163

The movements in impairment for non-current assets held-for-sale are analysed as follows:

(Thousands of Euro)

	sep 2016	sep 2015
Balance on 1 january	137 265	134 491
Charge for the period	24 086	17 837
Write-back for the period	(11 439)	(9 380)
Charge-off	(17 293)	(582)
Balance on 30 september	132 619	142 366

In addition to the impairment losses, the Group recognised in profit or loss of the period, losses on real estate arising from its disposal in the amount of Euro 5,429 thousand (30 September 2015: Euro 30,834 thousand), and gains in real estate in the amount of Euro 4,295 thousand (30 September 2015: Euro 10,278 thousand), as mentioned in note 9.

29 Investment properties

The balance Investment properties considers the real estate properties owned by "Finipredial - Fundo de Investimento Aberto", "Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional", "Montepio Arrendamento II – Fundo de Investimento Fechado para Arrendamento Habitacional", "Montepio Arrendamento III – Fundo de Investimento Fechado para Arrendamento Habitacional", "Polaris – Fundo de Investimento Imobiliário Fechado de Subscrição Particular", "Portugal Estates Fund – Fundos de Investimento Imobiliário Fechado de Subscrição Particular e Carteira Imobiliária" and "Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto" which are fully consolidated, according to the accounting policy described in note 1 b).

The real estate properties are measured in accordance with the accounting policy described in note 1 q), based on independent evaluations and in compliance with legal requirements.

The amount of income received related to properties amounts to Euro 12,828 thousand (31 December 2015: Euro 15,183 thousand) and maintenance costs of leased and not leased properties amounts to Euro 6,639 thousand (31 December 2015: Euro 7,570 thousand).

The movements in this balance are analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Balance at the beginning of the period	692 485	715 737
Acquisitions	8 292	28 709
Revaluations	(29 749)	(30 206)
Disposals	(54 268)	(58 488)
Transfers	(14 167)	36 733
Balance at the end of the period	602 593	692 485

The balance Transfers refers to transfers from Non-current assets held-for-sale.

30 Property and equipment

This balance is analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Investment		
Real estate		
For own use	232 446	39 266
Leasehold improvements in rented buildings	52 063	54 170
Constructions in progress	14 200	17 671
Equipment		
IT Equipment	91 828	90 053
Interior installations	22 037	22 303
Furniture and materials	20 938	22 239
Security equipment	7 810	8 086
Transport equipment	3 840	5 302
Office equipment	3 098	3 396
Other equipment	22	34
Assets in financial lease	38	38
Assets in operational lease	562	656
Works of art	2 870	2 870
Other tangible assets	2 244	2 405
Work in progress	4 696	4 114
	458 692	272 603
Accumulated depreciation		
Charge for the period	(10 260)	(12 693)
Accumulated charge in previous periods	(175 312)	(170 795)
	(185 572)	(183 488)
	273 120	89 115

During the first quarter of 2016, CEMG acquired from Montepio Geral Associação Mutualista premises for own use, in the amount of Euro 199,444 thousand, as described in note 55.

31 Intangible assets

This balance is analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Investment		
Software	94 234	88 856
Revaluation and consolidation differences (*goodwill*)	56 304	56 304
Other intangible assets	112	409
Work in progress	16 987	8 073
	167 637	153 642
Accumulated depreciation		
Charge for the period	(9 741)	(13 902)
Accumulated charge in previous periods	(59 920)	(47 306)
	(69 661)	(61 208)
Impairment for intangible assets	(32 538)	(26 572)
	65 438	65 862

The balance Revaluation and consolidation differences (Goodwill), corresponds to the difference between the acquisition cost and the total fair value of assets and liabilities and contingent liabilities: (i) of Finibanco Angola, S.A. acquired by the Group on March 31, 2011 to Montepio Geral – Associação Mutualista, as described in note 1 a), in the amount of Euro 53,024 thousand with an associated impairment of Euro 31,117 thousand (31 December 2015: Euro 26,512 thousand) and; (ii) of Banco Terra, acquired in December 2014 in the amount of Euro 3,280 thousand with an associated impairment of Euro 1,361 thousand, as described in note 16.

These intangible assets do not have finite useful life, and as referred in the accounting policies, notes 1 r) and 1 aa), its recoverable amount is annually reviewed, regardless of the existence of impairment signs. Any impairment losses are recognised in income statement.

In accordance with IAS 36 the recoverable amount of goodwill should be the highest between its value in use (the present value of the future cash flows expected from its use) and its fair value less costs to sell. Based on this criteria, the Group made valuations of their investments for which there is goodwill recognised, considering among other factors:

(i) an estimate of future cash flows generated;

(ii) an expectation of potential changes in the amounts and timing of cash flows;

(iii) the time value of money;

(iv) a risk premium associated with the uncertainty by holding the asset; and

(v) other factors associated with the current situation of financial markets.

The valuations were based on reasonable and sustainable assumptions, representing the best estimate of the Executive Board of Directors on the economic conditions may afect each subsidiary, the budgets and the latest projections approved by the Executive Board of Directors for those subsidiaries and their extrapolation to future periods. The assumptions made for these valuations may vary with the change in economic conditions and in the market.

The Group performed an impairment analysis regarding the investments in its subsidiaries, considering the recoverable amount of the business developed by each of these subsidiaries. The recoverable amount, according with the accounting policy described in this report, was determined by the higher value between the fair value net of selling costs and the value in use.

The value in use was determined based on the business plan approved by management. Depending on the business specificity and the markets where the Group subsidiaries develop their activity, were also considered differentiated levels for the discount rate, for the solvency levels required for banking activity and growth in perpetuity of net income.

The verification of the assumptions used and the evolution of macro-economic and market conditions may result in the change of these assumptions and, consequently, in the change of the recoverable amount calculated for the subsidiaries included in this analysis.

The financial statements were prepared assuming the continuity of the respective operations, which depend on the assumptions future developments underlying the recoverable value of its financial investments and the success of the initiatives that will be taken by the Executive Board of Directors to strengthen the equity position.

The movements in Impairment for intangible assets are analysed as follows:

(Thousands of Euro)

	sep 2016	sep 2015
Balance on 1 january	26 572	26 512
Charge for the period	5 966	-
Balance on 30 september	32 538	26 512

32 Taxes

Deferred tax assets and liabilities as at 30 September 2016 and 31 December 2015 are analysed as follows:

(Thousands of Euro)

	Assets		Liabilities		Net	
	sep 2016	dec 2015	sep 2016	dec 2015	sep 2016	dec 2015
Financial instruments	21 843	24 284	(25 693)	(24 392)	(3 850)	(108)
Other tangible assets	308	433	-	-	308	433
Provisions/Impairment						
Impairment on loans granted	197 987	168 255	-	-	197 987	168 255
Other risks and charges	5 280	9 470	-	-	5 280	9 470
Impairment in securities, non-financial assets	44 738	2 039	-	-	44 738	2 039
Benefits to employees	45 029	41 201	-	-	45 029	41 201
Other	(3 077)	1 286	(116)	(117)	(3 193)	1 169
Tax losses carried forward	193 831	181 047	-	-	193 831	181 047
Net deferred tax assets/(liabilities)	505 939	428 015	(25 809)	(24 509)	480 130	403 506

Deferred taxes are calculated using the tax rates expected to be in force when the temporary differences are reversed, which correspond to the rates enacted or substantively enacted at the balance sheet date.

The balance Benefits to employees includes the amount of Euro 13,929 thousand (31 December 2015: Euro 15,919 thousand) related to deferred taxes of actuarial losses recognised against reserves as a result of the change in the accounting policy. This balance also includes the amount of Euro 3,462 thousand (31 December 2015: Euro 3,633 thousand) related to deferred taxes associated with the expense generated with the transfer of liabilities with pensioners to the general social security scheme.

The negative equity variation due to the change in the accounting policy performed in 2011 is deductible for tax purposes in equal parts, for a 10 year period starting on 1 January 2012. The expense generated with the transfer of liabilities with pensioners to the general social security scheme is deductible for tax purposes in equal parts, starting on 1 January 2012, according to the number of years of life expectancy of pensioners whose responsibilities were transferred (20 years in the case of the Group).

As at 30 September 2016 and 31 December 2015, deferred taxes associated with Employee benefits include the amount of Euro 10,194 thousand related with employee benefits in excess when compared with the existing limits.

The deferred tax rate is analysed as follows:

	sep 2016	dec 2015
Income tax [(a)]	21.0%	21.0%
Municipal surcharge rate	1.5%	1.5%
State surcharge rate	7.0%	7.0%
Total [(b)]	29.5%	29.5%

(a) - Applicable to deferred taxes related to tax losses;
(b) - Applicable to deferred taxes related to temporary differences.

Deferred taxes related to the losses carried forward are recognised only if the existence of future taxable profits is probable. The uncertainty of the recoverability of the tax losses carried forward is considered in the deferred tax assets calculation.

As referred in the accounting policy described in note 1 w), and in accordance with the requirements set in IAS 12, the deferred tax assets were recognised based on the recoverability expectations of the Group. The evaluation of the recoverability of deferred tax assets was made based on the strategic plan for 2016-2018, approved by the General Meeting of Shareholders of CEMG.

