REPORT AND ACCOUNTS 2017

CAIXA ECONÓMICA MONTEPIO GERAL GROUP

This report is the English version of the document "Relatório e Contas 2017" 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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PART I - MANAGEMENT REPORT

MESSAGE OF THE BOARD OF DIRECTORS

This report presents the performance of Caixa Económica Montepio Geral (CEMG) in the financial year of 2017, responsibility for which lied with the governing bodies that performed functions until March 21 of this year. On that date and within the framework of a different corporate governance model, a new Management body began functions, having been responsible for closing and presenting the results for 2017 - included in this Annual Report and Accounts - which reflect a positive development of CEMG in this difficult context that continues to characterise the national and international banking market.

However, it is chiefly the current Board of Directors' task to speak about the future. Without prejudice to the results achieved and without calling into question the positive progress that has been made, CEMG needs to embrace change and reform, always taking into account its different origins and the values that guided its foundation in 1844. That is certainly the greatest challenge that lies before us today: without foregoing those values, transforming the banking institution of the Montepio Group into a modern bank, suited to the different demands of the various groups of customers, from the youngest to the oldest, from the residents in the coastal urban areas to those that live in the often-forgotten interior, from very small companies to larger companies and, very specifically, of the social sector institutions. In this context, it is fundamental to adapt the business models to the use of technological innovation, which permits combining the improvement in operational efficiency with the preservation of the personalised relationship with customers.

We want Montepio to be a different bank, which stands out for its efficiency and service quality and, at the same time, for its social values and responsibilities, including respect for the most demanding ethical standards in its relations with customers and also with those that commit their hard work, knowledge and experience to the institution. We want CEMG to be an excellent place to work, where people feel good and make our customers feel good. We believe that, with hard work and dedication we can look towards the future with confidence, fully aware of the very difficult context in which banking activity currently takes place.

The Board of Directors would like to thank the CEMG shareholder for its trust and the opportunity to guide this century-old institution, characterised by unique features, which in its 174 years has accompanied many generations and been present at the most important moments of the life of its customers. We would also like to thank the previous governing bodies and all the employees of Caixa Económica Montepio Geral for their effort and dedication that have enabled the results presented in this report.

GOVERNANCE

The General Meeting of Caixa Económica Montepio Geral, caixa económica bancaria, S.A. (CEMG) at the extraordinary meeting held on March 16, 2018, changed the nature of its governance model, henceforth CEMG's governing bodies comprise, in particular, a Board of Directors and an Audit Committee, and elected new members of governing bodies for the 2018-2021 term.

On April 4, 2018, the Bank of Portugal granted the definitive endorsement of the following corporate bodies:

BOARD OF THE GENERAL MEETING

Chairman	António Manuel Lopes Tavares
Secretary	Cassiano da Cunha Calvão

BOARD OF DIRECTORS

Chairman	Carlos Manuel Tavares da Silva
Non-Executive Members	Luís Eduardo Henriques Guimarães
	Amadeu Ferreira de Paiva
	Manuel Ferreira Teixeira
	Vítor Manuel do Carmo Martins
	Rui Pedro Brás de Matos Heitor
Executive Members	Nuno Cardoso Correia da Mota Pinto
	José Carlos Sequeira Mateus
	Pedro Miguel Nunes Ventaneira
	Carlos Miguel Lopez Leiria Pinto
	Helena Catarina Gomes Soares de Moura Costa Pina

AUDIT COMMISSION

Chairman	Luís Eduardo Henriques Guimarães
Members	Amadeu Ferreira de Paiva
	Manuel Ferreira Teixeira
	Vítor Manuel do Carmo Martins

The Board of the General Meeting took office on March 16, 2018 and the other corporate bodies listed above took office on March 21, 2018. Dr. Carlos Manuel Tavares da Silva will exercise, under the terms authorized by the Bank of Portugal, the functions of Chairman of the Board of Directors and Chairman of the Executive Committee.

Governing bodies as of December 31, 2017[1]

As of December 31, 2017, CEMG's corporate and social bodies and their composition were as follows:

Board of the General Meeting

Chairman	Manuel Duarte Cardoso Martins
1st Secretary	Cassiano Cunha Calvão

Supervisory Board

Chairman	Álvaro João Duarte Pinto Correia[2]
Members	António Fernando Menezes Rodrigues
	José António de Arez Romão
	Vítor Manuel do Carmo Martins
	Francisco José Fonseca da Silva
	Acácio Jaime Liberado Mota Piloto
	Luís Eduardo Henriques Guimarães
	Rui Pedro Brás de Matos Heitor
	Eugénio Óscar Garcia Rosa

Executive Board

Chairman	José Manuel Félix Morgado
Members	João Carlos Martins da Cunha Neves
	Luís Gabriel Moreira Maia de Almeida
	Fernando Ferreira Santo
	João José Belard da Fonseca Lopes Raimundo
	Jorge Manuel Viana de Azevedo Pinto Bravo
	Luís Miguel Resende de Jesus

[1] The memorandum of association derived from CEMG's transformation into a public limited company, on 14 September 2017, changed the nature of its governance model, with CEMG's governing bodies henceforth being composed of the General Meeting, the Supervisory Board, the Executive Board of Directors and the Statutory Auditor; and CEMG's social bodies being the Remuneration Committee, the Nominations Committee, the Risk Committee, the Financial Matters Committee and the Company Secretary.
At the extraordinary general meeting held on November 22, 2016 and resumed on December 13, 2016, it was deliberated that, as the structure and nature of the Supervisory Board, the Executive Board Of Directors, the Remuneration Committee, the Nominations Committee, the Risk Committee and the Statutory Auditor remained unchanged the members elected for these bodies would continue in office up to the end of the term of office in course, i.e. December 31, 2018.

[2] For reasons of health, since 10 May 2017, Eng. Álvaro João Duarte Pinto Correia has been unable to participate in the meetings, having, under the statutory terms, delegated the Member Dr. José António de Arez Romão, with his representation during the period of impediment.

NOMINATIONS COMMITTEE

Chairman	Álvaro João Duarte Pinto Correia[3]
Members	José António de Arez Romão

REMUNERATION COMMITTEE

Chairman	Álvaro João Duarte Pinto Correia[3]
Members	José António de Arez Romão
	Francisco José Fonseca da Silva

RISK COMMITTEE

Chairman	Acácio Jaime Liberado Mota Piloto
Members	Luís Eduardo Henriques Guimarães
	Francisco José Fonseca da Silva

STATUTORY AUDITOR

KPMG, represented by:

	Ana Cristina Soares Valente Dourado
	Enrolled at the Statutory Auditors Association under number 1011
Substitute	Fernando Gustavo Duarte Antunes
	Enrolled at the Statutory Auditors Association under number 1233

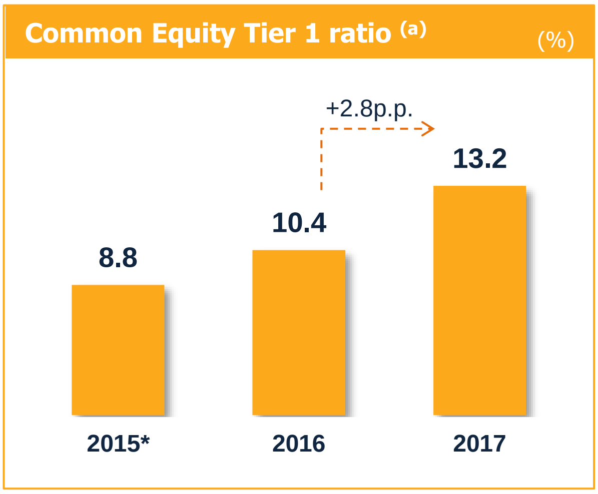
[3] For reasons of health, since 10 May 2017, Eng. Álvaro João Duarte Pinto Correia has been unable to participate in the meetings, having, under the statutory terms, delegated the Member Dr. José António de Arez Romão, with his representation during the period of impediment.

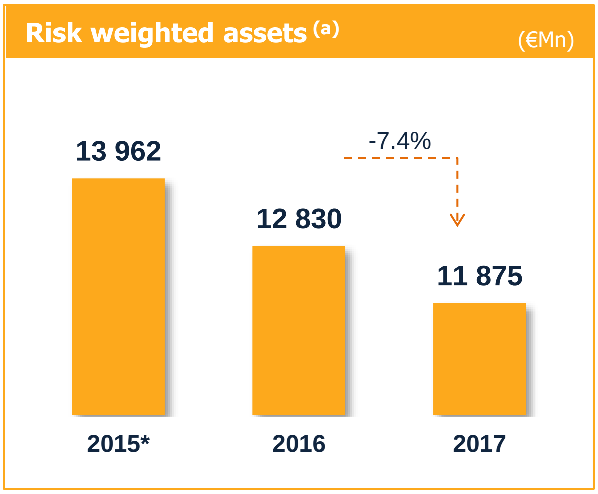
KEY INDICATORS

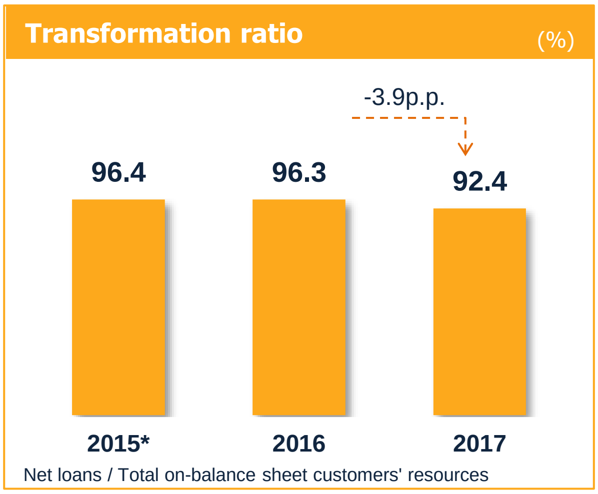
	2015*	2016	2017	Change 2017/2016
ACTIVITY AND RESULTS (EUR million)				
Total assets	21 145	21 346	20 200	(5.4%)
Loans to customers (gross)	15 611	15 041	14 063	(6.5%)
Customers' deposits	12 540	12 468	12 561	0.7%
Net income	(243)	(86)	6	-
SOLVENCY (a)				
Common Equity Tier 1 ratio	8.8%	10.4%	13.2%	2.8 p.p.
Tier 1 ratio	8.8%	10.4%	13.2%	2.8 p.p.
Total Capital ratio	9.7%	10.9%	13.3%	2.4 p.p.
Risk weighted assets (EUR million)	13 962	12 830	11 875	(7.4%)
LIQUIDITY RATIOS				
Loans to customers (net) / Customers' deposits (b)	114.5%	111.2%	107.3%	(3.9 p.p.)
Loans to customers (net) / On-balance sheet customers' resources (c)	96.4%	96.3%	92.4%	(3.9 p.p.)
CREDIT RISK AND IMPAIRMENT COVERAGE FOR BALANCE SHEET CREDIT				
Cost of credit risk	1.5%	1.2%	1.1%	(0.1 p.p.)
Ratio of loans and interest overdue by more than 90 days	7.8%	9.1%	8.2%	(0.9 p.p.)
Coverage of loans and interest overdue by more than 90 days	103.0%	86.0%	90.2%	4.2 p.p.
Non-performing exposures (NPE) (d) / Gross customer loans	20.7%	18.7%	16.4%	(2.3 p.p.)
NPE (d) coverage by Impairment for balance sheet loans	38.8%	42.1%	44.9%	2.8 p.p.
Restructured loans (Forborne) (d) / Gross customer loans	9.7%	8.9%	8.2%	(0.7 p.p.)
PROFITABILITY AND EFFICIENCY				
Total operating income / Average total assets (b)	1.8%	1.7%	2.5%	0.8 p.p.
Net income before income tax / Average total assets (b)	(1.2%)	(0.9%)	0.2%	1.1 p.p.
Net income before income tax / Average total equity (b)	(18.7%)	(12.3%)	3.0%	15.3 p.p.
Cost-to-income (Operating costs / Total operating income) (b)	81.8%	76.4%	53.0%	(23.4 p.p.)
Cost-to-Income, excluding specific impacts (e)	109.7%	88.4%	61.7%	(26.7 p.p.)
Staff costs / Total operating income (b)	47.4%	44.5%	30.9%	(13.6 p.p.)
EMPLOYEES AND DISTRIBUTION NETWORK (Number)				
Employees				
Group total (f)	4 248	3 806	3 837	31
CEMG	3 871	3 588	3 630	42
Branches				
Domestic - CEMG	421	327	324	(3)
International	30	33	34	1
Finibanco Angola (g)	21	23	24	1
BTM - Banco Terra	9	10	10	0
Representation Offices - CEMG	6	6	5	(1)

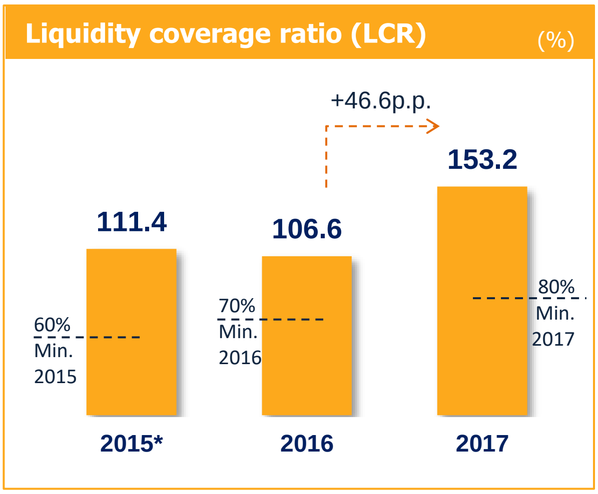
(a) Pursuant to CRD IV / CRR (phasing-in).
(b) Pursuant to Banco de Portugal Instruction No. 16/2004, in its current version
(c) Total on-balance sheet customers' resources = Customers' deposits and debt securities issued. Computed in accordance with the Financial Statements annexed to this report.
(d) EBA definition.
(e) Excludes results from financial operations and the impacts arising from the operating resizing and from the revision of the Collective Labour Agreement
(f) Excluding transferred employees and work suspension contracts.
(g) Includes corporate centres.
* 2015 restated in accordance with IFRS5 guidelines related to the Financial Statements of the subsidiaries in Angola and Mozambique, for comparative purposes.

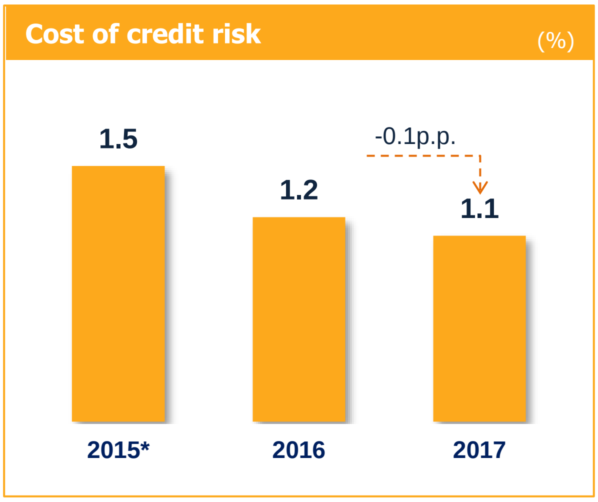
HIGHLIGHTS

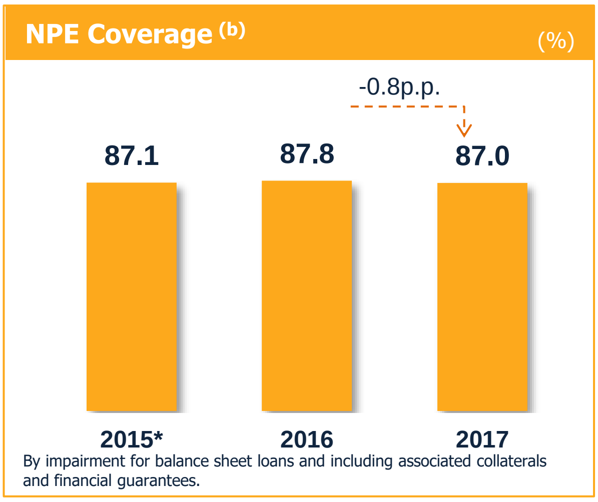












(a) Pursuant to CRD IV / CRR (phasing-in).
(b) EBA definition.
* 2015 restated in accordance with IFRS5 guidelines related to the Financial Statements of the subsidiaries in Angola and Mozambique, for comparative purposes.

CAIXA ECONÓMICA MONTEPIO GERAL GROUP

GROUP STRUCTURE

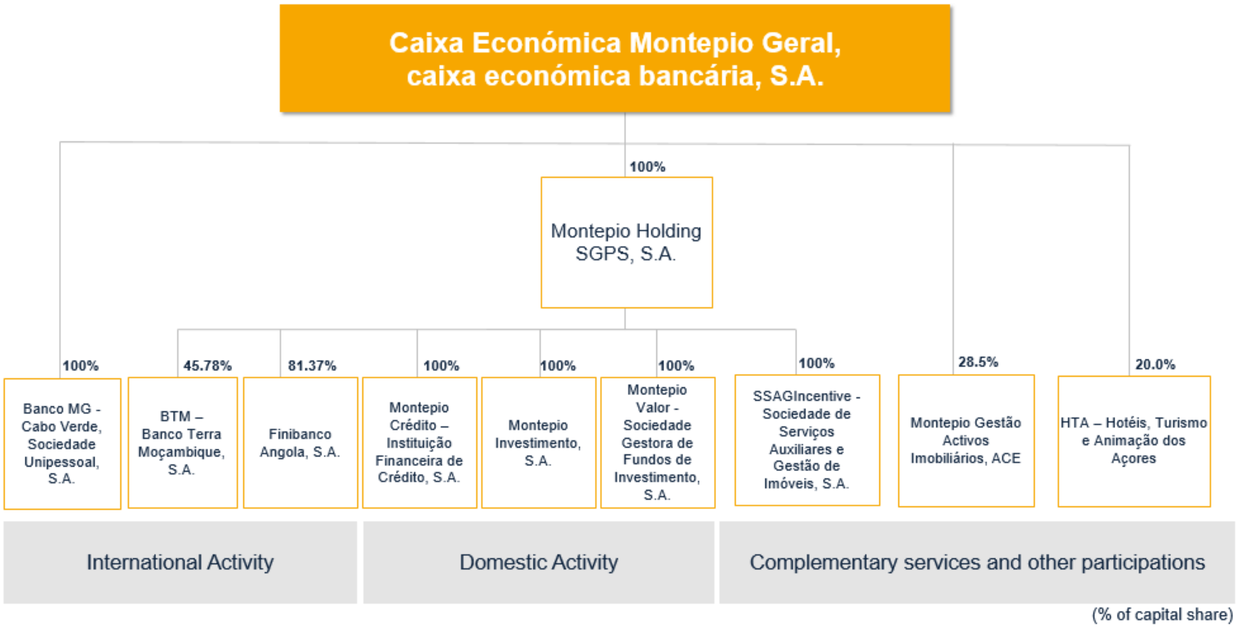
Under the terms of Decree-Law no. 190/2015, Caixa Económica Montepio Geral (CEMG) was henceforth considered a savings bank, with this same legal provision having given rise to the decision to transform CEMG into a public limited company. This process started during the fourth quarter of 2016 and was completed on September 14, 2017, having resulted in the conversion of its Institutional Capital and Participation Fund into Share Capital composed of ordinary shares.

With a view to the transformation of CEMG into a public limited company, Montepio Geral – Associação Mutualista (MGAM) launched a General and Voluntary Public Offer (Offer) to Purchase Participation Units (PU) representative of CEMG's Participation Fund, which took place between August 14 and September 8, 2017. At the end of the period relative to the Offer, MGAM held 98.28% of the PU, which were suspended from trading on regulated markets on September 12, 2017.

The commercial registration of CEMG's transformation into a public limited company took place on September 14, 2017, with its corporate name having been changed to Caixa Económica Montepio Geral, caixa económica bancária, S.A., PU were excluded from trading on the following day, with MGAM having conveyed a permanent order to purchase, outside regulated markets, ordinary shares representing CEMG's share capital, ending on the date of publication of the decision of the Securities Market Commission (CMVM) on CEMG's application of loss of capacity as a publicly traded company. All the documents disclosed under the aforesaid Offer and transformation of CEMG into a public limited company can be consulted in their complete version on CMVM's website at *www.cmvm.pt*.

Following this process, and with reference to December 31, 2017, CEMG's Share Capital was 100% held by MGAM, pursuant to article 6, number 2 of the Legal System for Saving Banks.
CEMG holds a number of equity stakes in entities that not only enable offering a broad and diversified range of banking and financial products and services, but also contribute with their earnings to the mutualist goals. The CEMG Group thus presents itself as a diversified banking and financial group, aligned with its mutualist nature and objectives, which give it unique characteristics and a singular position in its activity sector and in Portuguese society.
At December 31, 2017, the CEMG Group comprised the entities presented below:

- Full consolidation: CEMG; Banco Montepio Geral Cabo Verde, Sociedade Unipessoal S.A.; Montepio Holding, Sociedade Gestora de Participações Sociais, S.A.; BTM – Banco Terra, S.A.; Finibanco Angola, S.A.; Montepio Crédito, Instituição Financeira de Crédito, S.A.; Montepio Investimento, S.A.; Montepio Valor, Sociedade Gestora de Fundos de Investimento, S.A. e SSAGINCENTIVE – Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.
- Consolidation by the equity method: Montepio Gestão de Ativos Imobiliários, ACE e HTA – Hotéis, Turismo e Animação dos Açores S.A.



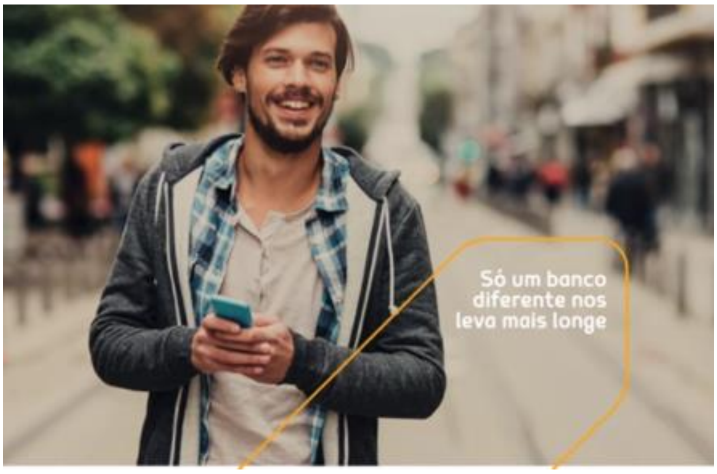
Regarding the financial stakes held in the subsidiaries in Angola and Mozambique, it is important to note that CEMG is currently negotiating with a series of investors aimed re-focusing its approach towards the African market, with a view to the deconsolidation of Finibanco Angola S.A. e BTM – Banco Terra, S.A.

Considering the decisions that have been taken by the Executive Board, as well as the provisions in International Financial Reporting Standard (IFRS) 5, the activities developed by these subsidiaries have been deemed discontinuing operations since the end of the 2016 financial year.

In the financial statements, the earnings of these subsidiaries were stated under an income statement heading named "Income from discontinuing operations" and, in the balance sheet under headings named "Non-current assets held for sale – Discontinuing operations" and "Non-current liabilities held for sale – Discontinuing operations", with information having been drawn up on the same basis as for the period ended on December 31, 2015 for comparative purposes.

As at December 31, 2017, the consolidation perimeter of the CEMG Group includes the following entities, which are consolidated by the full method: Valor Prime – Fundo de Investimento Imobiliário Aberto; Montepio Arrendamento I, II e III – Fundos de Investimento Imobiliário Fechados para Arrendamento Habitacional (FIIAH); Polaris – Fundo de Investimento Imobiliário Fechado; PEF – Portugal Estates Fund; and Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto (FEIIA).

CEMG'S NOTORIETY



CEMG started 2017 with a new image and positioning transversal to all segments, epitomised in the signature 'Só um Banco Diferente nos Leva Mais Longe' (Only a Different Bank Can Take Us Further). This image, more contemporary, modern and young, reveals a bank close to people and better prepared to take even further ahead the goals of its main target segments: families, companies and the social economy.

CEMG's new image was presented at the inauguration of the branch of Rua Castilho in Lisbon, in February 2017, which also marked the onset of the modernisation of the national network of branches. These new spaces offer various digital facilities inside and show changes in the functionalities, decoration and furniture, projecting a more up-to-date image and placing the latest technological trends at the disposal of the customers, so that they can have the best possible experience at the branch. The start-up of the remodelling of the branch network thus corresponded to the start-up of CEMG's process of digital transformation.

During the first three quarters of 2017 the advertising communication focused on product campaigns with more direct commercial objectives – with the spotlight on savings and personal credit, but also thinking about children, with the creation of a partnership with Aquashow and the signature "A brincar a brincar, a família poupa de verdade" (Playing to play, the family really saves).

In September 2017, capitalising on the steps taken previously towards modernisation and innovation, CEMG positioned itself as modern, close, different, customer driven, solid and able to meet the needs of all segments of customers. To this end, CEMG's communication strategy moved towards placing the brand at the "top of the mind" of the market, communicating it in the mass media, which has not happened since 2016. It was in this context that the campaign "Se gostássemos todos do mesmo, o que era feito do amarelo?" (If we all liked the same, what would become of yellow?) emerged which, with a rather emotional and relational tone, shows

the differences between CEMG and all the other players in the banking sector in Portugal, from the way that it relates to customers to the values associated to it – vitality, proximity, accessibility, familiarity and informality – and to the fact that it is the social economy bank.

In relation to the campaign "Se gostássemos todos do mesmo, o que era feito do amarelo?" (If we all liked the same, what would become of yellow?), a market research study carried out by 'Grupo Consultores' concluded that the results of the campaign were positive, with CEMG rising to the first place of the top of loyalty of banking brands in the fourth quarter of 2017. At the same time, the image also improved by reaching a score of 56% in the fourth quarter of 2017. The study also concluded that the consumers tend to associate the CEMG brand to values such as Excellence in Customer Care, Proximity, Professionalism, Trust, Good Customer Relations, Prestige and Modernity, having equalled, and in some cases exceeded, its main competitors at the end of 2017.

At the same time, at the end of November 2017, CEMG carried out '*Yellow Weekend*' campaign, marked by its innovative nature. Inspired by the '*Black Friday*' retail concept, CEMG decided to transpose it to the banking system and, in this way, help the customers to enhance the saving implicit in the acquisition of goods and services in promotion. This campaign recommended the constitution of savings products, exclusive subscription in the digital channels (home banking and app), offering special conditions.

Additionally, as CEMG is one of the founders of Startup Lisboa, installed in Beato creative hub, it publicised the brand at this space during the Web Summit, which involved the participation of the artist José Godinho Marques who carried out the live painting of a gigantic screen with the colours and values of the Montepio brand.

The initiatives referred to above, as well as the various financial and institutional themes, were publicised in the media, aimed at positioning CEMG as a solid, reliable, innovative, modern and reputed institution. Therefore, CEMG's presence in the media was constant throughout 2017, having emerged associated to various topics, always with positive impact and in different types of media.

In 2017, CEMG added yet another item to its communication strategy, with the launch of its official page on LinkedIn, in order to expand the potential recognition of the brand in a social network geared towards the professional area. In the three months after its launch, the page had 911 new followers, 316,116 impressions, 3,538 clicks and 2,049 interactions relative to the 53 publications made. At the same time, CEMG's channel on YouTube was also reformulated, with more than 20 videos having been loaded throughout 2017.

Following this logic of complementarity between channels, 'Tome Notas' ('Take Notes') emerged in August 2017, a page dedicated to financial literacy on the website montepio.pt. The main topics disclosed are aligned with CEMG's campaigns and with the mission and strategic guidelines of the bank for the three-year period 2016-2018. In the four months following its creation, this section received approximately 23 thousand views.

In 2017, the monthly newsletter for CEMG's customers was also reformulated, henceforth focusing on storytelling. The storytelling technique consists of the ability to tell stories in a relevant manner using audio-visual resources together with words. In this way, it is possible to promote the different products and services without using direct sale, a fact that confers to storytelling a nature that is more persuasive than invasive. Hence, CEMG achieved greater involvement in the transfer of financial contents and higher efficacy of the conveyed message.

Strengthening of Internal Communication

egarding internal communication, 2017 was also marked by a series of initiatives aimed at strengthening the Group's communication. Therefore, in the first quarter of 2017, the Chairman of the Executive Board of CEMG presented the action plan for 2017, in 11 sessions, and in 7 cities, to over 2,600 employees. Among the topics addressed were, in particular, the vision on the results of 2016 and the main projects in course related to Human Resources and Innovation.

With a view to strengthening the Group's communication, the first newsletter for employees – Minuto M. (Minute M.) – was launched in February 2017, where monthly highlight the main news that impact CEMG employees.

In this regard, it is important to refer to the reformulation of CEMG's intranet, accomplished in September 2017, constituting yet another step of the Digital Agenda. The new intranet, in addition to meeting the regulatory requirements, aims to simplify the reading and research of the information that is provided, namely the information supporting the business, and is available to the employees of all the subsidiary companies of the CEMG Group.

HUMAN RESOURCES

The number of employees recorded an increase of 0.8%, corresponding to 31 more employees, in evolving from 3,806 at the end of 2016 to 3,837 as at December 31, 2017, without considering the employees assigned to other companies of the Montepio Group and with suspended work contracts. In its domestic activity, CEMG recorded an increase of 42 employees as at December 31, 2017 compared to the number at the end of 2016, as a result of 100 recruitments and 58 exits, of which 6 referred to retirement processes and 45 to rescissions.

In relation to the subsidiaries in Portugal, in 2017, there was a reduction of one employee allocated to Montepio Crédito and an increase of one employee allocated to Montepio Valor, while at Montepio Investimento the number of employees stabilised in relation to the end of 2016.

Regarding the international activity, at the end of 2017, there was a reduction of 9 employees compared to 2016, derived from the combined effect of the reduction of 15 employees in Mozambique (BTM – Banco Terra) and 1 employee in Cape Verde (Banco MG Cabo Verde), and the increase of 7 employees in Angola (Finibanco Angola), derived from the evolution of the business activities developed and the features of the respective markets.

Employees Evolution

	2015		2016		2017		YoY Change	
	No.	%	No.	%	No.	%	No.	%
Domestic Activity	**4 027**	**91.4**	**3 740**	**90.0**	**3 783**	**90.3**	**43**	**1.1**
Caixa Económica Montepio Geral (1)	3 871	87.9	3 588	86.4	3 630	86.7	42	1.2
International Activity	**377**	**8.6**	**415**	**10.0**	**406**	**9.7**	**(9)**	**(2.2)**
Banco MG Cabo Verde	3	0.1	3	0.1	2	0.1	(1)	(33.3)
Finibanco Angola	194	4.4	216	5.2	223	5.3	7	3.2
BTM - Banco Terra	180	4.1	196	4.7	181	4.3	(15)	(7.7)
Subtotal	**4 404**	**100.0**	**4 155**	**100.0**	**4 189**	**100.0**	**34**	**0.8**
Transferred employees and other (2)	(156)	-	(349)	-	(352)	-	(3)	(0.9)
Total	**4 248**	**-**	**3 806**	**-**	**3 837**	**-**	**31**	**0.8**

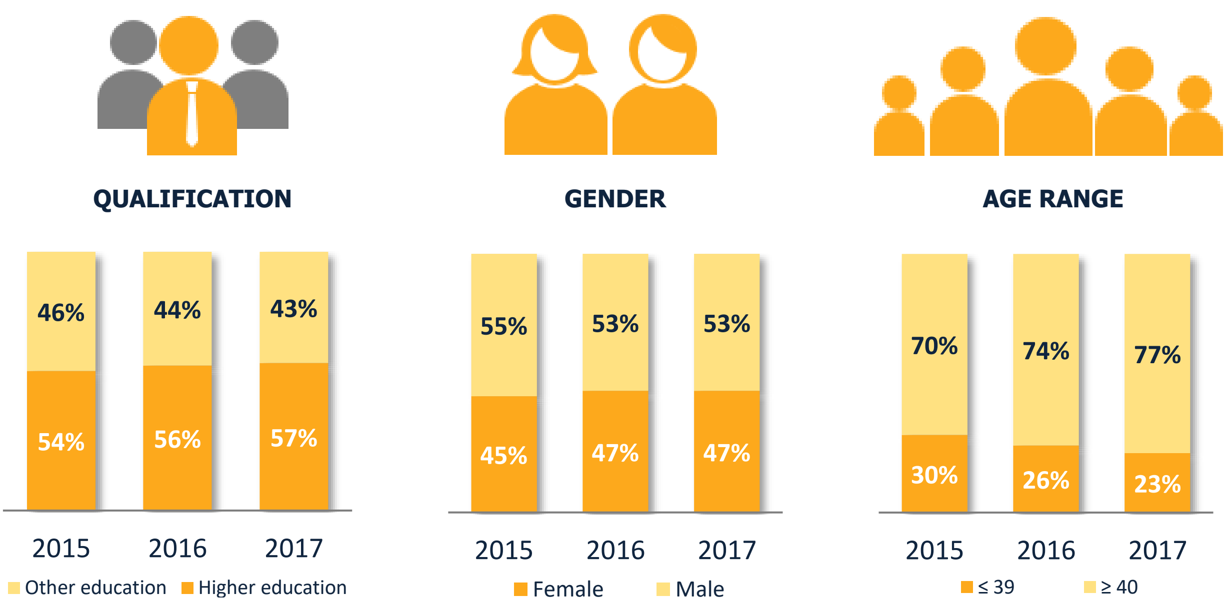
(1) Includes employees from Rep. Offices. (2) Includes employees with work suspension contract.

	2015	2016	2107	YoY Change	
				No.	%
Other subsidiaries (1)					
Montepio Crédito	133	129	128	(1)	(0.8)
Montepio Valor	36	37	38	1	2.7
Montepio Investimento	15	5	5	0	0.0

(1) Includes assignments from CEMG employees.

Concerning the distribution by type of qualification, there was an increase of the proportion of employees with higher education, comprising bachelor, licentiate and master's degrees, post-graduation and doctorates, which evolved from 56% at the end of 2016 to 57% as at December 31, 2017. Gender distribution stabilised in relation to 2016, with male employees representing 53% and female 47%. With respect to age structure, there was an increase of the percentage of employees aged over 40 years old, from 74% at the end of 2016 to 77% as at December 31, 2017.

DISTRIBUTION OF CEMG EMPLOYEES



TRAINING OF EMPLOYEES

The Montepio Academy was created in 2016 materializing the axis of CEMG's Strategic Plan for the three-year period 2016-2018 related to investment in the development and promotion of the employees' talent.

Supported by a digital platform of content management accessible to all CEMG's employees, the Montepio Academy materialises a change of paradigm in vocational training, aimed at expanding the opportunities for development, boosting transversal in-house knowledge and introducing new methodologies.

The Montepio Academy is composed of five schools, namely the Management and Innovation School focused on the development of Management and Innovation skills and instruments for the senior management, the Leadership School directed at supporting the managers of people by strengthening best practices of leadership, the Functional School aimed at encouraging the sharing of knowledge between the different functional areas, the Compliance School whose objective is to meet training needs in the regulatory area, enabling the ongoing alignment of talent with the recommendations and requirements of the supervisors and regulators, and the Self-Development School which seeks to stimulate professional development and valorisation, through formats, platforms and educational means that are diversified and flexible.

The year of 2017 consolidated the Montepio Academy as one of the drivers of cultural change, contributing to the process of digital innovation and to the development of people, preparing them for current and future challenges.

The Montepio Academy benefitted from the governance model consubstantiated in the contribution of its management bodies, namely the Advisory Council, the Executive Committee and the Committee of Internal Trainers and Mentors, enabling the alignment of the initiatives of the Montepio Academy with the strategy and needs of CEMG's business.

The Montepio Academy's Plan for 2017 covered 99.5% of CEMG's employees, with the total actions, hours of training and participation having increased significantly in relation to previous years. The Compliance school stands out among the other Schools due to its weight in the total activities of the Montepio Academy throughout 2017. However, other initiatives were carried out in all the other Schools, with strong impact and feedback, in particular the following:

Management and Innovation School

- Training programme of the Executive Board and the Supervisory Board;
- Advanced Senior Management Programme.

Leadership School

- Giving and receiving feedback;
- Coaching: the essential.

Functional School

- Montepio 3 C – Culture, Customer and Commercial;
- Triangulum Programme;

- SIM – Montepio Information System and Process Dematerialisation;
- New Competence Model;
- 3D Model – Dialogue, Development and Performance.

Compliance School

- New Directive on Markets and Financial Instruments (DMIF II);
- Prevention of Money Laundering and the Financing of Terrorism;
- Business continuity;
- Code of Ethics and Conduct.

Self-Development School

- Productivity clinics for use of collaborative technology;
- LinkedIn (webinar).

The creation of the Montepio Academy in 2016 and its consolidation throughout 2017 enabled the development of internal training and shorter-term initiatives, in line with the practice of the banking sector.

Training indicators

	2015	2016	2017	YoY Change (%)
Number of actions	1 091	699	1 174	68.0
Hours of training sessions	82 095	51 769	230 624	>100
Number of attendees	3 770	3 250	3 613	11.2
Number of appearances	23 996	19 282	49 529	>100
Investment in training (thousand euros)	242	417	518	24.2
Employees covered by training	**97.4%**	**90.6%**	**99.5%**	8.9 p.p.

SOCIAL SERVICES

The employees of the Montepio Group have access, through optional membership, to an association whose mission is the promotion and development of various social, cultural, sports or recreational initiatives.

In 2017, in the context of the strict management of the available funds, Montepio's Social Services continued to play an important role in contributing to the good in-house social atmosphere of the institution, namely of the well-being of its employees and families, in terms of the areas of action indicated below.

Social Area and Health

Observing its purpose in the social and health area, the Social Services continued to provide appointments of psychology and nutrition, shiatsu massages and osteopathy. Additionally, the supplement for acquisition of school books continued (covering more than 1700 Members of the Social Services), as well as the management of four refectories which produced over 300 meals per day.

At the same time, the Social Services continued to organise blood collection in Lisbon and Porto, twice a year, in partnership with the Portuguese Blood Institute and Atmosfera M, which involved more than one 100 donors each time.

Cultural Area, Leisure and Free Time

In the cultural area, support was promoted to around 100 performances and 1,184 tickets were subsidised. With various publications made available at the Social Services' library for requisition and reading, free of charge, involving a total of more than 400 requisitions registered during 2017. The Social Services also provided its members with access to music and theatre classes at reduced prices. In the area of leisure and free time was organized a journey to Scandinavia and several tours (Serra da Estrela, Vila Nova de Cerveira and Chestnut Festival in Marvão).

During the Christmas season, more than 2,400 gifts were distributed to the employees' children, with the usual promotion of circus performances in Lisbon and Porto, and Christmas theatrical performances in Beira Interior, Leiria, Algarve, Madeira and Azores, involving over 9,000 people.

Sports Area

Within the scope of the Social Services objective in the sports area, highlight should be made to the support provided in 2017 to the modalities of running, shooting, orienteering, basketball, mountain biking, futsal, fishing and 11-a-side football.

Activities for Young People

In 2017 activities continued to be organised for the younger ones, with a special focus on the holiday centres in Lisbon and Oporto, which totalled more than 750 participants, the youth camp in the Algarve, totalling 250 participants, and a study trip to Scotland involving 25 participants. Additionally, at Easter time, there was a family trip to Portaventura and Ferrariland in Barcelona.

DISTRIBUTION AND RELATIONSHIP NETWORK

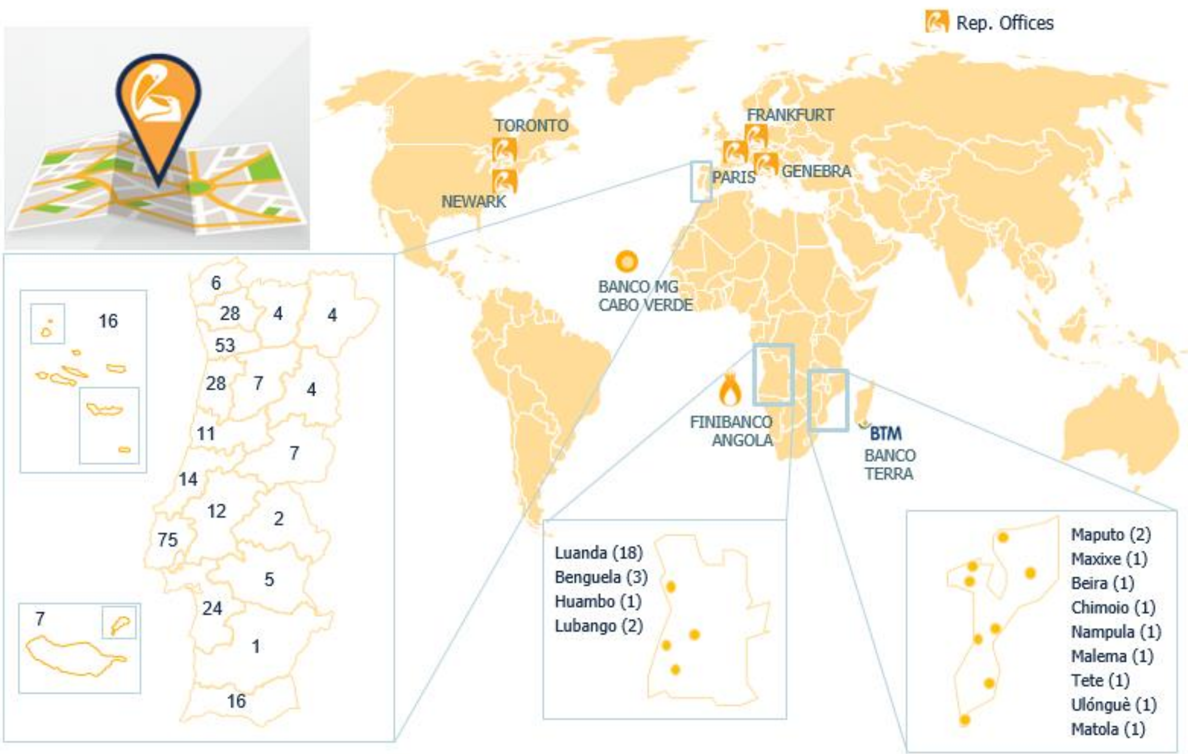
BRANCHES

At the end of 2017, CEMG had a network of 324 branches in Portugal compared to 327 as at December 31, 2016. This optimisation of the physical distribution network, recommended in the 2016-2018 Strategic Plan, resulted from a commercial streamlining based on the potential of each area of influence, determined through geolocation criteria aimed at assuring suitable levels of proximity to the customer base. In the international activity, during the first semester of 2017, a branch and a business centre were opened in Angola, with the network thus having a total number of 24 (including 5 business centres), to which are added 10 branches of the BTM/ Banco Terra in Mozambique. From June 1, 2017 onwards, CEMG has had 5 representative offices, by changing the market follow-up model in the United Kingdom, with the London office no longer being open for public attendance and with the appointment of a Follow-Up Manager that, being based in Portugal and with frequent travel to the United Kingdom, assures CEMG's presence among its customers resident in this geographic region.