Assess recoverability of deferred tax assets, in particular related to tax losses carried forward was conducted through the Group's estimated financial statements, prepared under the budget procedure for 2016, which took into account the macroeconomic and competitive environment as well as the strategic priorities of the Group.

The expectation of generating future taxable income is fundamentally based in the favourable impacts of:

(i) evolution of net interest income and commissions;

(ii) decrease of operating costs; and

(iii) sale of assets.

Based on this evaluation, there are no unrecognised deferred taxes at 30 September 2016 and 31 December 2015.

The expiry date of recognised tax losses carried forward is presented as follows:

(Thousands of Euro)

Expire date	sep 2016	dec 2015
2016	-	821
2017	32 515	33 315
2018	48 558	47 805
2019 and following	112 758	99 106
	193 831	181 047

Tax recognised in the income statement and reserves during the first nine months of 2016 and during 2015 is analysed as follows:

(milhares de euros)

	sep 2016		dec 2015	
	Charged to net (loss)/income	Charged to reserves and retained earnings	Charged to net (loss)/income	Charged to reserves and retained earnings
Financial instruments	-	(3 739)	-	22 197
Other tangible assets	(125)	-	423	-
Provisions/Impairments	67 214	-	(80 897)	-
Employees benefits	5 818	(1 990)	4 977	324
Other	(3 336)	-	(3 519)	-
Tax losses carried forward	14 682	-	103 906	-
Exchange differences	-	(1 898)	-	214
Deferred tax charged to profit/(loss)	84 253	(7 627)	24 890	22 735
Current taxes	(2 212)	-	1 490	-
	82 041	(7 627)	26 380	22 735

The reconciliation of the effective tax rate is analysed as follows:

(Thousands of Euro)

	sep 2016		sep 2015	
	%	Value	%	Value
Profit before taxes		(147 721)		(97 027)
Income tax based on the current nominal tax rate	21.0	(31 022)	21	(20 376)
Impact of municipal and state surcharge	(0.1)	111	(1)	1 033
Extraordinary contribution for the banking sector	(1.9)	2 778	(2)	2 240
Post-employment benefits and Pension fund	(1.1)	1 613	(2)	1 725
Charge/reversal of taxable provisions/impairment	(1.1)	1 554	(11)	10 829
Autonomous taxation	(0.7)	986	(2)	1 527
Previous periods adjustments	(0.4)	638	7	(6 931)
Impact on tax rate differences	16.3	(24 144)	9	(9 006)
Consolidation adjustments (*)	30.7	(45 333)	23	(22 007)
Other	(7.3)	10 778	(4)	3 567
Income tax for the period	55.5	(82 041)	39	(37 399)

(*) It includes tax effect related to impairment of subsidiaries.

The Tax Authority may review the Group's taxable income during a period of four years, except in the case of tax losses carried forward, as well as any other deduction or tax credit, in which the period is the period of exercise of that right.

CEMG was object of a Tax Authority's inspection until 2013. As a result of 2013 inspection, CEMG was object of an additional payment, related with corporate tax base, of income tax related to autonomous taxation and some adjustments to the calculated tax loss in that period. CEMG paid the settled amounts, without prejudice of appeal regarding some corrections made by the tax authorities.

33 Other assets

This balance is analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Other debtors	230 395	271 233
Sundry debtors	82 195	49 870
Other accrued income	40 707	30 213
Recoverable subsidies from Portuguese Government	5 005	5 241
Prepayment and deferred costs	2 893	2 639
	361 195	359 196
Impairment for other assets	(30 427)	(29 536)
	330 768	329 660

As at 30 September 2016, the balance Sundry debtors includes the earn-out (deferred cash: shall be paid shortly after the 3rd year of the transaction’s conclusion) of Visa Inc., in the amount of Euro 704 thousand.

As at 30 September 2016, the balance Other accrued income includes the amount of Euro 38,404 thousand (31 December 2015: Euro 26,000 thousand) regarding Montepio Geral Associação Mutualista, as described in note 10.

The balance Recoverable subsidies from Portuguese Government corresponds to mortgage credit interest subsidies, in accordance with the regulations applicable to mortgage loans benefits. The referred amounts do not bear interest and are claimed monthly.

As at 30 September 2016 and 31 December 2015, the balance Recoverable subsidies from the Portuguese Government is analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Overdue subsidies unclaimed	3 191	3 283
Recoverable subsidies from the Portuguese Government unliquidate	1 769	1 768
Subsidies unclaimed	45	190
	5 005	5 241

As at 30 September 2016 and 31 December 2015, the balance Other debtors is analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
SilverEquation	163 534	161 420
Supplementary capital contributions	14 910	14 910
Public entities	7 176	14 198
Real estate	8 212	7 115
Montepio Geral Associação Mutualista	-	45 100
Others	36 563	28 490
	230 395	271 233

As at 30 September 2016, the balance SilverEquation includes the receivable amounts under the operation of sale of credits and property to SilverEquation, as described in note 22.

As at 30 September 2016, the balance Others includes the receivable amount under the operation of sale of credits performed in the first half of 2016, as described in note 22.

As at 31 December 2015, Montepio Geral Associação Mutualista includes the receivable amounts under the sale of the shareholding in Montepio Seguros, S.G.P.S., S.A., in the amount of Euro 45,100 thousand, as described in note 27.

The balance Supplementary capital contributions includes the value of supplementary capital contributions subscribed within a sale of credits operation in the amount of Euro 14,910 thousand. These supplementary capital contributions are fully provided.

As at 30 September 2016, the balance Public Entities includes receivable amounts from public entities, mostly related with courts in the context of insolvency proceedings and lodge claims.

The caption Real Estate includes the amount of Euro 8,212 thousand (31 December 2015: Euro 7,115 thousand) related with the receivable amounts from the sale of properties classified as non-current assets held for sale.

The movements in Impairment for other assets are analysed as follows:

(Thousands of Euro)

	sep 2016	sep 2015
Balance on 1 january	29 536	16 240
Charge for the period	1 450	1 375
Write-back for the period	(909)	(506)
Charge-off	(50)	-
Transfers	400	1 064
Balance on 30 september	30 427	18 173

The balance Transfers refers to the impairment associated to the renting, which is now recorded in the balance Other assets, in the amount of Euro 397 thousands which were transformed from the loans and advances to customers and Euro 3 thousands which were transformed from the caption Provisions, as described in note 22 and 39, respectively.

34 Deposits from central banks

As at 30 September 2016 and 31 December 2015, this balance is related to deposits obtained in the European System of Central Banks, which are pledged by securities from the available for sale portfolio, as described in note 24.

35 Deposits from other financial institutions

This balance is analysed as follows:

(Thousands of Euro)

	sep 2016			dec 2015		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from credit institutions in Portugal						
Money Markets	-		-	-	17 856	17 856
Deposits repayable on demand	2 687	-	2 687	3 899	-	3 899
Term deposits	-	33 204	33 204	-	25 042	25 042
Other deposits	1 714	344	2 058	-	-	-
	4 401	33 548	37 949	3 899	42 898	46 797
Deposits from credit institutions abroad						
EIB loan	-	520 491	520 491	-	560 644	560 644
Loans	-	1 154	1 154	-	1 668	1 668
Money Markets	-	-	-	-	2 264	2 264
Deposits repayable on demand	249 553	-	249 553	9 535	-	9 535
Term deposits	-	10 641	10 641	-	3 670	3 670
Sales operations with repurchase agreement	-	900 954	900 954	-	860 210	860 210
CSA's	6 380	-	6 380	10 530	-	10 530
Repos	-	6 279	6 279	-	48	48
Other deposits	854	73 963	74 817	4 966	72 278	77 244
	256 787	1 513 482	1 770 269	25 031	1 500 782	1 525 813
Adjustments to hedge operations value	750	-	750	521	-	521
	261 938	1 547 030	1 808 968	29 451	1 543 680	1 573 131

As part of derivative financial instruments operations with institutional counterparties, according to the signed contracts, CSA's has on 30 September 2016 the amount of Euro 6,380 thousand (31 December 2015: Euro 10,530 thousand) deposits from other credit institutions received as collateral for these operations.

The balance Deposits from credit institutions abroad – Other deposits includes emissions at fair value according to internal valuation methodologies, considering mainly market's observed data, in the amount of Euro 74,088 thousand (31 December 2015: Euro 71,065 thousand). So, in accordance with the hierarchy of the valuation sources, as referred in IFRS 13, these instruments are categorised in Level 2. Financial liabilities included in this balance are revaluated against results, according with the accounting policy described in note 1 d).

The amount of the EIB loan is collateralised by Portuguese and Greek states securities in the amount of Euro 700,685 thousand (31 December 2015: Euro 706,638 thousand), registered in the balance Financial assets available-for-sale, as described in note 24.

The balance Deposits from other financial institutions also includes issues subject to hedging operations, whose impact on the book value amounts to Euro 750 thousand (31 December 2015: Euro 521 thousand). Financial liabilities included in this balance are revaluated against results, according with the accounting policy described in note 1 d). At 30 September 2016 was recognised a loss in the amount of Euro 229 thousand (31 December 2015: gain in the amount of Euro 1,321 thousand), related with changes in the hedge amount, as referred in notes 6 and 23.

The funds obtained under the CSA with international financial institutions, are remunerated at EONIA rate. However, because these rates have shown negative values, these resources haven't been remunerated.

The balance Resources Repos refers to the Margin Maintenance of the Repos made in accordance with the Global Master Repurchase Agreement.

36 Deposits from customers

This balance is analysed as follows:

(Thousands of Euro)

	sep 2016			dec 2015		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits repayable on demand	3 214 388	91 300	3 305 688	2 650 825	181 105	2 831 930
Term deposits	-	8 987 743	8 987 743	-	10 021 093	10 021 093
Saving accounts	-	112 852	112 852	-	106 359	106 359
Other resources	37 402	149 542	186 944	10 041	-	10 041
Adjustments arising from hedging operations	17	-	17	8	-	8
	3 251 807	9 341 437	12 593 244	2 660 874	10 308 557	12 969 431

In the terms of Ordinance no. 180/94, of 15 December, the Deposit Guarantee Fund was established to guarantee, within certain conditions, the reimbursement of funds deposited in credit institutions authorised to receive deposits. The criteria to calculate the annual contributions to the referred fund are defined by Regulation no. 11/94 of Bank of Portugal, from 29 December.

The caption Term deposits includes deposits at fair value, measured in accordance with internal evaluation techniques considering, mainly, observable market inputs, in the amount of Euro 15,636 thousand (31 December 2015: Euro 54,654 thousand). According with the hierarchy of the evaluation sources, as referred in IFRS 13, these instruments are classified in level 2. The financial liabilities included in this balance are revalued against income statement, as referred in the accounting policy presented in note 1 d), having recognised as at 30 September 2016, a loss in the amount of Euro 9 thousand (31 December 2015: a gain of Euro 12 thousand), regarding the fair value variations resulting from the Group's credit risk, as described in notes 6 and 23.

37 Debt securities issued

This balance Debt securities issued is analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Bonds	1 047 364	1 340 138
Covered bonds	520 074	520 113
Securitizations	96 623	107 256
Euro Medium Term Notes (EMTN)	39 933	61 138
Commercial paper	-	2 520
	1 703 994	2 031 165

The balance Debt securities issued includes issues at fair value in the amount of Euro 67,106 thousand (31 December 2015: Euro 98,167 thousand), according with internal valuation techniques and considering, mainly, observable market data. According with the hierarchy of the valuation sources, as referred in IFRS 13, these instruments are classified in level 2. Financial liabilities are revalued against income statement, as referred in the accounting policy presented in note 1 d). As at 30 September 2016, a loss of Euro 1,838 thousand (31 December 2015: a loss of Euro 1,131 thousand) was recognised regarding the fair value variations resulting from the Group's credit risk, as described in notes 6 and 23.

Under the Issuance of debt securities issued program, with a maximum amount of Euro 5,000,000 thousand, the Group presents live emissions amounting to Euro 2,000,000 thousand at nominal value.

As at 30 September 2016, the main characteristics of these issues are as follows:

(Thousands of Euro)

Description	Nominal value	Book value	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody´s/Fitch/Dbrs)
Covered bonds - 2S	1 000 000	1 000 174	december 2009	december 2016	quarterly	Euribor 3M + 0.75%	A3/A-/A
Covered bonds - 4S	500 000	500 047	may 2013	may 2017	monthly	Euribor 1M + 0.75%	A3/A-/A
Covered bonds - 5S	500 000	500 145	december 2015	december 2020	quarterly	Euribor 3M + 0.80%	A3/A-/A
	2 000 000	2 000 366					

As at 31 December 2015, the main characteristics of these issues are as follows:

(Thousands of Euro)

Description	Nominal value	Book value	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody´s/Fitch/Dbrs)
Covered bonds - 2S	1 000 000	1 000 259	december 2009	december 2016	quarterly	Euribor 3M + 0.75%	Baa1/BB+/A
Covered bonds - 4S	500 000	500 077	may 2013	may 2017	monthly	Euribor 1M + 0.75%	Baa1/BB+/A
Covered bonds - 5S	500 000	500 210	december 2015	december 2020	quarterly	Euribor 3M + 0.80%	Baa1/BB+/A
	2 000 000	2 000 546					

The operations carried out by the Group under the Issuance of Debt Securities Issued CEMG Programme are presented as follows:

- December 2015: Euro 500,000 thousand Issue, within 5 years, at an interest rate of Euribor 3M plus 0.80%;
- November 2015: Euro 500,000 thousand reimbursement;
- May 2013: Euro 500,000 thousand Issue, within 4 years, interest rate of Euribor 1M plus 0.75%;
- July 2012: Euro 655,000 thousand reimbursement;
- June 2012: Euro 53,300 thousand cancelation, with a result of Euro 1,857 thousand;
- November 2011: 300,000 thousand Issue, within 5 years, interest rate of Euribor 3M plus 0.75%;
- October 2011: Euro 291,700 thousand cancellation, with a result of Euro 17,750 thousand;
- September 2011: Euro 550,000 thousand issue, within 5 years, at an interest rate of Euribor 3M plus 0.75%;
- November 2010: Euro 500,000 thousand Issue, within 5 years, interest rate of Euribor 3M plus 2.5%;
- December 2009: Euro 150,000 thousand issue, within 7 years, interest rate of Euribor 3M plus 0.75%; and
- July 2009: Euro 1,000,000 thousand issue, within 3 years, interest rate of 3.25%.

The debt securities issued are guaranteed by a cover assets pool, comprised of mortgage credit assets and limited classes of other assets, that the issuer of mortgage debt securities issued shall maintain segregated and over which the holders of the relevant debt securities issued have a statutory special creditor privilege. The legal and regulatory framework of these bonds is set up in Decree-Law No. 59/2006, Regulations of Bank of Portugal No. 5/2006 from 20 March, No. 6/2006 from 11 October, No. 7/2006 from 11 October, No. 8/2006 from 11 October and Instruction of Bank of Portugal No. 13/2006 from 15 November.

As at 30 September 2016, the amount of credits that collateralise these issues amounts to Euro 2,726,732 thousand (31 December 2015: Euro 2,727,400 thousand), as referred in note 22.

As at 30 September 2016, CEMG Group holds in its portfolio mortgage bonds with a nominal value of Euro 1,480,000 thousand (December 2015: Euro 1,480,000 thousand).

The movements in debt securities issued during the nine-month period ended at 30 September 2016 is analysed as follows:

(Thousands of Euro)

	Balance on 1 january	Reimbursements	Net purchases	Other movements [(a)]	Balance on 30 september
Bonds	1 340 138	(79 448)	(204 070)	(9 256)	1 047 364
Covered bonds	520 113	-	-	(39)	520 074
Securitizations	107 256	-	(10 633)		96 623
Euro Medium Term Notes (EMTN)	61 138	-	(23 000)	1 795	39 933
Commercial paper	2 520	(2 520)	-	-	-
	2 031 165	(81 968)	(237 703)	(7 500)	1 703 994

(a) Include the accrued interest, corrections for hedging and fair value operations and exchange variation.

During the first nine months of 2016, the Group did not performed any debt securities issue.

In the first nine months of 2016, the Group performed the reimbursement of Euro 81,968 thousand of debt securities issued (31 December 2015: Euro 920,677 thousand).

The movements in debt securities issued during the period of 2015 is analysed as follows:

(Thousands of Euro)

	Balance on 1 january	Issues	Reimbursements	Net purchases	Other movements [(a)]	Balance on 31 december
Bonds	1 786 327	28 100	(274 327)	(191 830)	(8 132)	1 340 138
Covered bonds	-	500 000	(500 000)	520 000	113	520 113
Securitizations	188 477	-	-	(81 221)	-	107 256
Euro Medium Term Notes (EMTN)	150 145	-	(125 000)	36 950	(957)	61 138
Commercial paper	21 576	2 500	(21 350)	-	(206)	2 520
	2 146 525	530 600	(920 677)	283 899	(9 182)	2 031 165

(a) Include the accrued interest, corrections for heding and fair value operations and exchange variation.

During the year of 2015, the Group issued Euro 530,600 thousand of debt securities and performed the reimbursement of Euro 920,677 thousand.

In accordance with the accounting policy described in note 1 d), debt issued repurchased by the Group is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement. As a result of the purchases made during the first nine months of of 2016 and during 2015, the Group recognised a gain of Euro 701 thousand and a loss of Euro 4,252 thousand, respectively.

As at 30 September 2016, bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 0.38% and 13.61% (31 December 2015: 0.55% and 13.39%).