No. of Branches and Representation Offices

	2015	2016	2017
Domestic network	421	327	324
International network	30	33	34
Finibanco Angola (a)	21	23	24
BTM - Banco Terra	9	10	10
Rep. Offices	6	6	5

(a) Includes Corporate Centres.



CUSTOMER MANAGERS

At the end of 2017, CEMG's network of Customer managers amounted to 511 managers (+8 compared to 2016), of whom 205 are dedicated to the Individuals segment and 306 to the Company segment, which enables offering a personalised service and deepening the relations of proximity with the customer, factors that characterize CEMG.

In 2016, in a strategic perspective of commercial reorganisation, the network of Top Premium managers was discontinued, remaining the Premium customer’s managers.

Regarding the Company segment, continuing the effort to specialize the service, in 2017 CEMG provided 189 Small Business managers, 77 Small and Medium-Sized Enterprise managers, 31 Institutional and Social Economy managers and 9 Large Company managers.

No. of Managers per customer segment

	2015	2016	2017	YoY Change	
				Valor	%
Individuals	**192**	**204**	**205**	**1**	**0.5**
Premium	183	204	205	1	0.5
Top Premium	9	0	0	0	-
Companies	**292**	**299**	**306**	**7**	**2.3**
Small Businesses	179	186	189	3	1.6
Small and Medium-sized Enterprises	76	73	77	4	5.5
Institutional and Social Economy [(a)]	28	31	31	0	0.0
Large Companies	9	9	9	0	0.0
Total managers	**484**	**503**	**511**	**8**	**1.6**

(a) Includes Microcredit managers.

Note: Excludes preventive credit monitoring managers.

COMPLEMENTARY CHANNELS

As at December 31, 2017, CEMG recorded 986 automated teller machines (ATM), of which 379 were installed in branches and 607 were available at external locations. In net terms, as at December 31, 2017, the number of machines had fallen by 54 units when compared to the number at the end of 2016 (1,040 units). This reduction was essentially due to an optimisation of the total number of ATM motivated by both security and profitability reasons. It is important to note that, due to the installation of ATM at new external locations and the continued readjustment of the available machines in the national market pursued by the SIBS Global Network, which led to a reduction of 306 machines year-on year, to stand at a total of 11,859 at the end of 2017, CEMG’s market share only fell by 0.23 p.p. in relation to 2016, having reached 8.32% at the end of 2017 (8.55% in 2016).

With respect to the internal ATM network - Chave24, it accompanied the readjustment of the branch network, recording a total of 348 installed machines at the end of 2017 (294 in 2016).

The CEMG TPA (Automatic Payment Terminals) network grew by 5.67% in 2017, continuing the growth trend observed in 2016, with the national market having registered an increase of 5.66%, which allowed CEMG to maintain its market share of 7.02%.

The card business, at the end of 2017, showed year-on-year growth of 0.95%[4] in terms of quantity of cards, compared to an increase of 2.89% in the market, in the same period. CEMG showed 0.74% growth in terms of transactions at the end of 2017 in relation to 2016, while the market grew by 7.09%. Regarding the value of transactions, CEMG recorded a year-on-year reduction of 6.73% in 2017, while conversely the market grew by 8.52%.

EXTERNAL DISTRIBUTION NETWORK

In 2017, CEMG continued to grow the external-distribution-network activity, underpinned by the partnerships established with commercial and Bancassurance promotors.

In the area of Bancassurance, in partnership with Lusitania, Lusitania Vida and N Seguros, and with a view to strengthening the value proposition and improving the customers' experience, CEMG launched two new insurance products, the 'Cartão Seguro +Visão' (+Vision Insurance Card) which assures access to ophthalmological medical care providers, and the 'Seguro Acidentes Proteção Extra' (Extra Protection Accident Insurance), a new personal accident insurance product. Additionally, the coverage was reinforced in certain products of the existing insurance offer.

With a view to deepening the relational strategy in the digital channels, the subscription of 'Seguro de Viagem Check-in' (Check-in Travel Insurance) was provided via home banking in 2017. At the same time, and in order to increase the operative efficiency, the policy of more simplified services and processes, adjusted to customer needs and expectations was continued.

The Bancassurance business throughout 2017 was also driven by quarterly dynamization campaigns, up and cross-selling, and by discount campaigns with incidence in the motor vehicle and labour accidents sectors, among others. In the Life Sector, it is worth notice the role of mediator assumed by CEMG in the partial transfer of the insurance portfolio of Ex-Finibanco Vida to Lusitania Vida.

[4] SIBS data

In 2017, in order to assure differentiated communication supporting the Bancassurance business, the branch network was endowed with a pamphlet holder, with its own image, and specific insurance communication items, as well as the production of digital flyers and contents for CEMG's website.

SERVICE LEVEL

CEMG stands out in its business activity due to its experience and uniqueness, focusing on meeting and accompanying the financial needs of its Customers, with the following services having been developed in 2017:

- **New CEMG Website and App M24 - Individuals**

In March 2017 CEMG launched the new website, a channel that is intended to be simpler, easier and close to help customers go further with their plans, presenting the products and services that best fit their needs, as well as offering tools and providing information to support day-to-day management. In addition, and to ensure the best experience in this channel, CEMG now provides access to the private area in a manner that is more appropriate to the device being used by the customer at any given time.

Following up on the orientation concerning renovation and digital innovation, in May 2017 CEMG launched the app M24 for individual customers, available for Android and iOS systems. With a simple design and intuitive interface, this app has improved the experience of all the customers who choose to manage their day-to-day finances based on the comfort of their smartphone, adding functionalities linked to the native capacities of the equipment, such as, for example the reading of a fingerprint for authentication.

- **CRM Online - The union of Marketing and Sales**

In February 2017, CEMG released a new version of its CRM (Customer Relationship Management) platform, preparing the way for a process of innovation and efficiency of the commercial and marketing activity, which are intended to be together on the same platform. With the new CRM, the efforts of the two teams are aligned, bringing in greater efficacy to sales activities and greater efficiency to the marketing investments.

- **New site Real estate Montepio**

Placed within CEMG's Digital Transformation Plan, in July 2017, the new website Imóveis Montepio (https://imoveismontepio.pt) was launched, which aims to respond to the need to modernize the real estate properties selling process, in addition to promoting the strategy of facilitation and concentration of the offer and services for customers in a single website.

In the social networks, the campaign alluding to the new real estate property website achieved around 300 interactions, among likes, shares and posts, having impacted 1.5 million users.

DISTINCTION OF THE SERVICE PROVIDED

Service quality and transparent, rigorous and competent action have contributed to a growing number of CEMG´s customers, who benefit from a transversal and integrated offer of products and services, advocating in favour of the brand and contributing to the consolidation of its positioning.

For the eighth time in its history, CEMG was elected Superbrand, in 2017, receiving the stamp that recognises brands of excellence elected by the consumers.

With eyes on the future, the brand has been tracing a path of modernity and innovation, aimed at being increasingly closer to its customers.

In line with the positioning of the brand, one of the new CEMG branches was chosen to illustrate the cover of the book Superbrands, since the branch network is the most emblematic channel of personal relations and proximity to customers, which is one of the brand's strengths. The cover of the book Superbrands presents the headline 'Não há *Superbrands* sem Super Clientes' (There are no Superbrands without Super Customers), seeking to reflect the strength of the CEMG brand, namely its ability to retain customer loyalty and the profoundly emotional relationship that it continues to establish with its customers.

COMPLAINTS MANAGEMENT

CEMG is permanently dedicated to providing its customers with quality services, based on high ethical standards, viewing all complaints submitted as an opportunity for the continuous improvement of the quality of service and deepening of its customer relations.

The Customer Ombudsman Office is responsible for the management of complaints, with its mission being to propose and implement the Complaints Management Policy of the CEMG Group, assuring the reception and handling of submitted complaints, as well as the respective response to the Complainant and/or Supervisory Entities (Banco de Portugal, Comissão de Mercado de Valores Mobiliários (Portuguese Securities Market Commission), among others).

During 2017, CEMG recorded an 8% reduction in the complaints submitted directly to Banco de Portugal. The total number of cases of complaint against CEMG, including insistences of complainants and regulators increased by 6.9%. On the other hand, there was an increase of 6.5% of the number of complaints presented in the Book.

Regarding the response time, it is important to note that 38% of the new complaints were answered within 5 working days or less. The average response time stood at 31 working days. With respect to complaints made via Banco de Portugal and Complaints Books, the average response time stood between 17 and 7 working days, respectively, below the legally required time limits (20 and 10 working days).

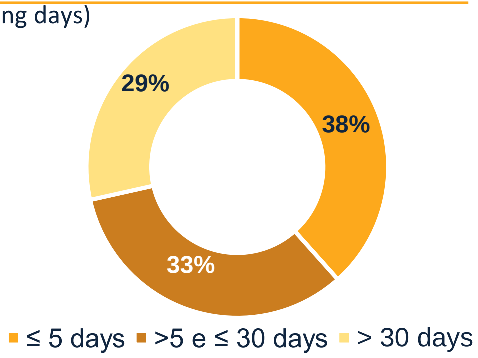
Indicators on Complaints

	2015	2016	2017	YoY Change	
				Amount	%
Total Complaints	**4 388**	**5 160**	**5 517**	**357**	**6.9**
Of which:					
Banco de Portugal (RCO)	575	712	655	(57)	(8.0)
Complaints Book (RCL)	482	587	625	38	6.5

Note: Refers to complaints about CEMG Group and includes insistences.

In view of the quality, transparency and rigour that Credit Institutions are required to instil in the marketing of their products and services, the Customer Ombudsman Office continuously promotes various recommendations and warnings, aimed at eliminating, at source, the causes of the submitted complaints.

New Complaints - Avg. time of response
(working days)



SOCIAL SUSTAINABILITY AND SOCIAL RESPONSIBILITY

CEMG develops its activity according to its mutual nature, which gives it unique characteristics and a singular position oriented towards Responsibility and Social Economy, thus differentiating it in the national financial sector and in Portuguese society.

Through 'Social Responsibility Programme' which covers Montepio Geral - Associação Mutualista, CEMG and Fundação Montepio, and over 800 voluntary employees, numerous projects are developed and supported every year in the areas of social solidarity, health, environment, social economy, education and training, with priority given to projects that promote the improved quality of life of children, young people, the elderly and disabled.

One of the fundamental axes of CEMG's strategy and action in the Social Economy sector involves the promotion, reinforcement and support of institutions and projects of this sector, acting not only as a facilitator, but also as a driver of inclusion and development, giving body to initiatives from people to people, facilitating, participating and contributing to a more human future.

In this context, CEMG supported various projects and initiatives throughout 2017, as listed below:

Magic Firefly

Continuing its objectives of proximity to the Social Economy sector and the reinforcement of the brand in the social universe - Social Economy Bank, CEMG joined FENACERCI this year to commemorate the 30th anniversary of the iconic "Pirilampo Mágico" (Magic Firefly).

The campaign celebrating 30 years of the "Pirilampo Mágico" covered a series of initiatives, namely the production of 54 films of 1 minute, for every CERCI (Cooperative for Teaching and Rehabilitation of Children with Learning Disabilities) at a national level, aimed at publicising the work developed by these institutions, through daily disclosure on the RTP television channels (RTP1, RTP3 and RTP Memória) and provision of the "Pirilampo Mágico 2017" at CEMG branches.

Street Football Project

The 'Projeto Futebol de Rua' (Street Football Project), developed by the Associação CAIS, celebrated its 14th edition, supported by FIFA's Football For Hope Programme, Instituto Português do Desporto e Juventude (the Portuguese Institute of Sports and Youth), under the National Sports Programme for all, Fundação Luso and CEMG. This project promotes the practice of sports and its use as an innovative strategy in promoting social inclusion, having developed various initiatives throughout 2017 aimed at promoting access to sports and inclusion through sports.

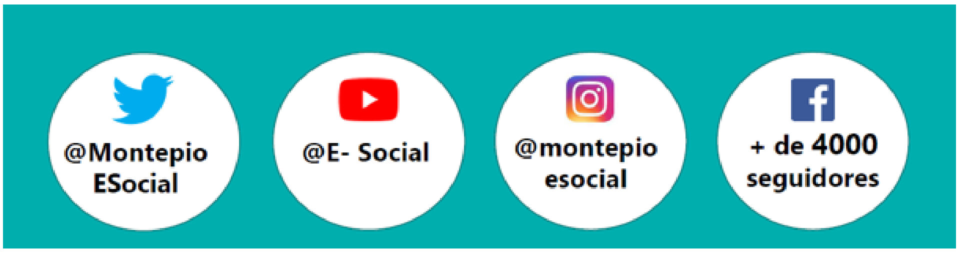
CAIS
FUTEBOL DE RUA
UM PROJECTO DA ASSOCIAÇÃO CAIS

e-Social

e-Social is a communication platform which is intended to be a reference to all the stakeholders of the Social Economy. The e-Social platform was created out of a desire to publicize initiatives of the spheres of Social Economy and Entrepreneurship and Social Innovation in Portugal, giving them exposure, dissemination and

e social
Causas que aproximam

interaction with stakeholders. This platform is present on the Internet channel, through a Facebook page, presence on Instagram and Twitter, and on the Youtube channel.



Solidarity Accounts to support the victims of forest fires

CEMG, as a financial entity partner of União das Misericórdias Portuguesa (the Union of Portuguese Misericórdias), promoted in the first half of 2017, in partnership with Cáritas, the constitution of Solidarity Accounts to support the victims of forest fires, following the tragedy that occurred in the centre region of the country, having raised more than thousand euros.

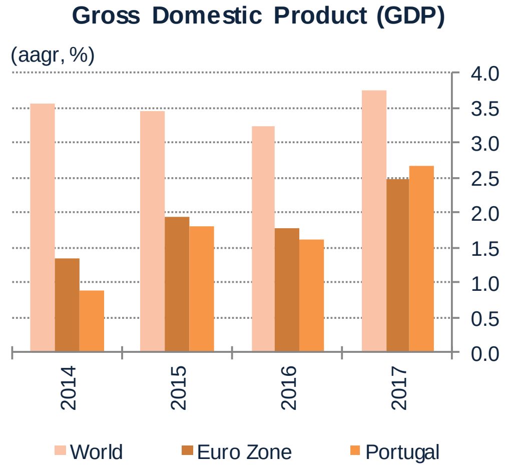
Culture Support

CEMG has been supporting musical initiatives, reaching out to a younger audience and bringing to the Montepio brand the characteristics of joviality and dynamism. Amongst the concerts held in 2017, stands out the Solidarity Concert at Casa da Música in Oporto, in favour of Vida Norte, an Association for the Promotion and Defence of Life and the Family.

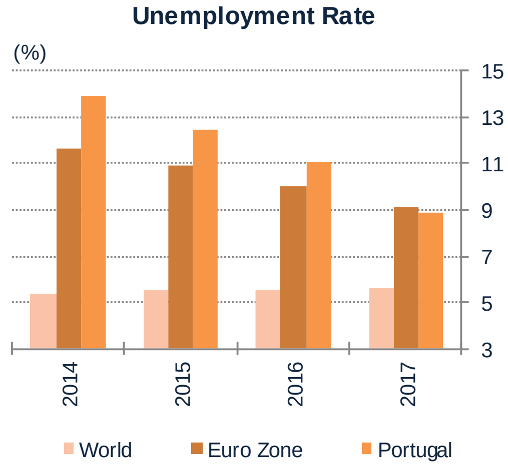
MACROECONOMIC ENVIRONMENT

According to the IMF estimates of April 17, 2018, the world economy should have grown 3.7% in 2017, reiterating the value advance in January and being 0.1 percentage points (p.p.) higher than projections made in October 2017, representing an acceleration of 0.5 p.p. in relation to the growth observed in 2016. The IMF also reiterated its forecasts for growth of 3.9% for 2018 and 2019, which had been reported in the January mid-term forecasts, which in this case represented a 0.2 p.p. upward revision, compared to October 2017 forecasts. However, it warned that political leaders should remain aware that the current economic momentum reflects a confluence of factors that is unlikely to hold for too long. The global financial crisis may seem to have been left behind, but without immediate action to tackle structural constraints on growth, make it more inclusive and create policy and resilience buffers, the next recession will come sooner and will be more difficult to combat.

Projections improvement reflect the expectation that the favourable financial conditions at a global level will help to maintain the recent acceleration of demand, especially in investment, with notable impact on the growth of the economies with considerable exports. Nevertheless, around half of the cumulative revision in global growth in 2018 and 2019 is explained by the changes in rules and fiscal stimuli that the President of the United States of America, Donald Trump, has recently managed to get approved in Congress by the end of 2017, and which will have effects on the largest economy in the world as well as on its trading partners, especially Canada and Mexico.



Source: Thomson Reuters and IMF.



Source: Thomson Reuters and International Labour Org. (ILO).

EURO ZONE

The economy of the Euro Zone continued its recovery throughout 2017, recording an average annual GDP growth of 2.5% (+2.3%, according to data not adjusted for seasonality and working days of Eurostat), above that observed in the previous year (+1.8%), in a year that was marked by relatively high quarter-on-quarter GDP growth throughout the four quarters (between +0.6% and +0.7%), above the historic average (+0.3% between 1999 and 2016 and +0.5% between 1971 and 2016). Reflecting the gradual recovery of the economy, the unemployment rate followed the improvement trend initiated in mid-2013, having fallen from 9.7% in December 2016 to 8.6% in December 2017, the lowest value since December 2008 (8.3%).

The inflation rate, measured by the year-on-year change of HICP showed a little monotonous behaviour throughout 2017, with an annual average value of 1.5% in 2017 (+0.2% in 2016), fluctuating between the records of June and July 2017 (+1.3%, a minimum since December 2016: +1.1%) and the record of February 2017 (+2.0%; a maximum since January 2013), remaining below the medium term target of the European Central Bank (ECB) of 2.0% (with the exception of February, when it equalled this figure). Aimed at combating the risk of low inflation over an overly long period, stimulating credit flows to the real economy and, in this way, boosting the economy, the ECB maintained a highly expansionary policy, having, inclusively, actually strengthened it, without altering the conventional monetary policy. Throughout 2017, the ECB kept its reference rate: the interest rate of the main refinancing operations - refi rate – at 0.00% and the interest rate on marginal lending facility and on deposit facility at 0.25% and -0.40% respectively. At the same time, the ECB announced, on October 26, 2017, the second extension of the asset purchase programme (APP) until at least September 2018, with the average pace of monthly purchases of assets remaining at 60 billion euros (€bn) until the end of December 2017 (previous enforcement period) but reduced to €30bn between January and September 2018.

Economic Estimates and Forecasts for Portugal and the Euro Zone

(unit: %)	2017						2018				2019			
	Portugal			Euro Zone			Portugal		Euro Zone		Portugal		Euro Zone	
	Eff.	BoP	EC	Eff.	ECB	EC	BoP	CE	ECB	EC	BoP	EC	ECB	EC
GDP	**2.7**	**2.7**	**2.7**	**2.5**	**2.5**	**2.4**	**2.3**	**2.2**	**2.4**	**2.3**	**1.9**	**1.9**	**1.9**	**2.0**
Private Consumption	2.3	2.2	1.9	1.7	1.9	1.8	2.1	1.6	1.7	1.7	1.9	1.6	1.7	1.5
Public Consumption	-0.2	0.1	0.4	1.2	1.2	1.2	0.5	0.5	1.2	1.6	0.4	0.5	1.2	1.4
Investment (GFCF)	9.1	9.0	8.1	3.2	3.7	3.9	6.5	5.3	4.4	3.9	5.6	4.9	3.4	3.3
Exports	7.8	7.9	8.0	5.4	5.2	4.5	7.2	7.3	5.3	4.4	4.8	4.9	4.1	4.2
Imports	7.9	7.9	8.0	4.5	4.6	4.7	7.7	7.2	5.1	4.7	5.4	5.2	4.5	4.4
Inflation	**1.6**	**1.6**	**1.6**	**1.5**	**1.5**	**1.5**	**1.2**	**1.6**	**1.4**	**1.5**	**1.4**	**1.5**	**1.4**	**1.6**
Unemployment rate	**8.9**	**8.9**	**9.2**	**9.1**	**9.1**	**9.1**	**7.3**	**8.3**	**8.3**	**8.5**	**6.3**	**7.6**	**7.7**	**7.9**

Sources: Bank of Portugal (BoP), March 28, 2018; European Commission (EC), November 9, 2017 (except for GDP and inflation, which respect the interim forecasts of February 7, 2018) and European Central Bank (ECB), March 8, 2018.

Notes: "Eff." corresponds to the effective date altready released for 2017; inflation is measured by a year-on-year change of HICP.

PORTUGAL

After three years of recession, the Portuguese economy returned to growth in 2014 (+0.9%). In the following years, the gradual recovery process continued, increasing 1.8% in 2015, 1.6% in 2016, and having accelerated sharply in 2017 to 2.7%, slightly above the 2.6% forecast by the Government in the State Budget for 2018 (SB 2018) and representing the highest growth rate since 2000 (+3.8%). The economy growth in 2017 reflected only the contribution of domestic demand, which contributed positively by 2.9 p.p., with the acceleration of this contribution (+1.6 p.p. in 2016), mainly reflecting the strong acceleration of investment, but also of private consumption. Thus, private consumption expanded by 2.3%, accelerating (+2.1% in 2016), while fixed capital investment (GFCF - gross fixed capital formation) increased by 9.1%, in strong acceleration compared to the growth of 1.5% observed in 2016. On the other hand, public consumption registered a slight decrease of 0.2% (+0.6% in 2016) and the stock changes had a negative contribution of 0.1 p.p., after having already made a negative contribution of 0.1 p.p. in 2016. On the other hand, net exports, as mentioned, showed a negative contribution of 0.2 p.p., penalizing growth for the 4th consecutive year (although in 2016, in a marginal way: -0.01 p.p.) with a negative contribution from net exports in 2017, reflecting increases of 7.8% in exports (+4.4% in 2016) and 7.9% in imports (+4.2% in 2016). It should be noted that, although net exports in 2017 have once again penalized growth, the economic recovery has continued to be sustained by exports, which ended the year 2017 47.7% above pre-program adjustment levels (2010). For 2018, economic activity is expected to grow again, but slowing to 2.3%, in line with what was most recently forecasted by the Government [in the Stability Program (SP) 2018-2022, published on April 13, the Government already points to a growth of +2.3%, 0.1 p.p. above the constant of the SB 2018].

In recent years, Portugal has embarked on a process of budgetary adjustment, despite the punctual aggravation the deficit observed in 2017, caused by the impact of the recapitalization of Caixa Geral de Depósitos (CGD). Indeed, following the 2.0% GDP budget deficit in 2016, in decline from the 4.4% deficit in 2015 – a reduction which benefited from some extraordinary effects, such as the cash inflow from the debt settlement programme (PERES), the refunding of margins of the European Financial Stabilisation Fund (EFSF) and the non-delivery to Greece of the ECB's profits with the rescue – the budget deficit in 2017 amounted to 3.0% of GDP, representing a deterioration of the balance of 1.0 p.p., with this unfavourable behaviour reflecting an increase in expenses of 6.2%, but mainly due to the impact of CGD's recapitalization, while revenue grew by 3.9%. Excluding the impact of the recapitalization of CGD, the budget deficit for 2017 – a measure that the national authorities were considering valid up until the contrary opinion of the Eurostat – remained only at 0.9%, well below what had initially been estimated by the Government in SB 2018 (-1.4%) and which would represent the lowest deficit in the entire democratic history of Portugal, since the previous lower deficit was, according to annual series in 1974, of -1.0% of GDP. As a result of the fact that the deficit in 2017, excluding the impact of CGD's recapitalization, fell short of expectations in SB-2018 (-0.9%, when the Government forecasted -1.4%), the Government has reviewed downwards the budget deficit forecast for 2018 to 0.7%, within the framework of SP 2018-2022.

The savings rate, considering the four-quarter moving average, declined in the 1st quarter of 2017, from 5.9% observed at the end of 2016 to 5.3%, having subsequently risen to 5.4% in the 2nd quarter of 2017, declining again in the 3rd quarter of 2017 to 4.5%, but returning to the rises in the last quarter of the year (5.4%), presenting an annual reduction of 0.5 p.p. in 2017, to 5.4% (5.9% in 2016).

In the labour market, the unemployment rate decreased from 11.1% in 2016 to 8.9% in 2017, thus continuing the downward trend since the historic maximum peak reached in early 2013 (17.5%), with the outlook pointing to a renewed reduction in 2018 to 7.4%, in the latter case below the figure advanced by the Government in the SP 2018-2022 (7.6%).

Inflation, measured by the annual average change of the consumer price index (CPI), was 1.4% in 2017, accelerating from the 0.6% observed in 2016 (+0.5% in 2015 and -0.3% in 2014), with core inflation (excluding energy, food and tobacco prices) at 1.1% in 2017 (0.7% in 2016).

It should be noted that in 2017, Portugal was marked by a strong reduction of sovereign risk, evident in the reduction of the spread of the 10-year Portuguese Government bond yields in relation to German bond yields. This evolution was influenced by the flow of favourable news that were progressively disclosed, with the recovery of economic activity and the labour market proving to be higher than that previously forecasted, offering a better outlook for the accomplishment of the budget targets, which were also surpassed. Contributing to this reduction of the spread was also the fact that the country left the Excessive Deficit Procedure and the sovereign rating rose to first level of investment grade with favourable outlook on September 15, 2017, announced by the Standard & Poor’s agency, and to two levels above "speculative grade" by Fitch, maintaining the positive outlook, on December 15, 2017.

PORTUGUESE REAL ESTATE MARKET

The deleveraging of the real estate sector implemented in 2010, under the agreement with the Troika (International Monetary Fund, European Central Bank and European Commission) created negative dynamics between the default, the declining house prices, the deterioration in assets prices, the greater restrictiveness in credit concession criteria (and its effective reduction) and the recession. For these reasons, the construction sector has been one of the most pressured, with the sector's GVA showing a merely marginal decline in 2015 of 0.04%, after having contracted by 8.4% in 2014, but returning to decline sharply in 2016, contracting by 1.7%, decreasing to new minimum levels, at least since 1995, representing less than half the historic peaks of 2001, notwithstanding having shown an intense sequential growth of 4.6% in the 4th quarter of 2016. The sector's GVA showed strong growth in 2017 (+6.7%), reflected both the strong dynamics of the sector at the end of 2016, referred to above, and the strong start-up observed in 2017, when GVA expanded by 5.4%, with the declines observed in the following quarters (-1.5% in the 2nd quarter and -2.2% in the 3rd quarter) being manifestly insufficient to annul the strong start of the year for construction. This scenario was compounded by the strong sequential growth of 4.1% observed in the 4th quarter of 2017, with the sector's GVA reaching peak levels since the 4th quarter of 2013, after having dropped to minimum levels in the 3rd quarter of 2016, at least since 1995. Even so, GVA of construction closed the 4th quarter of 2017 at a level 52.8% below the historic peaks of the quarterly series observed in the 4th quarter of 2001. The housing price index (HPI) recorded year-on-year growth of 10.5% in the 4th quarter of 2017, a figure higher than the one observed in the previous quarter (+10.4%) and representing the 17th consecutive increase after having maintained a fall between the 4th quarter of 2010 and the 3rd quarter of 2013, the highest growth rate in the current INE series (started in 2010), which is estimated to be the highest growth since the 2nd quarter of 1992 (+13.7%), according to the longest time series constructed by CEMG based on similar indexes made available by other entities. Compared to the previous quarter, the HPI recorded a 1.2% increase (+3.5% in the previous quarter), renewing historical maximum levels of the series.

OTHER ECONOMIES

In Angola, the economy continued to face enormous macroeconomic imbalances in 2017, as a result of the previous sharp decline in the oil prices. CEMG estimates that, after GDP has contracted 0.8% in 2016, the economy started recovering in 2017, with an increase of 1.1%, lower than the 2.1% estimated by the Government in GSB 2017, but roughly in line with the 1.0% estimated by the IMF under the most recent visit to the country on March 16 (even though the IMF forecasted +0.7% in the WEO of April 17), and the same as the 1.1% assumed by the Government in GSB 2018 (December 15, 2017 Proposal, approved by Parliament on February 14), with an acceleration to 2.6% in 2018 (Government: +4.9% in the 2018 GSB, IMF: +2.2%). After an average annual inflation rate of 32.4% in 2016 (+10.3% in 2015), a decrease was recorded in 2017, to 31.7%, but remained high and for the third consecutive year (+7.3% in 2014), with the sharp depreciation of the kwanza against the dollar since the end of 2014, representing the main factor for this strong pressure on domestic prices.

In 2017, Mozambique's GDP grew by 3.7%, slightly slowing down from the growth of 2016 (+3.8%) and representing the lowest rate since 2000 (+1.7%). This is a pace below that advocated by the Government (+4.7% in the 2018 SB Proposal, dated September 21, 2017), but in line with that assumed by the IMF (on March 7, during the last consultation to the country under Article IV, although in the WEO of April 17, the IMF estimates +3.0%). We expect a return to the accelerations in 2018, to 3.8%, below the Government forecast in the 2018 SB (+5.3%). Average annual inflation (measured by the CPI in Maputo city) was 15.1% in 2017, decelerating from 19.3% in 2016 (+2.4% in 2015), when the highest inflation had been observed since 1996.

In Cape Verde, GDP growth slowed down after the international crisis, with average annual growth of only 1.8% between 2010 and 2016, well below the 7.4% recorded between 1993 and 2008, with growth of 3.9% in 2017, accelerating from the 3.8% growth in the previous year and representing the highest growth rate since 2011 (+4.0%). The year-on-year change in the CPI was 0.3% in December 2017 and the average annual inflation in 2017 was 0.8%, higher than in 2016 (-1.4%).

FINANCIAL MARKETS

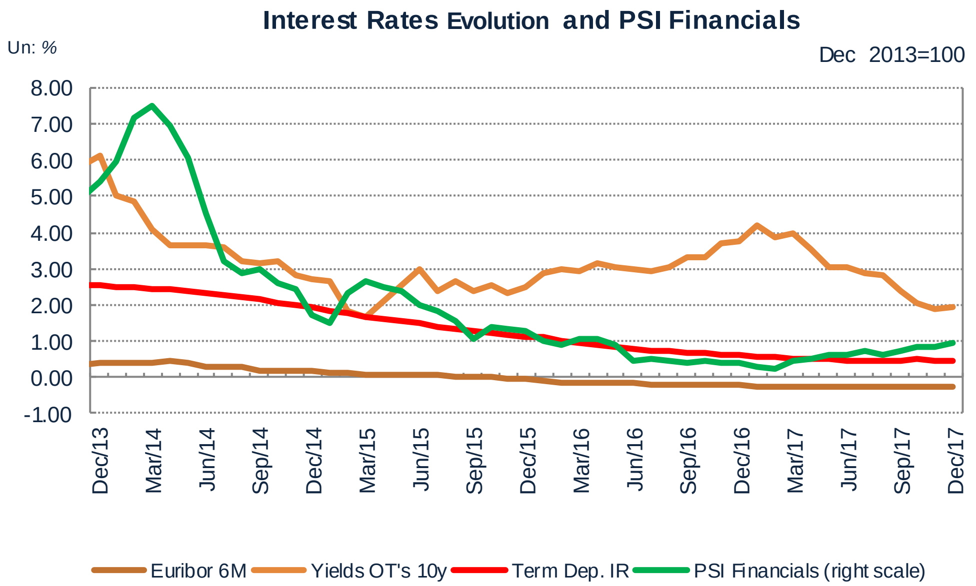
In terms of movements in financial markets, in the whole of 2017, appreciations were mostly recorded in the main stock market indices, with some surpassing maximum peaks – although not all closed at these levels –, in this regard, highlighting the appreciations of the indices of the USA (Nasdaq +28.2%, S&P 500 +19.4% and Dow Jones +25.1%), Asia (in Japan the Nikkei 225 increased by +19.1%, the Sensex 30 in India by +27,9%, the Hang Seng of Hong Kong by +36.0% and the Chinese Shanghai Composite +6.6%) and Latin America, with the Brazilian Ibovespa on high (+26.9%). In Europe, there were also positive performances but more moderate, with the Eurostoxx 50 increasing by 6.5%, the British FTSE 100 advancing by 7.6% (notwithstanding the Brexit), and the PSI-20 growing by 15.2%, accompanying the rising indices of Spain (IBEX +7.4%), France (CAC 40 +9.3%), Germany (DAX +12.5%) and Italy (FTSE MIB +13.6%).

The reference government bond yields showed increases in Germany in the periods of two (+14 b.p.) and ten (+22 b.p.) years, in a context of the continued expansionary policy of the ECB. In the USA the movement was highest in the short term (+69 b.p.), reflecting increases (and rising expectations) of interest rates by the Fed, but recording a slight decline in the long term (-4 b.p.).

In the Interbank Money Market (MMI), dollar rates (Libor) rose across all maturities, reflecting target increases in fed funds rates held by the Fed throughout 2017 (March 15, June 14, and December 13). Regarding the Euro rates (Euribor) renewed historical lows and presented negative values throughout the year in the three, six and twelve months, with the first two exhibiting steeper marginal declines in the year (-1 b.p., and -5 b.p., respectively) and the last reducing 10 b.p. (it should be recalled that the three-month Euribor entered negative values on April 21, 2015, the six-months Euribor on November 6, 2015 and the twelve-months Euribor on February 5, 2016), continuing to reflect the expansionary monetary policy that has been endorsed by the ECB.

The 10-year Government bond spreads in peripheral Eurozone countries declined in all peripherals, most notably the reductions in Portugal (-204 b.p.) and Greece (-321 b.p.), while spreads in Italy, Spain and Ireland decreased 2 b.p., 4 b.p. and 23 b.p., respectively.

In the foreign exchange market, the nominal effective exchange rate of the euro (EUR) rose 5.4% in 2017, closing near to the value of August 29, 2017, a maximum since September 2014. The EUR gained 14.0% against the dollar (USD) and 4.0% in relation to the pound (GBP).



Source: Thomson Reuters.

MAIN RISKS AND UNCERTAINTIES IN 2018

In January 2018, the IMF considered that the risks for the world growth forecast appear, in general, balanced in the short term, as the cyclical recovery could become stronger with the recovery of business and improvement of the financial conditions potentially mutually strengthening one another, but continue biased in a downward direction in the medium term:

- the high valuations of assets and the very squeezed maturity premiums increase the possibility of a correction in the financial markets;
- a faster than expected increase in underlying inflation in the advanced economies and hence in interest rates as demand accelerates;
- if global sentiment remains strong and inflation does not change much, the financial conditions may remain favourable in the medium term, but subsequently increase the financial vulnerabilities of the advanced and emerging economies;
- the protectionist policies, the geopolitical tensions and the political instability in some countries also represent negative risks;
- it is "imperative" to ensure financial resilience or, looking at inflation, that the monetary policy should continue to become more restrictive; and the IMF foresees
- "risks of decline" in the medium term, pointing to "complacency" as the biggest risk, emphasising that "prudent politicians should look beyond the short term and not fall into the temptation to" sit and enjoy the momentary sunshine".

The IMF also reiterated that structural reforms continue to be essential in many economies to increase potential GDP. The sluggish growth of world GDP also makes it more important that the gains should be shared through a more equitable distribution of income. The risks to financial stability need tight surveillance in many emerging economies. Commodity exporters should continue to adjust to lower revenue, diversifying their sources of growth over time.

For the Portuguese economy, domestically, the main challenges are linked to: *i)* the still weak situation of the banking system; *ii)* the continuation of some political risks (due to the heterogeneity of the parliamentary majority that supports the minority Government), in a context in which the country should continue committed to objectives of additional consolidation of public finances required by Brussels for the medium term. On the positive side, the recovery of the labour market may continue to surpass expectations, supporting greater growth of domestic demand.

At the same time, despite the continued deleveraging process of the non-financial private sector over the last years, this sector is still highly indebted, so the effort to reduce the debt level will have to endure in order for the main economic agents, households and non-financial companies be able to continue meeting their responsibilities. If the deleveraging process does not endure, the risk of an increase in credit default may growth, with a negative impact on the quality of banks' assets.

Furthermore, the economy is still vulnerable to the evolution of global demand which, as a central scenario, is expected to continue rising, but which is also surrounded by risks. The upward risks are mainly due to: *i)* the low price of oil [despite the average price of oil of 2018 should be higher than previously forecasted], which should continue to favour the terms of trade; *ii)* the possibility of the global economy accelerating at a rate higher than that expected. On the negative side, it should be noted that: *i)* an overly rapid appreciation of the euro could constrain the competitiveness of the Portuguese economy; *ii)* the high geopolitical risk derived from the following factors: *a*) uncertainty about the situation of Catalonia; *b)* uncertainty about the Brexit process; *c)* uncertainty relative to the American economic policy and fiscal reform that the Presidency of Donald Trump will implement; *d)* geopolitical uncertainty in the Middle East (e.g. Syria), in the Far East (e.g. North Korea) and in Eastern Europe (Russia/Ukraine), and USA / Russia relations.

Liquidity constraints during 2018

In 2018, the main question mark on the evolution of interest rates and on the constraints of the monetary market is whether the stimulus under the ECB's current accommodative monetary policy will continue. Unconventional measures of monetary policy, through the purchase by ECB of financial assets, are expected to see a new reality by the end of the year, following a reduction of the monthly liquidity injected into the system in that way. In fact, and while key interest rates are expected to remain unchanged at historically low levels throughout 2018, an expected further reduction in liquidity injected by the Eurozone monetary authority - or even its suppression (the ECB is expected to make three months of tapering beyond the date of September 2018 that was formally announced to the end of the program, with the ECB expected to extend the program by the end of the year, with successive reductions in monthly purchases from September onwards) -, may condition the behaviour of interest rates and, consequently, of the system's liquidity. The ECB is expected to initiate a policy of reducing monetary stimulus, similar to what the US Federal Reserve has done in regard to the dollar, and then to initiate the movement of raising rates, which the US have already experienced. However, in the Euro Zone, this movement by the ECB to raise rates should not occur before the third quarter of 2019.

Contrary to previous years, where the political risk arising from the elections in the main European economies has played a major role, by 2018 liquidity should have its constraints mainly centred on economic growth, inflation and, consequently, on the ECB's monetary policy.

STRATEGY AND BUSINESS AREAS

STRATEGY

During 2017, CEMG strengthened its market positioning focused on the business of families and of small and medium-sized enterprises (SMEs) and Social Economy, based on solidarity, on the one hand, and on the bank's soundness on the other hand. Throughout the year, CEMG pursued its commitment to develop and implement the actions defined for each of the strategic pillars included in the Strategic Plan for the 2016-2018 triennium.

The Strategic Plan for the 2016-2018 triennium aimed to ensure sustainability, supported by the adjustment of the business model and market approach, and the strengthening of capital and liquidity levels, defining the priorities of action as reinforcing the value proposition, the efficiency of the platform, strengthening risk management, human capital management, capital management and institutional positioning.

The year 2017 in Portugal was marked by a reduction in the country's risk, which was reflected in the reduction of the 10-year Portuguese Government bond yields spread vis-à-vis the German bond yields spread. This evolution was influenced by the recovery of economic activity and the labour market, with better prospects for meeting the budgetary targets, which were also surpassed. However, the challenging context for the pursuit of banking activity continued, in particular driven by the maintenance of an extended period of low interest rates, the growing regulatory requirements, a credit and savings cycle in Portugal still characterised by low investment propensity and low savings rates.

In view of the context challenges outlined above, the Strategic Guidelines delineated for the 2016-2018 triennium were based on seven main pillars: recovery of core total operating income, improved efficiency, reinforcement of liquidity, strengthening of risk management, adequacy of capital to the Group’s needs, talent management and the consolidation of the corporate model.

For the triennium 2016-2018, the accomplishment of the strategy and the respective implementation of the strategic objectives relied on the following measures of action:

- Reorientation of the balance sheet so as to strengthen the net income derived from the financial intermediation business, an essential pillar of the core business;
- Reinforce the contribution of commissioning of financial services to net income;
- Optimisation of the commercial network and central services;
- Reduction of costs related to external supplies and services;
- Reduction of the cost of risk through the combined effort of a better origination of new credit and increased recovery levels;
- Implementation of integrated management of real estate properties;
- Preservation of a composition of profitable and liquid assets;
- Increased deposit attraction;
- Rationalisation of the portfolio of holdings;

- Gradual reduction of risk-weighted assets as a form of strengthening the adequacy of economic capital allocation to the business;
- Review of the performance appraisal system;
- Launch of a training plan;
- Fair allocation of costs and benefits between CEMG and MGAM;
- Development and consolidation of the governance model.

The year 2017 marks CEMG's return to profits, with positive net income, benefiting from the increased net interest income, the rise of net fees and commissions and the reductions both of operating costs, and of impairments and provisions which, together, contributed favourably to the evolution of the net income achieved. The increased net interest income and net fees and commissions drove the rise of core total operating income and demonstrated an effective and efficient implementation of the strategic plan. In turn, the reduction of operating costs, to which the completion of the process of rationalisation of the operative platform contributed, enabled a sharp improvement of the *Cost-to-income*.

The success of the implementation of the strategic plan also permitted CEMG's return to the markets, in October 2017, with an operation placing 750 million euros of mortgage bonds. This operation largely exceeded the offer, which opened the door to the subsequent successful sale of a non-performing credit portfolio of the value of 580.7 million euros.