38 Financial liabilities related to transferred assets

This balance is analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Pelican Mortgages No. 3	124 737	134 130
Pelican Mortgages No. 6	4 671	4 352
Pelican SME No. 2	284 772	184 555
	414 180	323 037

39 Provisions

This balance is analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Provisions for guarantees and commitments	11 794	252
Provisions for other liabilities and charges	3 342	16 335
	15 136	16 587

The movements of the guarantees provisions and commitments made are analysed as follows:

(Thousands of Euro)

	sep 2016	sep 2015
Balance 1 january	252	418
Charge for the period	7 038	46
Write-back for the period	(17 733)	(186)
Transfers	22 337	-
Exchange differences	(100)	(39)
Balance on 30 september	11 794	239

The balance Transfers refers to the impairment associated with off balance sheet credit exposure which, in 2016, are registered in the balance Provisions, in the amount of Euro 22,340 thousands and Euro 3 thousands transfered to Other assets, as described in notes 22 and 33, respectively.

The movements of the provisions for other liabilities and charges are analysed as follows:

(Thousands of Euro)

	sep 2016	sep 2015
Balance on 1 january	16 335	19 911
Charge for the period	16 274	5 334
Write-back for the period	(20 585)	(10 343)
Charge-off	(8 559)	(688)
Transfers	-	-
Exchange differences	(123)	(49)
Balance on 30 september	3 342	14 165

These provisions are accounted in accordance with the probability of occurrence of certain contingencies related with the Group's activity, and are revised in each reporting date in order to reflect the best estimate of the amount and probability of payment.

40 Other subordinated debt

As at 30 September 2016, the main characteristics of subordinated debt, are analysed as follows:

(Thousands of Euro)

Issue	Issue date	Maturity date	Issue amount	Interest rate	Book value
CEMG/08 1.ª série	Feb 2008	Feb 2018	150 000	Euribor 6 months+1.5%	110 977
CEMG/08 2.ª série	Jul 2008	Jul 2018	150 000	Euribor 6 months+1.5%	112 839
CEMG/08 3.ª série	Jun 2008	Jun 2018	28 000	Euribor 12 months+1.5%	4 187
FNB 08/18 1ª/2ª Série	Dec 2008	Dec 2018	10 363	Euribor 6 months+0.15% (i)	7 534
Ob. Cx Subordinadas Finicrédito	Nov 2007	Nov 2017	16 550	Base rate+0.90% (barrier level)	15 903
					251 440
				Adjustments arising from hedging operations	(1 482)
					249 958

As at 31 December 2015, the main characteristics of Other subordinated debt, are analysed as follows:

(Thousands of Euro)

Issue	Issue date	Maturity	Issue amount	Interest rate	Book value
CEMG/06	Apr 2006	Apr 2016	50 000	Euribor 3 months+0.95%	26 148
CEMG/08 1.ª série	Feb 2008	Feb 2018	150 000	Euribor 6 months+1.5%	121 232
CEMG/08 2.ª série	Jul 2008	Jul 2018	150 000	Euribor 6 months+1.5%	120 894
CEMG/08 3.ª série	Jun 2008	Jun 2018	28 000	Euribor 12 months+1.5%	18 177
FNB 08/18 1ª/2ª Série	Dec 2008	Dec 2018	10 363	Euribor 6 months+0.15% (i)	9 589
FNB Grandes empresas 07/16_ 1ª série	May 2007	May 2016	6 450	Max (6.0%*(1-n/8)) (ii)	4 753
FNB Grandes empresas 07/16 2ª/3ª série	Jun 2011	Jun 2016	22 602	Max (6.0%*(1-n/8)) (ii)	18 922
Ob. Cx Subordinadas Finicrédito	Nov 2007	Nov 2017	16 550	Base rate+0.90% (barrier level)	15 684
					335 399
				Adjustments arising from hedging operations	(2 360)
					333 039

(i) - The payment will be semiannual and the first coupon will be fixed:

Coupon	Interest rate/range
1st coupon	6.50% (annual rate)
between 2nd and 10th	Euribor 6M + 1.50% (annual rate)
11th and following	Euribor 6M + 1.75% (annual rate)

(ii) - The following coupons will be paid on the end of each year (may 9, to the 1st serie and june 20, to 2nd and 3rd series)

Coupon	Interest rate/range
1st coupon	5.50%
2nd coupon	5.50%
3rd coupon	Max [0;6.0% x (1-n/3)]
4th coupon	Max [0;6.0% x (1-n/4)]
5th coupon	Max [0;6.0% x (1-n/5)]
6th coupon	Max [0;6.0% x (1-n/6)]
7th coupon	Max [0;6.0% x (1-n/7)]
8th coupon	Max [0;6.0% x (1-n/8)]
9th coupon	Max [0;6.0% x (1-n/9)]

Notes:

where, *n* is the accumulated number of reference entities in which a credit event has occurred.

If a merger between two or more reference entites has occur and if a credit event occurs in the merged entity, it will be accounted many credit events as the number of merged companies.

During the nine months period ended at 30 September 2016 and during the period ended at 31 December 2015, the movement occurred in the balance Other subordinated debt was as follows:

(Thousands of Euro)

	Balance on 1 january 2016	Reimbursements	Net purchases	Other movements (a)	Balance on 30 september 2016
CEMG/06	26 148	(19 498)	(6 650)	-	-
CEMG/08 1.ª série	121 232	-	(9 740)	(515)	110 977
CEMG/08 2.ª série	120 894	-	(7 507)	(548)	112 839
CEMG/08 3.ª série	18 177	-	(13 808)	(182)	4 187
FNB 08/18 1ª/2ª Série	9 589	-	(2 042)	(13)	7 534
FNB Grandes empresas 07/16_ 1ª série	4 753	(3 731)	(1 022)	-	-
FNB Grandes empresas 07/16 2ª/3ª série	18 922	(16 450)	(2 472)	-	-
Ob. Cx Subordinadas Finicrédito	15 684	-	-	219	15 903
	335 399	(39 679)	(43 241)	(1 039)	251 440

(a) Includes the accrued interest in the balance sheet.

(Thousands of Euro)

	Balance 1 january 2015	Reimbursements	Net purchases	Other movements (a)	Balance on 31 december 2015
CEMG/06	26 154	-	-	(6)	26 148
CEMG/08 1.ª série	121 330	-	-	(98)	121 232
CEMG/08 2.ª série	121 031	-	-	(137)	120 894
CEMG/08 3.ª série	18 179	-	-	(2)	18 177
FNB 08/18 1ª/2ª Série	9 681	-	-	(92)	9 589
FNB Grandes empresas 07/16_ 1ª série	4 863	-	-	(110)	4 753
FNB Grandes empresas 07/16 2ª/3ª série	19 397	-	-	(475)	18 922
FNB Indices estratégicos 07/17 1ª	10 257	(10 257)	-	-	-
FNB Indices estratégicos 07/17 1ª	31 107	(31 107)	-	-	-
FNB Rendimento Seguro 05/15	236	(236)	-	-	-
Ob. Cx Subordinadas Finicrédito	16 190	-	-	(506)	15 684
	378 425	(41 600)	-	(1 426)	335 399

(a) Includes the accrued interest in the balance sheet.

The financial assets included in this balance were revaluated through the income in accordance with the accounting policy described in note 1 d). As at 30 September 2016 was recognised a negative amount of Euro 878 thousand (31 December 2015: negative amount of Euro 2,786 thousand related with the variations in fair value associated with the Group's credit risk, as described in note 6.

As at 30 September 2016 and 31 December 2015, the subordinated debt bears postponed interest every three and six months and its effective interest rate range is set between 1.31% and 1.59% (31 December 2015: 0.8% and 2.03%).

41 Other liabilities

This balance is analysed as follows:

	(Thousands of Euro)	
	sep 2016	**dec 2015**
Creditors		
Suppliers	6 094	12 510
Other creditors	118 674	96 765
Administrative public sector	13 854	15 213
Charges with staff expenses	61 734	36 039
Other administrative costs	12 332	8 517
Deferred income	3 943	4 245
Other sundry liabilities	36 656	30 336
	253 287	203 625

As at 30 September 2016, the balance Other sundry liabilities includes the amount of Euro 15,762 thousand (31 December de 2015: Euro 14,765 thousand), related with net liabilities recognised in the balance sheet, which represent the difference between the costs with pensions, health benefits and death subsidy and the assets.

As at 30 September 2016 and 31 December 2015, the balance Charges with staff expenses includes the amount of Euro 14,549 thousand, related with the seniority premium.

Additionally, as at 30 September 2016, this balance includes the amount of Euro 25,494 thousand (31 December 2016: Euro 21,490 thousand) related to the specialisation of holidays and holidays and Christmas allowance.

As at 30 September 2016, the balance Charges with staff expenses registers an amount of Euro 20,284 thousand regarding the costs to be paid within the current Active Retirement Scheme, as described in note 11.

42 Institutional capital

CEMG's institutional capital, which is fully paid, amounts to Euro 1,770,000 thousand (31 December 2015: Euro 1,500,000 thousand), fully belonging to Montepio Geral – Associação Mutualista.

At 18 March 2016, the Group performed a capital increase subscribed by Montepio Geral Associação Mutualista ("MGAM"), in accordance with the statutory resolutions of MGAM General Council, the General and Supervisory Council and the Board of Directors of CEMG.

The referred capital increase was materialised by MGAM fully paid-up in cash through the realisation of institutional capital in the amount of Euro 270,000 thousand, as described in note 55.

43 Participation fund

As at 30 September 2016 and 31 December 2015, the Group's participation fund has a total nominal value of Euro 400,000 thousand, with the nominal unitary value of Euro 1 and which are, regarding the form of representation, registered and issued exclusively in nominative form.

As a consequence of the Executive Board of Directors decision on 29 April 2015, the resolution of the General Assembly on 30 April 2015 and the resolution of the Assembly of the Participation Units holders of CEMG Participation Funds, where was considered the withdrawal of the preference right attributed to the participation units holders of the CEMG Participation Fund held in 5 June 2015, at 26 June 2015 the entity issued representative units of CEMG Participation Fund, with a total nominative value of Euro 200,000 thousand, in cash, through a private offer, fully subscribed by Montepio Geral Associação Mutualista.

These securities are tradable instruments, according to paragraph g) of article no. 1 of Código dos Valores Mobiliários, as they are other representative documents of homogeneous jurisdictional facts (namely the right of dividends and the right to receive the liquidation result of Caixa Económica Montepio Geral, after all debt holders are reimbursed, including the other subordinated debtors), with the possibility of being traded on the market.

Under the statutory rules of Caixa Económica Montepio Geral, theses securities do not grant the right to attend the General Shareholders Meeting or the management and the economic rights associated to the ownership of the securities includes: (i) the right to receive an annual payment when, existing sufficient results to distribute, the General Shareholders Meeting decided in that way, under a proposal of the Executive Board of Directors, (ii) the right to the reimbursement of the nominal amount only on liquidation of Caixa Económica Montepio Geral and after all debt holders are reimbursed, including the other subordinated debtors, and (iii) in case of partial reimbursement of these securities, subject to the approval of Bank of Portugal. The right to information to the owners of these securities is made through a common representative elected in General Shareholders Meeting of owner of these securities, where the owners of these securities will not have direct access to the economic and financial information of Caixa Económica Montepio Geral.

These securities are eligible for solvency purposes as Common Equity Tier 1. Under IAS 32 – Financial Instruments: for accounting purposes, these securities are classified as share capital, considering its specific characteristics, namely the non-obligation of payment of the nominal amount and interests.

The units in CEMG's participation fund held by related parties are presented as follows:

	sep 2016		dec 2015	
	Number of Investment Fund Units held	Percentage	Number of Investment Fund Units held	Percentage
Related parties				
Montepio Geral Associação Mutualista	267 238 011	66.81%	207 260 984	51.81%
Montepio Investimento S.A.	80 918	0.02%	31 580 918	7.90%
	267 318 929	66.83%	238 841 902	59.71%

44 Other equity instruments

This caption includes the issuance of Euro 15,000 thousand occurred in the first quarter of 2010 of Perpetual Subordinated Securities Interest conditioners made by Montepio Investimento, S.A. (previously designated as Finibanco, S.A.), and in connection with the acquisition of Montepio Holding, S.G.P.S., S.A. (previously designated as Finibanco Holding, S.G.P.S., S.A.), and its subsidiaries, was integrated in CEMG equity, as described in note 1 a).

In case of purchase of subordinated perpetual securities, they are canceled from equity and the difference between the purchase value and its book value is recognised in equity.

CEMG repurchased perpetual subordinated instruments in the amounts of Euro 6,727 thousand, during 2013, and Euro 1,950 thousand in March 2016. After this operation, the balance Other equity instruments amounts to Euro 6,323 thousand (31 December 2015: Euro 8,273 thousand).

Payment

The Issuer is prevented from proceeding to the interest payment if, in the Executive Board of Directors or Bank of Portugal opinion, this payment endanger comply of Regulatory capital requirements regulation.

During the first nine months of 2016, CEMG proceeded to the interest payment for this emission in the amount of Euro 370 thousand (31 December 2015: Euro 758 thousand).

Reimbursement

These values are perpetual securities and are only refundable under the terms of early repayment provided below.

By agreement of Bank of Portugal, the issuer may reimburse, in whole or in part, from the 10th date of payment of interest, including (5th year).

In case of continued occurrence of an Event of Disqualification as Core Capital, even before the expiration of five years from its issuance, and in agreement with Bank of Portugal, these Securities are redeemable at the option of the Issuer, at any time.

In the disqualification event as Core Capital is defined as a change in any legal document or its official interpretation implies these securities values may no longer be classified as Core Capital of the Issuer.

On this basis, at 30 September 2016, these obligations are not seen as a positive element of the Group's Equity.

45 Treasury stock

This balance records units representatives of CEMG's Participation Fund, which are owned by entities that are included on the consolidation perimeter.

As at 30 September 2016, the Group owned 80,918 units (31 December 2015: 31,580,918 units), with an average unit cost of Euro 0.782 (31 December 2015: Euro 0.809) and a nominal value of Euro 81 thousand (31 December 2015: Euro 31,581 thousand).

These units are owned by Montepio Investimento, S.A., an entity included in the consolidation perimeter under the established limits in CEMG Articles of Association and by the Commercial Companies Code.

46 General and special reserve

The general and special reserve is charged under the scope of Decree-Law no. 136/79, of 18 May. The general reserve is charged to cover any risk and extraordinary losses or depreciation.

Under the Portuguese regulations and under the CEMG Articles of Association, the general reserve should be charged, annually, at least, in a minimum of 20% of the profit for the year. The limit of general reserve is 25% of total deposits. This reserve is not available for distribution and it can be used to improve income performances or to increase capital.

The special reserve is charged to cover losses from current operations. Under the Portuguese regulations and the CEMG Articles of Association, the special reserve should be charged, at least, in a minimum of 5% of the profit for the year. This reserve is not available for distribution and it can be used to improve income performances or to increase capital.

The variation of the general and special reserves balance is analysed in note 47.

47 Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

(Thousands of Euro)	sep 2016	dec 2015
Fair value reserves		
Fair value reserves		
Available-for-sale financial assets	7 387	(3 101)
Loans and advances to customers	3 460	3 858
	10 847	757
Taxes		
Available-for-sale financial assets	(2 779)	1 027
Loans and advances to customers	(1 071)	(1 138)
	(3 850)	(111)
Fair value reserve net of taxes	6 997	646
Other reserve and retained earnings		
General reserve	187 532	187 532
Special reserve	68 273	68 273
Deferred tax reserve	40 512	42 502
Consolidation exchange reserves	(46 583)	(19 452)
Other reserves and retained earnings	(841 511)	(597 309)
	(591 777)	(318 454)

The fair value reserves represent the potential gains and losses on financial assets available-for-sale net of impairment losses recognised in the income statement and / or in prior periods in accordance with accounting policy described in note 1 d).

The balance Loans to customers refers to the amount not accrued of the fair value reserve on the reclassification date.

The movements in the fair value reserve on financial assets available-for-sale are analysed as follows:

(Thousands of Euro)	sep 2016	dec 2015
Amortized cost of available-for-sale financial assets	2 523 198	3 138 911
Accumulated impairment recognized	(90 718)	(67 309)
Amortized cost of available-for-sale financial assets, net of impairment	2 432 480	3 071 602
Market value of available-for-sale financial assets	2 439 867	3 068 501
Unrealized gains/(losses) recognized in the fair value reserve	7 387	(3 101)

48 Distribution of profit

During the first nine months of 2016 and during 2015, CEMG did not distributed profits.

49 Non-controlling interests

This balance is analysed as follow:

(Thousands of Euro)

	Statement of Financial Position		Income Statement	
	sep 2016	dec 2015	sep 2016	sep 2015
Finibanco Angola, S.A.	11 913	12 853	1 725	1 671
Banco Terra, S.A.	9 498	15 816	78	(1 838)
	21 411	28 669	1 803	(167)

The movements of this balance are analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Opening balance	28 669	26 440
Exchange differences	(9 061)	992
	19 608	27 432
Net income attributable to non-controlling interests	1 803	1 237
Closing balance	21 411	28 669

			Percentage held by non-controlling interests	
Name	Headquarters	Segment	sep 2016	dec 2015
Finibanco Angola, S.A.	Luanda	Banking	18.43%	18.43%
Banco Terra, S.A.	Maputo	Banking	54.22%	54.22%

50 Obligations and other commitments

This balance is analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Guarantees granted	477 532	500 573
Commitments to third parties	1 279 408	1 398 196
Assets transferred in securitized operations	154 768	170 819
Securities and other items held for safekeeping on behalf of customer	6 874 027	7 449 316
	8 785 735	9 518 904

The amounts of Guarantees granted and Commitments to third parties are analysed as follows:

(Thousands of Euro)

	sep 2016	dec 2015
Guarantees granted		
Guarantees	421 082	444 669
Open documentary credits	56 021	55 475
Guarantees and indemnities (counter)	429	429
	477 532	500 573
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit lines	507 981	628 956
Annual contribution to the Guarantee Deposits Fund	22 768	22 768
Potential obligation with the Investor's Indemnity System	1 689	1 689
Revocable commitments		
Revocable credt lines	746 970	744 783
	1 279 408	1 398 196

Bank guarantees granted are financial operations that are not consisted by mobilisation on Funds by the Group.