On June 30, 2017, the share capital was increased by 250 million euros, fully underwritten by MGAM, elevating the share capital to 2,020 million euros. This enabled CEMG to strengthen the conditions for business development through the improved capital ratios, placing them among the highest ratios of the market.

At the end of 2017, Fitch upgraded CEMG's rating from B to B+ in recognition of the measures adopted by CEMG to strengthen the capital ratios and its speed in implementing the strategic plan.

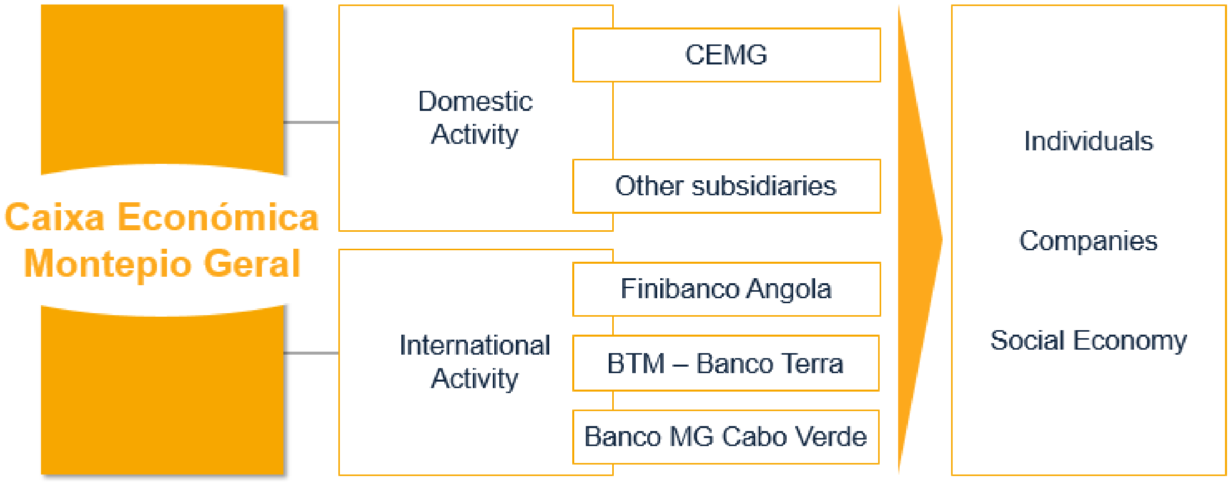
During 2017, CEMG launched its first trainee program, opening transversal vacancies to positions all over the institution through a demanding recruitment and selection process based on greater valorisation of talent and soft skills, allowing 45 trainees - from among over 1500 applicants - to enter CEMG, with the possibility of remaining in office after the 12 months of internship.

The performance observed in terms of the strategic objectives for 2017 demonstrates the focus on compliance with the plan, on the one hand, and the adequacy of the strategy that was initially delineated, on the other hand.

BUSINESS AREAS

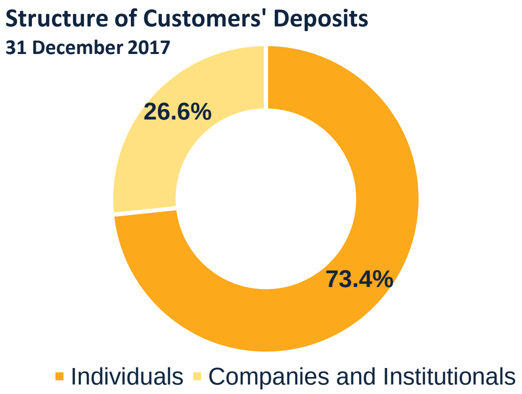
The CEMG Group is characterised by being one of the main Portuguese financial groups in retail banking, with its core business being based on the domestic market, while also developing some activities abroad.

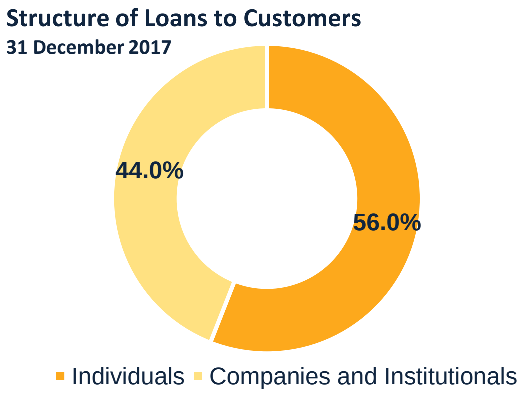
CEMG is a comprehensive and diversified group, placing at the disposal of Individual, Corporate and Social Economy customers a universal offer of complementing products and services through its domestic distribution network, its stakes held in other subsidiaries that develop their activity in Portugal and, at the level of the international business, through the stakes held in Finibanco Angola, BTM – Banco Terra in Mozambique and Banco MG Cabo Verde.



CEMG's core business is centred on domestic activity, especially the offer of commercial banking products and services, namely the attraction of deposits and the granting of loans.

As at December 31, 2017, CEMG customer deposits stood at 12.6 billion euros, with individuals accounting for 73.4% of this amount, and loans to customers reaching 14.1 billion euros, of which 56.0% were from individuals and 44.0% from corporate and institutional customers.

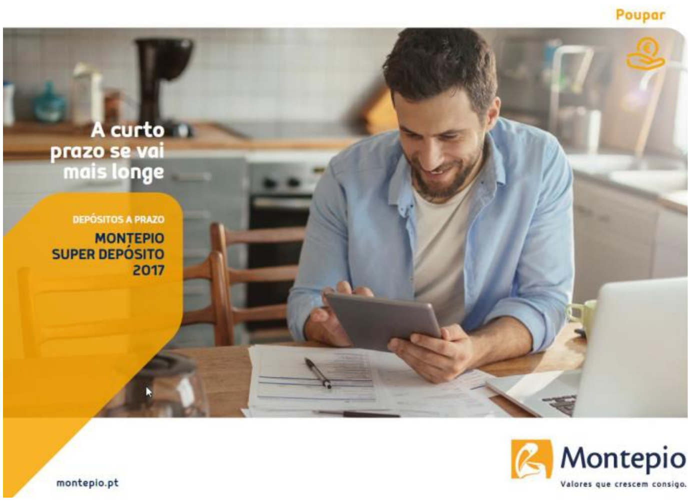




DOMESTIC ACTIVITY

INDIVIDUALS

The strategy defined by CEMG for the Individuals segment has prioritised the encouragement of family savings, namely through attraction and retention of funds, by offering term deposits with different features and maturity periods.



Throughout 2017 CEMG provided new deposits with special focus on the capture of new capital (Montepio Super Depósito 2017 (Montepio Super Deposit 2017), Montepio Super Depósito 2017 - 6 Meses (Montepio Super Deposit 2017 - 6 Months), Montepio Super Depósito Setor Social (Montepio Super Deposit Social Sector) and Montepio Super Depósito Setor Público (Montepio Super Deposit Public Sector)) and on the attraction and retention of small savings (Montepio Poupança Direta (Montepio Direct Saving) and Depósito a Prazo Dá Mais (Yields More Term Deposit)).

Also of interest are the Depósitos Poupança Super (Super Saving Deposit), at 3 years, with a growing interest rate and six-monthly payment of interest, Poupança 4D (4D Saving), which promotes customer loyalty and cross-selling of other products and services, Poupança Aforro Digital (Digital Saving), which encourages adherence to digital documentation, and Poupança Ativa (Active Saving), for customers wanting to constitute savings through a monthly submission plan.

Campaign Super Savings Bué – Aquashow

In line with the strategic guidelines and business objectives delineated for 2017, which primarily aim to contribute to increase the heading of intermediation resources through the attraction/retention of capital, increase the penetration rate of new customers and boost the synergies derived from the existing Partnership between CEMG and Aquashow, CEMG promoted a stimulation action directed at the segment of minors called the Campanha Super Poupança Bué - Aquashow (Bué Super Saving - Aquashow Campaign). This action, with Above the Line exposures (television, cinema, radio, press and outdoor) and which took place during the month dedicated to Children enabled strengthening the Montepio brand's positioning as a Savings Bank and Partner of Families.

In line with previous years, the offer of Retirement Saving Plans (RSP) was continued in 2017, through the provision of products of Futuro – Sociedade Gestora de Fundos de Pensões, S.A., with campaigns having been carried out over the year aimed at encouraging saving in a perspective of investment for retirement, through free or periodic deposit of sums. To highlight the PPR Garantia de Futuro (Future Guarantee RSP), distinguished for the second consecutive year with the best RSP Fund award, within its category (risk level 3), in the Best Funds Awards of Jornal de Negócios / APFIPP - Associação Portuguesa de Fundos de Investimento, Pensões e Patrimónios (Portuguese Association of Investment Funds, Pensions and Assets).

Concerning the offer of financial products, in 2017 CEMG continued to promote the offer of Real Estate Investment Funds managed by Montepio Gestão de Activos, Sociedade Gestora de Fundos de Investimento, S.A., and two Real Estate Investment Funds – Valor Prime and VIP, managed by two other Management Companies, Montepio Valor and Silvip, respectively.

In 2017 the Fundo Montepio Ações Europa (Montepio Europe Shares Fund) was distinguished in the category of Best Fund of European Shares, in the Best Funds Awards of Jornal de Negócios / APFIPP - Associação Portuguesa de Fundos de Investimento, Pensões e Patrimónios (Portuguese Association of Investment Funds, Pensions and Assets).

In 2017 Montepio Global Solutions continued to present a diversified range of products and services with differentiated and appealing pricing. The Consigo, Valor, Viva and Runner Solutions are suited to Individual customers with different profiles of banking needs and offer benefits that facilitate their daily financial management.

With respect to financing solutions for Individuals, the Consumer credit and Mortgage loan solutions stand out in 2017. In the Consumer credit, the communication formats, digital leaflets, pamphlets and posters at branches were updated. The external simulators were also updated and simplified, allowing customers a more pleasant experience and more immediate results.

At the processes level, the improvement of these processes has continued, namely, the contract minutes of these operations became integrated in the legal portal.

In the area of mortgage loans and following the strategy started in 2016 of repositioning the product on the market, thus accompanying the favourable circumstances of the real estate sector, the reformulation of the offer continued in 2017 as well as the improvement of the internal process, highlighting the offer of special price differentiating conditions directed at different customer needs, namely for acquisition, construction, works and transfer from Other Credit Institutions, which includes Urban Rehabilitation and Real Estate Properties held in portfolio. To this end, an Above the Line communication action (mass communication strategy, covering the television, cinema, radio, press and outdoor media) was developed to disclose the differentiating price conditions, which was present in various media formats.

Following Directive 2014/17/EU, relative to consumer credit contracts for real estate properties for residential purposes, which was transposed to the Portuguese legal system on June 23, 2017, the changes relative to the marketing of credit contracts backed by mortgages were successfully implemented, in particular with regard to the provision of pre-contractual information through the European Standardised Information Sheet (ESIS), the calculation of the annual percentage rate of charge (APR), and the implementation of procedures and criteria to be observed in the assessment of the consumers' financial solvency.

COMPANIES

Throughout 2017, the strategic focus and positioning of the brand among the corporate segment developed based on diversification and innovation, in line with the new paradigm of business success, recognition, encouragement and support to the introduction of new technologies, as assets of differentiation and valuation.

During 2017, CEMG strengthened its participation in public sector initiatives directed at stimulating the funding of companies in diverse aspects, from supporting the victims of the fires occurred in 2017, to supporting specific clusters such as Urban Rehabilitation, with the signing of the Revive protocol.

In this regard, the following actions were of particular interest throughout 2017:

Capitalizar Line

CEMG subscribed the 'Linha Capitalizar' (Capitalise Line) integrated in the 'Programa Capitalizar – Portugal 2020' (Capitalise Programme – Portugal 2020), a credit line which seeks to support long-term investments, create more advantageous financing conditions for micro and small enterprises, boost the offer of financing solutions for investments in projects with EU funds, expand the offer of working capital operations and broaden the access to credit ceilings to all companies.

InnovFin Line

The Protocol signed by CEMG with the European Investment Fund (EIF) at the end of 2016 enabled CEMG to make available in the year 2017[5] a financing line of the value of 20 million euros to Portuguese companies with potential for innovation. This agreement allowed the granting of loans, with attractive conditions, to small and medium-sized enterprises throughout 2017, and will continue in 2018. The European Investment Fund guarantee is granted under the InnovFin agreement, supported by Horizon 2020, framework programme of the European Union for Research and Innovation.

[5] This loan is guaranteed by the European Fund for Strategic Investments and is part of the programme of loans from the European Investment Bank (EIB), amounting to 300 million euros, which seeks to support the Portuguese economy by financing projects implemented by national small and medium-sized companies that promote job-creation.

Fincresce Program

In 2017, CEMG once again joined forces with the IAPMEI (Institute for Small and Medium-Sized Enterprises and Innovation) in renewing the Fincresce Program, so as to continue distinguishing companies which, due to their performance, are positioned as drivers of the national economy in different activity sectors, through the attribution of SME Leader and Excellence Status.

Valorisation of Human Capital

In order to accomplish the growth of business in the corporate segment, in line with the objectives defined in CEMG's strategic plan for the 2016-2018 triennium, in the first semester of 2017, new competences were developed which enabled placing the customer at the centre of the business strategy, and in this way create value for the companies and for CEMG. Hence, it was possible to grow throughout 2017 in a profitable and sustainable manner, customer-driven and with the support of the commercial teams, through an integrative and participative action plan involving all CEMG's areas, focused on quantitative and qualitative results.

In 2017, CEMG's action plan concerning Large Companies and Institutional Customers concentrated on three major axes of action, aimed at creating a systematic, effective and winning vision around the customer, enabling CEMG to capture more value and improve customer:

- Core Total Operating Income[6] - Measures were implemented to improve profitability, repricing and deleveraging, in each segment, in view of the market potential, associated to customer satisfaction. New business opportunities, objectives and actions were identified, namely the potential for cross/deep selling, which enabled optimising the contribution of the international business, Factoring and Confirming.
- Commercial Dynamics - The 'TRIANGULUM' commercial dynamization programme launched in the second half of 2017 aimed at creating a winning business systematic focused on the customer. The purpose of the TRIANGULUM programme consists of levering, valorising and boosting the talent of CEMG's commercial teams, both at the functional and leadership level, as well as their recognition and self-development.
- Innovation of the Offer – In this context, in 2017, CEMG's approach involved focus on the needs of specific clusters as priority axes of communication in corporate business. Throughout 2017, CEMG deepened its positioning in the corporate segment and action plan (marketing mix of products/services/channels/pricing and communication), identifying value propositions, materialising new forms of interaction and being with the Customer, with a view to meeting the needs of companies, fostering innovation, the launch and promotion of new products.

[6] Net Interest Income + Net Fees and Commissions

It is also important to mention other projects and/or initiatives that were supported by CEMG throughout 2017:

- The Conference, dedicated to the topic: Portuguese SMEs and the new formula Q (Qualification) I (Internationalisation) M (Markets), organised by Mundo's (Association for the Internationalisation of Portuguese Companies in Francophone Markets.
- The 1st Congress of Beira Baixa, organised by AEBB (Business Association of Beira Baixa to promote territorial cohesion) for the promotion of territorial cohesion, via the strategic promotion of local actors. This was a prospective debate on the future of the region, and reflection on the new challenges and opportunities, under the motto "Unir para Desenvolver a Região" (Unite to Develop the Region).
- Link to Leaders, a digital editorial project developed with CEMG's support due to the singular and innovative nature that the format represents in relations with the corporate segment, especially startups.
- Lisbon Zoo, continuously supported by CEMG, due to the role it plays in the sphere of the conservation of species (conservation, reproduction and reintroduction into their natural habitat of endangered species), development and promotion of both the zoological and botanical park.
- EC Travel Gala and Summer Gala Pine Cliffs 2017, Wine Grape Harvesting - Quinta do Gradil – under the support lent by CEMG to the Tourism sector, due to the relevant contribution performed in the development of the economy.
- Universidade Lusíada School Award – in 2017 the best students of Universidade Lusíada de Lisboa were given a pecuniary school award, representing CEMG's trust in the future of the Portuguese business structure and embodying CEMG's support to the new generations.

Microcredit

At a time of persistent social inequalities, in 2017 Microcredit reaffirmed its importance in supporting entrepreneurs with business ideas that are sustainable, employment creating and which, through small-scale financing, contribute to promote the fight against social exclusion and are financially autonomous. In this regard, during 2017 CEMG maintained strong dynamics in the implementation of the 'Programa de Apoio ao Empreendedorismo e à Criação do Próprio Emprego' (Programme to Support Entrepreneurship and Own Job Creation), a protocol established with Instituto do Emprego e da Formação Profissional, I.P. (IEFP) and the four Mutual Guarantee Companies (Norgarante, Garval, Lisgarante and Agrogarante) embodied in the credit lines Microinvest and Invest+.

Concerning the investment in Microcredit and support to Social Entrepreneurship, throughout 2017 CEMG supported 58 projects through small-scale financing, of a total of €864,049, which led to the creation of 74 jobs.

Montepio Microcredit innovates through the establishment of partnerships with organisations of national, district or local scope that are distinguished by their experience in the field of social entrepreneurship and risk-sharing. In this context, special note should be made of the Montepio Microcredit solution, which has distinctive features that make all the difference, such as specialised managers that accompany the entrepreneurs right from the embryonic phase of the business idea. As such, Montepio Microcredit associates the financial component to that of solidarity, assuring that the entrepreneurial agents receive a follow-up that fosters strong and fruitful proximity and cooperation.

The support to the development of Social Entrepreneurship relied on various financing lines, namely Microcredit, based on a number of partnerships established with entities that are heavily concerned with job promotion, such as:

- Lisbon City Council – the "Lisboa Empreende" Program;
- NERSANT – Business Association of the Region of Santarém, which seeks to promote regional economic development;
- AESintra – Business Association of Sintra, aimed at studying and defending interests relative to Trade, Industry and Services, so as to boost its technical, economic and/or social progress;
- RedOeiras + which seeks the promotion and economic development of the municipality of Oeiras;
- AERLIS - Business Association of the Region of Lisbon, a non-profit association whose main axes of action are information, training, the provision of services, the internationalisation of projects, promotion of integrated regional development, and the representation of the interests of its members;
- Coimbra Lions Club - a non-profit association, designed to provide humanitarian and solidarity services, as well as to stimulate ethical behaviour in all human activities.

SOCIAL ECONOMY

The year 2017 was a year of consolidation of the position of CEMG as Bank of the Social Economy, with strong investment in supporting the institutions comprising the Social Economy sector, and in the ecosystem of entrepreneurship and social innovation. In order to make this possible, the Social Economy and Public Sector Commercial Department (DCESSP), created in 2016, contributes daily with solid knowledge of the sector, based on an experienced, close team, with specialised knowledge and committed to finding the best solutions for the needs of Social Economy entities by offering products and services specifically designed for this segment, and to fostering the most efficient partnerships and long-lasting relations, side by side with the customers.

DCESSP has employees with commercial and technical functions, from north to south of the country, who ensure the development and work with this sector, based on greater proximity and quality of service, essential to meet the needs and expectations of these customers, operating as agents of change and thus contributing to the growth of an economy of social impact and to a more sustainable, fair and inclusive future. At the end of 2017, DCESSP's commercial team was composed of 23 managers dedicated to Social Economy and Public Sector customers and 5 managers dedicated to Microcredit and Social Entrepreneurship.

Support to the Social Economy assumes in CEMG’s Strategic Plan for the 2016-2018 triennium a role of extreme relevance, in line with the path defined in previous periods. In this regard, DCESSP performs the important role of enhancing CEMG's presence in this sector, increasing market share and business, but also supporting the Social Economy, by monitoring the entities that are included therein, the dialogue with its representative structures and different stakeholders, building bridges of understanding and strengthening relationship networks directed towards the growth and strengthening of the Social Economy and its agents.

Support to Social Economy, Entrepreneurship and Social Innovation

Under CEMG's support to the Social Economy, Entrepreneurship and Social Innovation, some of the initiatives and projects developed throughout 2017 are worth noticeable:

XIV Insular Congress of the Misericórdias of the Azores and Madeira

The XIV Insular Congress of the Misericórdias of the Azores and Madeira (charitable associations), which took place during the month of June 2017 at Praia da Vitória, Ilha Terceira of the Azores, dedicated to the theme “Misericórdia(s) & Modernidade” (Misericórdia(s) & Modernity), is characterized as a space of encounter and sharing of experiences, affirming in the present the mission of good-making of these secular institutions.

Solidarity Party of the National Confederation of Solidarity Institutions (CNIS)

The Solidarity Party of CNIS (National Confederation of Solidarity Institutions), held in June 2017 in Funchal, Madeira, which CEMG attended with a stand, provided an excellent opportunity to publicise exclusive products and services for social organisations.

Conference "Ethics in Organizations - Compliance and Competitiveness"

CEMG, together with the APEE (Portuguese Association of Business Ethics) promoted a session in January 2017 dedicated to the topic “A Ética nas Organizações – *Compliance* e Competitividade” (Ethics in Organisations – Compliance and Competitiveness) aimed at debating issues linked to business ethics and the management of organisations.

Social Sector Computer Solutions

Continuing the partnership signed in 2014 with the company F3M Information Systems, leveraged on the reinforcement of the offer and financing conditions, CEMG provides information technology and software solutions for the social sector, aimed at modernising and enhancing the efficiency of the management of Social Economy organisations.

Leasing Auto Social Sector

CEMG maintains the partnership signed in 2014 with Renault, based on financing selected vehicles under beneficial conditions that enable Social Economy organisations to modernise their motor vehicle fleet, as well as including discounts in compulsory motor vehicle insurance taken out through Lusitania.

Montepio Social Tech Program

Social innovation is embodied in a process of development and implementation of effective solutions for challenging social and environmental issues, with a view to inclusion and social progress.

The current wave of entrepreneurship evinced rather all over the world has been conveyed with an increasing proliferation of ideas and projects. CEMG has actively participated in highly innovative and technologically based ideas, projects and business development dynamics.

An example was the creation of the Montepio Social Tech Programme, designed and developed by CEMG, because everything emerges from an idea and this was our idea: taking ideas on social innovation further ahead.

In partnership with the Social Investment Laboratory (LIS) the Montepio Social Tech programme targets young social entrepreneurs that aspire to implement technologically based social innovation projects. The programme received 81 valid applicants and was divided into 3 stages: training and incubation at the Lisbon Impact HUB and a demo day with investors, from which the grand winner was selected: the AidHound project, a software that promotes efficiency in the operations of social organisations, enabling the organisation and management of the intervention routes of the teams, data search and consultation, among other activities.

In this programme, CEMG gathered together a series of partners such as IES-Social Business School, Impact Generator[7], Universidade Católica Portuguesa, Santa Casa da Misericórdia de Lisboa, Universidade do Porto, Fundação Calouste Gulbenkian, Deloitte and Microsoft.

Montepio Acredita Portugal

CEMG once again joined the largest entrepreneurship competition at a national level and the second largest of the world, promoted by Acredita Portugal and which incorporates the brand's name: Montepio Acredita Portugal. This competition aims to support promising ideas, projects and business ventures of

[7] Impact Generator is a social impact acceleration programme focused on preparing initiatives of innovation and social entrepreneurship for investment so as to enable their professionalization and/or growth.

any citizen, regardless of age and formal education level. Participation enables direct contact between candidates, specialists, mentors and investors, as well as access to personalised training and the opportunity to attend a pre-acceleration programme. In the 2017 edition, after 13,000 applicants and 21 runner-up projects, the winner in the Social Entrepreneurship category was Optibest – a project which offers a visual health service to people to people in need.

Social Impact Bonds

Combining the ambition of proximity to the topic of entrepreneurship and social innovation, but also as an entity that supports projects of social impact, CEMG was the first Bank in Portugal to invest in Social Impact Bonds, funding instruments provided by Portugal Inovação Social (Social Innovation Portugal) which aim to support innovative projects with social impact. The Family Project, co-financed by CEMG, is a social innovation project which promotes a methodology that is internationally recognised for its efficacy in preventing the institutionalisation of children and young people at risk.

Impact Entrepreneurs

With the principal objective of publicising what is best done in Portugal in the area of entrepreneurship and social innovation, CEMG supported the television programme "Empreendedores de Impacto" (Impact Entrepreneurs), broadcast weekly on Saturday on TVI 24. Each episode reports two stories of successful social entrepreneurship, told in the first person, by the spokespersons of each project and also includes a space dedicated to an Impact Partnership, where representatives of organisations linked to the promotion and management of social entrepreneurship talk about their work in this area and its relevance to society.

Impact Hub

Another one of the projects which Montepio joined with the intention of supporting and disclosing good ideas and the social entrepreneurs willing to carry them out and push the future forwards is the Impact Hub, an incubation and co-working space, embodied in a national and international network of partners, resources and programmes, so as to strengthen its connection and proximity to the community of impact entrepreneurs. Montepio presents itself as a potential Social Investor of these projects with an important role in society.

Startup Portugal

CEMG has always, since its very beginning, been associated to Startup Portugal - Portuguese Association for the Promotion of Entrepreneurship, as a founding partner, in line with the objectives of this organisation of developing entrepreneurship and supporting innovation, as a form of economic growth and stimulating the business structure. This partnership emerged following an invitation of Startup Portugal, where CEMG is the only financial institution partner of the association. In this way, CEMG strengthens its position as a reference in the national sector of entrepreneurship and social innovation, having celebrated, together with Startup Portugal, its first anniversary this year.

OTHER SUBSIDIARIES

Montepio Investimento, S.A.

In 2017, Montepio Investimento, S.A., a bank 100% controlled by CEMG, continued to ensure an intervention directed at advisory, in particular to SMEs, in the areas of Corporate Finance and Financial Advisory, aimed at complementing the range on offer of the CEMG Group, accomplishing the strategy of transversal diversification of the activity and increasing net interest income and total operating income.

As at December 31, 2017, the Total assets of Montepio Investimento, S.A. stood at 225.3 million euros, showing a reduction of 51.5 million euros in relation to the value recorded at the end of 2016.

At the end of 2017 deposits in other credit institutions stood at 13.2 million euros, decreasing by 33.5 million euros in relation to the end of 2016.

The heading of Financial assets available for sale decreased by 2.7 million euros in 2017, reaching 145.5 million euros as at December 31, 2017.

Net loans to customers amounted to 47.0 million euros at the end of 2017, having fallen by 14.4% (-7.9 million euros) in relation to the value recorded as at December 31, 2016, reflecting the amortisation of the securities and real estate leasing portfolios. The financing of the activity continued to be sustained by Resources from other credit institutions, whose balance reached 35.1 million euros as at December 31, 2017.

Equity amounted to 188.1 million euros as at December 31, 2017, showing an increase of 1.9% in relation to the value recorded at the end of 2016, having benefited from the positive net income recorded in 2017.

Net income came to 1.7 million euros in 2017, which compares to the negative net income of 12.9 million euros recorded in 2016.

In 2017, Total operating income increased by 7.8 million euros in relation to the value recorded in 2016, standing at 5.6 million euros. This figure especially reflected the gains in the Results from financial operations, as well as the favourable evolution of net fees and commissions, which more than offset the decreases recorded under Other operating income and Net interest income.

Operating costs stood at 1.7 million euros in 2017, having fallen by 8.9% in relation to the value stated in 2016, as a result of the reduction recorded in the heading of Staff costs and in the heading of Amortisation and depreciation for the year.

Provisions and Impairments for the year reached 0.7 million euros in 2017, of which 1.3 million euros refer to other assets and -0.6 million euros refer to the loan portfolio.

A summary of indicators on the activity and results of Montepio Investimento is presented below.

Activity and Results (EUR million)

	2015 restated	**2016**	**2017**	YoY Change
Total assets	294,4	276,8	225,3	(18,6%)
Loans to customers (net)	69,6	54,9	47,0	(14,4%)
Financial assets available for sale	180,1	148,3	145,5	(1,8%)
Equity	194,9	184,6	188,1	1,9%
Total operating income	13,9	(2,2)	5,6	-
Operating costs	2,8	1,9	1,7	(8,9%)
Net income	5,9	(12,9)	1,7	-

Montepio Crédito, Instituição Financeira de Crédito, S.A.

Montepio Crédito, Instituição Financeira de Crédito, S.A., 100% controlled by CEMG, provides the offer of specialised credit to individuals in the auto, home and equipment fields to individuals, companies and institutions of the third sector.

Montepio Crédito has progressively repositioned itself within the CEMG Group, joining the core business of auto financing, the development of specialised financing in professional areas, through relations with business partners, suppliers of light and heavy vehicles and industrial equipment.

As at December 31, 2017, Total assets reached 442.5 million euros, showing growth of 56.8 million euros (+14.7%) in relation to the value recorded at the end of 2016. Loans granted to customers amounted to 406.3 million euros at the end of 2017, having increased by 12.0% in relation to the value recorded at the end of 2016.

Net income came to 2.9 million euros in 2017, compared to the 4.3 million euros recorded in 2016.

Total operating income stood at 15.5 million euros in 2017, compared to 17.1 million euros recorded in 2016. This evolution was negatively influenced by the performance of Net interest income, which fell by 1.2 million euros, and Other operating income which fell by 1.7 million euros, having annulled the favourable evolution of Results from financial operations (+1.2 million euros) and fee and commission income (+0.2 million euros).

Operating costs amounted to 10.7 thousand euros in 2017, having increased by 0.7%, due to the increase of General and administrative expenses, reflecting the increased costs related to credit recovery, notwithstanding the reduction achieved in staff costs. The evolution of Total operating income on the one hand, and of Operating costs on the other hand, contributed to the cost-to-income ratio standing at 68.7% in 2017.

In 2017, the total amount of impairment and provisions reached 0.9 million euros, of which 0.8 million euros were related to loans to customers, compared to 0.7 million euros and 0.4 million euros, respectively, recorded in 2016.

The key indicators on the activity and results of Montepio Crédito are presented below.

Activity and Results (EUR million)

	2015	2016	2017	YoY Change
Total assets	362,4	385,8	442,5	14,7%
Loans to customers (net)	341,9	362,8	406,3	12,0%
Total operating income	27,0	17,1	15,5	(8,9%)
Operating costs	10,9	10,6	10,7	0,7%
Cost to Income	40,4%	62,2%	68,7%	6,5 p.p.
Net income	8,9	4,3	2,9	(33,4%)

Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.

A Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A. is a subsidiary held by Montepio Holding whose object is the management of real estate investment funds, in particular, in this context, Valor Prime - Fundo de Investimento Imobiliário Aberto, open real estate investment fund.

The Total assets of Montepio Valor stood at 5.8 million euros as at December 31, 2017, having decreased by 0.3% in relation to the value recorded at the end of 2016.

As at December 31, 2017 the Deposits in other credit institutions amounted to 4.6 million euros, showing an increase of 4.3 million compared to the amount recorded in the same period of the previous year, with the counterpart being Caixa Económica Montepio Geral.

In 2017 Total operating income reached 4.2 million euros, reflecting an increase of 10.9% in relation to the value of 3.8 million euros recorded in 2016, having benefitted from the 8.6% rise in the fee and commission income.

Operating costs amounted to 3.3 million euros, having increased by 28.4% in relation to the 2.6 million euros recorded in 2016, due to the higher Staff costs, General administrative expenses and Depreciation and amortisation.

Net income came to 0.7 million euros in 2017, having evolved adversely compared to the 0.9 million euros recorded in 2016, representing a negative net change of 23.9% year-on-year.

Activity and Results (EUR million)

	2015	2016	2017	YoY Change
Total assets	8.4	5.8	5.8	(0.3%)
Total operating income	6.3	3.8	4.2	10.9%
Operating costs	2.2	2.6	3.3	28.4%
Cost to Income	34.7%	67.9%	78.6%	10.7 p.p.
Net income	3.1	0.9	0.7	(23.9%)

SSAGINCENTIVE – Sociedade de Serviços Auxiliares e Gestão de imóveis, S.A.

The Total assets of SSAGINCENTIVE - Sociedade de Serviços Auxiliares e Gestão de imóveis, S.A., stood at 61.4 million euros as at December 31, 2017, having increased by 3.7% in relation to the value recorded at the end of 2016.

At the end of 2017, the Inventories stood at 51.8 million euros, of which 30.5 million refer to buildings and 21.4 million euros refer to land, derived from acquisitions made from Caixa Económica Montepio Geral. The value of the inventories stated at the end of 2017 represent a reduction of 7.2% when compared to the 55.8 million recorded as at December 31, 2016.

As at December 31, 2017, the Cash and bank deposits amounted to 8.7 million euros, showing an increase of 6.2 million euros in relation to the value recorded at the end of 2016.

As at December 31, 2017, Equity stood at 61.2 million euros, comparing to 59.2 million euros at the end of 2016. Additional paid-in capital made by Montepio Holding stood at 67.5 million euros as at December 31, 2017.

Net income came to -3.1 million euros in 2017, having recorded a favourable evolution in relation to 2016.

The favourable evolution observed in earnings before tax between 2016 and 2017 benefited from the positive earnings achieved from the divestment of real estate properties in 2017 and from the lower allocations for impairment and provisions stated in 2017.

Sales and services rendered reached 4.8 million euros, corresponding to sales of inventories, while their book value reached 4.4 million euros.

The heading of Other costs, which includes costs related to the maintenance and legalisation of real estate properties and to sales promotion, amounted to 0.5 million euros, standing in line with the value recorded in 2016.

Activity and Results (EUR million)

	2016	2017	YoY Change
Total assets	59.2	61.4	3.7%
Total operating income	(4.3)	(3.0)	29.5%
Net income	(3.4)	(3.1)	8.7%

INTERNATIONAL ACTIVITY

The international activity of the CEMG Group is carried out by the subsidiaries Finibanco Angola, S.A., Banco MG Cabo Verde, Sociedade Unipessoal, S.A. and BTM – Banco Terra, S.A.

Finibanco Angola, S.A., 81.37% held by CEMG, is a universal bank supporting small and medium-sized enterprises, individuals and Angolan foreign trade which seeks to leverage its competitive advantage on the quality of its service.

Under its strategy, Finibanco Angola seeks to finance and promote individual customers and micro-enterprises with viable business initiatives that would otherwise not have access to credit. The expansion of the distribution network has been accomplished through own funding, in a perspective of proximity to its customers, in a total of 24 branches and business centres at the end of 2017.

BTM – Banco Terra, S.A., controlled by CEMG through a 45.78% stake in its share capital, is a commercial bank that aims to offer financial solutions in the retail and business segments, having been created for the purpose of contributing to poverty reduction in Mozambique, by offering loans to the agricultural and food sectors and providing financial services to the rural and suburban populations.

Under its strategy, BTM established a Public-Private Partnership aimed at providing the rural and suburban population with access to financial services in a feasible and sustainable form.

Banco MG Cabo Verde, S.A., 100% held by CEMG, proposes, with its specialised offer of products and services, to offer its customers, whether individual, institutional or companies with an international vocation, diversified investment and saving solutions, as well as capital and liquidity management solutions.

The table below presents a summary of the activity and results of the CEMG Group's international business.

Activity and Results (EUR million)

	2015*	2016*	2017*	YoY Change
Total assets	914.0	740.0	707.8	(4.4%)
Loans to customers (net)	241.3	181.9	156.8	(13.8%)
Customers' deposits	750.3	581.0	516.9	(11.0%)
Total operating income	39.3	48.2	43.6	(9.6%)
Operating costs	21.4	24.4	28.3	15.8%
Cost to Income	54.4%	50.7%	65.0%	14.3 p.p.
Net income	8.0	10.6	7.1	(33.0%)

*For comparative purposes the financial statements of Finibanco Angola and BTM, relative to 2015, 2016 and 2017, w ere restated using the same exchange rate: AOA/EUR 185,400; MZN/EUR 70,377.

The performance of the Group's international activity in 2017 continued constrained by the relatively adverse macroeconomic context of the main geographic areas in which it operates. In Angola, the economy continued to face significant macroeconomic imbalances in 2017, following the previous sharp drop in the price of oil. After a contraction of GDP in 2016, it is estimated that the economy started to recover in 2017, with a slowdown of the annual average inflation rate, which nonetheless remained above two digits for the third year consecutively, above all influenced by the heavy depreciation of the kwanza against the dollar.

In Mozambique, GDP would have registered in 2017 its lowest growth rate since 2000, with average annual inflation beginning to slow down from 2016 levels, the year when it recorded its highest value since 1996.

The activity developed in 2017 by Finibanco Angola was influenced by the adverse economic and financial circumstances, the high level of interest rates and the restrictions to the transfer of currencies, reflected in the performance recorded by the key business indicators.

The impacts induced by these adverse circumstances and by the high interest rates also influenced BTM's performance in 2017 in certain business lines.

As at December 31, 2017, the total assets of the CEMG Group’s international activity decreased by 4.4% compared to the value at the end of 2016. This evolution was primarily due to the reduction observed in the total assets of Banco MG Cabo Verde, of -17.4% as at the end of 2016, as the total assets of BTM – Banco Terra (Mozambique) increased by 4.1% year-on-year at the end of 2017, and practically stabilised at Finibanco Angola (+1.4% compared to the end of 2016).

The Loans granted to customers of the international activity decreased by 13.8%, from 181.9 million euros at the end of 2016 to 156.8 million euros as December 31, 2017. This reduction was caused by the year-on-year reduction of 15.9% in the loans of Finibanco Angola, which totalled 122.6 million euros in 2017 (145.8 million euros in 2016), and by the reduction in the loans granted to customers at BTM – Banco Terra, which reached 34.1 million euros as at December 31, 2017 (-5.6% from the end of 2016).

Customer deposits gathered by the subsidiaries comprising the international activity of the CEMG Group reached 516.9 million euros as at December 31, 2017, having fallen by 11.0% from 2016. The customer deposits of Finibanco Angola amounted to 309.4 million euros at the end of 2017, reflecting a decrease of 7.3% compared to the same period of 2016, and representing 59.9% of the total deposits of the international activity. The customer deposits of Banco MG Cabo Verde stood at 181.3 million euros as at December 31, 2017, reflecting a decrease of 18.5% in relation to the value of 2016. At the end of 2017, the customer deposits of BTM – Banco Terra reached a total of 26.2 million euros (24.7 million euros in 2016), corresponding to a year-on-year increase of 6.0%.

The 2017 Total operating income of the international activity decreased by 9.6%, to stand at 43.6 million euros, compared to 48.2 million euros in 2016. This evolution was mainly determined by the decrease of Results from currency revaluation of 6.4 million euros (-59.3% compared to 2016) and Other total operating income of 5.4 million, in relation to 2016.

At Finibanco Angola, Total operating income declined year-on-year by 9.9% in 2017, fundamentally reflecting the negative evolution of Results from currency revaluation, which fell by 4.3 million euros, and Other operating income, which decreased by 5.6 million euros in 2017, in relation to 2016.

At BTM – Banco Terra, Total operating income reached 6.7 million euros in 2017, comparing unfavourably to the value of 7.3 million euros in 2016, reflecting a year-on-year reduction of 9.1% (-0.7 million euros in relation to 2016), primarily driven by the evolution of Results from currency revaluation, which decreased by 2.3 million euros in 2017, and of net fees and commission income, which fell by 3.8% (in relation to 2016).

At Banco MG Cabo Verde, Total operating income totalled 0.5 million euros in 2017, a year-on-year increase of 11.6%. The progression of Total operating income at Banco MG Cabo Verde benefitted from the positive evolution of the Results from currency revaluation, which increased by 0.2 million euros in 2017, reaching 146 thousand euros in 2017.

The Operating costs of the international activity increased by 15.8% in 2017, to stand at 28.3 million euros, compared to 24.4 million euros in 2016. This rise was determined by the increase of the components of Staff costs (+20.6% compared to 2016), General administrative expenses (+10.1% compared to 2016) and Amortisation and depreciation (+22.2% relative to 2016).

At Finibanco Angola, BTM – Banco Terra and Banco MG Cabo Verde, the Operating costs increased by 20.3%, 2.4% and 27.2% in 2017 relative to 2016, respectively, reflecting the evolution of business activity and the features of the respective markets.

At Finibanco Angola, the increased Operating costs in 2017 was transversal to all the costs components (+27.5%, +13.3% and +22.5% respectively in relation to 2016). At BTM, the year-on-year increase in 2017 Operating costs was determined by higher Staff costs (+4.2% compared to 2016) combined with higher Amortisation and depreciation (+23.8% compared to 2016) and attenuated by the decrease in General administrative expenses (-3.5% relative to 2016). At Banco MG Cabo Verde, 2017 Staff costs and general administrative expenses increased by +21.7% and +31.4% year-on-year respectively, and Amortisation and depreciation fell in relation to 2016 (-54.3% year-on-year).

As a result of this evolution, the Cost-to-Income ratio of the international activity in 2017 stood at 65.0%, an increase of 14.3 p.p. compared to 2016.

In 2017 the contribution of the international activity to the consolidated net income, excluding the impact of the impairment constituted for these financial holdings, reached 7.1 million euros (10.6 million euros in 2016), with positive net income in Angola (7.1 million euros) and Mozambique (92.2 thousand euros), while Banco MG Cabo Verde generated negative net income (-93.5 thousand euros).

FINANCIAL ANALYSIS

CEMG is currently negotiating with a series of investors aimed at re-focusing its approach towards the African market, with a view to the deconsolidation of the current financial holdings in Finibanco Angola S.A. and BTM – Banco Terra, S.A.

Considering the decisions that have been taken by the managing body, as well as the provisions in International Financial Reporting Standard (IFRS) 5, the activities developed by these subsidiaries have been deemed discontinued operations since the end of 2016.

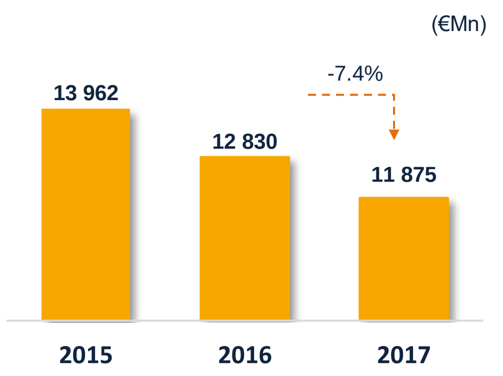
In the income statement, the earnings of these subsidiaries were stated under the heading named "Income from discontinuing operations" and, in the balance sheet under the headings named "Non-current assets held for sale – Discontinuing operations" and "Non-current liabilities held for sale – Discontinuing operations".

For comparative purposes, the income statement and the different balance sheet headings analysed were drawn up on the same basis as for 2015.

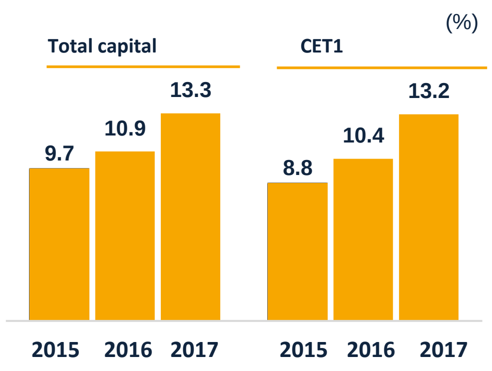
CAPITAL

The strengthening of Own Funds in 2017, determined by the performance of the Common Equity Tier 1 (CET1), provided that the value of CET1 at December 31, 2017 reached 1,572 million euros, compared to 1,331 million euros in December 31, 2016. This performance, coupled with a reduction of EUR 955 million in Risk-weighted assets (-7.4%), due to the deleveraging process and an efficient management of risk allocation in credit portfolios and debt securities, reflected in an improvement in capital ratios compared to 2016. In fact, the CET1 ratio amounted to 13.2% and Total Capital ratio to 13.3%, compared with respectively 10.4% % and 10.9% in 2016.

Risk-weighted assets



Capital ratios



The increase in CET1 registered in 2017 shows, essentially, the increase of the Institutional Capital of 250 million euros and the recording of the Net income of 6.4 million euros.

The reduction of Risk-weighted assets reflects the deleveraging effort in non-core assets that has progressively been accomplished, namely in non-performing loans and real estate properties, alongside the improvements made in the process of loan approval and granting of loans with good risk and associated guarantees.

As of December 31, 2017, CEMG's fully implemented capital ratios evolved favourably, with the CET1 ratio having reached 11.6% and the Total Capital ratio 11.9%, increasing by 400 b.p. and 370 b.p. compared to 2016. Considering the positive impact estimated by the adhesion to the Special Regime of Deferred Tax Assets of 0.7 p.p. in the CET1 ratio and 0.6 p.p. in the Total Capital ratio, these ratios would have amount respectively to 12.3% and 12.5% in 2017 (fully implemented).

CAPITAL AND CAPITAL REQUIREMENTS

(EUR million)

	2015	2016	2017	YoY Change	
				Amount	%
Total Capital	**1 360**	**1 392**	**1 580**	**188**	**13.5**
Share capital [1]	1 900	2 170	2 420	250	11.5
Reserves and Net Income	(561)	(743)	(696)	47	6.3
Regulatory deductions	(108)	(96)	(152)	(56)	(57.8)
Common Equity Tier 1 Capital	**1 231**	**1 331**	**1 572**	**241**	**18.1**
Tier 1 Capital	**1 231**	**1 331**	**1 572**	**241**	**18.1**
Tier II capital	137	74	24	(50)	(67.4)
Other deductions	(8)	(13)	(16)	(3)	(22.6)
Minimum own funds requirements	**1 117**	**1 026**	**950**	**(76)**	**(7.4)**
Risk-weighted assets	**13 962**	**12 830**	**11 875**	**(955)**	**(7.4)**
CRD IV Prudential Ratios - Phasing-in					
Common Equity Tier 1	8.8%	10.4%	13.2%	280 pb	
Tier 1	8.8%	10.4%	13.2%	280 pb	
Total Capital	9.7%	10.9%	13.3%	240 pb	
CRD IV Prudential Ratios - Fully Implemented					
Common Equity Tier 1	6.7%	7.6%	11.6%	400 pb	
Tier 1	6.7%	7.6%	11.7%	410 pb	
Total Capital	7.7%	8.2%	11.9%	370 pb	
Leverage ratio - Phasing-in	5.7%	6.1%	7.6%	150 pb	
Leverage ratio - Fully Implemented	4.4%	4.5%	6.8%	230 pb	

According to the phasing-in rules in force at the reference date.
(1) In 2015 and 2016 includes the Capital and the Participation Fund.

LIQUIDITY

In 2017, CEMG continued to develop a series of initiatives aimed at the continuous reinforcement of its liquidity position, in line with the regulatory objectives and as defined in the 2016-2018 Strategic Plan.

The management of CEMG's balance sheet enabled the Liquidity Coverage Ratio (LCR) to reach 153.2% as at December 31, 2017, having evolved favourably in relation to the ratio of 106.6% recorded in 2016, standing 73.2 p.p. above the minimum requirement of 80% applicable in 2017 and showing the impact of the issue of covered bonds of 750 million and the growth in Customer deposits verified in 2017.

The evolution of Customer deposits on the one hand, and of Loans to customers on the other hand, led to a favourable evolution of the loan-to-deposit ratio. Accordingly, the loan-to-deposit ratio, considering Customer funds on the balance sheet and Net loans to customers, stood at 92.4% at the end of 2017, compared to 96.3% as at December 31, 2016. This ratio, calculated pursuant to Banco de Portugal Instruction number 16/2014, shifted from 111.2% in 2016 to 107.3% as at December 31, 2017.

LIQUIDITY RATIOS

	2015*	2016	2017	YoY Change (%)
Loans to customers (net) / Customers' deposits (a)	114.5	111.2	107.3	(3.9 p.p.)
Loans to customers (net) / Total on-balance sheet customers' resources (b)	96.4	96.3	92.4	(3.9 p.p.)

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

(b) Total On-Balance Sheet Customers' Resources = Customers' resources + debt securities issued. Computed in accordance with the Financial Statements annexed to this report.

* 2015 restated in accordance with IFRS5 guidelines related to the Financial Statements of the subsidiaries in Angola and Mozambique, for comparative purposes.

CEMG's use of ECB funds at the end of 2017 showed a reduction in relation to the value of the end of 2016 amounting to 765 million euros. As at December 31, 2017, the use of the pool of collateral in Eurosystem operations stood at 1,558 million euros, compared to 2,323 million euros recorded as at December 31, 2016. The total value of the pool of eligible assets also decreased in relation to December 31, 2016 by 943 million euros. The use of Eurosystem monetary policy operations falls under the support given to the economy, with a view to optimising the long-term funding, namely through the participation in the TLTRO-II (Targeted Longer-term Refinancing Operations), in the context of the expansionary non-conventional monetary policy measures implemented by the ECB. In terms of available collateral for obtaining liquidity, the value of the eligible assets shifted from 1,215 million the end of 2016 to 1,037 million euros as at December 31, 2017.

POOL OF ELIGIBLE ASSETS FOR REFINANCING OPERATIONS WITH THE ECB

(EUR million)

	2015	2016	2017	YoY Change	
				Amount	%
Pool of eligible assets [(a)]	4 020	3 538	2 595	(943)	(26.6)
Use of the pool	2 277	2 323	1 558	(765)	(32.9)
Pool of available assets	**1 743**	**1 215**	**1 037**	**(178)**	**(14.7)**

(a) Includes eligible assets, free of charge, for operations in the MIC (Collateralized Interbank Market).

Repurchase agreement operations (repos) showed a reduction of 250 million euros in 2017, having shifted from 1,925 million euros as at December 31, 2016 to 1,675 million euros as at December 31, 2017, reflecting the sale of assets, which enabled releasing the value of the haircut and the realization of capital gains.

In the interbank money market, at the end of 2017 CEMG recorded liquidity assignments of the value of 30 million euros at the rate of 0% and 8.5 million USD at 1.45%. In the collaterised interbank market of euros (MIC), CEMG did not record any amount assigned or taken of funds.

BALANCE SHEET

In 2017, CEMG embarked on a series of initiatives aimed at accomplishing the objectives defined in the Strategic Plan, in particular those related to deleveraging of CEMG's balance sheet, embodied in the reduction of non-performing loans, of credit granted to activity sectors considered non-core, of exposure to real estate risk, and the improvement of liquidity levels, by attraction and retention of customer deposits and the use of less costly funding sources.

SYNTHETIC BALANCE SHEET

(EUR million)

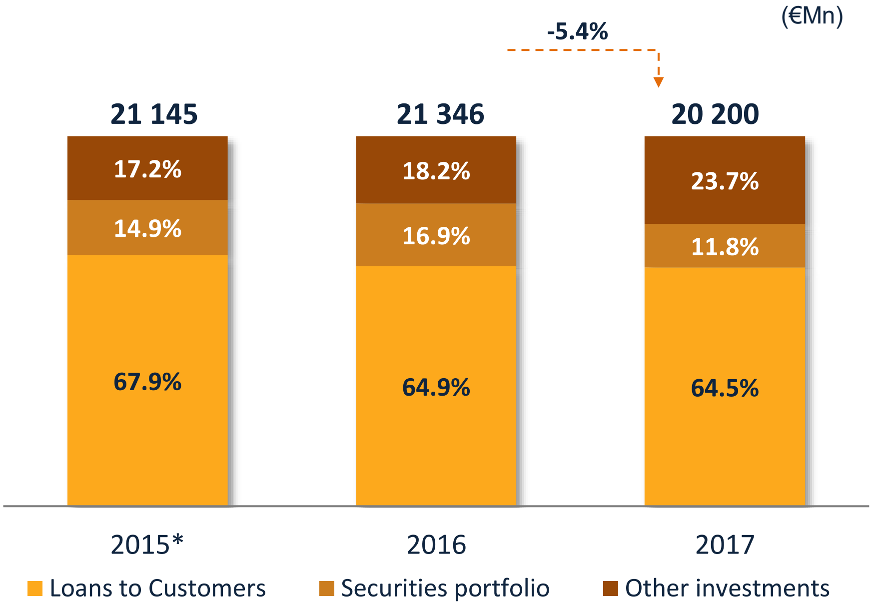
	2015*	2016	2017	YoY Change	
				Amount	%
Cash and deposits at central banks and OCI	764	1 010	2 096	1 086	>100
Loans to customers	14 357	13 861	13 029	(832)	(6.0)
Securities portfolio	3 142	3 604	2 385	(1 219)	(33.8)
Non current assets held for sale and investment properties	1 447	1 368	1 281	(87)	(6.4)
Non current assets held for sale - Discontinuing operations	600	470	474	4	0.9
Current and deferred tax assets	422	534	473	(61)	(11.3)
Other	413	499	462	(37)	(7.5)
Total assets	**21 145**	**21 346**	**20 200**	**(1 146)**	**(5.4)**
Deposits from central banks and OCI	3 825	4 599	3 345	(1 254)	(27.3)
Customers' resources	12 540	12 468	12 561	93	0.7
Issued debt	2 687	2 171	1 780	(391)	(18.0)
Non current liabilities held for sale - Discontinuing operations	467	354	330	(24)	(6.6)
Other	282	297	421	124	41.8
Total liabilities	**19 801**	**19 889**	**18 437**	**(1 452)**	**(7.3)**
Share capital**	1 900	2 170	2 420	250	11.5
Reserves, retained earnings and other	(313)	(627)	(663)	(36)	(5.7)
Net income	(243)	(86)	6	92	-
Total equity	**1 344**	**1 457**	**1 763**	**306**	**21.0**
Total liabilities and equity	**21 145**	**21 346**	**20 200**	**(1 146)**	**(5.4)**

* 2015 restated in accordance with IFRS5 guidelines related to the Financial Statements of the subsidiaries in Angola and Mozambique, for comparative purposes.
** In 2015 and 2016 includes the Capital and the Participation Fund.

ASSETS

Net Assets stood at 20,200 million euros at the end of 2017, showing a reduction of 5.4% compared to the figure recorded on December 31, 2016, reflecting on the one hand the low demand for credit by the economic agents which is transversal to the entire banking sector, and, on the other hand, the active policy of the securities portfolio management.

TOTAL ASSETS STRUCTURE



* 2015 restated in accordance with IFRS5 guidelines related to the Financial Statements of the subsidiaries in Angola and Mozambique, for comparative purposes.

CASH AND DEPOSITS AT CENTRAL BANKS AND OCI

The aggregate heading of Cash and deposits at central banks and Other credit institutions (OCI) includes the balances recorded under Cash and deposits at central banks and Deposits and investments in credit institutions.

At the end of 2017, the liquidity deposited in central banks and in other credit institutions reached 2,096 million euros, compared to 1,010 million euros recorded at the end of 2016, showing a year-on-year growth of 107.5%. This growth was driven by the increase recorded in the heading of Cash and deposits at central banks of 1,352 million euros, supported in particular by the issue and placement on the market of 750 million euros of covered bonds carried out in October 2017.

LOANS TO CUSTOMERS

At the end of 2017, Loans to customers (gross) amounted to 14,063 million euros, reflecting a decrease of 6.5% compared to the figure recorded on December 31, 2016, continuing to demonstrate, on the one hand, a demanding risk management policy in loan concession and risk-adjusted repricing, and, on the other hand, the low demand for credit from economic agents.

In 2017, CEMG continued to improve the credit approval and lending process in order to reduce the cost of credit risk and, in this way, enhance the achievement of the objectives defined in the 2016-2018 Strategic Plan.

On this basis, and as a result of the implemented measures, namely the application of stricter credit granting criteria, by the end of 2017 there was a year-on-year reduction of 52% in the entry of new non-performing loans.

The loan portfolio, as at December 31, 2017, recorded a year-on-year reduction of 978 million euros caused, on the one hand, by the reduction in loans to companies, evinced in particular in the decrease recorded in gross loans to the Trade (-14.2%) and Financial activities (-12.8%) sectors, and the decrease in loans to individuals, namely housing loans (-6.7%), which continue to show a higher amortisation level in relation to the new loans, and on the other hand, by the securitisation of a portfolio of non-performing loans of the value of 580.7 million euros. This operation, designated Evora Finance, was the first securitisation carried out in Portugal of a portfolio of non-performing loans attributed with a risk rating.

LOANS TO CUSTOMERS

(By sector of activity)

(EUR million)

	2015*	2016	2017	YoY Change	
				Amount	%
Housing loans	7 544	7 227	6 739	(488)	(6.7)
Construction and Public works, and Real estate activities	2 013	1 809	1 774	(35)	(2.0)
Wholesale and retail trade	1 272	1 238	1 063	(175)	(14.2)
Financial Activities	1 053	735	641	(94)	(12.8)
Services provided to companies	534	657	630	(27)	(4.1)
Tourism	412	500	497	(3)	(0.5)
Transports	449	471	476	5	0.9
Manufacture of food products, beverages and tobacco	246	235	228	(7)	(3.0)
Basis metallurgic industries and metallic products	170	180	172	(8)	(4.5)
Electricity, gas and water	135	195	153	(42)	(21.3)
Agriculture, forestry and fishing	155	160	145	(15)	(9.1)
Others	1 628	1 634	1 545	(89)	(5.4)
Gross loans	**15 611**	**15 041**	**14 063**	**(978)**	**(6.5)**
Loan impairments	**1 254**	**1 180**	**1 034**	**(146)**	**(12.4)**
Net loans	**14 357**	**13 861**	**13 029**	**(832)**	**(6.0)**

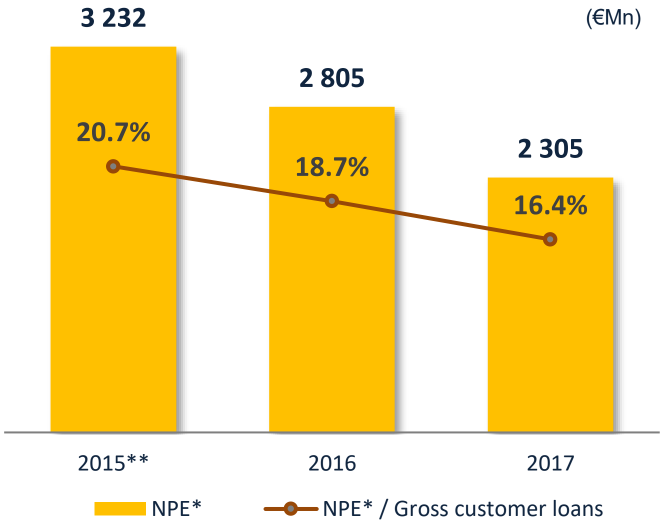
* 2015 restated in accordance with IFRS5 guidelines related to the Financial Statements of the subsidiaries in Angola and Mozambique, for comparative purposes.

Throughout 2017, CEMG accomplished a series of initiatives started in 2016 aimed at reducing the exposure in non-performing loans and in activity sectors identified as non-core.

The balance of Non-performing exposures (NPE) thus improved favourably compared to the value at the end of 2016, standing at 2,305 million euros, with the proportion of NPE in relation to Total gross loans reaching 16.4% as at December 31, 2017.

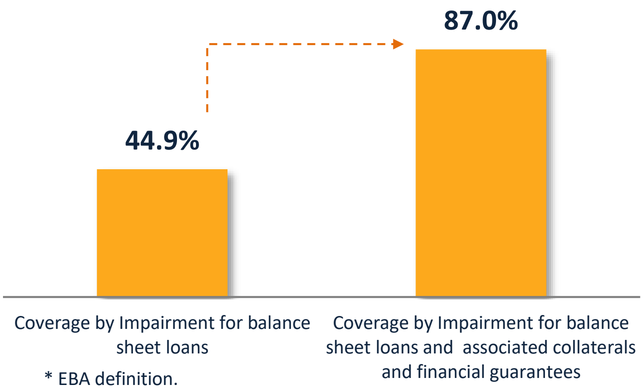
The coverage of NPE by impairment for balance sheet loans and associated collaterals and financial guarantees amounted to 87.0% as at December 31, 2017, compared to 87.8% at the end of 2016, while the coverage by impairment for balance sheet loans stood at 44.9%, improving favourably against the coverage of 42.1% recorded on December 31, 2016.

Non-performing exposures (NPE)*



* EBA definition.
** 2015 restated in accordance with IFRS5 guidelines related to the Financial Statements of the subsidiaries in Angola and Mozambique, for comparative purposes.

NPE * coverage on December 31, 2017



* EBA definition.

SECURITIES PORTFOLIO

Pursuing the attainment of the 2016-2018 Strategic Plan and the rebalancing of the asset structure, throughout 2017, CEMG continued to identify and implement measures aimed at improving the liquidity levels and active management of the securities portfolio.

During the first semester of 2017, under the measures taken to strengthen the levels of CEMG's capital ratios, and pursuant to the International Accounting Standard IAS 39, the value of 800 million euros was transferred to the portfolio of financial assets available for sale, whose market value on the transfer date stood at 841 million euros, relative to the entirety of the portfolio of Portuguese sovereign debt bonds that had previously been recorded in the portfolio of financial assets held to maturity.

As at December 31, 2017, the securities portfolio amounted to 2,385 million euros, compared to 3,604 million euros at December 31, 2016 (-33.8%) and 3,141 million euros at the end of 2015, reflecting the sale of sovereign debt bonds throughout 2017 of the value of 3,445 million euros.

SECURITIES PORTFOLIO

(EUR million)

	2015*	2016	2017	YoY Change Amount	YoY Change %
Financial assets held for trading	51	78	184	106	>100
Financial assets available-for-sale	3 064	2 400	2 201	(199)	(8.3)
Investments held to maturity	26	1 126	0	(1 126)	-
Total securities portfolio	**3 141**	**3 604**	**2 385**	**(1 219)**	**(33.8)**

* 2015 restated in accordance with IFRS5 guidelines related to the Financial Statements of the subsidiaries in Angola and Mozambique, for comparative purposes.

The securities portfolio, analysed by type of instrument, showed a year-on-year decrease of 1,188 million euros in bonds and other debt instruments, which include Portuguese sovereign debt, having shifted from 2,996 million euros at the end of 2016 to 1,808 million euros as at December 31, 2017, explaining 97.5% of the reduction recorded in terms of the total portfolio.

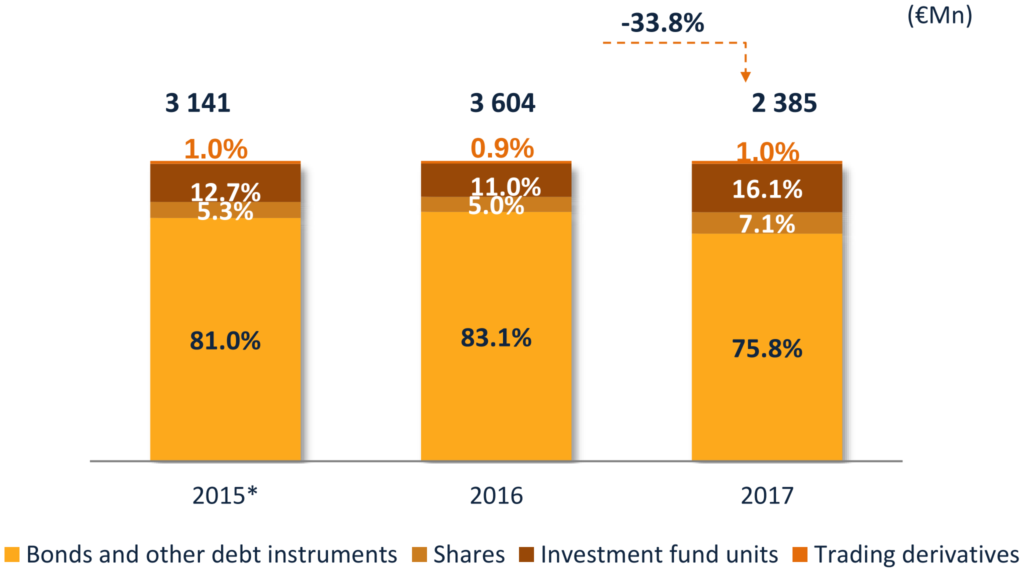
SECURITIES PORTFOLIO BY TYPE OF INSTRUMENT

(EUR million)

	2015*	2016	2017	YoY Change Amount	YoY Change %
Bonds and other debt instruments	2 544	2 996	1 808	(1 188)	(39.7)
Shares	167	177	167	(10)	(5.3)
Investment fund units	399	398	385	(13)	(3.2)
Trading derivatives	31	33	25	(8)	(26.1)
Total securities portfolio	**3 141**	**3 604**	**2 385**	**(1 219)**	**(33.8)**

* 2015 restated in accordance with IFRS5 guidelines related to the Financial Statements of the subsidiaries in Angola and Mozambique, for comparative purposes.

Structure of the securities

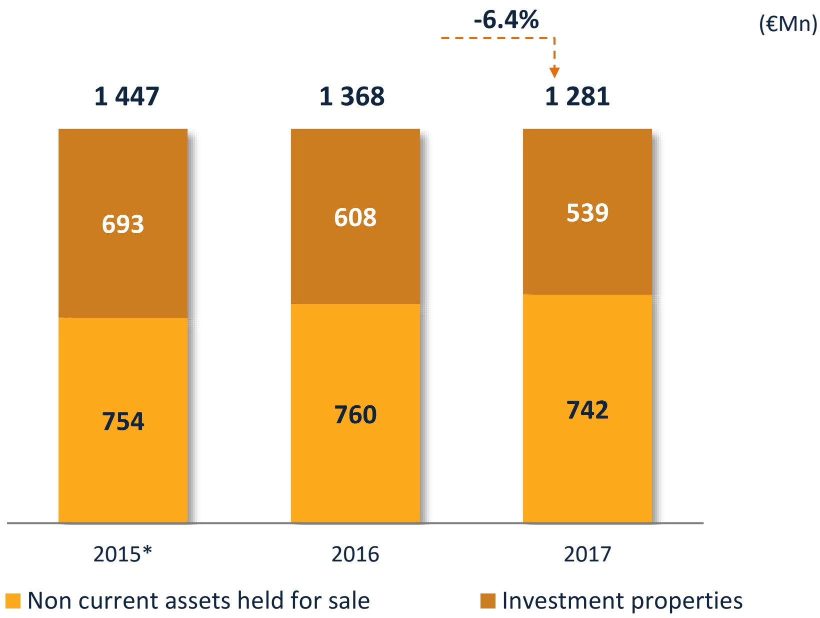


* 2015 restated in accordance with IFRS5 guidelines related to the Financial Statements of the subsidiaries in Angola and Mozambique, for comparative purposes.

NON CURRENT ASSETS HELD FOR SALE AND INVESTMENT PROPERTIES

The aggregate of the headings of Non-current assets held for sale and Investment properties decreased by 6.4% year-on-year in 2017, from 1,368 million euros at the end of 2016 to 1,281 million euros at December 31, 2017, in line with the strategic orientation for the integrated management of real estate properties and the consequent reduction of exposure to this activity sector.

Reduction of the Real Estate risk exposure



* 2015 restated in accordance with IFRS5 guidelines related to the Financial Statements of the subsidiaries in Angola and Mozambique, for comparative purposes.

The heading of Non-current assets held for sale essentially reflects the amount associated to real estate properties resulting from the resolution of customer loan contracts, which decreased by 2.4% since the end of 2016, evolving from 760 million euros as at December 31, 2016 to 742 million euros at the end of 2017, reflecting the effect of the regularization of certain operations that had been non-performing and the good performance of the sales of real estate properties in the retail market in 2017.

With regard to investment properties, the heading in which the properties held by the Real Estate Investment Funds under consolidation in CEMG are accounted for, there was a decrease of 11.4% at the end of 2017 compared to the value recorded in 2016, evolving from 608 million euros at December 31, 2016, to 539 million euros at the end of 2017, pursuing the accomplishment of the strategic objective of reducing exposure to real estate risk.

NON CURRENT ASSETS HELD FOR SALE – DISCONTINUING OPERATIONS

As at December 31, 2017, the heading of Non-current assets held for sale - discontinuing operations amounted to 474 million euros, corresponding to the value of the assets recorded by the Group's operations in Angola and Mozambique, after having been adjusted for the necessary movements of the consolidation process, and was stated following the application of IFRS 5 to the subsidiaries Finibanco Angola and BTM – Banco Terra, as indicated in Note 62 of the Notes to the consolidated financial statements.

CURRENT AND DEFERRED TAX ASSETS

At the end of 2017, the aggregate Current and deferred tax assets amounted to 473 million euros, compared to 534 million euros at December 31, 2016, reflecting a decrease of 11.3%.

According to the respective accounting policy, deferred taxes are calculated based on the tax rates anticipated to be in force at the date of reversal of the temporary differences, which correspond to the rates approved or substantially approved at the reporting date.

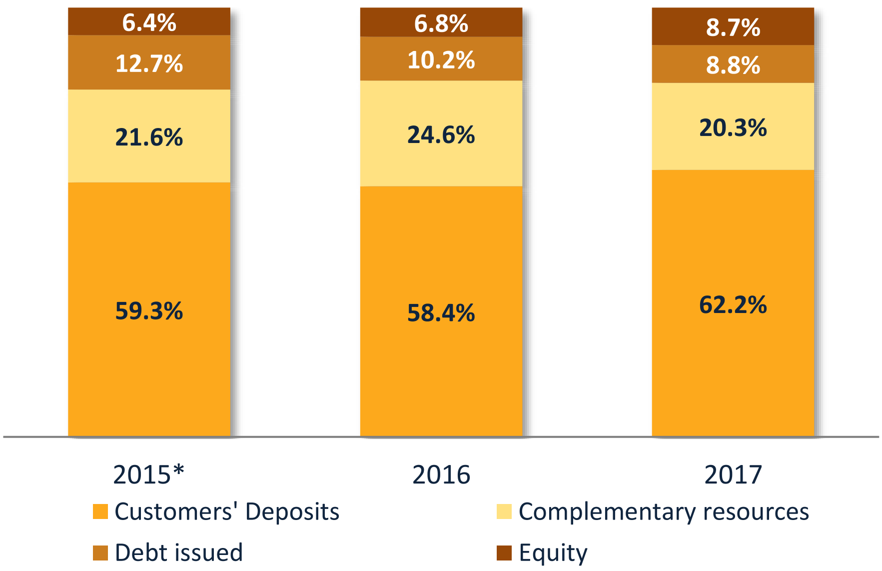
OTHER

The aggregate Other, presented in the Assets of the synthetic balance sheet, reached 462 million euros at the end of 2017, compared to 499 million euros recorded at the end of 2016, and incorporates the headings of Other tangible assets, Intangible assets, Investments in associates and Other assets. The decrease in this heading in 2017 was primarily driven by the 31 million euros reduction in the heading of Other assets compared to the value stated at end of 2016.

LIABILITIES

At the end of 2017, total Liabilities stood at 18,437 million euros, showing a decrease of 7.3% in relation to the value of 19,889 million euros recorded as at December 31, 2016. As at December 31, 2017, Equity accounted for 8.7% of Assets and Customer Deposits remained the main source of funding, reaching 62.2%.

LIABILITIES AND EQUITY STRUCTURE



*2015 restated in accordance with IFRS5 guidelines related to the Finantial Statements of Finibanco Angola and BTM subsidiaries, for comparative purposes.

DEPOSITS FROM CENTRAL BANKS AND OCI

As at December 31, 2017, the funding obtained from central banks and other credit institutions amounted to 3,345 million euros, compared to 4,599 million euros at the end of 2016, showing a year-on-year decrease of 27.3%.

This heading incorporates funds taken at the ECB, which amounted to 1,558 million euros at the end of 2017 (2,323 million euros as at December 31, 2016), and the funding obtained from other credit institutions which reached 1,785 million euros at the end of 2017 (2,276 million euros as at December 31, 2016), resulting in year-on-year reductions of 32.9% and 21.6%, respectively. The decline in the ECB's dependence reflects the success of the liquidity-generating measures implemented during the 2017 financial year.

CUSTOMERS' RESOURCES

Throughout 2017, CEMG started a series of initiatives related to the attraction and retention of customer funds, undergoing an adequate management with the purpose of increasing and diversifying the funding sources.

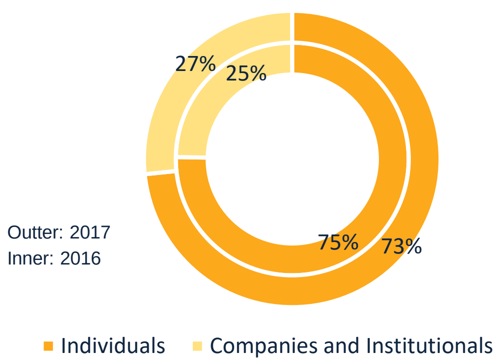
Total customer resources reached 13,887 million euros, of which 13,178 million euros correspond to balance sheet funds, with 95.3% referring to customer deposits.

As at December 31, 2017, Customer deposits stood at 12,561 million euros, essentially concentrated in individual customers, a segment that maintained its predominance in representing 73% of total deposits.

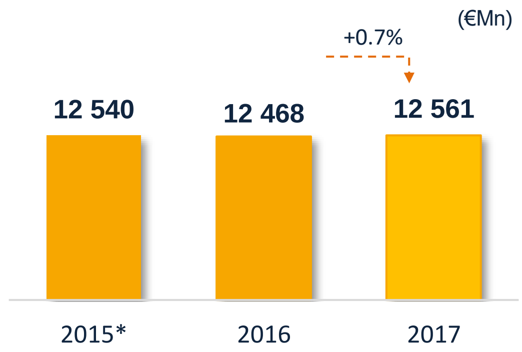
Customer deposits at the end of 2017 showed a year-on-year growth of 0.7%, reflecting the continuity of the imprinted commercial dynamics, despite the historically low level of interest rates and the stiffly competitive environment.

At the end of 2017, the heading of Securities placed with customers stood at 617 million euros, compared to 1,327 million euros as at December 31, 2016, as a result of the securitised debt maturities and its replacement by less costly market operations, in a perspective of management of funding needs.

Customers' deposits structure



Customers' deposits



* 2015 restated in accordance with IFRS5 guidelines related to the Financial Statements of the subsidiaries in Angola and Mozambique, for comparative purposes.

Off-balance sheet funds amounted to 709 million euros as at as at December 31, 2017, compared to 723 million euros as at as at December 31, 2016, primarily as a result of the year-on-year decrease in Capitalisation insurance (Bancassurance) and in Real estate investment funds, not offset by the increase observed in Pension funds.

CUSTOMERS' RESOURCES

(EUR million)

	2015*	2016	2017	YoY Change	
				Amount	%
Customer Deposits (by segment)	**12 540**	**12 468**	**12 561**	**93**	**0.7**
Individuals	9 619	9 397	9 215	(182)	(1.9)
Companies and Institutionals	2 921	3 071	3 346	275	9.0
Customer Deposits (by type)	**12 540**	**12 468**	**12 561**	**93**	**0.7**
Sight Deposits	2 655	3 302	3 509	207	6.3
Term Deposits	9 885	9 166	9 052	(114)	(1.2)
Securities placed with Customers	1 621	1 327	617	(710)	(53.5)
Total On-Balance sheet resources	**14 161**	**13 795**	**13 178**	**(617)**	**(4.5)**
Off-Balance sheet resources	810	723	709	(14)	(1.9)
Total Customers' resources	**14 971**	**14 517**	**13 887**	**(630)**	**(4.3)**

* 2015 restated in accordance with IFRS5 guidelines related to the Financial Statements of the subsidiaries in Angola and Mozambique, for comparative purposes.

ISSUED DEBT

The aggregate heading of Issued debt incorporates the amounts recorded in the balance sheet relative to Liabilities represented by securities and Subordinated liabilities.

At the end of 2017, the amount of issued Debt fell by 18.0%, having reached the value of 1,780 million euros, compared to 2,171 million euros as at December 31, 2016. This decrease reflects the reduction in Liabilities represented by securities (-19.6%), reflecting the maturity repayments (264.4 million euros) and early repayment of cash bonds (400.0 million euros) and of Subordinated liabilities (5.9%).

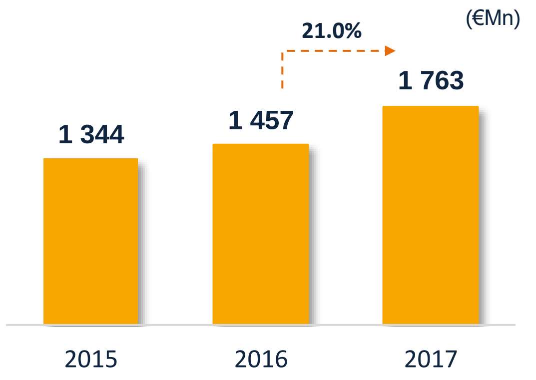
NON CURRENT LIABILITIES HELD FOR SALE – DISCONTINUING OPERATIONS

As at December 31, 2017, the heading of Non-current assets held for sale - discontinuing operations amounted to 330 million euros and corresponds to the value of the liabilities recorded by the Group's operations in Angola and Mozambique, after having been adjusted for the necessary movements of the consolidation process, and was stated following the application of IFRS 5 to the subsidiaries Finibanco Angola and BTM – Banco Terra, as indicated in Note 62 of the Notes to the consolidated financial statements.

EQUITY

Equity increased by 21.0%, having shifted from 1,457 million euros as at December 31, 2016 to 1,763 million euros at the end of 2017, reflecting the impact of the capital increase of 250 million euros, the favourable evolution of the fair value reserves and the positive net income for 2017.

Equity



EARNINGS

In 2017, CEMG achieved a positive net income of 6.4 million euros in 2017, compared to the negative net income of 86.5 million euros recorded in 2016.

This evolution was influenced by the favourable performance of the core business with Net interest income having increased by 13.0 million euros (+5.2%), Net fees and commissions having increased by 18.3 million euros (+18.1%), Operating costs (on a comparable basis) having fallen by 27.9 million euros (-9.4%), embodying the synergies induced by the resizing of the total staff number and the renegotiation of contracts with suppliers. At the same time, recorded the favourable evolution of the Results from financial operations, which benefitted from the gains obtained from the divestment of securities, and Other operating earnings, reflecting the positive performance associated to real estate assets, coupled with the lower allocations for impairments and provisions, by incorporating the effects of the measures implemented in relation to loan approval, granting and control.

SYNTHETIC INCOME STATEMENT

(EUR million)

	2015*	2016	2017	YoY Change	
				Amount	%
Net interest income	**196.0**	**253.2**	**266.2**	**13.0**	**5.2**
Commercial net interest income	*225.1*	*263.3*	*279.0*	*15.7*	*6.0*
Net fees and commissions	96.1	101.5	119.8	18.3	18.1
Core total operating income	**292.1**	**354.7**	**386.0**	**31.3**	**8.8**
Income from equity instruments	3.6	11.6	12.6	1.0	8.3
Results from financial operations	102.7	37.0	70.7	33.7	91.1
Other operating income	5.2	(31.8)	35.9	67.7	-
Total operating income	**403.6**	**371.5**	**505.2**	**133.7**	**36.0**
Staff Costs	191.4	165.5	156.2	(9.3)	(5.6)
General and administrative expenses	114.9	94.0	87.0	(7.0)	(7.5)
Amortization and depreciation	23.7	24.3	24.8	0.5	2.2
Operating costs	**330.0**	**283.8**	**268.0**	**(15.8)**	**(5.6)**
Comparable operating costs (a)	**330.0**	**295.9**	**268.0**	**(27.9)**	**(9.4)**
Net operating income before provisions and impairments	**73.6**	**87.7**	**237.2**	**149.5**	**>100**
Net provisions and impairments	343.8	261.5	191.4	(70.1)	(26.8)
Share of profit of associates under the equity method	(3.9)	0.3	0.2	(0.1)	(33.6)
Net income before income tax	**(274.1)**	**(173.5)**	**46.0**	**219.5**	**-**
Income tax	23.1	96.2	(42.4)	(138.6)	-
Net income after income tax from continuing operations	**(251.0)**	**(77.3)**	**3.6**	**80.9**	**-**
Income from discontinuing operations	8.9	(7.2)	4.2	11.4	-
Non-controlling interests	1.2	2.0	1.4	(0.6)	(32.2)
Net Income	**(243.3)**	**(86.5)**	**6.4**	**92.9**	**-**

* 2015 restated in accordance with IFRS5 guidelines related to the Financial Statements of the subsidiaries in Angola and Mozambique, for comparative purposes.
(a) Excludes the impacts arising from the operational redimensioning and revision of the Collective Labour Agreement.

The earnings from the commercial activity increased year-on-year by 89.9% in shifting from 68.9 million euros in 2016 to 130.8 million euros in 2017. This increase of 61.9 million euros in the earnings of the commercial activity reflects the rises of the Commercial net interest income (+6.0%), Net fees and commissions (+18.1%) and the reduction of comparable Operating costs (-9.4%).

TOTAL OPERATING INCOME

The core total operating income, calculated by the sum of the Net interest income and the Net fees and commissions, increased by 31.3 million euros (+8.8%) in evolving from 354.7 million euros in 2016 to 386.0 million euros in 2017, leveraged on the positive performance of the core business both in terms of Net interest income (+5.2%) and Net fees and commissions (+18.1%).

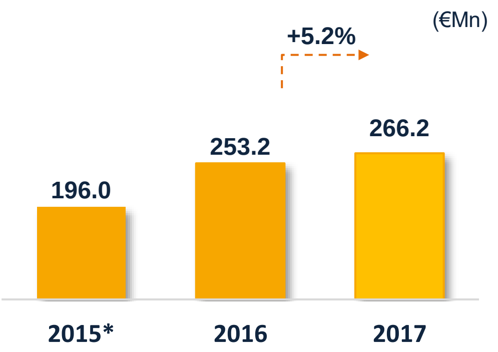
The evolution of Total operating income from 371.5 million euros in 2016 to 505.2 million euros in 2017 also incorporates the positive contribution of the Income from equity instruments (+1.0 million euros), the Results from financial operations (+33.7 million euros), including the gains from the divestment of Portuguese sovereign debt of the value of 73.4 million euros, and Other operating income (+67.7 million euros).

Net interest income

The Net interest income stood at 266.2 million euros in 2017, showing an increase of 13.0 million euros in relation to the 253.2 million euros recorded in 2016.

Contributing to this performance was the reduction in financing costs, namely the decrease of 35.4% in Customer Deposits, Central bank resources and other credit institutions in 81.7% and Debt securities issued in 31.4%, which was higher than the decrease in interest and income of the Loan portfolios of 7.8% and Financial assets available for sale of 79.1%, in the context of historically low reference interest rates in the market.

Net interest income



* 2015 restated in accordance with IFRS5 guidelines related to the Financial Statements of the subsidiaries in Angola and Mozambique, for comparative purposes.

Loans to customers in 2017 recorded a decrease in the average balance compared to the value of 2016 due to the ongoing deleveraging process, namely in non-performing loans and activity sectors that are considered non-core, in particular the construction sector, and in housing loans which continue to show a higher level of amortization in relation to the new operations raised.

At the level of the average interest rate on Customer Loans, reflecting the effect of the repricing of operations in a context where the main reference rates were situated on negative ground in 2017, an average rate of 2.43% was registered in 2017, which compared to 2.54% in 2016, translating into a negative price effect of 16.5 million euros.

The Securities portfolio in 2017 registered an average balance lower than 2016 and, at the same time, the average interest rate also showed an unfavourable evolution by shifting from 1.99% in 2016 to 1.46% in

2017, revealing the impact of the sale in 2017, of Portuguese sovereign debt bonds that provided the recording of gains in financial operations of a total of 73.4 million euros. The observed effects on Net interest income in 2017 driven by the Securities portfolio, by volume and by price, were both negative and amounted to 23.4 million euros.

The Net interest income in 2017 benefited from the positive price effect of 45.2 million euros recorded in Customer deposits, showing the impacts of the average rate having evolved from 1.07% in 2016 to 0.70% in 2017, benefiting from the continued and permanent management of the price applied to the capture of new deposits, as well as from the repricing of the existing deposits upon their maturity.

Likewise, the senior debt contributed positively to the evolution of the Net interest income between 2016 and 2017, namely through the price effect of 2.4 million euros, due to the reduction of the average rate from 2.55% in 2016 to 2.44% in 2017.