Documentary credits correspond to irrevocable commitments with the Group's client, which ensure the payment of a determined amount to client's suppliers, within a fixed term, against the presentation of the documentation confirming the shipment of goods or the rendering of services. The irrevocable condition arises from the fact that the commitment is not cancelable without the agreement of all parties involved.

Revocable and irrevocable commitments represent contractual agreements to extend credit to the Group's customers (for example unused credit lines). These agreements are generally, contracted for fixed periods of time or with other expiring requirements, and usually require the payment of a commission. Substantially, all credit commitments require that clients maintain certain conditions verified at the time the credit was granted.

Notwithstanding the particular characteristics of these contingent liabilities and commitments, the analysis of these operations follows the same basic principles of any commercial operation, namely the solvency of the underlying client and business, being that the Group requires these operations to be adequately covered by collaterals when needed. Considering that is expected that the majority of these contingent liabilities and commitments expire without having being used, the indicated amounts do not represent necessarily future cash flow needs.

As at 30 September 2016 and 31 December 2015, the balance Annual contribution to the obligations of Guarantee Deposits Fund is related with the irrevocable commitment assumed by the Group and required by law, to deliver the unrealised amounts of annual contributions required by the Fund.

As at 30 September 2016 and 31 December 2015, under the Deposit Guarantee Fund, the Group granted as pledge treasury bonds (OT 4.35% 07/2017), recorded as financial assets available-for-sale, with a nominal value of Euro 25,000 thousand, as described in note 24.

As at 30 September 2016 and 31 December 2015, the balance Potential obligation with the Investors' Indemnity System refers to the irrevocable obligation that the Group assumed, under the applicable law, to deliver to that system, in case needed, the required amount to pay its share of the indemnities to be paid to investors.

The financial instruments accounted as Guarantees and other commitments are subject to the same approval and control procedures applied to the credit portfolio, namely regarding the analysis of objective evidence of impairment, as described in note 1 c). The maximum credit exposure is represented by the nominal value that could be lost related to guarantees and commitments undertaken by the Group in the event of default by the respective counterparties, without considering potential recoveries or collaterals.

The Group provides custody services, asset management, investment management and advisory services that involves making purchasing and sales decisions of several types of financial instruments. For certain services are set objectives and profitability levels for the assets under management. These assets under management are not included in the financial statements.

51 Assets under management

In accordance with the legislation in force, the fund management companies and the depositary bank are jointly liable before the participants of the funds for the non-fulfilment of the obligations assumed under the terms of the Law and the management regulations of the funds.

As at 30 September 2016 and 31 December 2015, the amount of the investment funds managed by Group companies is analysed as follows:

(Thousands of Euro)

	sep 16	dec 2015
Securities investment fund	177 220	219 207
Real estate investment fund	295 379	333 773
Pension fund	196 150	196 786
Bank and assurance	46 002	60 178
	714 751	809 944

The amounts recognised in these accounts are measured at fair value determined at the balance sheet date.

52 Indicators of the balance sheet and income statement by operating segments

The segmental reporting is presented in accordance with IFRS 8. In compliance with Group's management model, the disclosed segments corresponds to the segments used for management purposes by the Executive Board of Directors. The Group develops banking activities and financial services in Portugal and abroad, with a special focus in Retail Banking, Corporate and Institutional Banking businesses.

The Group's consolidated activity is essentially developed in the financial sector, aiming for companies, institutions and private clients, with emphasis on the domestic market.

Products and services include the entire offer implicit to financial activity, such as deposit captation, credit concession and financial services to companies and private and also the custody, the managing investment funds and life insurances. Additionally, the Group executes short, medium and long-term investments in the capital or monetary market as a way of taking advantage of the price variations or restabilising its available financial resources.

As at 30 September 2016, the Group had a network of 331 branches in Portugal and a local bank in Cabo Verde, one financial institution in Angola with 21 branches and one financial institution in Mozambique with 9 branches.

When evaluating the performance by business area, the Group considers the following operating segments:

1) Retail Bank, which includes the sub segments of Private, Individual Managers, Micro business and Social Charity Private Institutions;

2) Corporate and Institutional, which includes big sized companies, medium and small companies, Financial Institutions and The Public Sector; and

3) Other Segments, which includes all the entities that are not included in the other segments, namely the operations and management referring to Securities' own Portfolio and Applications in Credit Institutions. Each segment comprises the Group's structures that are directly or indirectly dedicated, as well as autonomous units of the Group which activity is also connected.

Despite the fact that the Group has its activity in Portugal, geographically, the international activity of the Group is developed by: (i) Finibanco Angola, S.A. and (ii) Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, SA and (iii) Banco Terra S.A.. Through geographical criteria, the activity and results generated in Portugal (Domestic Area), from Cabo Verde, Angola and Mozambique (International Area) can be separated.

Segments description

In a consolidated basis, each of the segments includes income and costs related to the following activities, products, clients and structures of the Group:

Retail Bank

This segment corresponds to all activity developed by the Group in Portugal with private customers and small businesses, fundamentally originated by the branches network, agent network and electronic channels. The financial information of these segment includes, among other products and related services, mortgage loans, consumer credit, financing the clients' activity, deposits repayable on demand and term deposits, retirement plans and other insurance products to private customers, commissions over account management and electronic payments, the investment funds cross-selling and brokerage and custodian services.

In Angola, Mozambique and Cabo Verde the Group is represented by local financial institutions which offers a wide range of products and financial services to private customers and companies.

Corporate and Institutional

This segment includes the activity developed with small, medium and big companies, through offices network and commercial structure dedicated to this segment. It also includes the institutional clients business, mostly from the financial sector and public administration. Among the products and services provided it is emphasised the ones related with cash and investments loans, commercial discount, leasing, factoring, renting, foreign operations, documentaries loans, checks, deposits, received or paid services, credit and debit cards, as well as custodian services.

The Corporate and Institutional Banking business includes the Companies in Portugal segment which operates in the cross-selling Group’s strategy, as a distribution channel of products and services from other companies of the Group.

Other segments

This segment includes all the activity developed supporting the main activities that are the core business of the two segments mentioned above, highlighting the Group's global financial management activity, the investments in instruments of capital markets (stocks and bonds), be them integrated in the negotiation portfolio, of fair value through profit and loss, available for sale or held to maturity. In this segment it is also included the impacts of the strategic decisions, the investments in minority strategic participations, the activity related to interest and exchange rate risk management, management of short and long positions of financial investments which favourites the changes in market prices, and the public or private preparation and availability of the issue of stocks, bonds and other debt instruments.

Allocation criteria of the activity and results to the operating segments

The consolidated financial information presented for each segment was prepared in accordance with the criteria followed for the preparation of internal information analysed by the decision makers of the Group, as required by IFRS 8 – Operating Segments.

The accounting policies applied in the preparation of the financial information related with the operating segments are consistent with the ones used in the preparation of these consolidated financial statements, which are described in note 1. The following principles were also adopted:

Measurement of profit or loss from operating segments

The Group uses net income as the measure of profit or loss for evaluating the performance of each operating segment.

Autonomous Operating Segments

As mentioned above, each operating unit (branches MG Cabo Verde and associated entities) is evaluated separately, as these units are considered investment centers. Additionally, considering the characteristics of the business developed by these units, their assets, liabilities, equity, income and expenses are included in the respective operating segments.

Group structures dedicated to the segment

The Group activity comprises most of its operating segments and therefore its activity is disaggregated.

To prepare the financial information, the following criteria are used:

(i) The origin of the operation, i.e., the operation is allocated to the same segment as the commercial structure that originated it, even though, in a subsequent phase, the Group makes a strategic decision in order to securitise some of these originated assets;

(ii) The calculation of the initial net interest income is performed considering the direct business volume and the interest rates for transactions negotiated with customers for each product/segment;

(iii) The calculation of the final net interest income considers the impact of each product/segment assets and liabilities transfer to a pool, before its balancing and interest adjustment, using the market interest rates at each moment, namely, Euribor for the different dates;

(iv) The allocation of direct costs from the respective structures dedicated to each segment;

(v) The allocation of indirect costs (central support and IT services), according to criteria previously defined;

(vi) The allocation of credit risk is performed in accordance with the impairment model used by the Group.

The transactions between the independent and autonomous units of the Group are made at market prices. The price of the services performed between each segment, namely the price established for funding between units, is determined by the margins process referred above (which vary in accordance with the strategic relevance of the product and the balance between funding and lending). The remaining transactions are allocated to the segments in accordance with predefined criteria.

The interest rate risk, exchange risk, liquidity risk and others, except for credit risk, are included in the segment Others Segments.

Interest and similar income/expense

Since the Group activities are exclusively related to the financial sector, the major income results from the difference between interest received on assets and interest paid from liabilities. This situation and the fact that the segments evaluation is based on negotiated margins or determined previously to each product, leads to the results on the intermediation activity being presented, as permitted by IFRS 8 paragraph 23, as the net value of interest under the designation of Financial Income.