BREAKDOWN OF NET INTEREST INCOME

(EUR million)

	2016			2017		
	Avg. amount	**Avg. rate (%)**	**Interest**	**Avg. amount**	**Avg. rate (%)**	**Interest**
Assets						
Cash and deposits	341	0.05	0.2	469	0.00	0.0
Loans and advances to OCI	182	2.16	4.0	414	0.94	4.0
Loans to customers	15 317	2.54	394.4	14 738	2.43	363.7
Securities portfolio	2 962	1.99	59.9	2 471	1.46	36.5
Other (includes derivatives)		-	75.8		-	16.4
subtotal	18 802	2.80	534.3	18 092	2.29	420.6
Liabilities						
Resources from central banks	2 806	0.04	1.1	2 322	0.04	1.0
Resources from OCI	1 753	0.58	10.4	2 057	0.66	13.7
Customers' deposits	12 091	1.07	131.1	11 919	0.70	84.7
Senior debt	2 148	2.55	55.5	1 540	2.44	38.1
Subordinated debt	274	1.41	3.9	249	1.20	3.0
Other (includes derivatives)		-	79.1		-	13.9
subtotal	19 072	1.45	281.1	18 087	0.84	154.4
Net interest income		**1.33**	**253.2**		**1.45**	**266.2**

Therefore, the conjugation of the above-described effects resulted in an increase of 12 b.p. in the net interest income rate, which increased from 1.33% in 2016 to 1.45% in 2017.

DETAILED EVOLUTION OF NET INTEREST INCOME BETWEEN 2016 AND 2017

(EUR million)

	Volume effect	Price effect	Residual effect	Total
Assets				
Cash and deposits	0.1	(0.2)	(0.1)	(0.2)
Loans and advances to OCI	5.1	(2.2)	(2.9)	(0.0)
Loans to customers	(14.9)	(16.5)	0.6	(30.8)
Securities portfolio	(9.9)	(16.0)	2.5	(23.4)
Other (includes derivatives)	-	-	(59.3)	(59.3)
subtotal	(20.1)	(96.7)	3.1	(113.7)
Liabilities				
Resources from central banks	(0.2)	0.1	0.1	0.0
Resources from OCI	1.8	1.4	0.2	3.4
Customers' deposits	(1.9)	(45.2)	0.6	(46.5)
Senior debt	(15.7)	(2.4)	0.7	(17.4)
Subordinated debt	(0.4)	(0.6)	0.1	(0.9)
Other (includes derivatives)	-	-	(65.3)	(65.3)
subtotal	(14.5)	(117.6)	5.4	(126.7)
Change in net interest income	**(5.6)**	**20.9**	**(2.3)**	**13.0**

Income from equity instruments

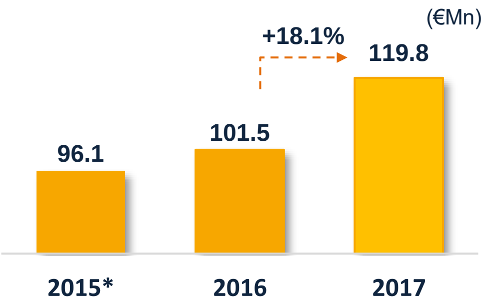
The heading of Income from equity instruments includes the income associated to variable yield securities, namely shares and participation units in investment funds, related to investments stated in the available for sale assets portfolio. The value stated in 2017 amounted to 12.6 million euros and compares favourably with the amount of 11.6 million euros recorded in 2016.

Net fees and commissions

Net fees and commissions, related to services rendered to customers, reached 119.8 million euros in 2017, representing an increase of 18.1%, compared to the value of 101.5 million euros in 2016.

The favourable evolution of Net fees and commissions during 2017 incorporates the combined effect of the measures that were implemented throughout the year aimed at adjusting the price of the services provided to customers to the value proposition offered by CEMG.

Net fees and commissions



* 2015 restated in accordance with IFRS5 guidelines related to the Financial Statements of the subsidiaries in Angola and Mozambique, for comparative purposes.

In this regard, the aforementioned increase incorporates the effects of the price revisions made on banking services rendered, namely those related to contracting loans, situations of exemption from charging fees and commissions, cards and recovery of values in debt.

Results from financial operations

The Results from financial operations amounted to 70.7 million euros in 2017, compared with 37.0 million euros recorded in 2016. This evolution shows the realization of gains from the sale of Portuguese sovereign debt bonds, which reached 73.4 million euros in 2017, whereas in 2016 3.2 million euros had been recorded.

RESULTS FROM FINANCIAL OPERATIONS

(EUR million)

	2015*	2016	2017	YoY Change	
				Amount	%
Results from financial assets available-for-sale	114.5	53.7	(14.8)	(68.5)	-
Results from financial assets and liabilities at fair value through profit or loss	(14.2)	(18.2)	83.6	101.8	-
Results from currency revaluation	2.4	1.5	1.9	0.4	24.4
Results from financial operations	**102.7**	**37.0**	**70.7**	**33.7**	**91.2**
of which: Results from the sale of Portuguese sovereign debt	*85.2*	*3.2*	*73.4*	*70.2*	*>100*

* 2015 restated in accordance with IFRS5 guidelines related to the Financial Statements of the subsidiaries in Angola and Mozambique, for comparative purposes.

Other results

The heading of Other results incorporates the Results from the sale of other assets and Other operating income, which includes, among others, the income obtained from the revaluation of investment properties, from services rendered, from investment property rents, from the reimbursement of expenses and from the assignment of staff, as well as the costs of the contributions to the banking sector, to the Resolution Fund, to the Deposit Guarantee Fund and with loan recovery services.

In 2017, the Results from divestment of other assets stood at 37.9 million euros, compared to 12.2 million euros recorded in 2016. This reflects the gains achieved through the divestment of part of the Portuguese sovereign debt bonds portfolio that had previously been recorded in the financial assets held to maturity portfolio, the gains achieved from the divestment of two customer loan portfolios that were non-performing and recorded on and off the balance sheet, the gains achieved from the divestment of non-current assets held for sale, especially the sale of real estate properties, which contributed to the reduction of exposure to real estate risk.

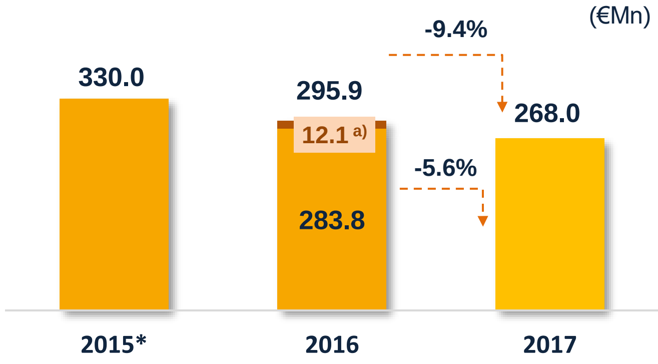
The Other net operating income in 2017 stood at -2.0 million euros, compared to -43.9 million euros in 2016. The evolution of the heading of Other net operating income essentially reveals the positive impact of the Income from investment property rents, Income from staff assignment, namely that made by CEMG to MGAM and the entities controlled by it, the reduction of Losses related to the revaluation of investment properties, the reduction of Servicing costs and expenses with recovery and divestment of loans, and the lower Issuance costs.

OPERATING COSTS

Operating costs in 2017 amounted to 268.0 million euros, representing a decrease, on a comparable basis, of 9.4% compared to the figure reported in 2016.

This evolution was influenced by the rationalisation process of the operative platform, which improved the operational efficiency, allowing the Cost-to-income ratio to reach 53.0%.

Operating costs



* 2015 restated in accordance with IFRS5 guidelines related to the Financial Statements of the subsidiaries in Angola and Mozambique, for comparative purposes.
a) Impact arising from the operating redimensioning and revision of the Colletive Labour Agreement.

Staff costs in 2017 amounted to 156.2 million euros, representing a reduction of 21.4 million euros (-12.0%) in relation to the value recorded in 2016, excluding the specific impacts of the resizing of the staff and the effects related to the revision of the collective labour agreement (CLA) recorded in 2016.

General and administrative expenses amounted to 87.0 million euros in 2017, showing a reduction of 7.5% in relation to 2016, benefiting from the materialization of the synergies resulting from the renegotiation of contracts and the closure of branches. The evolution of General and administrative expenses in 2017 mainly reflects the reduction of Rents and leases by 23.8% (-2.9 million euros compared to 2016) and the decrease in expenses with Specialized services by 6.7% (-2.6 million euros compared to 2016), determined by the computer component (-33.0% compared to 2016).

Amortization and depreciation in 2017 totalled 24.8 million euros, an increase of 2.2% over the same period of 2016.

In 2017, the Cost-to-income efficiency ratio*,* excluding the Results from financial operations and the effects derived from the operative resizing and revision of the collective labour agreement (CLA), stood at 61.7%, compared to 88.4% recorded in 2016.

OPERATING COSTS

(EUR million)

	2015*	2016	2017	YoY Change Amount	YoY Change %
Staff Costs (a)	191.4	177.6	156.2	(21.4)	(12.0)
General and administrative expenses	114.9	94.0	87.0	(7.0)	(7.5)
Amortization and depreciation	23.7	24.3	24.8	0.5	2.2
Operating costs (a)	**330.0**	**295.9**	**268.0**	**(27.9)**	**(9.4)**
Operating expenses with structure resizing programme	-	35.2	-	-	-
Revision of the collective labour agreement	-	(47.3)	-	-	-
Operating costs	**330.0**	**283.8**	**268.0**	**(15.8)**	**(5.6)**
Efficiency ratios					
Cost-to-Income (Operating costs / Total operating income) (b)	81.8%	76.4%	53.0%	(23.4 p.p.)	
Cost-to-Income, excluding specific impacts (c)	109.7%	88.4%	61.7%	(26.7 p.p.)	

(a) Excludes the impacts arising from the operational redimensioning and revision of the Collective Labour Agreement

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

(c) Excludes results from financial operations and the impacts arising from the operational redimensioning and revision of the Collective Labour Agreement

* 2015 restated in accordance with IFRS5 guidelines related to the Financial Statements of the subsidiaries in Angola and Mozambique, for comparative purposes.

IMPAIRMENT AND PROVISIONS

The allocations for Impairment and provisions amounted to 191.4 million euros in 2017, showing a decrease of 26.8% in relation to the value of 261.5 million euros recorded in 2016. This performance was influenced by the 11.9% reduction of Impairments for loans, which shifted from 182.5 million euros in 2016 to 160.7 million euros in 2017, reflecting the improvements made to the risk analysis policy in credit concession, which led to the cost of credit risk having evolved from 1.2% in 2016 to 1.1% in 2017.

The endowments for Credit impairment incorporate the result of the individual analysis made to significant exposures and which showed signs of impairment, on the one hand, and the value derived from the impairment model used to calculate the impairment associated to homogeneous populations, on the other hand, pursuant to accounting policy 1. c) described in the Notes to the Financial Statements.

The impairments constituted in 2017 for other financial assets decreased by 36.7 million euros in relation to the value recorded in 2016, standing at 7.8 million euros.

In relation to the Impairment of other assets, the value stated for 2017 stood at 12.6 million euros, showing a decrease of 69.3% in relation to the value recorded in the same period of 2016. Other provisions recorded an endowment of 10.3 million euros, compared to a reversal of 6.3 million euros recorded in 2016.

IMPAIRMENT AND PROVISIONS

	2015*	2016	2017	YoY Change Amount	YoY Change %
Loan impairments	241.7	182.5	160.7	(21.8)	(11.9)
Other financial assets impairments	16.0	44.5	7.8	(36.7)	(82.5)
Other assets impairments	88.6	40.8	12.6	(28.2)	(69.3)
Other provisions	(2.5)	(6.3)	10.3	16.6	-
Total impairment and provisions	**343.8**	**261.5**	**191.4**	**(70.1)**	**(26.8)**

*2015 restated in accordance with IFRS5 guidelines related to the Finantial Statements of Finibanco Angola and BTM subsidiaries, for comparative purposes.

INCOME TAX

Current and deferred taxes for 2017 amounted to -42.4 million euros, compared to 96.2 million euros stated in 2016, having been calculated in conformity with the International Accounting Standards (IAS) and observing the tax system applicable to each subsidiary of the CEMG Group.

The deferred tax assets arise from the fact that, for some realities, the accounting treatment diverges from the tax framework, thus giving rise to the statement of deferred tax assets associated to temporary differences.

RESULTS FROM DISCONTINUING OPERATIONS

The heading of Results from discontinuing operations incorporates the net income for the year of the subsidiaries Finibanco Angola, S.A. and BTM – Banco Terra, S.A. attributable to CEMG following the application of the accounting policy defined in IFRS 5, which stood at 4.2 million euros in 2017.

NON-CONTROLING INTERESTS

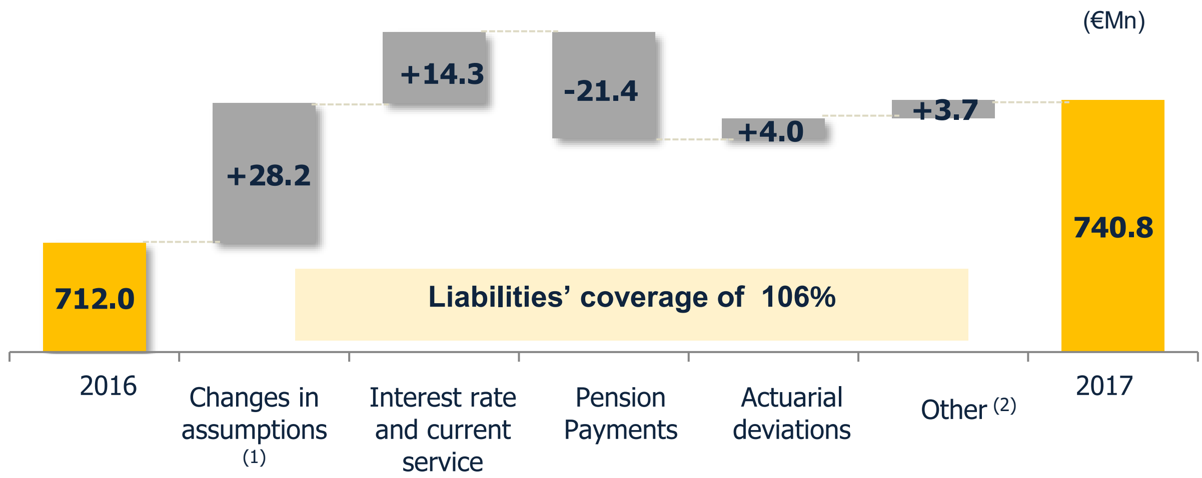
The Non-controlling interests recorded correspond to the portion of capital held by third parties in the subsidiaries Finibanco Angola, S.A. and BTM – Banco Terra, S.A.

PENSION FUND

The liabilities related to retirement and survivor's pensions amounted to 740.8 million euros as at December 31, 2017, compared to 712.0 million euros recorded as at December 31, 2016, showing an increase of 28.8 million euros.

The evolution of liabilities mentioned above was determined by the change in the actuarial assumptions, namely the discount rate, the rate of revaluation of wages for social security and the mortality table for women, which jointly contributed to an increase in liabilities of 28.2 millions of euros.

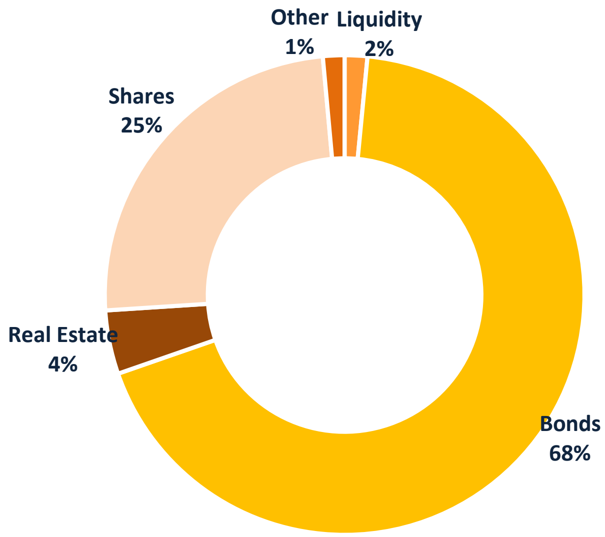
Evolution of Pension Fund liabilities



(1) Includes the effects associated with the change in the discount rate, wage and pension growth rates, the Social Security revaluation rate and the mortality table for women. (2) Includes participants' contributions and early retirements, rescissions by mutual agreement and others.

The value of the Pension Fund's assets increased by 5.0%, having reached the total of 733.9 million euros at the end of 2017 (698.7 million euros at the end of 2016), continuing to show a conservative distribution, with 70% of these assets invested in Bonds (68%) and Liquidity (2%).

Breakdown of the Pension Fund assets



To summarise, the following table systematises the evolution of the liabilities, the value of the assets of the Pension Fund, and the respective levels of funding for the period from 2015 to 2017.

PENSION FUND

(EUR million)

	2015	2016	2017	YoY Change Amount	YoY Change %
Total liabilities	668.5	712.0	740.8	28.8	4.0
Minimum liabilities to be financed	643.0	690.8	718.5	27.7	4.0
Value of the Pension Fund's assets	653.7	698.7	733.9	35.2	5.0
Coverage:					
Minimum liabilities*	101.7%	105.5%	105.9%	0.4 p.p.	
Total liabilities*	97.8%	102.4%	102.7%	0.3 p.p.	

* Also considering, in 2016 and 2017, the component financed directly by CEMG referring to employees in temporary suspension of employment contracts and the contribution to Social Welfare Services (defined contribution).

According to CEMG's accounting policy, and following the appraisal made on the adequacy of the actuarial assumptions, taking into account the level of the interest rates of corporate bonds of good risk denominated in euros, the duration of the liabilities and the experience verified in 2017, it was concluded that it was necessary to change the discount rate to 2.1% (2.0% in 2016), the salary growth rate for Social Security to 1.5% (2.0% in 2016) and the mortality table for women to TV 88/90 -3 years (TV 88/90 in 2016), as indicated in the following table.

ACTUARIAL ASSUMPTIONS

	2015	2016	2017
Salary growth rate	0.75%	0% em 2017; 1% following years	1.0% 2018+
Pension growth rate	0.25%	0% em 2017; 0.5% following years	0.5% 2018+
Revaluation rate			
Salary growth rate Social security	0.75%	2.00%	1.50%
Pension growth rate	0.75%	1.00%	1.00%
Rate of return of Fund assets	2.75%	2.00%	2.10%
Discount rate	2.75%	2.00%	2.10%
Mortality table			
Men	TV 88/90	TV 88/90	TV 88/90
Women	TV 88/90	TV 88/90	TV 88/90 -3 years
Disability table	EVK 80	EVK 80	EVK 80

RISK MANAGEMENT

The CEMG Group's global risk management encompasses a set of policies, procedures, and risk appetite thresholds, as well as the establishment of controls that enable, in an appropriate and integrated manner, to identify, evaluate, monitor, mitigate and report the risks arising from the activities developed in the various business lines and entities of the CEMG Group. The following elements are part of the CEMG Group's overall risk management process:

- Risk Appetite Framework – RAF;
- Risk management strategy;
- Structure, policies and organizational procedures;
- Risk identification and assessment;
- Planning and management of internal capital and liquidity;
- Monitoring and overall reporting of risk and internal capital;
- Stress tests;
- Contingency planning.

RAF constitutes the main element of the Group's risk management system, consisting of a general approach, according to which the risk appetite and strategy are established, communicated and monitored, including the necessary policies, processes, controls and systems. The risk limits, which support the risk management strategy and the maintenance of adequate levels of capital and liquidity are documented in a Risk Appetite Statement (RAS) approved by the management bodies. The risk management system is part of the internal control system of the CEMG Group, whose objective is the development of the activity in a sustained manner and in line with the established RAS. The defined risk appetite in the CEMG Group has the following objectives:

- Maintain a level of capital that ensures compliance with the minimum regulatory requirements and defined prudential requirements within the scope of SREP regarding the CET1 ratios, total ratio and leverage ratio.
- Maintain a level of liquidity that allows compliance with the minimum regulatory LCR requirements, ensuring an adequate level of survival, in both the baseline scenario and the stress scenario, avoiding excessive concentration on funding sources and ensuring compliance with NSFR requirements.
- Ensure a stable profitability that translates the sustainability of its business model in order to permit the organic growth of capital levels and liquidity buffers;
- Ensure the availability of sufficient financial resources to cover the economic capital requirements, based on a confidence interval of 99.9% and a time horizon of one year in the calculation of unexpected losses for all types of risk, in both a baseline scenario and a stress scenario;
- Maintain a robust and stable reputational position in the market.

On a regular basis, the CEMG Group's risk profile is monitored against the established risk appetite, and reported to the management body, namely through the specialised committee supporting this body (Risk Committee), as well as the supervisory board which, in turn, is organised into specialised committees for analysis of the various matters.

In 2017, the work continued in the development of methods and procedures in the area of risk identification, quantification of the underlying potential losses and the taking of measures towards their mitigation, with the following actions being especially noteworthy:

- Development of an integrated framework for the risk management of the CEMG Group, with establishment of levels of tolerance for the material risks to the CEMG Group activity;
- Development of the impairment model to be adopted with the transition to the new accounting standards IFRS 9, and participation in the impact studies promoted by the supervisory entities;
- Review and deepening of the internal regulations on management of material risks, namely for market, exchange rate, operational and business continuity risks, as well as within the scope of the ICAAP exercise;
- Continuation of the development works and review of the credit risk management models;
- Review of the specific internal reporting on regular monitoring of market, exchange rate and liquidity risks and solvency levels.

GOVERNANCE OF RISK MANAGEMENT

The risk management strategy is established in conformity with the risk appetite statement of the CEMG Group and considers the following dimensions:

- Solvency;
- Liquidity; and
- Profitability based on risk-adjusted return.

The management bodies of the of the CEMG Group subsidiaries are responsible for approving their own risk management strategies, which must be aligned with the business strategy defined for the subsidiary company and in consolidated terms, as well as the CEMG Group's overall risk strategy.

With reference to the financial year of 2017, the governance model of the CEMG Group included two bodies: The Executive Board of Directors and the Supervisory Board. In performing its duties, the Executive Board of Directors is responsible for the strategy and policies to be adopted regarding risk management. This includes the approval of the principles and rules of the highest level that should be followed in risk management.

In terms of internal supervision, the Supervisory Board, whose members are elected at CEMG's General Meeting, which also appoints the Chairman, appoints the Financial Matters Committee, whose duties, exercised in an independent form, include the ongoing monitoring and supervising of:

- The efficacy of the internal control, internal audit and risk management systems;

- The accounting policies;

- The activity and independence of external auditors.

There are also three statutorily established Supporting Committees of the Supervisory Board (non-executive members):

- The Remuneration Committee is composed of three members elected at the General Meeting, which also appoints the Chairman. The members of the Remuneration Committee should be independent relative to the members of CEMG's Executive Board of Directors and, in general, relative to the matters on which they deliberate and include at least one member with knowledge and experience in matters of remuneration policy. The Remuneration Committee is responsible for performing the duties defined by Law, in compliance with the remuneration policy approved at the General Meeting.

- The Nominations Committee is composed of three independent members with powers for the exercise of the functions concerned, elected at the General Meeting, which also appoints the Chairman. The Nominations Committee is responsible for performing the duties related to the internal policy of selection and evaluation of the members of the corporate bodies.

- The Risk Committee is composed of three members of the Supervisory Board elected for this function at the General Meeting, which also appoints the Chairman. The Risk Committee is responsible for performing the duties defined by Law.

Furthermore, committees providing support to the Board Directors have been constituted, which are forums of debate and support to decision-making, through the formulation of proposals and recommendations in the areas of their scope of intervention.

- Asset and Liability Committee (ALCO) – is responsible for monitoring Capital management, Balance Sheet and Income Statement. Its duties include, in particular, the issue of proposals or recommendations with a view to the management of liquidity or capital positions, taking into account the scenarios of evolution of the activity, the macroeconomic context and the indicators relative to the real and projected evolution of the different risks.

- Internal Control Committee – its scope is to support and advise the management body on matters relative to the internal control system, in order to ensure their adequacy and efficacy and compliance with the applicable provisions, as well as promoting its continuous improvement and alignment with best practices in this domain. Its duties include, in particular, the formulation of proposals or recommendations with a view to optimising the internal control system, improving operational risk levels and implementing corrective measures or improvements pursuant to the defined time schedule.

- Executive Risk Committee – is responsible for monitoring the risk profile of the CEMG Group, as well as analysing policies, methodologies, models and quantification limits of the risks relevant to CEMG activity and the adequacy of governance models, processes and procedures, methodologies and identification systems, quantification, monitoring and reporting of risks, with proposals being made or recommendations issued in order to promote the improvement of risk management processes.

- Business Committee – appraises and defines the features of new products and services, as well as those currently being marketed, with respect to their adequacy to the risk policy and regulatory framework.
- Pension Fund Monitoring Committee – is responsible for analysing and monitoring the management of the Pension Fund, where opinions are issued on possible proposals for changes to the management policy in force at any given time. In addition, CEMG integrates the Investment Committee of the Future, which makes management decisions on the Montepio Pension Fund.
- Real Estate Risk Committee – monitors the management of real estate risk, formulating proposals or issuing recommendations with a view to fostering the optimised management of the exposure to real estate risk in line with the objectives that have been defined.
- Credit Recovery Committee – is responsible for monitoring, in terms of efficiency and efficacy, the performance of the process of credit recovery, with proposals being formulated or recommendations issued for approval with a view to strengthening the performance of this process.

The mission of the Risk Department is to support the management body in taking decisions associated to the management of the different types of risk inherent to the activity, within the Group, as the body responsible for the risk management function.

This Risk Department assures the analysis and management of risks, providing advice to the management body, namely through proposed rules and management models for the different risks, and the preparation of management reports to substantiate the decisions taken and participation in Supporting Committees of the Board of Directors.

The Risk Department also assures compliance with a series of prudential reporting to the supervisory authority, particularly in the area of own fund requirements, control of major risks, liquidity risk, interest rate risk, country risk, counterpart risk, self-assessment of the adequacy of own Funds, Market Discipline, Recovery Plan and Resolution Plan.

The internal audit function, ensured by the Audit and Inspection Department, is of permanent nature and provides, in an independent and objective manner, assessment and consulting services aimed at enhancing value and improving the operationality of the CEMG Group.

The internal audit function assists the CEMG Group in achieving its objectives through the use of a systematic and disciplined approach to assess and improve the efficacy of the risk management, internal control and governance processes.

The internal audit function constitutes an integral part of the process of monitoring the internal control system and, as a third line of defence, it assesses all of Caixa Económica Montepio Geral processes and organic units, including the risk management function and the compliance function, and the subsidiaries that are incorporated in the CEMG Group.

Included within this scope of action are all the entities included in CEMG's consolidation perimeter and regarding which it holds the majority of the capital or management control.

With regards to the subsidiaries abroad, if they have their own audit functions, the corporate internal audit function is attributed to CEMG's Audit and Inspection Department, which will ensure the functional coordination of the local audit functions, with the objective of guaranteeing the alignment of the practices and procedures at the Group level, which may include local audit actions.

During 2017 the reporting line of the internal audit function was reformulated, and now includes functional reporting to CEMG's Executive Board of Directors and to the Supervisory Board, namely its Chairman. The hierarchical reporting of current managerial matters to CEMG's Board of Directors, namely its Chairman, continued.

The following principal responsibilities of the Internal Audit function of CEMG are noteworthy:

a) Preparation and updating of the Internal Audit Plan;
b) Promotion of audits in accordance with the Internal Audit Plan and other requests made on a case by case basis by the management and/or supervisory bodies;
c) Communication, through Audit Reports, of the result of the appraisal undertaken and recommendation of corrective measures;
d) Promotion of periodic monitoring of the implementation of corrective measures and verification of their effective implementation, in articulation with the Supporting Office of the Board of Directors;
e) Preparation and monthly submission of the Activity Report to the management and supervisory body;
f) Preparation and submission to the management and supervisory body and Banco de Portugal of the Monthly Report on the Monitoring of the Resolution Plan to Address the Internal Control Deficiencies of the CEMG Group;
g) Submission to the Internal Control Committee of information on the evolution of the Internal Control Deficiencies.

In order to ensure the fulfilment of the objectives of the Internal Control System (performance, information and compliance objectives), the following initiatives were carried out in 2017 within the scope of development of the internal control system:

- Reinforcement of the staff of the Audit and Inspection Department, aimed at endowing this function with the necessary skills to comply with the regulatory and supervisory requirements, which will continue throughout the 1st quarter of 2018;
- Creation, in June 2017, of the Office of Support to the Executive Board of Directors with attribution of the duties, among others, of monitoring the plan on implementation of measures to reinforce internal control in articulation with the Audit and Inspection Department..

The compliance function, as an integral part of the internal control system, is exercised by the Compliance Department, whose main responsibility is the prevention and mitigation of compliance risk in CEMG.

Compliance risk reflects the risk of incurring legal or regulatory penalties, financial loss or undermining of reputation as a consequence of failure to comply with the applicable laws, regulatory rules and/or specific directives of regulators, contractual obligations, rules of conduct, good internal practices and good practices before customers.

Reputational risk means the probability of financial loss to CEMG as a result of an unfavourable perception of CEMG's public image by the general public. Therefore, executed activities are scrutinised to identify and appraise aspects that might contribute to compliance risk, especially in processes or procedures associated with products and services commercialized and duties of disclosure of information to customers.

Compliance risk is mitigated though the promotion of a Compliance culture and through independent, permanent and effective intervention of the compliance function, ensuring the mechanisms and procedures that permit, on the one hand, minimising the probability of occurrence of risks, identifying, reporting to the management body and remedying situations that have taken place, and, on the other hand, guaranteeing the control and monitoring of the implemented measures.

The compliance function depends directly and exclusively on the management body and is autonomous from the other areas of CEMG. It is endowed with its own staff, exclusively assigned to the exercise of the compliance function. During the year of 2017, the process of adjustment of staff in order to respond to the requirements of the functions that have been assigned to them continued.

Within the scope of internal control, and during the exercise of its functions, the compliance function acts as a second line of defence, with free acess to all the information and elements relative to the activity of CEMG.

In legal risk mitigation, the compliance function monitors on a daily basis the national and European legislative novelties, including public consultations, as well as the regulatory changes of the national and European regulators that have an impact on the activity developed by CEMG with the corresponding updating promotion in the normative and internal procedures.

In 2017, some of the regulatory and implementation challenges focused on the areas of Prevention of Money Laundering and Financing of Terrorism, Mortgage Loans, Financial Intermediation, Personal Data Protection and Payment Systems.

Within the scope of the prevention of money laundering and terrorism financing (ML&TF), CEMG has implemented specific policies and procedures in light of a risk-based approach, aimed at managing in an adequate and efficient manner the risk that it is associated to. To this end, in addition to specific communication channels with the business areas that represent the first line of defence, CEMG has implemented IT applications that permit detecting and/or anticipating any transactions suspected of being associated to ML&TF, analysed by specialised teams. In compliance with the legislation in force, during the year 2017 several suspicious operations were communicated to the competent official entities.

CREDIT RISK

In 2017, work continued on reviewing credit risk management models and polices, accompanying the changes in the regulatory framework and guidelines issued by the national and European supervisors and regulators and best market practices.

The decision-making process for loan operations is based on a series of policies using scoring models for the portfolios of retail and business customers and rating models for the corporate segment. These models, developed based on internal historical data, enable obtaining an assessment, which is reflected in the attribution of a risk category to the customer/operation, aggregated in a single risk scale, representing the respective probability of default. The models are subject to validation by a unit that is independent from the unit responsible for its development, which reports directly to the Risk Committee (composed of non-executive directors) where, within this scope, the respective validation reports and opinions on changes to the models are approved.

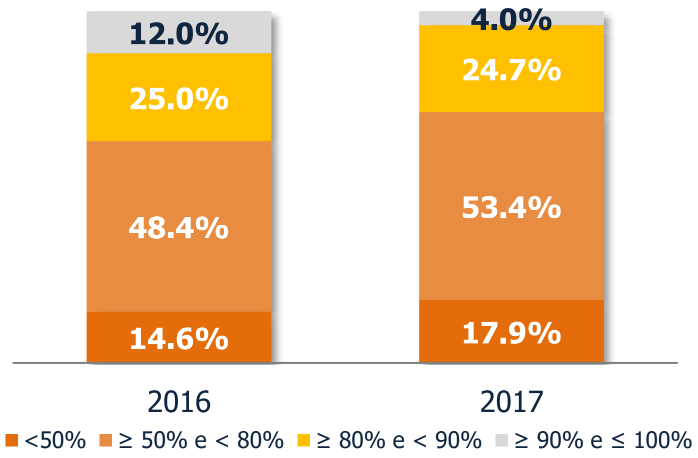
The performance of the models is monitored on a monthly basis, and there is also a regular updating process in light of the results obtained, business or regulatory changes that translate into a need to review those models.

The combination of this rating with the assessment of risk mitigators, in the form of personal or real guarantees, constitute determinant aspects for the decision-making and price of the operations. The levels at which pricing decisions are taken are defined according to risk adjusted return on equity (ROE), according to the principle that operations with lower adjusted risk ROE should escalate to higher decision levels.

In addition to the rating and scoring models, the decision-making process for credit operations is also based on certain rejection or levelling filters. The rejections or filters in terms of decision levels are determined by the occurrence of credit events in the financial system, non-compliance with credit rules (for example, effort rate) and whenever the pricing associated to a particular operation represents a risk of adverse selection.

In mortgage loans that were granted in 2017, the levels of Loan-to-Value (LTV - value of the loan divided by the value of the guarantee) remained conservative, having registered a favourable evolution in relation to the previous year, with the average LTV ratio, excluding financing of real estate properties owned by CEMG, of 67.9% (69.9% in 2016) corresponding to an evolution in line with the observed improvement of the real estate market's indicators.

DISTRIBUTION OF THE MORTGAGE LOAN PORTFOLIO BY LTV LEVEL



In 2017, the weight of the non-performing exposures (NPE) on Gross loans to customers fell 2.3 p.p., relative to the end of 2016, to 16.4%, in comparison with 18.7% in the previous year, to which the efforts developed in the loan recovery area contributed.

The total amount of impairments for credit risk reached 1,034 million euros at the end of 2017, giving rise to a ratio of coverage of loans and interest overdue by more than 90 days of 90.2% In addition, the coverage of Non-performing exposures (NPE) came to 44.9%, while the coverage ratio, also considering the total associated collaterals and financial guarantees, reached 87.0%.

LOAN QUALITY INDICATORS

(EUR million)

	2015*	2016	2017	YoY Change	
				Amount	%
Gross loans to customers	15 611	15 041	14 063	(978)	(6.5)
Loans and interest overdue by more than 90 days	1 218	1 372	1 146	(226)	(16.4)
Loans impairment	1 254	1 180	1 034	(146)	(12.4)
Ratios (%)					
Cost of credit risk	1.5	1.2	1.1	(0.1 p.p.)	
Loans and interest overdue by more than 90 days	7.8	9.1	8.2	(0.9 p.p.)	
Non-performing exposures (NPE) (a) / Gross loans to customers	20.7	18.7	16.4	(2.3 p.p.)	
Restructured loans (Forborne) (a) / Gross loans to customers	9.7	8.9	8.2	(0.7 p.p.)	
Coverage by Impairments for balance sheet loans (%)					
Loans and interest overdue by more than 90 days	103.0	86.0	90.2	4.2 p.p.	
Non-performing exposures (NPE) (a)	38.8	42.1	44.9	2.8 p.p.	
Non-performing exposures (NPE), also including associated collaterals and financial guarantees (a)	87.1	87.8	87.0	(0.8 p.p.)	

(a) EBA definition.
* 2015 restated in accordance with IFRS5 guidelines related to the Financial Statements of the subsidiaries in Angola and Mozambique, for comparative purposes.

CONCENTRATION RISK

Concentration risk arises from the existence of common risk factors or correlated risk factors between different entities or portfolios, such that the deterioration of any of these factors can have a simultaneous negative effect on the credit quality of each of the counterparties or on the results of each class of assets or liabilities. In a concentration scenario, the effect of losses on a reduced number of exposures may be disproportionate, confirming the importance of managing this risk in maintaining adequate solvency levels.

In the CEMG Group, the monitoring of concentration risk focuses mainly on credit concentration risk, investment portfolio and financing risk, as well as on interest rate and operational risk.

The credit concentration risk refers to the degree of concentration of credit default risk arising from possible over-exposures to individual counterparties or groups of related counterparties, to counterparties operating in the same activity sector, in the same geographic area or exposures with collateral or assets under joint exploitation, excluding Group companies. With regards to the concentration risk of investments, it is based on the investment portfolio by class of assets, levels of rating (and maturities), currency and counterparty, excluding Group companies.

Concerning funding concentration risk, this risk corresponds to the state of dependence of the various sources of funding, which also excludes Group companies. Interest rate concentration risk corresponds to the degree of portfolio concentration by type of reference rate.

The risk of operational risk concentration refers to an event or group of events with the potential to produce such high losses that they cast doubt on the solvency of the institution or its capacity to maintain its main operations.

Concentration risk is managed centrally, with regular monitoring of risk metrics ensured by the Risk Department. Within the scope of the established risk appetite (RAS), limits and strategic objectives for key indicators were defined, with concentration risk being one of the relevant dimensions, namely in the sub-components of credit risk, and liquidity and sovereign risk.

The credit concentration risk is the most relevant for CEMG and, as such, there are various procedures related to its identification, quantification and management. In order to limit the credit concentration risk of exposure to a customer/group of inter-related customers, maximum limits of exposure were defined for the aggregate positions of the loan and investment portfolios, for the various entities of the CEMG Group.

In terms of monitoring, concentration risk is regularly monitored taking into account relevant risk indicators (individual and sectoral concentration), in comparison with previous periods to monitor evolution. The identification and monitoring of the biggest exposures and of the most significant increases in exposure of the loan portfolio are conducted on a monthly basis.

MARKET RISK

The concept of market risk reflects the potential loss that could be recorded by a given portfolio as a result of changes in rates (interest and exchange) and/or in the prices of the different financial instruments comprising the portfolio, considering both the correlations that exist between them and their volatility.

Value-at-Risk (VaR) is one of the main metrics used to measure and monitor market risk. The Group calculates VaR on a daily basis for both its trading portfolio and its available-for-sale assets portfolio, based on a time horizon of 10 working days and on a significance level of 99%, using the historical simulation method. The types of risk considered in this methodology are the interest rate risk, the exchange rate risk, the price risk, the Credit Default Swap (CDS) risk, the options risk and the specific credit risk.

With respect to market risk information and analysis, the regular reporting on CEMG´s and of other Group entities portfolios is ensured, with various defined risk limits and global limits for VaR, by Issuer, by type/class of asset and level of credit quality (rating), as well as Stop Loss and Loss Trigger limits for the positions held for trading and in available-for-sale assets.

In reports prepared, the various exposure limits are controlled, analysing the concentration, credit, interest rate and asset price variation risks, among others. These analyses include the analysis of scenarios, namely the sensitivity of the securities portfolio to changes in interest rates, spreads, adverse exchange rate developments and changes in market prices of stocks and real estate.

In the market risk area, in addition to the Group's global portfolio risk report, specific risk reports for the trading portfolio as well as for the available-for-sale assets portfolio are also carried out.

In order to assure more effective risk management, the portfolio positions are separated into the portfolio of financial assets available for sale, financial assets held to maturity and the trading portfolio (from which hedge and fair value option hedges are excluded), with various risk thresholds being defined according to the type of portfolio. The thresholds applicable to the portfolios are defined in internal regulations, updated on an annual basis or whenever justified by alterations to market risk levels. These regulations also define stop loss and loss trigger thresholds applicable to the portfolios. Whenever any of these thresholds are reached, the re-examination of the strategy intrinsic to this position is mandatory.

Within the scope the of investment policy, there was a decrease in the exposure to Portuguese sovereign debt bonds in 2017, which was partly offset by the increase in exposure to Italian and Spanish sovereign debt. The execution of this strategy, combined with the improvement of the credit rating of the Portuguese Republic has led to variations in terms of the rating structure, namely in the BB+, BBB- and BBB and BBB+ buckets. The weight of bonds classified as investment grade in the total bond portfolio in December 2017 increased by 13.1% to 88.6% in relation to December 2016, highlighting the improvement of the rating of Portuguese sovereign debt bonds.

STRUCTURE OF THE BOND PORTFOLIO BY RATING CLASSES

(EUR million)

Rating	2016 Amount	2016 %	2017 Amount	2017 %	YoY Change Amount	YoY Change %
AAA	8	0.4	-	-	(8)	-
AA+	2	0.1	-	-	(2)	-
AA	1	-	2	0.1	1	79.8
AA-	1	-	2	0.1	1	72.8
A+	5	0.2	2	0.1	(3)	(69.4)
A	4	0.1	2	0.1	(2)	(47.9)
A-	5	0.2	2	0.1	(3)	(59.6)
BBB+	179	5.7	297	15.1	118	66.1
BBB	177	5.6	578	29.3	401	>100
BBB-	24	0.8	860	43.7	836	>100
BB+	2 498	79.5	-	-	(2 498)	-
B+	3	0.1	-	-	(3)	-
B-	-	-	17	0.9	17	-
CCC	12	0.4	-	-	(12)	-
D	35	1.1	-	-	(35)	-
NR	42	1.3	46	2.3	4	9.5
Subtotal	**2 996**	**95.4**	**1 808**	**91.8**	**(1 188)**	**(39.7)**
Discontinuing subsidiaries	146	4.6	162	8.2	16	10.7
Total	**3 142**	**100.0**	**1 970**	**100.0**	**(1 172)**	**(37.3)**

In 2017, the total of 1,970 million euros includes the value of 162 million euros - corresponding to the securities portfolio of Finibanco Angola (156 million euros, with B rating) and Banco Terra (6 million euros, CC rating) - which are recorded in the non-current assets held for sale of discontinuing operations.

The management of the portfolio's market risks also uses the Value at Risk (VaR) model, based on the historical simulation methodology with a time horizon of 10 days on a series with depth of 1 year and a significance level of 99%.

A summary of the VaR indicators in December 2016 and December 2017 is presented below:

VaR INDICATORS (1)

	2016 Available for Sale	2016 Trading	2017 Available for Sale	2017 Trading
Market VaR	**0.24%**	**1.16%**	**0.70%**	**1.02%**
Interest rate risk	0.29%	0.36%	0.37%	0.24%
Foreign exchange risk	0.04%	0.29%	0.09%	0.19%
Price risk	0.26%	1.17%	0.55%	0.96%
Diversification effect	(0.35%)	(0.66%)	(0.31%)	(0.37%)
Loan VaR (2)	**0.93%**	**0.63%**	**0.56%**	**4.81%**
Total VaR	**1.17%**	**1.79%**	**1.26%**	**5.83%**

(1) - 10-day time horizon and significance level of 99%; As a % of total portfolio assets; Includes the portfolios of CEMG and Montepio Investimento.
(2) - Includes positions held to maturity in 2016. Excludes exposures of Banco Terra and Finibanco Angola.

In addition to the monitoring of the VaR indicators, analysis of scenarios on the trading portfolio is carried out as a complement to the analysis of the remaining risk indicators. In December 2017, the following results of the scenario analysis were obtained:

STRESS TEST OF THE TRADING PORTFOLIO

(EUR million)

Scenario	December 2017
Increase of 100 basis b.p. in interest rates	(7.9)
25% fall of the stock market	(2.3)
Increase of credit spreads by 100 b.p. (in bonds)	(4.5)

EXCHANGE RATE RISK

Concerning the exchange rate risk of the banking portfolio, in general, the funds raised in the various currencies are invested in assets in the respective money market for maturity periods not exceeding those of the resources. Therefore, the existing foreign exchange gaps essentially derive from possible mismatches between the maturity periods of the investments and resources.

In addition, with regards to the exchange rate risk of the banking portfolio, limits of exposure have been defined which are monitored by ALCO, where any overrunning of any of the established limits follows the defined circuit, including the approval by the management body or the implementation of measures to cover that risk.

The limits defined in terms of exchange rate risk, include limits of currency position, in consolidated and individual terms, as well as in terms of VaR, and is also broken down in terms of the trading portfolio and the banking portfolio.

INTEREST RATE RISK IN THE BANKING PORTFOLIO

The interest rate risk caused by operations of the banking portfolio is assessed through risk-sensitivity analysis, on an individual and consolidated basis for the subsidiaries included in the Group's consolidated balance sheet.

Interest rate risk is appraised in accordance with the impacts on net interest income, net equity and own funds caused by variations in market interest rates. The main risk factors arise from the mismatch between the interest rate revision periods and/or residual maturity between assets and liabilities (repricing risk), from non-parallel variations in interest rate curves (yield curve risk), from the nonexistence of perfect correlation between different indexers with the same repricing period (basis risk), and from the options associated to instruments which enable divergent action of agents depending on the level of rates that are contracted and applied at any given time (option risk).

Following the recommendations of Basel and Banco of Portugal Instruction No. 19/2005 of 15 June, the Group calculates, at least once every three months, its exposure to balance sheet interest rate risk based on the methodology of the Bank of International Settlements (BIS), classifying all the headings of the assets, liabilities and off-balance sheet items, which do not belong to the trading portfolio, by repricing brackets.

Within this scope, limits of exposure to interest rate risk factors have been defined which are monitored by ALCO, where any overrunning of any of the established limits, even if temporary, requires the approval of the management body or the implementation of measures to cover this exposure.

In parallel, a stress test is conducted with six shock scenarios on the interest rate curve. The test also measures impacts on the net interest margin at one year and on the net equity of shocks on the interest rate curve specified in the BIS document of April 2016, Standards - Interest rate risk in the banking book.

Based on the financial features of each contract, the respective expected cash flows are projected, according to the rate repricing dates and any pertinent performance assumptions that are considered.

The table below presents a summary of the exposure to balance sheet interest rate risk, classifying all the headings of the assets, liabilities and off-balance sheet items, which do not belong to the trading portfolio, by repricing brackets:

INTEREST RATE REPRICING GAPS IN DECEMBER 2017

(EUR million)

	Residual maturities of repricing				
	Up to three months	Three to six months	Six months to one year	One to five years	Over five years
Assets	8 090	3 323	638	1 797	1 023
Off balance sheet	10	0	0	783	0
Total assets	**8 100**	**3 323**	**638**	**2 580**	**1 023**
Liabilities	4 732	1 904	2 509	8 049	275
Off balance sheet	759	10	10	15	0
Total liabilities	**5 491**	**1 914**	**2 519**	**8 064**	**275**
GAP (Assets - Liabilities) in Dec 2017	**2 610**	**1 409**	**(1 881)**	**(5 485)**	**748**
GAP (Assets - Liabilities) in Dec 2016	**3 589**	**1 295**	**(1 268)**	**(7 323)**	**2 162**

Given the interest rate gaps observed on December 31, 2017, an instantaneous and parallel positive shift in interest rates by 100 basis points would lead to a variation in the expected economic value of the bank portfolio of approximately 12.2 million euros (December 31, 2016: -30.5 million euros).

LIQUIDITY RISK

Liquidity risk is assessed using regulatory indicators defined by the supervisory authorities and other internal measurements for which exposure limits are also defined. This control is reinforced by the execution of stress tests, aimed at characterising CEMG's risk profile and assure that the Group meets its liabilities in the event of a liquidity crisis.

The objective of controlling the liquidity levels is to maintain a satisfactory level of disposable assets so as to meet financial needs in the short, medium and long terms. Liquidity risk is monitored on a daily basis, and various reports are prepared for control purposes and for follow-up and support for decision-making in the ALCO committee.

The evolution of the liquidity situation is analysed, in particular, based on estimated future cash flow projections for various time horizons, taking into account CEMG's balance sheet. The liquidity position of the day under review and the amount of assets that are considered highly liquid in the uncompromised securities portfolio are added to these projections so as to determine the accumulated liquidity gap for various time horizons. In addition, liquidity positions are also monitored from a prudential viewpoint, calculated according to the rules required by Banco de Portugal (Instruction No. 13/2009 of 15 September), as well as the level of compliance with the prudential indicators of liquidity, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and Additional Liquidity Monitoring Metrics (ALMM), and of internal ratios, such as, for example, the loans-to-deposit ratio, the concentration of funding sources, short-term financing and eligible assets.

Within the scope of control of liquidity levels, limits have been defined for several liquidity risk indicators, which are monitored through weekly and monthly reports.

The objective of controlling the liquidity levels is to maintain a satisfactory level of disposable assets so as to meet financial needs in the short, medium and long term. Liquidity risk is monitored daily, with various reports being prepared for control and monitoring purposes and to support decision-making.

The evolution of the liquidity situation is analysed, in particular, based on estimated future cash flow projections for various time horizons, taking into account the Bank's balance sheet. The liquidity position of the day under review and the amount of assets that are considered highly liquid in the uncompromised securities portfolio are added to these projections so as to determine the accumulated liquidity gap for various time horizons.

LIQUIDITY POSITION GAPS IN DECEMBER 2017

(EUR million)

Position reference date + forecast amount	Maturity periods				
	On sight and up to 1 week	Above 1 week and up to 1 month	Above 1 month and up to 3 months	Above 3 months and up to 6 months	Above 6 months and up to 12 months
Accumulated mismatches	2 900	2 900	2 688	2 584	1 532

As at December 31, 2017, customer resources continued to be the main source of funding, accounting for 68.2% of total funding sources:

Liabilities	%
Resources from central banks	8.5
Resources from other credit institutions	9.7
Resources from Customers	68.2
Debt securities issued	8.4
Other liabilities	5.2
Total	**100.0**

The liquidity coverage ratio (LCR) reached 153.2% at the end of 2017, above the minimum requirement in force since 1 January 2017 set at 80%. Special note should also be made of the maintenance of a balanced commercial balance sheet with the loan-to-deposit ratio, considering loans and resources from customers on the balance sheet, standing at 92.4%, compared to 96.3% as at the end of 2016.

REAL ESTATE RISK

Real estate risk is embodied in possible negative impacts on CEMG's results or own funds, due to fluctuations in the market price of real estate assets.

This type of risk arises from exposure in real estate assets, whether from properties given in lieu of repayment or judicial auction sale in the context of recovery procedures for loans or participation units of real estate funds held in the securities portfolio. These exposures are monitored based on analyses of scenarios that seek to estimate potential impacts of alterations in the real estate market on the portfolios of these real estate assets and provide the necessary information for the definition of the real estate risk management policy.

During 2017, CEMG's exposure to real estate risk, in the components described above, fell by approximately 86 million euros, in shifting from 1,580 million euros at the end of 2016 to 1,494 million euros as at December 31, 2017.

PENSION FUND RISK

Pension Fund risk arises from the potential devaluation of the fund's portfolio of assets or from the decrease of the corresponding expected returns. When faced with scenarios of this type, CEMG is required to make unforeseen contributions, so as to maintain the benefits defined by the Fund.

The Pension Fund Monitoring Commission is responsible for the regular analysis and monitoring of the management of CEMG's Pension Fund. Moreover, the Risk Department produces monthly reports on the evolution of the market value of the Pension Fund portfolio and associated risk indicators.

As at December 31, 2017, the accumulated negative actuarial deviations of the Pension Fund stood at 188 million euros, which corresponds to an improvement of approximately 3 million euros in relation to the value recorded at the end of 2016.

OPERATIONAL RISK AND BUSINESS CONTINUITY

Concerning the monitoring of operational risk, the activities of collection, analysis of loss events and prior identification of relevant operational risks were maintained whenever a product, process or system is implemented or reviewed.

In terms of exposure to operational risk, the business lines which show greatest severity are retail activity and payment and settlement.

EVENTS DISTRIBUTION BY BUSINESS LINE IN DECEMBER 2017

	Frequency	Severity
Retail Banking	38.6%	91.5%
Payment and settlement	58.7%	8.5%

In turn, the business continuity management cycle is supported by a series of activities of assessment, design, implementation and monitoring, integrated in a continuous improvement routine aimed at making business processes more resilient, thus assuring the continuity of operations in the case of events causing an interruption of activity.

The evolution of the sector, the internal changes themselves, the growing concern with the total range of assets to be protected, the quality of their protection and their cost-benefit ratio in comparison to other market players imply the pressing need for a periodic review of the business continuity management.

The Compliance School of the Montepio Academy also started an e-learning training project aimed at creating an awareness-raising programme for all the employees.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

The internal capital adequacy process (ICAAP) is an essential component in the risk management of the CEMG Group, which seeks to ensure an analysis of the evolution occurred in the practices of qualitative and quantitative assessment of the risks to which the Group is exposed, the appraisal of the internal controls and effects which enable risk exposure mitigation, the simulation of adverse situations with impacts on the solvency of the CEMG Group and the assessment of the adequacy of internal capital.

CEMG's ICAAP exercise is conducted at a consolidated level with the following main objectives:

- Promote ICAAP as a tool to support strategic decision-making in the CEMG Group;
- Stimulate a culture of risk that fosters the participation of the entire organisation in the management of the internal capital (management body, business areas and internal control functions);
- Assure the adequacy of the internal capital against its risk profile and its risk and business strategies;
- Assure an appropriate identification, quantification, control and mitigation of the material risks to which the Group is exposed;
- Assure the suitable documentation of the demonstrated results, by reinforcing the integration of the risk management processes in the risk culture of the Group and in the decision-making processes;

- Foresee a contingency plan to assure the management of the activity and the adequacy of the internal capital in the event of a recession or crisis.

The results of the ICAAP enable to evaluate whether the Group's capitalisation is, in a sustainable form, adequate to the risks derived from its activity. This capital adequacy is assessed based on the comparison between the available internal capital and the economic capital requirements, taking into account the risk appetite level established by the management body.

At a first stage, this entails identification of the material risks which the CEMG Group's activity is subject to, based on an internal risk classification. All the risks identified as material and the risks considered in Basel Pillar I, regardless of being considered material or not, are integrated in the ICAAP.

At a second stage, the material risks are modelled with a view to the quantification of the respective economic capital requirements, based on an extremely adverse scenario in line with the defined risk appetite level. The risks are thus incorporated by add-on to the regulatory capital. The capital add-on values therefore include the requirements relative to other risks not considered in Pillar I (regulatory vision) and the difference between the regulatory and economic requirements, taking into account the risk quantification methodologies used internally by the CEMG Group.

Capital adequacy is assessed based on the comparison between the economic capital requirements and the available internal capital to absorb risks, calculated taking into account the established risk appetite level.

The result of the capital adequacy assessment is supplemented by the values obtained under stress test scenarios. The objective is to assess the capacity of the CEMG Group to absorb unexpected losses, where potential contingency plans should be identified to deal with any insufficiency of internal capital, duly aligned with other capital planning exercises, namely the Funding and Capital Plan and the Recovery Plan.

In light of the defined strategic plan and the Funding and Capital Plan agreed with Banco de Portugal and reviewed periodically, no significant changes are foreseen in the materiality of the different types of risk. The internal capital assessment process during 2017 demonstrated that the CEMG Group is adequately capitalised. Additionally, the Funding and Capital Plan foresees measures that will enable strengthening the Group's solvency levels, both through reinforcement of own funds and by reduction of the risk-weighted assets.

STRESS TESTS

Pursuant to the regulatory terms, CEMG conducts stress tests, under the Recovery Plan of the CEMG Group and the Internal Capital Adequacy Assessment Process (ICAAP) submitted to Banco de Portugal.

The Recovery Plan of the CEMG Group involves analysis and measurement of impacts derived from adverse scenarios, considering systemic events, idiosyncratic events of the Group and a combination of both. This analysis gave rise to a series of strategic options and recovery measures to be placed in practice in order to assure the preservation and solidity of the CEMG Group's levels of capital, liquidity, profitability and operating activities, in the event of being faced with situations of contingency or financial crisis.

The Internal Capital Adequacy Assessment Process (ICAAP), so as to assess capital insufficiency during periods of stress, involved the definition of a series of stress tests (sensitivity and scenario analysis) on the risk quantification models. The outcome of these tests enables to attest to the adequacy of internal capital levels adequate to the adverse scenarios tested.

In addition to the stress tests reported to Banco de Portugal, CEMG also regularly carries out other impact studies aimed at providing an analytical vision of its position in terms of liquidity, net income for the year and capital when subject to adverse scenarios arising from alterations in risk factors such as interest rates, credit spreads, refunding of deposits, margins of assessment of eligible assets applied by the European Central Bank (ECB), risk ratings (of the CEMG and counterparts), portfolio loss ratios, collateral, among others.

The stress tests and analyses of adverse scenarios are disclosed and debated with CEMG's management, with the conclusions drawn being subsequently incorporated in the strategic decision-making processes, more precisely in the determination of levels of solvency, liquidity, exposure to specific risks (counterpart and price risks) and overall risks (interest rate, exchange rate and liquidity risks).

RISK RATINGS

The risk ratings attributed to CEMG by the principal rating agencies as at December 31, 2017 are presented in the table below:

Rating Agencies	Covered Bonds (CPT[1])	Long-term	Short-term	Outlook
Fitch Ratings	A+	B+	B	Stable
Moody's Investors Service	A3	B3	NP	Developing
DBRS	A	BB	R-4	Negative

(1) Conditional Pass-through Covered Bond Programme

On March 16, 2017, the financial rating agency Fitch ratings confirmed the Long-Term and Short-Term rating at 'B' and the Outlook at 'Stable'.

On June 23, 2017, Moody's Investor's Investors Service (Moody's) maintained the long-term rating at 'B3' and the Outlook at 'Negative'. It should be noted that in a press release dated July 10, 2017, the Moody's agency stressed the positive impact of the share capital increase of 250,000,000 euros, made by Montepio Geral - Associação Mutualista on June 30, 2017, as well as the transformation of CEMG into a Public Company, which may enable the entry of new investors and access to alternative capital sources.

On September 27, 2017, the DBRS agency announced the maintenance of the long-term risk rating, including the classification of the new rating class - Long-Term Issuer Rating, Long-Term Senior Debt and Long-Term Deposits at 'BB' and the classification of Subordinated Debt at B (High), with the classifications trend being revised to negative. Regarding Short-Term Issuer Rating, Short-Term Debt and Short-Term Deposits, the agency announced their maintenance at R-4 and the corresponding trend at stable. CEMG's intrinsic assessment (Bank Intrinsic Assessment – IA) and the external support assessment (Support Assessment) also remained stable at BB and SA3, respectively.

On November 7, 2017, the financial rating agency Moody's withdrew the outlook of negative evolution on the Long-term Bank Deposits rating, changing it to 'developing'. This alteration reflects Moody's expectation that the implementation of the 2016-2018 Strategic Plan will continue to have a positive impact on CEMG's risk profile, taking into account the capital context and the challenges that are foreseen in terms of asset quality improvement. In this respect, Moody's also emphasised the relevance of the securitisation of a portfolio of non-performing loans, which contributed favourably to the pursuit of CEMG's strategic objectives. Moody's also announced that the risk ratings attributed to CEMG would be maintained: Adjusted Baseline Credit Assessment (Caa1), Baseline Credit Assessment (Caa1), Long-term Bank Deposits (B3), Long-term Counterparty Risk Assessment B1(cr), Senior Unsecured Medium-Term Note Program (P)B3, Subordinate Medium-Term Note Program (P)Caa2, Junior Subordinate Medium-Term Note Program (P)Caa3.

On November 24, 2017, the financial rating agency Fitch Ratings announced an upward revision of the rating of Covered Bonds issued by CEMG, moving from 'A' to 'A+', with 'Stable' Outlook. The upgrade of the rating took place under the annual review of CEMG's Covered Bonds and derives from the level of protection conferred by the quality of the autonomous assets allocated to these bonds, in light of the implementation of the new assessment methodology applied by the agency.

On December 21, 2017, the financial rating agency Fitch Ratings announced an upward revision of the Long Term risk rating (Long Term IDR - Issuer Default Rating) from 'B' to 'B+', keeping the 'Stable' Outlook. The agency also announced the upward revision of the Viability Rating (VR) from 'b' to 'b+' and confirmed the Short Term risk rating (IDR) at 'B', maintaining the outlook at 'Stable'. The decision on the rating was taken during the annual review and reflects the agency's recognition of the progress arising from the implementation of the 2016-2018 Strategic Plan, with the actions taken having enabled CEMG to improve its key indicators. The agency also indicated that CEMG had shown clear signs of improving its financial profile during 2017, in particular in terms of capitalisation, asset quality and profitability. The agency mentioned the positive net income achieved in 2017, the reduction of operating costs and the reduction of assets at risk, with the important contribution of the securitisation of non-performing loans (NPL) accomplished in November 2017, revealing the management team's dedication to improve the asset quality and its commitment to the defined strategic objectives.

NON-FINANCIAL STATEMENT

FRAMEWORK DECREE-LAW NO. 89/2017

Caixa Económica Montepio Geral ("CEMG") is a singular financial institution on the national scene due to its mutualist origins and nature. Its operating standards are founded on the principles of business ethics, the primacy of customers' interests and the protection of their savings, loyalty towards customers, investors and regulatory authorities, but also solidarity and social responsibility which its vocation and century-old origins call for. The sustainability area has been a founding element of CEMG since its origins, and the commitments undertaken are based on pillars of exigency, rigour and a sense of ethics, in the strict fulfilment of the respect for human values and for the people that work for the Institution, enhancing its human capital and talent as insurmountable factors of sustainable development.

This chapter, which is part of the Management Report of 2017, highlights the policies and practices of CEMG on environmental, social and employee-related issues, gender equality, non-discrimination, respect for human rights and the fight against corruption. By highlighting, in this chapter, its activity in these areas, CEMG also meets the requirements of Decree-Law number 89/2017, published on July 28, 2017, which provides for the disclosure of non-financial information allowing the understanding of CEMG's social responsibility activities.

In 2017, and in line with previous years' practice, CEMG collected and summarised non-financial information from the fully-consolidated subsidiaries (see Group Structure section of this report). It now compiles that information in this chapter of the Management Report.

VALUE CREATION FOR THE BUSINESS

Since its creation, CEMG has been placing at the disposal of Individual, Corporate and Social Economy customers a universal offer of complementary financial products and services through a dynamic, prudent and ethical management, based on high standards of responsibility and social sustainability, contributing to the development and consolidation of the Portuguese economy.

CEMG also considers, within the scope of value creation for the business, risk management and the fight against corruption and attempted bribery as highly relevant.

RESPONSIBLE BUSINESS

Continuing to pursue its mission of affirming its positioning through the application of the intrinsic principles of an ethical banking system, CEMG has been offering to its customers, over the years, financial products and services with social and environmental benefits, with emphasis on the offer dedicated to the third sector of the economy, thus contributing to the response to society's challenges and in line with best practices.

In 2017, CEMG continued its strategy for the individuals customer segment focused on stimulating family savings, namely through the availability of savings products with different characteristics and maturity periods, and a "rounding up plan" aimed at the transfer of amounts resulting from the rounding up of purchases and payments made with a debit card to a child or young person's savings account. At the same time, CEMG maintained the availability of the Global Solutions, integrated packages of products and services, with differentiated pricing, targeting individual customers with different profiles of bank needs. Within the scope of the offer of a sustainable nature, CEMG continued to offer financial products directed at compliance with social and environmental imperatives, namely financial inclusion, savings promotion, education support, and health and well-being promotion solutions and products which encourage good environmental practices. In regard to the individuals segment, the Business Areas section of this report, which contains more detailed information, can be consulted.

In addition, CEMG strengthened its participation in public sector initiatives directed at stimulating the financing of companies in diverse aspects, from supporting the victims of the fires occurred in 2017, namely with the signing of the Protocol - Credit Line to Support the Treasury of Companies affected by fires which broke out on October 15, 2017, to supporting specific clusters such as Urban Rehabilitation, with the signing of the Revive protocol. CEMG maintained its support to the agricultural and fisheries sector through cooperation protocols with the IFAP – Instituto de Financiamento da Agricultura e Pescas (Agriculture and Fisheries Funding Institute) for the establishment of preferential financing conditions. In regard to the Corporate segment, the Business Areas section of this report, which contains more detailed information, can be consulted.

Promoting the Social Economy also plays a prominent role in CEMG's strategic development, through support provided to the Social Economy and the monitoring of third sector entities, namely through dialogue with their representative structures and stakeholders, building bridges of understanding and strengthening relationship networks directed towards the growth and shoring up the Social Economy and of its agents. In regard to the Social Economy segment, the Business Areas section of this report, which contains more detailed information, can be consulted.

Aware that the growth of its business and the maximisation of the benefits attributed to its customers are the driving forces of the Institution, CEMG is permanently dedicated to providing its customers with quality services, complying with high ethical standards.

During 2017, training was provided relative to CEMG's mission in terms of the value creation for the business and social responsibility, which specifically included the prevention of money laundering and financing of terrorism, and the code of conduct.

Type of Training in 2017

	No. Actions	No. Training Hours	No. Employees covered
Prevention of Money Laundering and Financing of Terrorism	30	6,423	2,999
MiFID	20	172,387	2,257
Business Continuity	4	3,030	3,029
MoneyGram - Fraud Prevention	10	148	74
Code of Conduct	16	1,685	3,370

RISK MANAGEMENT

The overall management of risk of the CEMG Group includes a set of policies, procedures, definition of limits within the scope of risk appetite, and controls that allow, in an adequate and integrated manner, the identification, measurement, assessment, monitoring, mitigation and reporting of the risks arising from the activities developed in the various business lines and entities of the CEMG Group. The different dimensions of risk covered by the risk management function and its governance can be consulted in the Risk Management chapter of the Management Report. This section focuses on operational risk within the scope of social responsibility.

The management cycle of Operational Risk implemented in CEMG is transversal to all the materially relevant activities developed in the Institution. This process includes the preparation of a map of activities and respective operational risks and controls, permitting the identification of the potential exposure of each organic body/unit to operational risk, determination of its risk profile and prioritising any mitigation actions. Operational risks are monitored in accordance with key categories:

- Internal Fraud: Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or internal policies/rules, which involve at least one employee of the Institution.
- External Fraud: Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party.
- Employment practices and workplace safety: Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events.
- Customers, products and business practices: Losses arising from an unintentional or negligent failure to meet a professional obligation to specific customers, or from the nature or design of a product.
- Damage to physical assets: Losses arising from loss or damage to physical assets from natural disaster or other events.

- Business disruption and system failures: Losses arising from disruption of business or system failures.
- Execution, delivery and process management: Losses from failed transaction processing or process management, from relations with trade counterparties and vendors.

The operational risks and its controls are regularly self-assessed under a workshop regime with the representatives of each organic body/unit. During 2017, 55 processes were reviewed, with the completion of the self-assessment exercises scheduled for mid-2018.

Based on the results of the self-assessments, undertaken with respect to impacts and frequency for risks and of percentage of effectiveness for controls, a matrix of tolerance to residual risk is established, which will sustain the level of risk considered acceptable for the Institution and permit the identification of risks for which additional mitigation actions will have to be equated.

The results of the self-assessments are subject to a detailed analysis and reported to the Board of Directors, via the Operational Risk Annual Report, as well as within the Risk Committee.

FIGHT AGAINST CORRUPTION AND ATTEMPTED BRIBERY

Within the scope of the fight against corruption and attempted bribery, namely combating money laundering and terrorist financing, CEMG has policies in place relative to the identification of customers, analysis and monitoring of high risk customers, acceptance of customers, and management of money laundering and terrorist financing risk, as well as relative to sanctions, in order to ensure the conformity of internal procedures with legislation in force and in line with best market practices.

Detected nonconformities are immediately remedied and, when necessary, action plans are implemented to any situations that require additional intervention.

OUR POLICIES

OUR POLICIES

CEMG has adopted, namely, the following specific policies related to the business:

- Policy on management of the risk of money laundering and terrorist financing
- Policy on analysis and monitoring of high risk customers
- Customer acceptance policy
- Customer identification policy
- Sanctions policy
- Policy on conflicts of interest
- Policy on market abuse prevention

OUR PERFORMANCE

CEMG presents information relative to the indicator: Training on anti-corruption policies and procedures.

Without prejudice to the ongoing improvement policy that CEMG plans to implement, this first non-financial statement already presents relevant information for the CEMG subsidiaries with higher materiality. In this regard, for the indicator under analysis, information is presented about CEMG, S.A., in which the training on anti-corruption policies and procedures totalled 8,256 hours in 2017, of which 6,423 hours refer to prevention of money laundering and financing of terrorism, 1,685 hours refer to the code of conduct and 148 hours refer to Moneygram - fraud prevention.

VALUE CREATION FOR EMPLOYEES

CEMG considers human capital as one of the key assets of the Institution. To this end, it has been developing initiatives considered strategic in the area of Human Resource Management, with highlight to the training and professional development of its Employees.

The theme of diversity and of ethics and integrity has been gaining increasing importance at CEMG.

HUMAN CAPITAL AND TRAINING

Caixa Económica Montepio Geral signed the Collective Labour Agreement with the Sindicato dos Bancários do Norte (Bank Employees Union of Northern Portugal), Sindicato dos Bancários do Centro (Bank Employees Union of Central Portugal) and Sindicato dos Bancários do Sul e Ilhas (Bank Employees Union of Southern Portugal and Islands), the former within the scope of FEBASE, and with FESIBA. This agreement applies to CEMG and to its subsidiaries Montepio Valor and Montepio Crédito.

In terms of training, the CEMG group carried out a total of 239,465 training hours in 2017. Regarding CEMG employees, the Human Resources section, which contains more detailed information, can be consulted.

Total Training Hours in 2017

	No. Actions	No. Training Hours	No. Participations	No. Employees covered
CEMG				
2015	1,091	82,095	23,996	3,770
2016	699	51769	19282	3250
2017	1,174	230,624	49,529	3,613
Subsidiaries 2017				
Montepio Crédito	46	6,488	892	172
Montepio Valor	8	116	13	12
Finibanco Angola	14	1,721	39	25
Banco Terra	39	516	129	149
Total 2017	**1,281**	**239,465**	**50,602**	**3,971**

PERFORMANCE MANAGEMENT

The pilot cycle of the New Advisory and Performance Management System - 3D model was implemented in 2017. Its features include Dialogue, Development and Performance, with the completion of the 1st cycle planned for 2018.

The 3D Model is a strategic tool whose main objective is the promotion of performance management practice, enhancing the way in which the results are obtained and ensuring that the teams make the expected contribution to CEMG. The 3D Model is based on a process that assesses past performance and the development of each employee, thus enabling a focus on future potential. In this sense, the annual cycle involves 2 different processes which, being independent, complement each other: the Advisory process, on the one hand, and Performance Management, on the other.

The three main guidelines of the 3D Model are employee development, monitoring of their performance and a very effective dialogue process that translates into genuine sharing.

The 3D Model allows:

- Adjusting the role and path of the Employees within the scope of CEMG's strategy, objectives, values and mission;
- Improving the individual performance of each Employee, as well as of the Organisation;
- Analysing, in a systematic and structured way, employee performance, according to understood and measurable assessment criteria, which permit performance benchmarking;
- Standardising and promoting performance management as a management tool;
- Promoting interactive dialogue within the teams;
- Managing individual expectations.

The 3D Model thus corresponds to a mixed model, enabling the assessment of skills and of the objectives defined for each employee.

Within this scope, a new Competency Model was prepared, arising from the recognised need to identify the competency profile of the Employee and of the Leader of the future, who complies with the institution's values, principles, mission and vision. The 3D Model was built with the participation of all the Employees and aims to be the structuring basis for a common language, transversal to all the Human Resource processes, so that all employees know what is expected from them in terms of behaviour, attitudes and skills.

DIVERSITY

For CEMG the diversity is a central ethic theme and a guideline for its internal and external way of acting, with non-discrimination as one of the most highlighted values on its code of conduct. CEMG assumes the commitment of non-discrimination and of treatment equality regardless of age, gender, ethnicity, citizenship, place of born, religion and political or ideological beliefs.

ETHICS AND INTEGRITY

Code of Conduct of CEMG

CEMG is determined to adopt, in a systematic way, a responsible behaviour, which contributes to the sustainability of its customers and their families, combining modern and innovative banking activity with traditional values such as resilience, honesty, transparency and respect for third parties.

These values are laid out in the Code of Conduct, which defines the minimum standards of interaction with third parties, with customers and with partners, being applicable to all Group employees. Given the importance of the document, CEMG promoted a training action through the Montepio Academy, which involved the carrying out of a total of 1,685 training hours, covering 3,370 CEMG employees.

OUR POLICIES

OUR POLICIES

CEMG has adopted, namely, the following specific policies related to employees:

- Collective Labour Agreement with the Sindicato dos Bancários do Norte (Bank Employees Union of Northern Portugal), Sindicato dos Bancários do Centro (Bank Employees Union of Central Portugal) and Sindicato dos Bancários do Sul e Ilhas (Bank Employees Union of Southern Portugal and Islands), the former within the scope of FEBASE (National Federation of the Financial Sector), and with FESIBA (Federation of the Independent Unions of the Banking Sector). This agreement applies to CEMG and to its subsidiaries Montepio Valor and Montepio Crédito.
- Code of Conduct, which includes a set of requirements concerning respect for human rights and the environment.

OUR PERFORMANCE

CEMG presents information about its subsidiaries relative to the following indicators:

- Employees per type of contract, per gender and per region;
- Average training hours per year, per employee and per type of training ;
- Employees per gender and per age group;
- Training in Human Rights policies and practices.

Without prejudice to the ongoing improvement policy that CEMG plans to implement, this first non-financial statement already presents relevant information for the CEMG subsidiaries with higher materiality, as shown below.

No. of Employees

		CEMG			Montepio Crédito			Montepio Valor	
		2015	2016	2017	2015	2016	2017	2016	2017
Per type of contract	Permanent	-	3,587	3,580	-	127	125	15	22
	Contract	-	1	50	-	1	2	9	4
Per gender	Male	2,120	1,917	1,925	62	60	57	11	13
	Female	1,751	1,671	1,705	69	68	70	13	13
Per age group	18 to 39 years	-	944	836	-	47	41	14	15
	40y or more	-	2,644	2,794	-	81	86	10	11
Per region	North	1,208	1,111	1,111	110	109	107	-	-
	Center	2,118	1981	2,030	0	0	0	-	-
	South	367	337	331	21	19	20	-	-
	Islands	159	143	144	0	0	0	-	-
	International	19	16	14	-	-	-	-	-
Training per year, per employee	Average hours	-	15.9	68.3	-	21.7	37.7	6.7	9.7

No. of Employees

		FNB Angola			BT Mozambique		
		2015	2016	2017	2015	2016	2017
Per type of contract	Permanent	-	106	133	-	173	168
	Contract	-	110	90	-	23	13
Per gender	Male	-	115	119	-	109	103
	Female	-	101	104	-	87	78
Per age group	18 to 39 years	-	194	197	-	155	134
	40y or more	-	22	26	-	41	47
Per region	Maputo				107	118	117
	Inhambane				9	8	8
	Sofala			-	8	8	9
	Manica				9	8	8
	Tete				34	38	23
	Nampula				17	16	16
	Province Luanda	170	191	200			
	Province Benguela	13	13	12			-
	Province Huambo	5	6	6			
	Province Huíla	6	6	5			
Training per year, per employee	Average hours		119.6	68.8		3.1	3.5

VALUE CREATION FOR SOCIETY

In order to create value for society, CEMG has demonstrated its enormous concern with the Community and with the Environment.

COMMUNITY

Within the scope of its responsibilities towards society, CEMG has been promoting the economic progress of customers and the community, pursuing sustainable growth and challenging the future, with the objective of supporting families, economic agents and entrepreneurial projects, promoting seriousness, solidity, transparency and humanism over their life cycle.

(Regarding Community, the Sustainability and Social Responsibility chapter of this Report, which contains more detailed information, can be consulted).

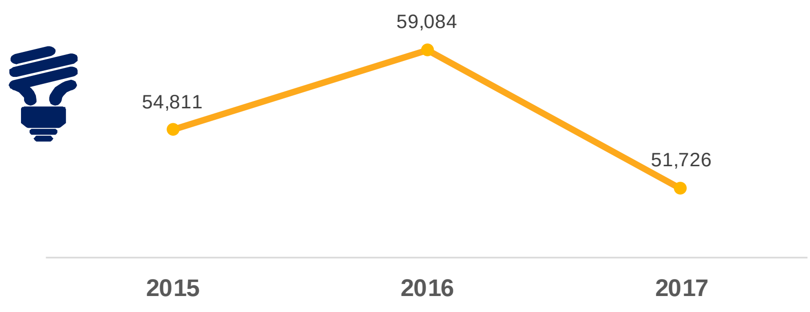
ENVIRONMENT

In regard to the environment, CEMG has focused on the importance of understanding the relations between natural capital and the business as a pillar of growth and profitability, combined with the strengthening of its image. Within this context, the intervention of CEMG has focused on the implementation of measures designed to reduce energy and paper consumption, as well as the production of waste, in order to minimise CO_2 emissions.

During 2017, CEMG continued its intervention with a view to mitigating changes in natural resources, promoting energy efficiency gains, focusing on the minimisation of CO_2 emissions, decreasing paper consumption and managing waste in an efficient manner.

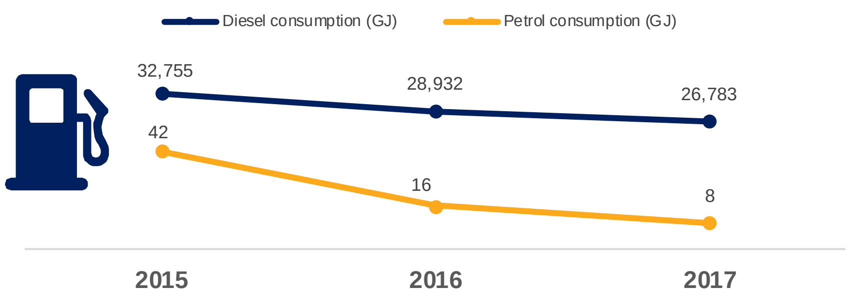
In 2017, electricity consumption registered a decrease of 12% in comparison with 2016, resulting from the implementation of energy efficiency improvement measures, such as the replacement for LED bulbs in all of the spaces that underwent building improvements in the building of Rua Castilho, in Lisbon (building where central services of CEMG operate), and the substitution of obsolete equipment for more energy-efficient equipment, such as air conditioning and computers.

Electricity consumption (GJ)



In relation to fuel consumption, and with the aim of contributing towards the reduction of CO2 emissions, CEMG registered a reduction of 7% in the fuel consumption of its fleet in 2017.

Fuel Consumption (GJ)

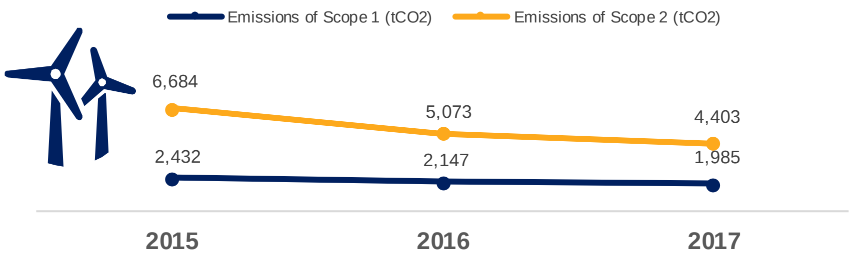


Emission factors

Energy	Unit	Factor	Source
Electricity	kg CO_2/GJ	78.2	International Energy Agency (2015) - CO_2 Emissions from Fuel Combustion
Diesel	kg CO_2/GJ	74.1	APA (2017) Portuguese National Inventory Report on Greenhouse Gases, 1990-2015
Petrol	kg CO_2/GJ	69.3	

In line with the decrease in total energy consumption (electricity and fuel), total CO_2 emissions registered a reduction of 832 tons, comparing to 2016, which corresponds to a 12% decrease.

Emissions (tCO2)

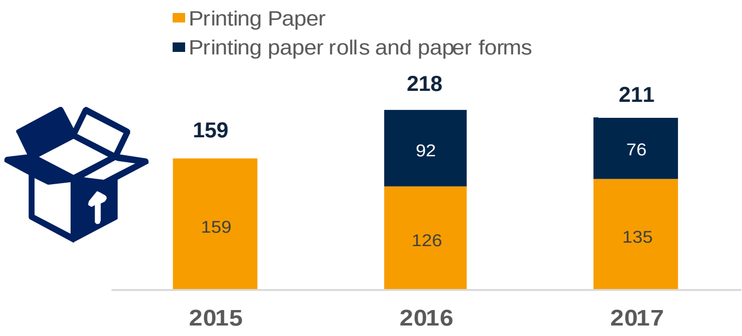


Conversion factors

Energy	Unit	Factor	Source
Electricity	GJ/KWh	0.0036	International Energy Agency – Basic Conversions
Diesel	Density (Kg/l)	0.84	APA (2014) -Table of fuel density values (2013)
	PCI (GJ/t)	42.6	APA (2017) Portuguese National Inventory Report on Greenhouse Gases, 1990-2015 (pag.102)
Petrol	Density (Kg/l)	0.75	Decree-Law No. 142/2010, of 31 December
	PCI (GJ/t)	44	APA (2017) Portuguese National Inventory Report on Greenhouse Gases, 1990-2015 (pag. 102)

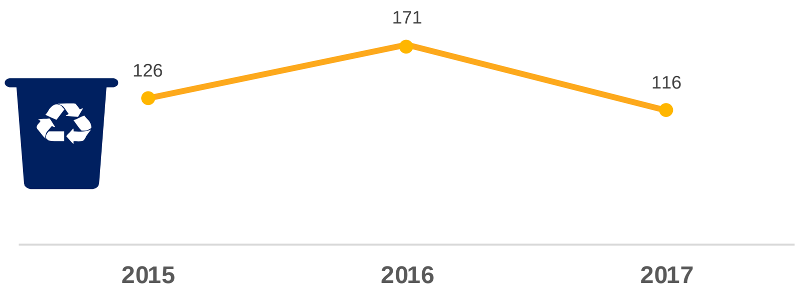
In 2017, total paper consumption at CEMG registered an decrease of 7 tons, comparing to 2016, reflecting a reduction on the consumption of both printing paper rolls and paper forms (-16 tons), which more than compensated the increase on the consumption of printing paper in 2017, due to the increase on the printing flow related with the activity, on one hand, and with the regulatory framework, on the other hand. However, the consumption of printing paper in 2017 decreased to significantly lower levels than those of 2015 (-24 tons), showing the desired trend of reduction of paper consumption in the organization.

Paper Consumption (t)



The vast majority of waste produced by CEMG is considered non-hazardous and ends up being recovered. In 2017, there was a 32% decrease in waste produced comparing to 2016, which corresponds to a decrease of 54 tons of waste.

Waste (t)

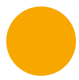
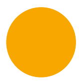


Main environmental initiatives undertaken

CEMG, in order to increase energy efficiency, from the viewpoint of the adequate use of resources and the consequent cost reduction, adopted a number of initiatives, of which the following are noteworthy:

Executed | In Execution

	Adopted Measures	Degree of Execution Dec. 17
Information technology services	• Server virtualisation with reduction of energy consumption;	
	• Substitution of core infrastructures (hardware) for equipment with greater energy efficiency.	
Premises	• Replacement for low-energy LED bulbs in spaces where the central services of CEMG operate;	
	• Substitution of HVAC (with refrigerating gas R22) equipment at branches, for more efficient equipment with less aggressive gases for the environment;	
	• Substitution of HVAC (with refrigerating gas R22) equipment at the building of Rua Castilho, for more efficient equipment with less aggressive gases for the environment.	

Materials	• Increase, comparing to 2016, in adherence to digital documentation via NET24 (36% for individual customers and 28% for corporate customers) and consequent decrease of external mail;	Implementation Ongoing
	• Discontinuation of pre-printed documents with the institution's logo, with the logo now being printed directly on the generated document;	
	• Digitisation of contracts and enforceable instruments, replacing their physical dispatch with electronic consultation;	
	• Gradual dematerialisation of the Daily Branch Movement documents and of the accounts opening process, in substitution of the paper format;	Implementation Ongoing
	• New physical archive, located in the north of the country, where the documents generated in the centre and south of the country can be archived, permitting the reduction of the distance covered by physical documents.	

Within the same context, CEMG started a dematerialisation project with a view to reduce paper and energy consumption.

Process dematerialisation project	
Project	• The project is based on the collection of digital signatures, through tablet devices, which allows scanning the document and, at the same time, capturing the image, which will serve as proof for the Customer.
Objectives	• Dematerialisation of processes, with elimination of paper printing and paper circulation; • Improvement of the Customer's day and experience; • Streamlining of the procedural handling, contributing towards the improvement of the service provided and cost reduction. • The implementation of this project includes other intangible gains; • Positioning of the Montepio brand with an image of modernity and innovation; • Environmental concern, contributing towards the reduction of the ecological footprint; • Monitoring of best market trends, to meet Customers' expectations.
Results	• Decrease of paper consumption: 90,000 fewer sheets consumed in the last four months of the year, with a tendency towards a significant increase in savings: • Reduction of expenses related to consumables associated to the generation of paper documents (printer toners, archive folders, etc.).
Next steps	• Progressive extension of these features to more business processes (opening of Corporate current accounts, subscription of payment means and credit operations).