Consolidated Investments under the Equity Method

Investments in associated companies consolidated under the equity method are included in Operations between Segments.

Non-current assets

Non-current assets, according to IFRS 8, include Other Tangible Assets and Intangible Assets. The Group includes these assets on the segment in which these subsidiaries develop their business.

Post Employment Benefits

The factors that influence the amount of responsibilities and the amount of the funds' assets correspond, mainly, to variables external to the management of each segment; it is the Group policy not to include these factors on the performance evaluation of the operating segments, which activities relate to customers.

Domestic and International Areas

In the disclosure of financial information by geographical areas, the operating units that integrate the International Area are: (i) Finibanco Angola S.A., (ii) Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. and (iii) Banco Terra, S.A.

The patrimonial and financial elements related to the international area are presented in the financial statements of that unit with the respective consolidation and elimination adjustments.

The report by operating segments as at 30 September 2016, is presented as follows:

(Thousands of Euro)

Income Statement	Retail	Corporate and institutional	Other segments			Total
			Markets	Non core assets (Real estate)	Other operating segments	
Interest and similar income	205 543	72 524	104 535	-	45 613	428 214
Interest and similar expense	110 653	22 049	77 758	-	16 645	227 105
Net interest income	94 890	50 475	26 777	-	28 968	201 109
Dividends from equity instuments	-	-	3 879	-	-	3 879
Fees and commissions income	77 041	18 164	4 603	-	1 420	101 228
Fees and commissions expense	(280)	-	(3 398)	-	(21 679)	(25 357)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	(22)	-	(27 604)	-	22	(27 604)
Net gains/(losses) arising from available-for-sale financial assets	-	-	40 861	-	-	40 861
Net gains arising from foreign exchange differences	11 059	-	2 065	-	-	13 124
Net gains/(losses) arising from sale of other financial assets	13 456	-	1 490	(2 370)	172	12 748
Other operating income	15 599	873	701	(19 374)	(31 416)	(33 617)
Total operating income	211 743	69 512	49 374	(21 744)	(22 513)	286 371
Staff costs	75 089	13 886	1 560	996	84 858	176 388
General and administrative expenses	47 239	19 020	1 273	1 976	3 203	72 711
Depreciation and amortisation	1 700	-	-	-	18 301	20 001
	124 028	32 906	2 832	2 972	106 361	269 100
Total provisions and impairment	94 544	34 709	31 864	12 642	(8 493)	165 266
Total operating profit	(6 829)	1 896	14 678	(37 358)	(120 381)	(147 995)
Share of profits of associates under equity method	-	-	-	-	274	274
Income before taxes and non-controlling interests	(6 829)	1 896	14 678	(37 358)	(120 107)	(147 721)
Current and deferred taxes	2 014	(559)	(4 330)	11 021	73 895	82 041
Non-controlling interests	(1 111)	-	-	-	(692)	(1 803)
Consolidated net profit for the period attributable to the institutional capital and the participation fund holders	(5 925)	1 337	10 348	(26 338)	(46 904)	(67 483)
Net assets	11 537 399	3 419 000	3 760 629	1 357 447	1 151 443	21 225 918
Liabilities	10 662 520	1 576 000	2 368 132	-	5 073 876	19 680 528
Investment in associates	-	-	4 097	-	-	4 097

The report by operating segments as at 30 September 2015, is presented as follows:

(Thousands of Euro)

Income Statement	Retail	Corporate and institutional	Other segments: Markets	Other segments: Non core assets (Real estate)	Other segments: Other operating segments	Total
Interest and similar income	215 302	154 950	126 334	-	1 378	497 964
Interest and similar expense	140 026	36 331	124 814	-	14 415	315 586
Net interest income	75 276	118 619	1 520	-	(13 037)	182 378
Dividends from equity instruments	-	-	1 470	-	-	1 470
Fees and commissions income	73 124	17 200	4 783	-	5 182	100 289
Fees and commissions expense	-	-	(3 721)	-	(21 099)	(24 820)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	-	-	9 384	-	-	9 384
Net gains/(losses) arising from available-for-sale financial assets	-	-	102 066	-	-	102 066
Net gains arising from foreign exchange differences	-	-	13 451	-	-	13 451
Net gains/(losses) ariising from sale of other financial assets	-	-	-	(23 522)	5 304	(18 218)
Other operating income	12 501	652	-	(1 893)	1 847	13 107
Total operating income	160 901	136 471	128 953	(25 415)	(21 803)	379 107
Staff costs	82 004	7 062	1 611	840	60 597	152 114
General and administrative expenses	55 077	16 925	-	1 490	13 257	86 749
Depreciation and amortisation	-	-	-	-	19 863	19 863
	137 081	23 987	1 611	2 330	93 717	258 726
Total provisions and impairment	47 616	138 784	6 720	9 326	11 068	213 514
Total operating profit	(23 796)	(26 300)	120 622	(37 071)	(126 588)	(93 133)
Share of profits of associates under equity method	-	-	-	-	(3 894)	(3 894)
Income before taxes and non-controlling interests	(23 796)	(26 300)	120 622	(37 071)	(130 482)	(97 027)
Current and deferred taxes	7 020	7 758	(35 584)	10 936	47 269	37 399
Non-controlling interests	-	-	-	-	167	167
Consolidated net profit for the period attributable to the institutional capital and the participation fund holders	(16 776)	(18 542)	85 038	(26 135)	(83 046)	(59 461)
Net assets	11 181 000	3 520 000	3 690 875	1 559 744	1 873 238	21 824 857
Liabilities	10 012 000	1 261 000	2 553 953	-	6 565 775	20 392 728
Investment in associates	-	-	20 957	-	-	20 957

As at 30 September 2016, the net contribution of the main geographical areas is as follows:

(Thousands of Euro)

Income Statement	**Domestic**	**International**	**Total**
Interest and similar income	385 606	42 608	428 214
Interest and similar expense	207 850	19 255	227 105
Net interest income	177 756	23 353	201 109
Dividends from equity instruments	3 879	-	3 879
Fees and commissions income	95 373	5 855	101 228
Fees and commissions expense	(25 077)	(280)	(25 357)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	(27 582)	(22)	(27 604)
Net gains/(losses) arising from available-for-sale financial assets	40 861	-	40 861
Net gains arising from foreign exchange differences	2 065	11 059	13 124
Net gains from sale of other financial assets	12 747	1	12 748
Other operating income	(34 589)	972	(33 617)
Total operating income	245 433	40 938	286 371
Staff costs	168 255	8 133	176 388
General and administrative expenses	63 568	9 143	72 711
Depreciation and amortisation	18 301	1 700	20 001
	250 124	18 976	269 100
Loans impairment	119 551	9 703	129 254
Other financial assets impairment	31 860	4	31 864
Other assets impairment	19 154	-	19 154
Other provisions	(16 041)	1 035	(15 006)
Total operating profit	(159 215)	11 220	(147 995)
Share of profits of associates under equity method	274	-	274
Income before taxes and non-controlling interests	(158 941)	11 220	(147 721)
Current taxes	(547)	(1 665)	(2 212)
Deferred taxes	84 253	-	84 253
Non-controlling interests	-	1 803	1 803
Consolidated net profit for the period attributable to the institutional capital and the participation fund holders	(75 235)	7 752	(67 483)

As at 30 September 2016, the net contribution of the main geographical areas is as follows:

(Thousands of Euro)

Statement of Financial Position	Domestic	International	Total
Cash and deposits at credit institutions	351 333	360 926	712 259
Loans and advances to customers	13 995 705	235 075	14 230 780
Investments in financial assets and associated companies	3 614 631	150 095	3 764 726
Non-current assets held-for-sale	754 362	492	754 854
Investment properties	602 593	-	602 593
Other assets	1 109 895	50 811	1 160 706
Total Assets	20 428 519	797 399	21 225 918
Deposits from central banks and credit institutions	4 400 810	26 772	4 427 582
Deposits from customers	11 953 736	639 508	12 593 244
Debt securities and subordinated liabilities issued	1 926 100	27 852	1 953 952
Other liabilities	694 362	11 388	705 750
Total Liabilities	18 975 008	705 520	19 680 528
Total Equity	1 453 511	91 879	1 545 390
Total Liabilities and Equity	20 428 519	797 399	21 225 918

As at 30 September 2015, the net contribution of the main geographical areas is as follows:

(Thousands of Euro)