OUR POLICIES

OUR POLICIES

CEMG has adopted, namely, the following specific policies related to the environment:

- CEMG has a Code of Conduct, which includes a set of requirements concerning respect for human rights and the environment.

OUR PERFORMANCE

CEMG presents information about its subsidiaries relative to the following indicators:

- Total paper consumption;
- Total energy consumption consumed within the organisation (including fuel, electricity, heating, cooling and vapour).

Without prejudice to the ongoing improvement policy that CEMG plans to implement, this first non-financial statement already presents relevant information for the material subsidiaries of CEMG.

Total Consumption: Domestic activity

		CEMG			Montepio Crédito		
		2015	2016	2017	2015	2016	2017
Paper	(ton)	159	218	228	8	7	10
Electricity	(kwh)	15,225,288	16,412,197	14,368,357	142,744	166,313	145,620
Fuel	(liters)	919,898	811,904	751,416	71,045	76,348	71,403

Total Consumption: International activity

		BT Moçambique			Finibanco Angola		
		2015	2016	2017	2015	2016	2017
Paper	(ton)	12	8	8	-	6	7
Electricity	(kwh)	468,180	472,276	481,313	-	961,293	1,068,104
Fuel	(liters)	49,231	58,746	57,449	233,764	327,021	327,713

TABLE OF CORRESPONDENCE WITH DECREE-LAW NO. 89/2017

Requirement	Response	
Corporate Model		
DL 89/2017 - Article 3 (referring to article 508-G (2) of the Commercial Companies Code) - Directive 2014/95/EU - Article 19a (1)(a)		
Corporate model of the company	The Caixa Económica Montepio Geral - group structure	12
	Strategy and business areas - strategy	38
	Strategy and business areas - business areas - domestic activity; International activity	54
	Value creation for the business - responsible business	102
Diversity in governance bodies		
DL 89/2017 - Article 4 (referring to Article 245 (1)(r) and (2) of the Central Securities Depository (CSD)) - Directive 2014/95/EU - Article 20 (1)(g)		
Diversity policy applied by the company to its management and supervisory bodies	*Requirement not applicable to CEMG*	-
Environmental issues		
DL 89/2017 - Article 3 (2) (referring to article 508 (2) of the Commercial Companies Code) - Directive 2014/95/EU - Article 19a (1)(a-e)		
Specific policies related to environmental issues	Value creation for society - our policies	113
Results of the application of the policies	Value creation for society - environment	109
Main associated risks and the way in which those risks are managed	Risk management	81
	Value creation for the business - risk management	103
Key performance indicators	Value creation for society - environment - Table of consumptions	114
	Value creation for society - our performance	113
Social and employee-related issues		
DL 89/2017 - Article 3 (2) (referring to article 508 (2) of the Commercial Companies Code) - Directive 2014/95/EU - Article 19a (1)(a-e)		
Specific policies related to social and employee-related issues	Value creation for society - our policies	113
	Value creation for employees - our policies	107
	Value creation for employees - ethics and integrity - Code of Conduct of CEMG	107
Results of the application of the policies	The Caixa Económica Montepio Geral - sustainability and social responsibility	27
	The Caixa Económica Montepio Geral - human resources	17
	Value creation for society - society	109
	Value creation for employees - human capital and training	105
	Value creation for employees - performance management	106
	Value creation for employees - diversity	106
	Value creation for employees - ethics and integrity	107
Main associated risks and the way in which those risks are managed	Risk management	81
	Value creation for the business - risk management	103
Key performance indicators	The Caixa Económica Montepio Geral - human resources - Tables with the evolution of employee numbers	17
	The Caixa Económica Montepio Geral - human resources - Graphs with the distribution of CEMG employees	18
	The Caixa Económica Montepio Geral - human resources - Table with training indicators	20
	Value creation for society - our performance	113
	Value creation for employees - human capital and training - Training table	105
	Value creation for employees - our performance	107

Equality between men and women and non-discrimination		
Article 3 (2) of DL 89/2017 (referring to article 508 (2) of the Commercial Companies Code) - Directive 2014/95/EU - Article 19a (1)(a-e)		
Specific policies related to issues of equality between men and women and non-discrimination	Value creation for employees - our policies	105
	Value creation for employees - ethics and integrity - Code of Conduct of CEMG	107
Results of the application of the policies	Value creation for employees - diversity	108
Main associated risks and the way in which those risks are managed	Risk management	81
	Value creation for the business - risk management	103
Key performance indicators	The Caixa Económica Montepio Geral - human resources - Graphs with the distribution of CEMG employees	22
	Value creation for employees - our performance	107
Respect for Human Rights		
Article 3 (2) of DL 89/2017 (referring to article 508 (2) of the Commercial Companies Code) - Directive 2014/95/EU - Article 19a (1)(a-e)		
Specific policies related to respect for Human Rights	Value creation for employees - our policies	107
	Value creation for employees - ethics and integrity - Code of Conduct of CEMG	107
Results of the application of the policies	Value creation for employees - ethics and integrity	107
Main associated risks and the way in which those risks are managed	Risk management	81
	Value creation for the business - risk management	103
Key performance indicators	Value creation for employees - our performance	107
Fight against corruption and attempted bribery		
Article 3 (2) of DL 89/2017 (referring to article 508 (2) of the Commercial Companies Code) - Directive 2014/95/EU - Article 19a (1)(a-e)		
Specific policies related to the fight against corruption and attempted bribery	Value creation for the business - our policies	104
Results of the application of the policies	Value creation for the business - fight against corruption and attempted bribery	104
Main associated risks and the way in which those risks are managed	Risk management	81
	Value creation for the business - risk management	103
Key performance indicators	Value creation for the business - our performance	105
	Value creation for the business - fight against corruption and attempted bribery - Table with type of training 2017	103

GLOSSARY

HVAC	Heating, ventilation and air conditioning
CO_2	Carbon Dioxide
GJ	Gigajoule
Kg	Kilogram
Kwh	Kilowatt-hour
l	Litre
LED	Light-emitting diode
LCV	Lower Calorific Value
t	Ton

ANNUAL CORPORATE GOVERNANCE REPORT

Companies whose securities are distinct from shares admitted to trading on a regulated market situated or operating in Portugal shall disclose annually the information referred to in points c), d), f), h), i) and n) of paragraph 1 of the article 245-A of the Portuguese Securities Code ("CVM").

On this basis, and since Caixa Económica Montepio Geral, caixa económica bancária S.A. (CEMG) falls under this disclosure, the aforementioned information is presented as follows:

- Qualifying holdings in the share capital of the company (article 245-A (c) of CVM)

Montepio Geral - Associação Mutualista is the only entity holding CEMG's share capital.

- Identification of shareholders with special rights and description of these rights (article 245-A (d) of CVM)

Montepio Geral - Associação Mutualista is the only entity holding CEMG's share capital.

- Any restrictions on the right to vote, such as limitations on voting rights depending on ownership of a certain number or percentage of shares, deadlines for exercising voting rights or systems highlighting ownership rights (article 245-A (f) of CVM)

Pursuant to article 9 of the articles of association of CEMG, the resolutions of the General Meeting deal exclusively with the issues included in the agenda and are adopted by simple majority, with each share corresponding to one vote. Voting by correspondence is not admissible.

The resolutions of the General Meeting adopted at an extraordinary meeting, implying increases in costs or decreases in revenues or with reference to the reform of or amendment to the current Articles of Association, merger, demerger, dissolution and incorporation of or in CEMG are only valid if approved by two thirds of the share capital present or represented.

The provisions of article 386 (4) of the Commercial Companies Code are applicable, with the appropriate adjustments, to the resolutions of CEMG, as a savings bank, approved on a second call.

- Rules applicable to the appointment and replacement of members of the management body and to the amendment of the articles of association of the company; (article 245-A (h) of CVM)

The amendment of the Articles of Association of CEMG is governed by the law and must be approved by deliberation at the General Meeting.

- Powers of the management body, namely with regard to resolutions on share capital increases (article 245-A (i) of CVM)

In accordance with the Articles of Association of CEMG, the competence for deliberating on the increase of the share capital lies with the General Meeting.

The proposal for a share capital increase must be presented to the General Meeting by the Board of Directors, accompanied by the opinion of the supervisory body.

- Main elements of the internal control and risk management systems implemented in the company regarding the procedure for reporting financial information (article 245-A (1)(m) of CVM)

The management body is responsible for annually preparing the report and accounts for the year and the proposed distribution of net income, to be presented to the Audit Committee and, with the opinion of the latter, submitted for appreciation at the General Meeting to be held until May 31 of each year.

The General Secretariat supports the management body in fulfilling its financial reporting duties.

The Statutory Auditor is responsible for issuing an opinion on the suitability and efficacy of the internal control system underlying the process involving the preparation and disclosure of the individual and consolidated financial information (financial reporting).

Caixa Económica Montepio Geral

caixa económica bancária, S.A.

Consolidated Income Statement
for the periods ended as at 31 December 2017 and 2016

(Thousands of Euro)

	2017	2016
Interest and similar income	420 631	534 338
Interest and similar expense	154 405	281 165
Net interest income	266 226	253 173
Dividends from equity instruments	12 611	11 647
Net fee and commission income	119 808	101 489
Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss	(14 807)	(18 194)
Net gains/ (losses) arising from available-for-sale financial assets	83 622	53 736
Net gains/ (losses) arising from foreign exchange differences	1 922	1 445
Net gains/ (losses) arising from the sale of other financial assets	37 850	12 161
Other operating income/ (expense)	(1 965)	(43 935)
Total operating income	505 267	371 522
Staff costs	156 207	165 505
General and administrative expenses	87 005	94 024
Depreciation and amortisation	24 809	24 270
	268 021	283 799
Loans impairment	160 711	182 479
Other financial assets impairment	7 766	44 484
Other assets impairment	12 550	40 833
Other provisions	10 323	(6 308)
Operating profit	45 896	(173 765)
Share of profit of associates under the equity method	166	250
Profit before income tax	46 062	(173 515)
Tax		
Current	(6 470)	(1 697)
Deferred	(35 891)	97 941
Profit/ (loss) after tax from continuing operations	3 701	(77 271)
Profit/ (loss) from discontinuing operations	4 112	(7 184)
Consolidated net profit/ (loss) after tax	7 813	(84 455)
Consolidated net profit/ (loss) for the period attributable to		
Shareholder	6 437	(86 484)
Non-controlling interests	1 376	2 029
Consolidated net profit/ (loss) for the period	7 813	(84 455)

THE CERTIFIED ACCOUNTANT

THE BOARD OF DIRECTORS

Caixa Económica Montepio Geral

caixa económica bancária, S.A.

Consolidated Statement of Financial Position as at 31 December 2017 and 2016

(Thousands of Euro)

	2017	2016
Assets		
Cash and deposits at central banks	1 733 628	381 289
Loans and advances to credit institutions repayable on demand	50 205	69 568
Other loans and advances to credit institutions	312 203	559 091
Loans and advances to customers	13 029 318	13 861 034
Financial assets held for trading	184 076	78 168
Available-for-sale financial assets	2 200 893	2 399 504
Held-to-maturity investments	-	1 126 125
Investments in associates	4 097	4 042
Non-current assets held for sale	742 221	760 204
Non-current assets held for sale - discontinuing operations	474 475	470 416
Investment property	538 625	607 968
Property and equipment	233 312	237 097
Intangible assets	31 371	34 921
Current tax assets	7 327	11 855
Deferred tax assets	466 000	521 716
Other assets	192 273	222 911
Total Assets	20 200 024	21 345 909
Liabilities		
Deposits from central banks	1 557 840	2 322 947
Deposits from other financial institutions	1 786 717	2 275 940
Deposits from customers	12 561 040	12 467 819
Debt securities issued	1 544 054	1 920 035
Financial liabilities held for trading	16 171	26 148
Hedging derivatives	1 663	-
Non-current liabilities held for sale - discontinuing operations	330 392	354 781
Provisions	27 096	21 820
Current tax liabilities	5 217	1 865
Other subordinated debt	236 193	251 028
Other liabilities	370 720	247 028
Total Liabilities	18 437 103	19 889 411
Equity		
Share capital	2 420 000	1 770 000
Participation fund	-	400 000
Other equity instruments	6 323	6 323
Treasury stock	-	(81)
Fair value reserves	27 924	(6 860)
Other reserves and retained earnings	(730 598)	(649 601)
Consolidated net profit/ (loss) for the period attributable to the shareholder	6 437	(86 484)
Total equity attributable to the shareholder	1 730 086	1 433 297
Non-controlling interests	32 835	23 201
Total Equity	1 762 921	1 456 498
Total Liabilities and Equity	20 200 024	21 345 909

THE CERTIFIED ACCOUNTANT

THE BOARD OF DIRECTORS

PROPOSAL FOR THE APLICATION OF RESULTS – Individual Basis

Taking into consideration that during the 2017 financial year Caixa Económica Montepio Geral, caixa económica bancária, S.A., recorded, on an individual basis, a positive net income of 57,660,008.94 euros, as well as the applicable legal provisions, it is proposed that it be given the following application to the 2017 Net income:

(Euros)

	Amount
For Legal Reserve	5 766 000.89
To be transferred to Retained Earnings	51 894 008.05
NET INCOME OF THE YEAR ON AN INDIVIDUAL BASIS	**57 660 008.94**

PART II - FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Caixa Económica Montepio Geral

caixa económica bancária, S.A.

Consolidated Income Statement
for the periods ended as at 31 December 2017 and 2016

(Thousands of Euro)

	Notes	2017	2016
Interest and similar income	3	420 631	534 338
Interest and similar expense	3	154 405	281 165
Net interest income	3	266 226	253 173
Dividends from equity instruments	4	12 611	11 647
Net fee and commission income	5	119 808	101 489
Net gains/ (losses) arising from assets and liabilities at fair value through profit or loss	6	(14 807)	(18 194)
Net gains/ (losses) arising from available-for-sale financial assets	7	83 622	53 736
Net gains/ (losses) arising from foreign exchange differences	8	1 922	1 445
Net gains/ (losses) arising from the sale of other assets	9	37 850	12 161
Other operating income/ (expense)	10	(1 965)	(43 935)
Total operating income		505 267	371 522
Staff costs	11	156 207	165 505
General and administrative expenses	12	87 005	94 024
Depreciation and amortisation	13	24 809	24 270
		268 021	283 799
Loans impairment	14	160 711	182 479
Other financial assets impairment	15	7 766	44 484
Other assets impairment	16	12 550	40 833
Other provisions	17	10 323	(6 308)
Operating profit		45 896	(173 765)
Share of profit of associates under the equity method	18	166	250
Profit before income tax		46 062	(173 515)
Tax			
Current	31	(6 470)	(1 697)
Deferred	31	(35 891)	97 941
Profit/ (loss) after tax from continuing operations		3 701	(77 271)
Profit/ (loss) from discontinuing operations	62	4 112	(7 184)
Consolidated net profit/ (loss) after tax		7 813	(84 455)
Consolidated net profit/ (loss) for the period attributable to			
Shareholder		6 437	(86 484)
Non-controlling interests	48	1 376	2 029
Consolidated net profit/ (loss) for the period		7 813	(84 455)

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

Caixa Económica Montepio Geral

caixa económica bancária, S.A.

Consolidated Statement of Financial Position as at 31 December 2017 and 2016

(Thousands of Euro)

	Notes	2017	2016
Assets			
Cash and deposits at central banks	19	1 733 628	381 289
Loans and advances to credit institutions repayable on demand	20	50 205	69 568
Other loans and advances to credit institutions	21	312 203	559 091
Loans and advances to customers	22	13 029 318	13 861 034
Financial assets held for trading	23	184 076	78 168
Available-for-sale financial assets	24	2 200 893	2 399 504
Held-to-maturity investments	25	-	1 126 125
Investments in associates	26	4 097	4 042
Non-current assets held for sale	27	742 221	760 204
Non-current assets held for sale - discontinuing operations	62	474 475	470 416
Investment properties	28	538 625	607 968
Property and equipment	29	233 312	237 097
Intangible assets	30	31 371	34 921
Current tax assets	-	7 327	11 855
Deferred tax assets	31	466 000	521 716
Other assets	32	192 273	222 911
Total Assets		20 200 024	21 345 909
Liabilities			
Deposits from central banks	33	1 557 840	2 322 947
Deposits from other financial institutions	34	1 786 717	2 275 940
Deposits from customers	35	12 561 040	12 467 819
Debt securities issued	36	1 544 054	1 920 035
Financial liabilities held for trading	23	16 171	26 148
Hedging derivatives	37	1 663	-
Non-current liabilities held for sale - discontinuing operations	62	330 392	354 781
Provisions	38	27 096	21 820
Current tax liabilities	-	5 217	1 865
Other subordinated debt	39	236 193	251 028
Other liabilities	40	370 720	247 028
Total Liabilities		18 437 103	19 889 411
Equity			
Share capital	41	2 420 000	1 770 000
Participation fund	42	-	400 000
Other equity instruments	43	6 323	6 323
Treasury stock	44	-	(81)
Fair value reserves	46	27 924	(6 860)
Other reserves and retained earnings	45 and 46	(730 598)	(649 601)
Consolidated net profit/ (loss) for the period attributable to the shareholder		6 437	(86 484)
Total equity attributable to the shareholder		1 730 086	1 433 297
Non-controlling interests	48	32 835	23 201
Total Equity		1 762 921	1 456 498
Total Liabilities and Equity		20 200 024	21 345 909

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

Caixa Económica Montepio Geral

caixa económica bancária, S.A.

Consolidated Statement of Cash Flows
for the periods ended as at 31 December 2017 and 2016

(Thousands of Euro)

	2017	2016
Cash flows arising from operating activities		
Interest income received	384 714	511 819
Commission income received	148 871	137 795
Interest expense paid	(169 188)	(317 952)
Commission expense paid	(30 171)	(34 408)
Payments to employees and suppliers	(252 420)	(468 438)
Recovery of loans and interests	3 580	7 154
Other payments and receivables	26 895	(96 433)
Income tax payment	1 410	13 105
	113 691	(247 358)
(Increases) / decreases in operating assets		
Loans and advances to credit institutions and customers	917 240	248 542
Deposits held for monetary central purposes	(1 385 059)	46 770
Other assets	176 327	70 030
	(291 492)	365 342
Increases / (decreases) in operating liabilities		
Deposits from customers	104 172	(466 564)
Deposits from credit institutions	(487 338)	703 001
Deposits from central banks	(764 390)	46 240
	(1 147 556)	282 677
	(1 325 357)	400 661
Cash flows arising from investing activities		
Non-current assets / liabilities held for sale - discontinuing operations	(10 791)	(107 176)
Dividends received	12 611	11 647
(Acquisition) / sale of financial assets held-for-trading	(129 149)	(42 390)
(Acquisition) / sale of financial assets available-for-sale	287 179	665 152
Interest received from financial assets available-for-sale	41 899	33 497
(Acquisition) / sale of held-to-maturity investments	1 140 500	(945 741)
(Acquisition) / sale of investments in associated companies	-	45 571
(Acquisition) / sale of other financial assets	-	(2 244)
Acquisition of fixed assets and investment properties	(21 576)	(240 821)
Sale of fixed assets and investment properties	74 352	75 903
	1 395 025	(506 602)
Cash flows arising from financing activities		
Dividends paid	(1 213)	-
Own securities	-	18 302
Capital increase	250 000	270 000
Other equity instruments	(318)	(2 320)
Proceeds from issuance of bonds and subordinated debt	904 055	1 300 000
Reimbursement of bonds and subordinated debt	(1 276 198)	(1 874 183)
Increase / (decrease) in other sundry liabilities	-	227 869
	(123 674)	(60 332)
Effect of changes in exchange rate on cash and cash equivalents	1 922	1 445
Net changes in cash and cash equivalents	(52 084)	(164 828)
Cash and cash equivalents at the beginning of the period	229 132	281 216
Cash (Note 19)	211 648	208 037
Loans and advances to credit institutions repayable on demand (Note 20)	69 568	238 007
Cash and cash equivalents at the end of the period	229 132	281 216
Cash and cash equivalents at the end of the period includes:		
Cash (Note 19)	178 927	211 648
Loans and advances to credit institutions repayable on demand (Note 20)	50 205	69 568
	229 132	281 216

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

Caixa Económica Montepio Geral
caixa económica bancária, S.A.

Consolidated Statement of Changes in Equity
for the periods ended as at 31 December 2017 and 2016

Thousands of Euro)

	Share Capital	Participation fund	Other equity instruments	Fair value reserves	Other reserves and retained earnings		Equity attributable to the shareholder	Non-controlling interests	Total Equity
					General and special reserves	Other reserves			
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 differences arising from the consolidation	-	-	-	-	-	(24 242)	(24 242)	(7 982)	(32 224)
Actuarial gains/ (losses) for the period (Note 51)	-	-	-	-	-	(60 284)	(60 284)	-	(60 284)
Deferred taxes related to balance sheet changes accounted for reserves (Note 31)	-	-	-	-	-	13 024	13 024	-	13 024
Changes in fair value (Note 46)	-	-	-	(19 876)	-	-	(19 876)	-	(19 876)
Deferred taxes related to fair value changes (Note 31)	-	-	-	12 370	-	-	12 370	-	12 370
Consolidated net profit/ (loss) for the period	-	-	-	-	-	(86 484)	(86 484)	2 029	(84 455)
Total comprehensive income for the period	-	-	-	(7 506)	-	(157 986)	(165 492)	(5 953)	(171 445)
Share capital increase (Note 41)	270 000	-	-	-	-	-	270 000	-	270 000
Acqusition of perpetual subordinated instruments (Note 43)	-	-	(1 950)	-	-	-	(1 950)	-	(1 950)
Costs related to the issue of perpetual subordinated instruments (Note 43)	-	-	-	-	-	(370)	(370)	-	(370)
Acquisition of participation fund (Note 42)	-	31 500	-	-	-	(13 198)	18 302	-	18 302
Other consolidation reserves	-	-	-	-	-	(2 670)	(2 670)	485	(2 185)
Balance on 31 December 2016	**1 770 000**	**399 919**	**6 323**	**(6 860)**	**255 805**	**(991 890)**	**1 433 297**	**23 201**	**1 456 498**
Other comprehensive income:									
Exchange differences arising from the consolidation	-	-	-	-	-	693	693	687	1 380
Actuarial gains/ (losses) for the period (Note 51)	-	-	-	-	-	3 260	3 260	-	3 260
Deferred taxes related to balance sheet changes accounted for reserves (Note 31)	-	-	-	-	-	(996)	(996)	-	(996)
Changes in fair value (Note 46)	-	-	-	53 613	-	-	53 613	-	53 613
Deferred taxes related to fair value changes (Note 31 and 46)	-	-	-	(18 829)	-	-	(18 829)	-	(18 829)
IAS 29 impact related to the equity of Finibanco Angola S.A. (Note 62)	-	-	-	-	-	37 474	37 474	8 580	46 054
Impairment related to discontinuing operations (Note 62)	-	-	-	-	-	(32 509)	(32 509)	-	(32 509)
Consolidated net profit/ (loss) for the period	-	-	-	-	-	6 437	6 437	1 376	7 813
Total comprehensive income for the period	-	-	-	34 784	-	14 359	49 143	10 643	59 786
Share capital increase (Note 41)	250 000	-	-	-	-	-	250 000	-	250 000
Change in the consolidation perimeter	-	-	-	-	-	473	473	193	666
Disposal of own securities	-	81	-	-	-	-	81	-	81
Costs related to the issue of perpetual subordinated instruments	-	-	-	-	-	(318)	(318)	-	(318)
Dividends paid	-	-	-	-	-	(1 975)	(1 975)	(1 202)	(3 177)
Conversion of the particiation fund into share capital (Note 42)	400 000	(400 000)	-	-	-	-	-	-	-
Other consolidation reserves	-	-	-	-	-	(615)	(615)	-	(615)
Balance on 31 December 2017	**2 420 000**	**-**	**6 323**	**27 924**	**255 805**	**(979 966)**	**1 730 086**	**32 835**	**1 762 921**

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

Caixa Económica Montepio Geral
caixa económica bancária, S.A.

Consolidated Statement of Comprehensive Income
for the period ended as at 31 December 2017

(Thousands of Euro)

		2017				
	Notes	Continuing operations	Discontinuing operations	Total	Shareholder	Non-controlling interests
Items that may be reclassified into the Income Statement						
Fair value reserves						
Available-for-sale financial assets and loans and advances to customers	46	53 613	-	53 613	53 613	-
Taxes	31 and 46	(18 829)	-	(18 829)	(18 829)	-
Exchange differences arising from the consolidation	46	-	1 380	1 380	693	687
Application of IAS 29 related to the Equity of Finibanco Angola, S.A.	62	-	46 054	46 054	37 474	8 580
Impairment related to discontinuing operations	62	-	(32 509)	(32 509)	(32 509)	-
		34 784	14 925	49 709	40 442	9 267
Items that won't be reclassified into the Income Statement						
Actuarial gains/ (losses) for the period	51	3 260	-	3 260	3 260	-
Deferred taxes	31	(996)	-	(996)	(996)	-
		2 264	-	2 264	2 264	-
Other comprehensive income/ (loss) for the period		37 048	14 925	51 973	42 706	9 267
Consolidated net profit/ (loss) for the period		2 325	5 488	7 813	6 437	1 376
Total consolidated comprehensive income/ (loss) for the period		39 373	20 413	59 786	49 143	10 643

Caixa Económica Montepio Geral
caixa económica bancária, S.A.

Consolidated Statement of Comprehensive Income
for the period ended as at 31 December 2016

(Thousands of Euro)

		2016				
	Notes	Continuing operations	Discontinuing operations	Total	Holders of Institutional capital and Participation fund	Non-controlling interests
Items that may be reclassified into the Income Statement						
Fair value reserves						
Available-for-sale financial assets	46	(19 876)	-	(19 876)	(19 876)	-
Taxes	31 and 46	12 370	-	12 370	12 370	-
Exchange differences arising from the consolidation		-	(32 224)	(32 224)	(24 242)	(7 982)
		(7 506)	(32 224)	(39 730)	(31 748)	(7 982)
Items that won't be reclassified into the Income Statement						
Actuarial gains/ (losses) for the period		(60 284)	-	(60 284)	(60 284)	-
Deferred taxes	31	13 024	-	13 024	13 024	-
		(47 260)	-	(47 260)	(47 260)	-
Other comprehensive income/ (loss) for the period		(54 766)	(32 224)	(86 990)	(79 008)	(7 982)
Consolidated net profit/ (loss) for the period		(75 242)	(9 213)	(84 455)	(86 484)	2 029
Total consolidated comprehensive income/ (loss) for the period		(130 008)	(41 437)	(171 445)	(165 492)	(5 953)

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

1 Accounting policies

a) Basis of presentation

Caixa Económica Montepio Geral, caixa económica bancária, S.A. (hereinafter "CEMG") is a credit institution, based at Rua Áurea, 219-241, Lisbon, held by Montepio Geral - Associação Mutualista (hereinafter "MGAM"), 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 perform 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.

As at 14 September 2017, the Deed of the bylaws was executed, transforming Caixa Económica Montepio Geral into a public limited company, changing its legal name to Caixa Económica Montepio Geral, caixa económica bancária, S.A.

In 2010, MGAM, sole shareholder of CEMG, has made an acquisition of 100% of Finibanco Holding, S.G.P.S., S.A. share capital through a Public Acquisition Offering in the amount of Euro 341,250 thousand.

As at 31 March 2011, MGAM 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 and in the Mutual Association Code. Following the publication of this Decree-Law, CEMG changed its classification to "caixa económica bancária".

In accordance with Regulation (EC) no. 1606/2002 from the European Parliament and the Counsel, of 19 July and Regulation no. 5/2015 of Bank of Portugal, from 7 December, CEMG's financial statements are required to be prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU") from 2017 onwards. 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 consolidated financial statements presented herein were approved by the Board of Directors of CEMG on 10 May 2018. The financial statements are presented in Euro rounded to the nearest thousand.

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

The consolidated financial statements od the Group for the period ended 31 December 2017 have been prepared in accordance with the IFRS, as adopted by the European Union and effective at that date.

The Group has adopted IFRS and interpretations mandatory for accounting periods beginning on or after 1 January 2017, as disclosed in Note 57.

The accounting policies presented 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 and available-for-sale financial assets, except those for which a reliable measure of fair value is not available. Financial assets and liabilities that are classified 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 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).

The financial statements of CEMG will be consolidated in the financial statements of MGAM.

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 associated companies, for the periods ended at 31 December 2017 and 2016.

Investments 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 acquires control until the moment that the control ceases.

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 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 corresponds 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 from 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, liabilities and contingent liabilities 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 higgest between the value in use of the assets and its fair value less costs to sell, 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.

Acquisition 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 not considered as functional currency of a hyperinflationary economy, are converted into euro at the official exchange rate at the balance sheet date.

If the functional currency of a foreign subsidiary is the currency of a hyperinflationary economy, then its financial statements are first adjusted to reflect the purchasing power at the date of the current balance sheet and later converted into the reporting currency using the exchange rate at the current balance sheet date.

In this regard, non-monetary items are updated at the end of the reporting period through the application of a general price index, from the acquisition date or the last revaluation date, whichever occurred most recently. Income and expenses items, including other comprehensive income, are also updated, and the gain or loss on the net monetary position is calculated, which reflects the gain or loss on the net monetary position of the foreign subsidiary.

As at 31 December 2017, for Angola, the inflation rate accumulated in the past three years is close to or above 100%, depending on the index used, and there is also the prospect that it will continue to cumulatively exceed 100% in 2018. This is an objective quantitative condition in addition to the existence of other conditions set forth in IAS 29, that the functional currency of Finibanco Angola, SA's financial statements as of 31 December 2017 corresponds to the currency of a hyperinflationary economy (see note 62).

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. Exchange differences resulting from hedging instruments related with investments in foreign currency are booked in reserves resulting from those investments. Whenever the hedge is not 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 its 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) above).

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 Circular letter no. 15/2009 of the Bank of Portugal, loans and advances to customers are charged-off when there is 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 from financial assets at fair value through profit or loss.

The interest from debt instruments are recognised as net interest income.

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 captions.

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 changes 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 (Fair Value Option) is performed whenever at least one of the requirements is fulfilled:

- the financial assets and liabilities are managed, evaluated and reported internally at its fair value;
- the designation of those financial assets and liabilities eliminates or significantly reduces the accounting mismatch of the transactions; and
- the financial assets and liabilities include embedded 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) Available-for-sale financial assets

Available-for-sale financial assets 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 available-for-sale financial assets 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 available-for-sale financial assets. 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 Available-for-sale inancial assets 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.

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, debt securities issued, 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 available-for-sale financial assets, 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) 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 derivatives.

Derivative hedging instruments are recorded at fair value and gains and losses on re-measurement are recognised in accordance with the hedge accounting model adopted by the Group. An 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) Reclassification between financial instruments categories

In October 2008, 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 available-for-sale financial assets, 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 available-for-sale financial assets to Loans to customers - Loans represented by securities and to held-to-maturity financial assets 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 CEMG 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 independent experts registered with CMVM.

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) Financial 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 year 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 interests and similar income or interests and similar expenses (net interest income) through the effective interest rate method. The interest related to available-for-sale financial assets 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 is 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 available-for-sale financial assets and net gains / (losses) arising from assets and liabilities at fair value through profit and loss)

Financial results include 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 available-for-sale financial assets 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) Fee and commission income

Income from fees and commissions is recognised in accordance with 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 financial statements. Fees and commissions arising from this activity are recognised in the income statement in the period to which they relate.

p) Property, plant and equipment

Property, plant 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 period 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
Building for own use	50
Expenditure on rented buildings	10
Other property and equipment assets	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 property and equipment are recognised in profit and loss.

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 trade date, including cash and deposits with banks.

Cash and cash equivalents exclude restricted balances with Central 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 available-for-sale financial assets, for which the difference is recognised against equity.

v) Post-employment and long-term benefits

Defined benefit plans

CEMG has the responsibility to pay its employees old-age, disability and survival pensions, health benefits and death subsidy, in accordance with the terms and conditions of Collective Labor Agreement (ACT). In 2016, amendments were made to this agreement, namely the change in the retirement age, in line with the general Social Security system and the attribution of an end-of-career award corresponding to 1.5 times the monthly retribution received at the retirement date.

Arising from the signing of the Collective Labor Agreement (ACT) and subsequent amendments, CEMG sets up pension funds 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% 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.

In December 2016, CEMG issued a new Collective Labor Agreement/ACT, introducing a number of changes in the employment benefits, such as the change in the retirement age, in line with the general Social Security system, and the attribution of an end-of-career award which replaced the extinguished old-age bonus, as disclosed in Note 51.

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 fund that is 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 retirement age.

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

Payments to the Fund shall be 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.

Defined contribution plan

As at 31 December 2017, CEMG has a defined contribution plan for employees who were admitted after 3 March 2009. For this plan, designated as contributory, contributions are made monthly and equal to 1.5% of the effective remuneration to be made by the company and 1.5% to be made by the employee.

Bonus to employees and to the Board of Directors

In accordance with IAS 19 Employee benefits, the bonus payment to employees and to the 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 by 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 the income statement, 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 available-for-sale financial assets and cash flow hedging derivatives recognised in equity are subsequently recognised in profit and loss in the year the results that originated the deferred taxes are recognised.

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 periods.

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 the 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 tax 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).

As established in IAS 12, paragraph 74, the Group 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 realize the assets and settle the liabilities simultaneously, in each future period 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 the 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 business activity through the following main segments: (i) Operational: Retail Banking, Corporate Banking and Other Segments, and (ii) Geographic: Domestic Area and International Area (Angola, Cape 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 provision measurement is according with the principles defined in IAS 37 in respect of the best estimate of expected cost, the more likely result for the ongoing processes, considering the risk and uncertainties related to the process. In cases where the discount effect is material, provisions correspond 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

CEMG is duly authorised by the Insurance and Pension Funds Supervisory Authority (Autoridade de Supervisão de Seguros e Fundos de Pensões - "ASF") 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 and investment contracts, which is defined in agreements/protocols established between CEMG and the Insurers.

Commission received for insurance brokerage services refers 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; and
- 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 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 Board of Directors, the Group reported results would differ if a different treatment was chosen. The 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 available-for-sale financial assets

The Group determines that available-for-sale financial assets 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 one-year period is assumed to be a prolonged decrease in the fair value below the acquisition cost.

In 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 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 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.

Entities included in the consolidation perimeter

For the purposes of determining entities to include in the consolidation perimeter, the Group assesses 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 the consolidated net income.

Income taxes

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 period.

The Portuguese Tax and Customs Authorities are entitled to review the Group determination of its annual taxable earnings, for a period of four years, save where any deduction or tax credit has been made in which the period is 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 Board of Directors considers that there is no relevant material effect at the level of the Financial Statements.

Pensions and other employee benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections and others, such as discount rate, pensions' growth rate and wages and mortality table, 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 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. Goodwill mpairment losses are 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.

Valuation of non-current assets held for sale and investment properties

Non-current assets held for sale are measured at the lower amount between its fair value net of selling costs and the book value of the existing credit at the date the change was made. Investment properties are measured at fair value. Fair value is determined on the basis of periodic assessments made by external experts registered with CMVM. Different methodologies and assumptions would have an impact on the determination of the assets fair value and consequently on the financial statements.

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. Different assumptions and judgments would have an impact in determining the amount of provisions and consequently in the consolidated financial statements.

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

IFRS requires a separate disclosure of net interest income, net gains arising from assets and liabilities at fair value through profit or loss and available-for-sale financial assets, 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 available-for-sale financial assets 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 available-for-sale financial assets.

The amount of this account is comprised of:

(Thousands of Euro)

	2017	2016
Net interest income	266 226	253 173
Net gains arising from assets and liabilities at fair value through profit and loss	(14 807)	(18 194)
Net gains arising from available-for-sale financial assets	83 622	53 736
	335 041	288 715

3 Net interest income

The amount of this account is comprised of:

(Thousands of Euro)

	2017	2016
Interest and similar income		
Interest from loans and advances to customers	363 701	394 449
Interest from available-for-sale financial assets	22 971	40 741
Interest from held for trading financial assets	15 861	75 889
Interest from held-to-maturity financial assets	12 504	18 762
Interest from deposits and other investments	3 978	4 180
Interest from hedging derivatives	1 348	307
Other interest and similar income	268	10
	420 631	534 338
Interest and similar expense		
Interest from deposits of customers	84 696	131 147
Interest from held for trading liabilities	13 100	71 626
Interest from securities issued	38 110	55 527
Interest from loans of central banks and other financial institutions	14 692	11 435
Interest from subordinated liabilities	3 038	3 909
Interest from hedging derivatives	762	20
Other interest and similar expense	7	7 501
	154 405	281 165
Net interest income	266 226	253 173

The balances Interest and similar income – Interest from loans and advances to customers and Interest and similar expense include, the amount of Euro 21,534 thousand and the amount of Euro 7,441 thousand (31 December 2016: Euro 21,416 thousand and Euro 7,465 thousand), respectively, 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).

Interest and similar income – Interest from loans and advances to customers includes at 31 December 2017 the amount of Euro 68,444 thousand (31 December 2016: Euro 68,983 thousand) related to income from customers with signs of impairment, representing 16.3% of the total balance.

4 Dividends from equity instruments

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

5 Net fee and commission income

The amount of this account is comprised of:

	2017	2016
	(Thousands of Euro)	
Fee and commission income		
From banking services	99 897	87 376
From transactions on behalf of third parties	29 159	20 666
Guarantees provided	6 254	6 523
From insurance brokerage services	7 572	11 418
Commitments to third parties	2 824	3 566
Other fee and commission income	4 248	6 414
	149 954	135 963
Fee and commission expense		
From banking services rendered by third parties	19 766	19 557
From transactions with securities	663	717
Other fee and commission expense	9 717	14 200
	30 146	34 474
Net fee and commission income	119 808	101 489

As at 31 December 2017 and 2016, insurance brokerage services are presented as follows:

	2017	2016
	(Thousands of Euro)	
Life insurance	4 815	7 807
Non-life insurance	2 757	3 611
	7 572	11 418

Insurance brokerage services remunerations were received in full and all its fees were the result of insurance intermediation carried out by Lusitania, Companhia de Seguros, S.A. and Lusitania Vida, Companhia de Seguros, S.A.

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

The amount of this account is comprised of:

(Thousands of Euro)

	2017			2016		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Securities						
Bonds and other fixed income securities						
Issued by public entities	11 327	10 886	441	6 138	5 814	324
Issued by other entities	53 708	68 535	(14 827)	8 111	-	8 111
Shares	13 937	13 665	272	10 025	10 989	(964)
Investment units	4 059	4 084	(25)	836	981	(145)
	83 031	97 170	(14 139)	25 110	17 784	7 326
Derivative financial instruments						
Interest rate contracts	149 002	146 142	2 860	147 029	144 058	2 971
Exchange rate contracts	32 650	33 054	(404)	58 090	58 027	63
Futures contracts	3 652	5 017	(1 365)	6 055	6 033	22
Option contracts	3 585	3 232	353	10 182	10 633	(451)
Commodities contracts	-	-	-	7 751	7 716	35
Credit default contracts (CDS)	-	-	-	21 787	46 629	(24 842)
	188 889	187 445	1 444	250 894	273 096	(22 202)
Other financial assets at fair value through profit or loss						
Loans and advances to customers	60	595	(535)	420	1 219	(799)
	60	595	(535)	420	1 219	(799)
Hedging derivatives						
Interest rate contracts	8 134	10 383	(2 249)	22	35	(13)
	8 134	10 383	(2 249)	22	35	(13)
Financial liabilities at fair value through profit or loss						
Deposits from credit institutions	3	-	3	1 874	1 356	518
Deposits from customers	38	59	(21)	284	288	(4)
Debt securities issued	294	817	(523)	1 130	2 846	(1 716)
Other subordinated debt	-	1 056	(1 056)	-	1 304	(1 304)
	335	1 932	(1 597)	3 288	5 794	(2 506)
Hedging financial liabilities						
Liabilities represented by securities	4 462	2 193	2 269	-	-	-
	4 462	2 193	2 269	-	-	-
	284 911	299 718	(14 807)	279 734	297 928	(18 194)

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 whether at inception or subsequently is determined based only on observable market data and reflects the Group's access to the wholesale financial market.

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

The amount of this account is comprised of:

(Thousands of Euro)

	2017			2016		
	Gains	Losses	Total	Gains	Losses	Total
Fixed income securities						
Bonds						
Issued by public entities	82 735	4 125	78 610	25 931	300	25 631
Issued by other entities	3 006	207	2 799	16 547	2 175	14 372
Shares	787	88	699	17 008	3 286	13 722
Other variable income securities	3 160	1 646	1 514	1 436	1 425	11
	89 688	6 066	83 622	60 922	7 186	53 736

As at 31 December 2017, the balance Fixed income securities – Bonds – issued by public entities includes the amount of Euro 73,029 thousand related with capital gains generated with the sale of Portuguese public debt bonds and Euro 5,393 thousand related with the sale of Spanish and Italian public debt. This caption, on 31 December 2016, includes an amount of Euro 22,623 thousand, related with gains generated with the sale of treasury bonds of the Spanish and Italian public debt.

As at 31 December 2016, the balance Shares includes the amount of Euro 11,975 thousand related with the capital gain generated with the sale of Visa Europe Limited shares: (i) Euro 8,421 thousand regarding the up-front consideration; (ii) Euro 2,850 thousand regarding the received preference shares; and (iii) Euro 704 thousand regarding a deferred payment to be settled in 2019.

In the first half of 2017, as part of the measures taken to strengthen the Group's capital ratios, the amount of EUR 800,059 thousand was transferred to the portfolio of available-for-sale financial assets relating to the entire portfolio of Portuguese public debt bonds which was previously recorded in the portfolio of financial assets held to maturity. Part of these securities have already been sold, as described in notes 24 and 25.