Income Statement	Domestic	International	Total
Interest and similar income	440 465	57 499	497 964
Interest and similar expense	283 499	32 087	315 586
Net interest income	156 966	25 412	182 378
Dividends from equity instruments	1 470	-	1 470
Fees and commissions income	94 786	5 503	100 289
Fees and commissions expense	(24 089)	(731)	(24 820)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	8 619	765	9 384
Net gains/(losses) arising from available-for-sale financial assets	102 066	-	102 066
Net gains arising from foreign exchange differences	2 085	11 366	13 451
Net gains from sale of other financial assets	(18 237)	19	(18 218)
Other operating income	12 716	391	13 107
Total operating income	336 382	42 725	379 107
Staff costs	142 425	9 689	152 114
General and administrative expenses	75 063	11 686	86 749
Depreciation and amortisation	17 850	2 013	19 863
	235 338	23 388	258 726
Loans impairment	191 676	10 941	202 617
Other financial assets impairment	6 720	-	6 720
Other assets impairment	9 393	(67)	9 326
Other provisions	(5 009)	(140)	(5 149)
Total operating profit	(101 736)	8 603	(93 133)
Share of profits of associates under the equity method	(3 894)	-	(3 894)
Income before taxes and non-controlling interests	(105 630)	8 603	(97 027)
Current taxes	3 387	(2 131)	1 256
Deferred taxes	36 143	-	36 143
Non-controlling interests	-	(167)	(167)
Consolidated net profit for the period attributable to the institutional capital and the participation fund holders	(66 100)	6 639	(59 461)

As at 31 December 2015, the net contribution of the main geographical areas is as follows:

(Thousands of Euro)

Statement of Financial Position	Domestic	International	Total
Cash and deposits at credit institutions	290 899	543 602	834 501
Loans and advances to customers	14 357 017	305 260	14 662 277
Hedging derivatives	9	-	9
Investments in financial assets and associated companies	3 145 605	139 437	3 285 042
Non-current assets held-for-sale	754 069	829	754 898
Investment properties	692 485	-	692 485
Other assets	861 251	54 753	916 004
Total Assets	20 101 335	1 043 881	21 145 216
Deposits from central banks and credit institutions	3 800 617	49 772	3 850 389
Deposits from customers	12 129 280	840 151	12 969 431
Debt securities and subordinated liabilities issued	2 336 257	27 947	2 364 204
Other liabilities	600 718	16 328	617 046
Total Liabilities	18 866 872	934 198	19 801 070
Total Equity	1 234 463	109 683	1 344 146
Total Liabilities and Equity	20 101 335	1 043 881	21 145 216

53 Contingencies

In accordance with Decree-Law No. 24/2013 which establishes the *modus operandi* of the Resolution Fund ("RF"), the Group has made the mandatory contributions, as provided for in that law, since 2013. Thus, since the inception of the RF, the Group made the initial contribution, pursuant to Article 3 of that Decree-Law and the periodical contributions in 2013 and 2014, under Article 4 of that Decree-Law.

On 3 November 2015, the Bank of Portugal issued a Circular Letter under which it was clarified that the periodic contribution to the RF should be recognised as an expense at the time of the occurrence of the event which creates the obligation to pay the contribution, i.e. on the last day of April of each year, as stipulated in Article 9 of Decree-Law No. 24/2013, of 19 February. The Group is recognising as an expense the contribution to the RF in the year in which it becomes due.

The Resolution Fund issued, on 15 November 2015, a public statement declaring: "it is further clarified that it is not expected that the Resolution Fund will propose the setting up of a special contribution to finance the resolution measure applied to BES. Therefore, the eventual collection of a special contribution appears to be unlikely".

Subsequently, after issuance by the RF of such statement, in the scope of the resolution process of Banco Espírito Santo, S.A., the Bank of Portugal decided, as announced on 29 December 2015, to transfer to the RF the responsibilities arising from the "... possible negative effects of future decisions, resulting from the resolution process (of Banco Espírito Santo, SA), which result in liabilities or contingencies". According to publicly available information, the volume of litigation associated with this process is high, not being duly clarified which amount of losses the RF may incur with these litigations or with the sale of Novo Banco, S.A.

Additionally, the Bank of Portugal decided on 19 and 20 December 2015, to apply a resolution measure to Banif - Banco Internacional do Funchal, SA ("BANIF"), not being clear which amount of losses the RF may incur with this process.

Accordingly, as at 30 September 2016, there is no estimate on the amount of potential losses arising from the sale of Novo Banco, S.A., the above referred litigations associated with the resolution process of BES or potential losses to be incurred by the RF following the resolution of BANIF and the way in which these losses are likely to affect the Group, as to the amount and timing of future contributions to the RF, or on the reimbursement of the loans granted to RF.

In the first nine months of 2016, following the establishment of the Single Resolution Fund, the Group had to make a contribution in the amount of Euro 10,050 thousand (31 December 2015: Euro 8,452 thousand), as described in note 10. The Single Resolution Fund does not cover undergoing situations with the National Resolution Fund.

54 Subsidiary and associated companies

As at September 2016, the companies under full consolidation method in the Group are presented as follows:

Subsidiary company	Head Office	Share capital	Currency	Activity	Group % of control	Group % of effective part.
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	Praia	8 996 509	Escudo Cabo Verdiano	Banking	100,00%	100,00%
Montepio Holding, S.G.P.S., S.A.	Lisbon	175 000 000	Euro	Holding company	100,00%	100,00%
Montepio Investimento, S.A.	Oporto	180 000 000	Euro	Banking	100,00%	100,00%
Montepio Crédito - Instituição Financeira de Crédito, S.A.	Lisbon	30 000 000	Euro	Financial lease	100,00%	100,00%
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	Lisbon	1 550 000	Euro	Investment fund management	100,00%	100,00%
Finibanco Angola, S.A.	Luanda	4 181 999 740	Kwanza	Banking	81,57%	81,57%
Banco Terra, S.A.	Maputo	2 686 458 998	Metical	Banking	45,78%	45,78%
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.	Lisbon	50 000	Euro	Real estate management	100,00%	100,00%

As at September 2016, the companies accounted under the equity method are as follows:

Subsidiary company	Head Office	Share capital	Activity	% Held
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	São Miguel Island	euros 10 000 000	Tourism	20.00%
Montepio Gestão de Activos Imobiliários, A.C.E.	Lisbon	euros 2 449 707	Real estate holding company	28.50%
Vogais Dinâmicas - S.G.P.S., S.A.	Lisbon	euros 50 000	Holding company	32.20%

The presented percentage reflects the economic interest of the Group.

As at 22 June 2016 was approved the settlement of Montepio Recuperação de Crédito, A.C.E., in the General Meeting of this company.

As at 24 June 2016 was approved, by the General Meeting of Shareholders of Montepio Investimento, S.A., the settlement of Montepio Capital de Risco, S.C.R., S.A.

These settlements arise from the implementation of the Strategic Plan 2016 - 2018 and is included in the streamlining of operational processes of CEMG Group, where the repositioning of the credit recovery activity in the structures of CEMG will achieve higher levels of efficiency and greater responsiveness to banking core business requirements.

As at 30 September 2016, the consolidation perimeter of the Group includes the following special purpose entities and investment funds:

Subsidiary company	Establishment year	Acquisition year	Head Office	% of controlling interest	Consolidation method
Pelican Mortgages No. 1 PLC	2002	2002	Dublin	100%	Full
Pelican Mortgages No. 2 PLC	2003	2003	Dublin	100%	Full
Finipredial - Fundo de Investimento Imobiliário Aberto	1997	2012	Lisbon	90.90%	Full
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2011	2011	Lisbon	100%	Full
Montepio Arrendamento II – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional II (FIIAH)	2013	2013	Lisbon	100%	Full
Montepio Arrendamento III – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2013	2013	Lisbon	100%	Full
Polaris - Fundo de Investimento Imobiliário Fechado	2009	2012	Lisbon	100%	Full
PEF - Portugal Estates Fund	2013	2013	Lisbon	100%	Full
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto (FEIIA)	2013	2013	Lisbon	100%	Full

As at 26 February 2016, the Group settled Montepio Crescimento Venture Capital.

In 2014, considering the IFRS 10 and the commitments of CEMG in the aim of the activity management of Banco Terra S.A., that gives the ability to manage the main activities, having the ability to face the power and responsibilities of Chief Executive Officer, that will be appointed by the Group, to influence the remaining areas, the shareholding was consolidated by the full consolidation method. This situation remained unchanged during the first nine months of 2016.

55 Relevant Facts

As at 18 March 2016, CEMG proceeded to a capital increase carried out by Montepio Geral Associação Mutualista (MGAM), in accordance with the statutory deliberations of the General Council of MGAM, the General and Supervisory Board and Executive Board of Directors of CEMG.

The capital increase was fulfilled by MGAM by conducting institutional capital in cash Euro 270,000 thousand, as described in note 42.

On the same date occurred the sale of Euro 31,500,000 participation units held by Montepio Investimento S.A. with a nominal value of Euro 31,500 thousand. In addition, and according with the deliberations mentioned above, CEMG acquired to MGAM a set of real estate and securities in the amounts of Euro 199,444 thousand, as described in note 30, and of Euro 69,929 thousand, respectively.

56 Subsequent events

After the balance sheet date and before the consolidated financial statements were authorised for issue, there were no transactions and/or relevant events that are relevant to be disclosed.

Valores que crescem consigo.

CAIXA ECONÓMICA MONTEPIO GERAL

CAIXA ECONÓMICA BANCÁRIA
PUBLICLY LISTED COMPANY

Registered Office: Rua Áurea, 219-241, Lisboa
Institutional Capital: 1 770 000 000 Euros
Registered at the Lisbon Commercial Registry Office, under the same Registration and Tax Identification Number: 500 792 615

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