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

The amount of this account is comprised of:

(Thousands of Euro)

	2017			2016		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differences	49 619	47 697	1 922	82 450	81 005	1 445

This account comprises the results from foreign exchange differences of monetary assets and liabilities in foreign currency calculated 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)

	2017	2016
Sale of loans and advances to customers	16 207	7 872
Sale of other assets	15 315	596
Sale of non-current assets held for sale	6 328	2 203
Sale of investments in associates	-	1 490
	37 850	12 161

As at 31 December 2017, the balance Sale of loans and advances to customers includes the gains generated on the sale of two portfolios of loans to customers which were in default, as disclosed in notes 22 and 23.

As at 31 December 2016, the balance Sale of loans and advances to customers includes the gain of Euro 14,695 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 362,996 thousand, as described in note 22.

As at 31 December 2017, the balance Sale of other assets includes the amount of Euro 14,375 thousand related to the gain generated on the sale of part of the portfolio of the Portuguese public debt bonds and which was previously recorded in the portfolio of financial assets held to maturity, as described in note 24.

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 27.

As at 31 December 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 26.

10 Other operating income/ (expenses)

The amount of this account is comprised of:

(Thousands of Euro)

	2017	2016
Other operating income		
Profits arising from investment properties revaluation	19 121	33 941
Staff transfer	18 990	10 381
Profits arising from investment properties rentals	15 211	12 828
Profits arising from deposits on demand management	9 751	12 463
Reimbursement of expenses	6 559	7 106
Services rendered	4 727	9 492
Repurchase of debt securities issued	2 054	701
Other	16 735	27 579
	93 148	114 491
Other operating expense		
Contributions:		
Banking sector	11 875	13 226
Ex-ante for the Single Resolution fund	9 702	10 121
National Resolution Fund	3 612	3 005
Deposit Guarantee Fund	13	10
Servicing and expenses with loan recovery	20 152	25 776
Expenses with investment properties revaluation	15 620	64 236
Taxes	5 628	2 623
Expenses with issuances	2 694	8 060
Donations and membership	879	852
Repurchase of debt securities issued	631	-
Other	24 307	30 517
	95 113	158 426
Other net operating income/ (expenses)	(1 965)	(43 935)

As at 31 December 2017, the balance Other operating income – Staff transfer includes the amount of Euro 18,245 thousand (31 December 2016: Euro 10,381 thousand) related to the staff transfer from CEMG to MGAM and to entities under its control.

The balance Repurchase of debt securities issued 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 caption 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 recorded in the balance sheet 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 Single Resolution Fund corresponds to the annual contribution, 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 accordance with its articles 4, 13 and 20 in the Delegated Regulation. Under the Single Resolution Mechanism this contribution must be transferred to the Single Resolution Fund until 30 June of each year, as stipulated in 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 the Portuguese National Assembly Resolution 129/2015, of 3 September, pursuant to Article 67 (4) of Regulation (EU) 806/2014 of the European Parliament and of the Council of 15 July 2014 (MUR Regulation).

In addition, it is the responsibility of the Single Resolution Council ("CUR"), in close cooperation with the Bank of Portugal, as the national resolution authority, to calculate on an annual basis these contributions, pursuant to and for the purposes Article 70 (2) of the MUR Regulation. In 2017 and 2016, CEMG opted for the use of irrevocable payment commitments, by 15% of the contribution's value, as provided for in Article 8 (3) of the Implementing Regulation. On this basis, CEMG decided to settle Euro 3,475 thousand (31 December 2016: Euro 1,774 thousand) in the form of irrevocable payment commitments, recorded under the caption Loans and advances to credit institutions abroad - Term deposit, as disclosed in notes 21 and 60. It should be noted that only cash collateral is accepted as collateral for irrevocable payment commitments.

The item Contribution to the National 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, to be applied in each year and which may be adjusted to the credit institution's risk profile. The periodic 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.

The item Servicing and credit recovery expenses registers servicing costs applied to a portfolio of non-performing credits made by third parties.

11 Staff costs

The amount of this account is comprised of:

(Thousands of Euro)

	2017	2016
Remunerations	118 918	129 685
Mandatory social security charges	30 535	34 503
Charges with the Pension Fund	1 658	(11 749)
Other staff costs	5 096	13 066
	156 207	165 505

As at 31 December 2017, the balance Charges with the Pension Fund includes the amount of Euro 330 thousand (31 December 2016: Euro 4,846 thousand), referring to interests and current service cost.

Within the strategic plan of CEMG for 2016-2018, a set of measures was defined 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 program that included, in a summarised manner, the following approaches:

- Active Retirement Scheme ("ARS") for the Group's 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.

This scheme was completed in 2016, being recorded in the 2016 financial statements a cost of Euro 35,225 thousand related to the charges that the Group incurred as a result of the agreements entered with each of the involved employees. On this basis, as at 31 December 2016, the caption Charges with the Pension Fund includes the amount of Euro 21,510 thousand related with the cost of early retired employees and the caption Other staff costs includes the amount of Euro 13,715 thousand, related to compensations and other charges paid under the above project.

On 31 December 2016, following the review of the ACT applicable to CEMG, gains were recorded under Other costs of Euro 39,899 thousand and Euro 7,421 thousand, related, respectively, with the change in the retirement age to 66 years and with the extinction of the seniority award, which was replaced by the end-of-career award.

Remuneration of the members of the Executive Board of Directors, General and Supervisory Board, General Meeting Board and from Other key management personnel

The balance Management Bodies includes the remuneration of the Executive Board of Directors of CEMG and from the Boards of Directors of the Group subsidiaries.

Other key management personnel are considered first-line managers.

The remuneration of the Executive Board of Directors members aims to be a compensation for their direct activities in the Group and any function performed in companies or corporate bodies for which they have been designated by indication or on behalf of the Group.

As at 31 December 2017 and 2016, the Management and Other Key management personnel did not receive any retribution of variable remuneration.

The compensation values for the termination of service to key management elements amounted to Euro 592 thousand in 2016.

The costs with remunerations and other benefits attributed to the Management, General and Supervisory Board, General Meeting Board and Other key management personnel of the Group, in 2017 are presented as follows:

(Thousands of Euro)

	Management	General and Supervisory Board and General Meeting Board	Other key management personnel	Total
Remunerations and other short-term benefits	2 887	1 125	4 020	8 032
Pension costs	1 747	505	-	2 252
Costs with health-care benefits (SAMS)	15	-	83	98
Social Security charges	620	205	936	1 761
	5 269	1 835	5 039	12 143

The costs with remunerations and other benefits attributed to the Management, General and Supervisory Board, General Meeting Board and Other key management personnel of the Group, in 2016 are presented as follows:

(Thousands of Euro)

	Management	General and Supervisory Board and General Meeting Board	Other key management personnel	Total
Remunerations and other short-term benefits	2 956	953	3 855	7 764
Pension costs	61	-	351	412
Costs with health-care benefits (SAMS)	24	-	148	172
Social Security charges	705	175	868	1 748
	3 746	1 128	5 222	10 096

As at 31 December 2017, the remuneration of the General and Supervisory Board amounted to Euro 1,064 thousand (31 December 2016: Euro 864 thousand).

As at 31 December 2017, loans granted to the Executive Board of Directors amounted to Euro 134 thousand (31 December 2016: Euro 145 thousand), to the Board of Directors of CEMG amounted to Euro 141 thousand, to the Boards of Directors of CEMG's subsidiaries amounted to Euro 1,108 thousand, to the General and Supervisory Board of CEMG amounted to Euro 2,323 thousand (31 December 2016: Euro 859 thousand) and to the key management staff amounted to Euro 3,042 thousand (31 December 2016: Euro 3,489 thousand), as referred in note 53.

The average number of employees by professional category at service in the Group during 2017 and 2016 is as follows:

	2017	2016
Top Management	210	212
Managerial staff	660	686
Technical staff	1 373	1 276
Administrative staff	1 457	1 604
Staff	53	58
	3 753	3 836

12 General and administrative expenses

The amount of this account is comprised of:

(Thousands of Euro)

	2017	2016
Rental costs	9 234	12 126
Specialised services		
Other specialised services	26 152	25 217
IT services	7 398	11 040
Independent work	2 712	2 627
Maintenance and related services	7 268	7 205
Communication costs	5 624	6 321
Advertising costs	5 318	5 417
Water, energy and fuel	4 597	4 884
Transportation	2 644	2 740
Insurance	2 390	2 508
Consumables	1 583	1 610
Travel, hotel and representation costs	1 219	1 200
Training	70	474
Other general and administrative expenses	10 796	10 655
	87 005	94 024

The balance Rental costs, includes the amount of Euro 7,238 thousand (31 December 2016: Euro 10,380 thousand) related to rents paid regarding buildings used by the Group as lessee.

The balance Other general and administrative expenses includes the amount of Euro 3,930 thousand (31 December 2016: Euro 3,735 thousand) related with services rendered by Montepio Gestão de Activos Imobiliários, A.C.E.

The Group has several vehicle operational leasing contracts. Payments made under such leasing contracts are recognised in income during the duration of the contract. The future minimum payments for operational leasing contracts not revocable by maturity, are presented as follows:

	(Thousands of Euro)	
	2017	**2016**
Within 1 year	1 290	894
1 to 5 years	407	1 135
	1 697	2 029

The balance Other specialised services includes fees invoiced (excluding VAT) by the Group's Statutory Auditor within its functions of statutory audit as well as other services, including the ones rendered by its network, as follows:

	(Thousands of Euro)	
	2017	**2016**
Audit		
Statutory Audit services	1 307	1 235
Other reliability assurance services required by law		
Issuance of opinions on the internal control systems	182	296
Issuance of opinions for the regulatory entities and support on engagements for supervisory purposes	202	553
Issuance of several reports	38	43
	422	892
Other reliability services not required by law	356	1 653
	2 085	3 780

13 Depreciation and amortisation

The amount of this account is comprised of:

(Thousands of Euro)

	2017	2016
Intangible assets		
Software	13 862	12 543
Other tangible assets		
Land and buildings		
For own use	4 718	3 655
Leasehold improvements in rented buildings	1 589	2 379
Equipment		
IT equipment	2 762	3 336
Interior installations	1 052	1 313
Furniture	401	496
Transportation	134	161
Security equipment	243	275
Machinery and tools	11	16
Operating leases	34	69
Other tangible assets	3	27
	10 947	11 727
	24 809	24 270

14 Loans impairment

The amount of this account is comprised of:

(Thousands of Euro)

	2017	2016
Loans and advances to customers		
Charge for the period net of reversals	164 291	189 633
Recovery of loans and interest charged-off	(3 580)	(7 154)
	160 711	182 479

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)	2017	2016
Impairment for available-for-sale financial assets		
Charge for the period net of reversals	7 766	44 484

As at 31 December 2017, the balance Impairment for available-for-sale financial assets includes the amount of Euro 8,624 thousand (31 December 2016: Euro 17,064 thousand) that corresponds to impairment losses recognised for investments units in a Fund specialised in the recovery of loans, acquired under the sale of loans and advances to customers, as referred in note 59.

As at 31 de December 2016, this balance also includes a change for the period in the amount of Euro 27,641 thousand on the position held in Fixed-income securities – Bonds issued by other entities – Foreign, and a reversal net of changes for the period in the amount of Euro 6,930 thousand, related to Greek's government debt securities.

16 Other assets impairment

The amount of this accounts is comprised of:

(Thousands of Euro)	2017	2016
Impairment for non-current assets held for sale		
Charge for the period	12 985	44 059
Write-back for the period	(2 844)	(11 453)
	10 141	32 606
Impairment for other assets		
Charge for the period	9 381	7 874
Write-back for the period	(6 727)	(1 047)
	2 654	6 827
Impairment for other tangible assets		
Charge for the period	-	1 400
Write-back for the period	(245)	-
	12 550	40 833

As at 31 December 2017 and 2016, the item Impairment for other tangible assets records the difference between the carrying amount of the asset and its recoverable amount, as described in note 29.

17 Other provisions

The amount of this account is comprised of:

(Thousands of Euro)

	2017	2016
Provisions for guarantees and commitments		
Charge for the period	16 558	11 456
Write-back for the period	(14 268)	(19 952)
	2 290	(8 496)
Provisions for other risks and charges		
Charge for the period	10 193	35 944
Write-back for the period	(2 160)	(33 756)
	8 033	2 188
	10 323	(6 308)

18 Share of profit of associates under the equity method

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

(Thousands of Euro)

	2017	2016
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	166	250

19 Cash and deposits at central banks

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Cash	178 927	211 648
Deposits at central banks		
Bank of Portugal	1 554 701	169 641
	1 733 628	381 289

As at 31 December 2017, the balance Central bank relating to deposits within the Bank of Portugal, includes the amount of Euro 92,448 thousand (31 December 2016: Euro 90,571 thousand) 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.

At as 31 December 2017 and 2016, deposits within the Bank of Portugal were not remunerated.

20 Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

	(Thousands of Euro)	
	2017	2016
Credit institutions in Portugal	1 364	7 480
Credit institutions abroad	9 639	13 147
Amounts due for collection	39 202	48 941
	50 205	69 568

The balance Amounts due for collection represents essentially cheques 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)	
	2017	2016
Loans and advances to credit institutions in Portugal		
Loans and advances at central banks	-	150 000
Term deposits	1 986	2 131
Other loans and advances	7 088	6 010
	9 074	158 141
Loans and advances to credit institutions abroad		
Reverse repos	3 405	25 444
CSA's	40 226	46 312
Term deposits	7 659	21 339
Subordinated deposits	130	1 612
Short-term deposits	30 000	30 000
Other loans and advances	221 709	276 243
	303 129	400 950
	312 203	559 091

As at 31 December 2016, Loans and advances to credit institutions in Portugal – Loans and advances to central banks includes Euro 150,000 thousand regarding an investment made in the Bank of Portugal with maturity in the beginning of January 2017.

As at 31 December 2017, the caption Loans and advances to credit institutions abroad - Term deposits includes the amount of Euro 3,475 thousand (31 December 2016: Euro 1,774 thousand) regarding the deposit performed as collateral under the ex-ante contribution to the Single Resolution Fund, as described in notes 10 and 60.

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's exposure towards the counterparty.

On this basis, and within operations of derivative financial instruments with institutional counterparties, and as established in the respective contracts, the Group holds an amount of Euro 40,226 thousand (31 December 2016: Euro 46,312 thousand) related to deposits in credit institutions given as collateral for the above-mentioned operations.

The caption Loans and advances to credit institutions abroad – Other loans and advances includes the amounts deposited on behalf of the vehicles set up for the purpose of the Group's securitization transactions.

The balance Other loans and advances to credit institutions, by maturity, is analysed as follows:

(Thousands of Euro)

	2017	2016
Due within 3 months	77 314	259 058
3 to 6 months	3 475	1 774
6 months to 1 year	4 405	1 000
1 to 5 years	8 476	15 521
Over 5 years	208 569	280 613
Undetermined	9 964	1 125
	312 203	559 091

22 Loans and advances to customers

This balance is analysed as follows:

	2017	2016
	(Thousands of Euro)	
Corporate		
Loans not represented by securities		
Loans	2 810 479	2 903 554
Commercial lines of credits	477 745	589 750
Finance leases	464 640	467 042
Discounted bills	71 695	89 126
Factoring	144 199	115 264
Overdrafts	2 543	9 245
Other loans	708 465	783 564
Loans represented by securities		
Commercial paper	252 357	223 424
Bonds	242 387	278 749
Retail		
Mortgage loans	6 598 927	7 045 714
Finance leases	66 557	66 232
Consumer and other loans	995 574	1 015 024
	12 835 568	13 586 688
Correction value of assets subject to hedge operations		
Other loans	(1)	625
Overdue loans and interest		
Less than 90 days	81 350	81 718
More than 90 days	1 146 222	1 371 620
	1 227 572	1 453 338
	14 063 139	15 040 651
Impairment for credit risks	(1 033 821)	(1 179 617)
	13 029 318	13 861 034

As at 31 December 2017, the balance Loans and advances to customers includes de amount of Euro 2,726,854 thousand (31 December 2016: Euro 2,725,631 thousand) related to the issue of covered bonds held by the Group, as referred in note 36.

As at 31 December 2017, loans and advances, guarantees and irrevocable credit facilities (excluding interbank and money market transactions) that the Group granted to institutional capital owners and to related parties, amounted to Euro 35,591 thousand (31 December 2016: Euro 45,625 thousand), as referred in note 53. The conclusion of businesses between the Group and institutional capital owners or individual or collective persons related to them, according to article 20 of the Portuguese Securities Code, regardless the value, it's always submitted to deliberation and examination of the Board of Directors and the General and Supervisory Board, as proposed by the commercial network, supported by analysis and opinion about the compliance with the limit established in article 109 of the General Law on Credit Institutions and Financial Companies General Law issued by the Risk Division. The impairment amount for credit risks related with these contracts amounts to Euro 335 thousand as at 31 December 2017 (31 December 2016: Euro 528 thousand), as described in note 53.

During 2017, CEMG performed a sale operation of two customer loan portfolios which were in default. The capital gains amounted to: (i) Euro 2,783 thousand related to the sale operation of a customer loan portfolio that was in default recorded off-balance sheet, with a nominal value of Euro 215,288 thousand, as describe in notes 9 and 32 and (ii) Euro 13,424 thousand related to the sale operation of a customer loan portfolio that was in default recorded on and off-balance sheet, with a nominal value of Euro 475,136 thousand, as described in notes 9 and 23.

It should be note that the latter disposed portfolio included other rights not recorded either on or off-balance sheet in the amount of Euro 105,590 thousand. In addition, and within this transaction, CEMG acquired all the Class A notes of the vehicle that purchased this portfolio and recorded the amount of Euro 121,329 thousand in the portfolio of financial assets held for trading, as mentioned in note 23.

During 2016, CEMG performed a Loans and advances to customer's sale operation which were in default and recorded off balance sheet. The total amount of loans and advances sold amounted to Euro 362,996 thousand and generated a capital gain of Euro 14,695 thousand, as described in note 9.

As at 31 December 2017 and within the sale of credits and real estate properties performed, it is outstanding by SilverEquation the amount of Euro 29,909 thousand (31 December 2016: Euro 101,012 thousand), as described in note 32.

As at 31 December 2016, the Group performed sales of loans and advances to customers to funds specialised in credit recovery. The global amount of credits sold amounted to Euro 5,495 thousand, originating a gain of Euro 1,314 thousand.

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, ALD and loans to firms realised through special purpose entities (SPE's). As referred in accounting policy described in note 1 b), 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. Thus, as at 31 December 2016, the value of loans and advances to customers (net of impairment), includes the amount of Euro 46,878 thousand related to securitisation transactions where, in accordance with the accounting policy described in note 1 b), are consolidated under the full method, as disclosed in note 54.

As at 31 December 2017, the balance Loans and advances to customers includes the amount of Euro 3,623,040 thousand (31 December 2016: Euro 3,916,300 thousand) related with loans object of securitization and, in accordance with note 1 g), were not subject of derecognition.

In the balance Correction value of assets subject to hedge operations is accounted the fair value of the portfolio that is hedged. The valuation is accounted for in the income statement, in accordance with the accounting policy described in 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 interest rate as at 31 December 2017 and 2016, is as follows:

(Thousands of Euro)

	2017	2016
Variable interest rate contract	12 653 940	13 659 978
Fixed interest rate contract	1 409 199	1 380 673
	14 063 139	15 040 651

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

(Thousands of Euro)

	2017	2016
Asset-backed loans	820 659	925 287
Other guarantee loans	225 529	327 108
Financial leases	37 472	35 002
Loans represented by securities	4 300	4 300
Other loans	139 612	161 641
	1 227 572	1 453 338

The analysis of loans and advances to customers, by maturity and by type of credit as at 31 December 2017, is as follows:

(Thousands of Euro)

	Loans and advances to customers				
	Due within 1 year	1 to 5 years	Over 5 years	Undetermined	Total
Asset-backed loans	192 197	924 891	8 463 915	820 659	10 401 662
Other guarantee loans	516 732	323 947	514 491	225 529	1 580 699
Financial leases	37 024	238 550	255 623	37 472	568 669
Loans represented by securities	252 357	-	-	4 300	256 657
Bond loans	109 917	122 215	10 256	-	242 388
Other loans	273 113	123 620	476 719	139 612	1 013 064
	1 381 340	1 733 223	9 721 004	1 227 572	14 063 139

The analysis of loans and advances to customers, by maturity and by type of credit as at 31 December 2016, is as follows:

(Thousands of Euro)

	Loans and advances to customers				
	Due within 1 year	1 to 5 years	Over 5 years	Undetermined	Total
Asset-backed loans	271 949	663 301	9 378 528	925 287	11 239 065
Other guarantee loans	574 530	273 387	435 158	327 108	1 610 183
Financial leases	34 891	241 254	257 129	35 002	568 276
Loans represented by securities	223 424	-	-	4 300	227 724
Bond loans	68 540	202 709	7 500	-	278 749
Other loans	310 876	265 893	378 244	161 641	1 116 654
	1 484 210	1 646 544	10 456 559	1 453 338	15 040 651

The balance Financial leases, by maturity as at 31 December 2017, is analysed as follows:

(Thousands of Euro)

	Financial leases			
	Due within 1 year	1 to 5 years	Over 5 years	Total
Outstanding rents	69 804	244 578	145 835	460 217
Outstanding interests	(11 871)	(37 819)	(26 122)	(75 812)
Residual values	23 870	73 377	49 545	146 792
	81 803	280 136	169 258	531 197

The balance Financial leases, by maturity as at 31 December 2016, is analysed as follows:

(Thousands of Euro)

	Financial leases			
	Due within 1 year	1 to 5 years	Over 5 years	Total
Outstanding rents	71 860	257 198	149 488	478 546
Outstanding interests	(13 498)	(39 465)	(30 924)	(83 887)
Residual values	17 966	68 750	51 899	138 615
	76 328	286 483	170 463	533 274

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

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

(Thousands of Euro)

	2017	2016
Corporate		
Construction/ Production	267 222	303 668
Investment	490 234	499 744
Treasury	212 935	323 421
Other loans	47 514	62 882
Retail		
Mortgage loans	92 744	117 990
Consumer credit	59 444	68 411
Other loans	57 479	77 222
	1 227 572	1 453 338

Changes in impairment for credit risks are analysed as follows:

(Thousands of Euro)

	2017	2016
Balance on 1 January	1 179 617	1 281 738
Charge for the period net of reversals		
Continuing operations	164 291	189 633
Discontinuing operations	5 985	11 103
Impairment charged-off	(310 087)	(241 396)
Transfers	-	(22 753)
Transfers related to discontinuing operations	(5 985)	(38 708)
Balance on 31 December	1 033 821	1 179 617

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 38 and to the impairment associated with renting, which began to be registered in the balance Other assets, as described in note 32, in the amounts of Euro 22,340 thousand and Euro 400 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)

	2017	2016
Asset-backed loans	650 939	739 566
Other guarantee loans	256 777	307 075
Unsecured loans	126 105	132 976
	1 033 821	1 179 617

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 charged-off, by type of credit, is as follows:

(Thousands of Euro)

	2017	2016
Asset-backed loans	124 380	60 279
Other guarantee loans	44 082	79 443
Unsecured loans	141 625	101 674
	310 087	241 396

The total recovered loans and overdue interest as at 31 December 2017, amounted to Euro 3,580 thousand (31 December 2016: Euro 7,154 thousand), as mentioned in note 14.

In addition, the loan portfolio includes loans that, towards the financial difficulties of the customer, initial conditions of the contract were amended in the amount of Euro 1,162,359 thousand (31 December 2016: Euro 1,341,438 thousand) which have an impairment of Euro 390,088 thousand (31 December 2016: Euro 403,396 thousand).

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 the particular forbearance measures, the Group adopted the ones included in Instruction 32/2013 of the Bank of Portugal, of 31 December 2013, 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 restructuring operations that were performed during 2017 and 2016 were positive and allowed to mitigate the effect of the economic and financial crisis and within a situation in which is observed some economic recovery signs, adapting the debt service to the disposable income of customers.

Additionally, the loans portfolio includes contracts that resulted in a formal restructuring with the customers and the consequent establishment of a new funding to replace the previous. The restructuring may result in a reinforcement of guarantees and / or liquidation of part of the credit and involve an extension of maturities or a different interest rate. The analysis of restructured loans, performed in 2017 and 2016, by type of credit, is as follows:

(Thousands of Euro)

	2017	2016
Corporate		
Loans not represented by securities		
Loans	109 768	186 012
Commercial lines of credit	3 787	13 353
Financial leases	9 275	19 219
Other loans	39 184	42 776
Retail		
Mortgage Loans	11 448	19 681
Consumer and other loans	4 500	7 553
	177 962	288 594

Restructured loans are subject to an impairment analysis resulting from the revaluation of expectations to meet the new cash flows inherent to the new contractual conditions, discounted at the original effective interest rate and considering the new collaterals.

In respect of restructured loans, the impairment associated to these operations amounts to Euro 28,892 thousand (31 December 2016: Euro 26,812 thousand).

The Group uses physical and financial collaterals as instruments for mitigating credit risk. The physical collaterals correspond mainly to mortgages on residential properties in the course of the mortgage and other types of mortgages on properties in other types of loans. To reflect the market value of them, these effects are reviewed regularly based on evaluations conducted by certified independent testing organizations or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are re-evaluated based on market values of their assets, when available, and certain coefficients applied depreciation to reflect its volatility. Most of the physical collaterals are revaluated 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)

	2017	2016
Financial assets held for trading		
Securities		
Shares	6 734	6 871
Bonds	149 622	37 770
Mutual funds	3 167	299
	159 523	44 940
Derivatives		
Derivatives financial instruments with positive fair value	24 553	33 228
	184 076	78 168
Financial liabilities held for trading		
Securities		
Short sales	901	1 458
Derivatives		
Derivatives financial instruments with negative fair value	15 270	24 690
	16 171	26 148

The balance Financial assets held for trading – Securities – Bonds includes the amount of Euro 121,329 thousand relating to a class A asset securitisation transaction which was acquired within a sale operation of a customer loan portfolio that was in default recorded on and off-balance sheet, with a nominal value of Euro 475,136 thousand, as described in notes 9 and 22.

As at 31 December 2017, CEMG regarding an asset assignment (loans and real estate) in the amount of Euro 288,232 thousand, as disclosed in notes 9 and 32 (31 December 2016: Euro 311,532 thousand). Within this operation, CEMG acquired the right to return of a set of parameters of assigned assets, which amounted to Euro 12,000 thousand on 31 December 2016. As at 31 December 2017, this transaction amounted to Euro 11,204 thousand (31 December 2016: Euro 12,000 thousand) and is recorded under the caption Financial instruments with positive fair value.

The balance Derivatives financial instruments with positive fair value includes, at 31 December 2017, the amount of Euro 11,923 thousand (31 December 2016: Euro 15,905 thousand) referred to instruments associated to assets or liabilities at fair value through profit and loss and to trading.

The balance Derivatives financial instruments with negative fair value includes, at 31 December 2017, the valuation of embedded derivatives in accordance with the accounting policy described in note 1 d), in the amount of Euro 4 thousand (31 December 2016: Euro 1,306 thousand).

The balance Derivatives financial instruments with negative fair value includes, at 31 December 2017, the amount of Euro 2,595 thousand (31 December 2016: Euro 6,651 thousand) referred to instruments associated to assets or liabilities at fair value through profit and loss and trading, with the exception of loans and advances to customers in the amount of Euro 45 thousand (31 December 2016: Euro 716 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.

As referred in IFRS 13 financial instruments are measured in accordance with the following levels of valuation, described in note 50, as follows:

(Thousands of Euro)

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets held for trading				
Securities				
Shares	6 734	-	-	6 734
Bonds	28 293	-	121 329	149 622
Mutual funds	3 167	-	-	3 167
	38 194	-	121 329	159 523
Derivatives				
Derivatives financial instruments with positive fair value	-	24 553	-	24 553
	38 194	24 553	121 329	184 076
Financial liabilities held for trading				
Securities				
Short sales	901	-	-	901
Derivatives				
Derivatives financial instruments with negative fair value	-	15 270	-	15 270
	901	15 270	-	16 171

	(Thousands of Euro)		
	2016		
	Level 1	Level 2	Total
Financial assets held for trading			
Securities			
Shares	6 871	-	6 871
Bonds	37 770	-	37 770
Mutual funds	299	-	299
	44 940	-	44 940
Derivatives			
Derivatives financial instruments with positive fair value	-	33 228	33 228
	44 940	33 228	78 168
Financial liabilities held for trading			
Securities			
Short sales	1 458	-	1 458
Derivatives			
Derivatives financial instruments with negative fair value	-	24 690	24 690
	1 458	24 690	26 148

The analysis of the securities portfolio held for trading by maturity, as at 31 December 2017, is as follows:

(Thousands of Euro)

	2017					
	Due within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined	Total
Fixed income securities						
Bonds						
Portuguese	372	372	1 065	133 564	-	135 373
Foreign	-	80	11 129	3 040	-	14 249
Variable income securities						
Shares						
Portuguese	-	-	-	-	1 092	1 092
Foreign	-	-	-	-	5 642	5 642
Mutual funds	-	-	-	-	3 167	3 167
	372	452	12 194	136 604	9 901	159 523

The analysis of the securities portfolio held for trading by maturity as at 31 December 2016, is as follows:

(Thousands of Euro)

	2016				
	Due within 3 months	3 months to 1 year	Over 1 year	Undetermined	Total
Fixed income securities					
Bonds					
Portuguese	123	131	8 763	-	9 017
Foreign	-	23	28 730	-	28 753
Variable income securities					
Shares					
Portuguese	-	-	-	633	633
Foreign	-	-	-	6 238	6 238
Mutual funds	-	-	-	299	299
	123	154	37 493	7 170	44 940

The balance of Derivatives financial instruments as at 31 December 2017, in comparison with the assets and liabilities associated, recorded at fair value, can be analysed as follows:

(Thousands of Euro)

		2017						
		Derivative			Related Asset/ Liability			
Derivative	Related financial asset/ liability	Notional	Fair value	Changes in fair value in the period [(1)]	Fair value	Changes in fair value in the period	Book value	Reimbursement amount at maturity date
Interest rate swap	Debt securities issued and subordinated debt	3 300	414	(526)	263	1 271	3 460	3 300
Interest rate swap	Deposits from customers	15 100	(107)	(59)	33	21	14 789	14 789
Interest rate swap	Deposits from other credit institutions	-	-	(2 576)	-	(3)	-	-
Interest rate swap	Mortgage obligations	-	-	2 380	-	-	-	-
Interest rate swap	Loans and advances to customers	24 562	(45)	671	(1)	(535)	24 633	24 562
Interest rate swap	Others	3 669 577	(2 488)	1 735	-	-	-	-
Currency swap (Short)	-	50 481	291	(88)	-	-	-	-
Currency swap (Long)	-	50 744						
Future options (Short)	-	2 978	9	9	-	-	-	-
Future options (Long)	-	-						
Forwards (Short)	-	3 044	-	(4)	-	-	-	-
Forwards (Long)	-	3 051						
Options (Short)	-	54 809	11 209	(797)	-	-	-	-
Options (Long)	-	358 131						
		4 235 777	9 283	745	295	754	42 882	42 651

[(1)] Includes the result of derivatives disclosed in note 6.

The balance of Derivatives financial instruments as at 31 December 2016, in comparison with the assets and liabilities associated, recorded at fair value, can be analysed as follows:

(Thousands of Euro)

		2016						
		Derivative			Related Asset/ Liability			
Derivative	Related financial asset/ liability	Notional	Fair value	Changes in fair value in the period [(1)]	Fair value	Changes in fair value in the period	Book value	Reimbursement amount at maturity date
Interest rate swap	Debt securities issued and subordinated debt	90 956	940	123	(1 008)	3 020	82 921	82 469
Interest rate swap	Deposits from customers	15 900	(48)	443	12	4	15 631	15 631
Interest rate swap	Deposits from other credit institutions	51 294	2 576	(3 961)	3	(518)	53 818	40 000
Interest rate swap	Mortgage obligations	5 456 363	(2 380)	655				-
Interest rate swap	Loans and advances to customers	43 520	(716)	733	534	(799)	40 713	40 562
Interest rate swap	Others	4 126 321	(4 223)	642	-	-	-	-
Currency swap (Short)	-	67 540	379	(157)	-	-	-	-
Currency swap (Long)	-	67 914						-
Future options (Short)	-	10 935	-	-	-	-	-	-
Future options (Long)	-	466	-	-	-	-	-	-
Forwards (Short)	-	4 812	4	7	-	-	-	-
Forwards (Long)	-	4 817						
Options (Short)	-	67 666	12 006	11 975	-	-	-	-
Options (Long)	-	395 019			-	-	-	-
Credit Default Swaps	-	-	-	35 176	-	-	-	-
		10 403 523	8 538	45 636	(459)	1 707	193 083	178 662

[(1)] Includes the result of derivatives disclosed in note 6.

The analysis of Derivative financial instruments held for trading, by maturity, on 31 December 2017, is presented as follows:

	Notional with remaining term				Fair value	
	Due within 3 months	3 months to 1 year	Over 1 year	Total	Asset	Liability
Interest rate contracts						
Interest rate swaps	250	17 850	3 694 439	3 712 539	12 779	15 005
Options	213	800	108 595	109 608	52	51
Futures	-	-	-	-	-	-
Exchange rate contracts						
Currency swaps	101 225	-	-	101 225	292	1
Forwards	4 487	1 608	-	6 095	-	-
Index / Share contracts						
Futures	2 978	-	-	2 978	9	-
Options	250	-	14 850	15 100	217	213
Credit contracts						
Options	-	-	288 232	288 232	11 204	-
	109 403	20 258	4 106 116	4 235 777	24 553	15 270

The analysis of Derivative financial instruments held for trading, by maturity, on 31 December 2016, is presented as follows:

	Notional with remaining term				Fair value	
	Due within 3 months	3 months to 1 year	Over 1 year	Total	Asset	Liability
Interest rate contracts						
Interest rate swaps	120 044	5 510 846	4 153 464	9 784 354	19 224	23 075
Options	-	2 199	85 338	87 537	1 601	1 595
Futures	6 513	-	-	6 513	-	-
Exchange rate contracts						
Currency swaps	135 454	-	-	135 454	399	20
Forwards	7 664	1 965	-	9 629	4	-
Index / Share contracts						
Futures	4 888	-	-	4 888	-	-
Options	5 075	58 291	250	63 616	-	-
Credit contracts						
Options	-	-	311 532	311 532	12 000	-
	279 638	5 573 301	4 550 584	10 403 523	33 228	24 690

As at 31 December 2017, the amount of the loan obtained from EIB is collateralised by Portuguese bonds at the nominal value of Euro 10,000 thousand (31 December 2016: at the nominal value of Euro 2,500 thousand), provided as collateral and recorded under the caption Financial assets held for trading, as described in note 34.

24 Available-for-sale financial assets

This balance is analysed as follows:

(Thousands of Euro)

	2017				
	Cost (1)	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Issued by public entities					
Portuguese	714 117	2 444	(1 112)	-	715 449
Foreign	862 310	1 057	(5 131)	-	858 236
Issued by other entities					
Portuguese	69 958	1 237	(76)	(29 251)	41 868
Foreign	49 251	691	(86)	(7 000)	42 856
Variable income securities					
Shares					
Portuguese	76 158	12 112	(1 625)	(1 920)	84 725
Foreign	73 142	10 327	(7 718)	(48)	75 703
Mutual funds	402 535	20 488	(260)	(40 707)	382 056
	2 247 471	48 356	(16 008)	(78 926)	2 200 893

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

(Thousands of Euro)

	2016				
	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Issued by public entities					
Portuguese	1 420 357	3 345	(63 285)	-	1 360 417
Foreign	348 243	1 260	(8 470)	-	341 033
Issued by other entities					
Portuguese	61 430	518	(49)	(29 251)	32 648
Foreign	131 893	1 755	(782)	(34 641)	98 225
Variable income securities					
Shares					
Portuguese	76 159	9 814	(1 625)	(1 920)	82 428
Foreign	72 628	14 746	(24)	(77)	87 273
Mutual funds	408 666	21 801	(600)	(32 387)	397 480
	2 519 376	53 239	(74 835)	(98 276)	2 399 504

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

As referred in note 59, the balance Variable income securities – Mutual funds includes at 31 December 2017 the amount of Euro 96,177 thousand (31 December 2016: Euro 104,203 thousand) relating to mutual funds in a Fund specialised in the recovery of loans acquired under the sale of loans and advances to customers. As at 31 December 2017 and 2016, this amount includes Euro 7,838 thousand engaged to junior securities (mutual funds with a more subordinated character), which are fully provided, according to note 59.

The main assumptions in the evaluation of shares whose book value is determined based on CEMG internal models are as follows:

Monteiro Aranha

The valuation of Monteiro Aranha S.A. ("MASA") was carried out taking into account the fact that MASA's main assets are holdings in listed companies of the Brasilian Stock Exchange. Based on this, the Adjusted Amount in MASA's Equity was calculated was calculated based on the fair value of those listed companies, assuming the price quote on the last 12 months.

Almina

The evaluation of Almina with reference to 31 December 2017 was carried out based on Almina Holding Group business plan, as well as other information provided by Almina's management.

Both relevant businesses for Almina's evaluation correspond to ore exploitation: zinc and copper. The main assumptions that have been used were: use of a discount rate between 10% and 11% and the determination of ore market prices based on international indexes.

In the first half of 2017, the Group reclassified Portuguese public debt bonds from the portfolio of financial assets held-to-maturity to the portfolio of available-for-sale financial assets in the amount of Euro 800,059 thousand, whose market value was, at the date of transfer, of Euro 840,613 thousand, as referred in notes 7 and 25. The decision was part of the process of strengthening the Group's capital ratios, in accordance with the strategy defined by the Board of Directors to respond to the challenges posed by the ECB's prudential requirements and involved the reclassification, on the date of decision, of all Portuguese public debt bonds recorded in the held-to-maturity securities portfolio. In the first half of 2017 part of these securities were sold as described in notes 7, 9 and 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 available-for-sale financial assets portfolio to the loans and advances to customers category is realized 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 amortised 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;
- An evaluation of subsequent impairment is performed considering 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 the securities portfolio from available-for-sale financial assets to loans and advances to customers, in the amount of Euro 358,488 thousand and an impairment in the amount of Euro 1,565 thousand. The fair value reserve of the securities transferred amounted, at the date of reclassification, to Euro 3,858 thousand.

The analysis of the impact of reclassifications until 31 December 2017, is presented as follows:

(Thousands of Euro)

	At the date of reclassification		2017		
	Book value	Fair value	Book value	Fair value	Difference
Available-for-sale financial assets to:					
Loans and advances to customers	358 488	358 488	229 985	236 726	6 741
Investments held to maturity to:					
Available-for-sale financial assets	813 219	840 613	125 341	125 341	-
	1 171 707	1 199 101	355 326	362 067	6 741

The amounts recorded in profit or loss and fair value reserves at 31 December 2017, related to financial assets reclassified in prior years, are as follows:

(Thousands of Euro)

	Profit / (loss) for the period	Variations	
	Interest	Fair value reserves	Equity
Available-for-sale financial assets to:			
Loans and advances to customers	12 047	(330)	(330)
Investments held to maturity to:			
Available-for-sale financial assets	2 692	419	419
	14 739	89	89

If the reclassifications described above had not taken place, the additional amounts recognised in equity at 31 December 2017, would be as follows:

(Thousands of Euro)

	Profit / (loss) in the period		
	Fair value changes	Fair value reserves	Equity
Available-for-sale financial assets to:			
Loans and advances to customers	-	6 741	6 741
Investments held to maturity to:			
Available-for-sale financial assets	-	(419)	(419)
	-	6 322	6 322

During the second half of 2017, a set of transferred bonds were sold, generating an increase in the amount of Euro 38,269 thousand.

The analysis of the impact of these reclassifications as at 31 December 2016, is presented as follows:

(Thousands of Euro)

	At the reclassification date		2016		
	Book value	Fair value	Book value	Fair value	Difference
Available-for-sale financial assets					
Loans and advances to customers	358 488	358 488	268 706	280 840	12 134
	358 488	358 488	268 706	280 840	12 134

The amounts recorded in profit or loss and fair value reserves at 31 December 2016, related to financial assets reclassified in prior years, are as follows:

(Thousands of Euro)

	Profit/ (loss) in the period	Variations	
	Interest	Fair value reserves	Equity
Available-for-sale financial assets			
Loans and advances to customers	12 075	(1 382)	(1 382)
	12 075	(1 382)	(1 382)

If the reclassifications described above had not taken place, the additional amounts recognised in equity at 31 December 2016, would be as follows:

(Thousands of Euro)

	Profit/ (loss) in the period		
	Fair value changes	Fair value reserves	Equity
Available-for-sale financial assets to:			
Loans and advances to customers	12 134	13 515	13 515
	12 134	13 515	13 515

As at 31 December 2017 and 2016, the analysis of available-for-sale financial assets net of impairment, by valuation levels, is presented as follows:

(Thousands of Euro)

	2017				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Issued by public entities					
Portuguese	715 449	-	-	-	715 449
Foreign	858 236	-	-	-	858 236
Issued by other entities					
Portuguese	6 967	29 221	5 680	-	41 868
Foreign	28 771	14 085	-	-	42 856
	1 609 423	43 306	5 680	-	1 658 409
Variable income securities					
Shares					
Portuguese	-	-	79 836	4 889	84 725
Foreign	1 693	-	73 672	338	75 703
Mutual funds	7 500	-	374 556	-	382 056
	9 193	-	528 064	5 227	542 484
	1 618 616	43 306	533 744	5 227	2 200 893

(Thousands of Euro)

	2016				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Issued by public entities					
Portuguese	1 360 417	-	-	-	1 360 417
Foreign	341 033	-	-	-	341 033
Issued by other entities					
Portuguese	1 496	30 456	696	-	32 648
Foreign	85 329	12 896	-	-	98 225
	1 788 275	43 352	696	-	1 832 323
Variable income securities					
Shares					
Portuguese	-	-	77 539	4 889	82 428
Foreign	1 288	-	85 647	338	87 273
Mutual funds	6 878	-	390 602	-	397 480
	8 166	-	553 788	5 227	567 181
	1 796 441	43 352	554 484	5 227	2 399 504

As referred in IFRS 13, financial instruments are measured according to the valuation levels described in note 50.

The assets included in level 3, in balance Variable income securities – Mutual funds includes mutual funds in real estate investment funds, in credit recovery specialised funds and venture capital funds which are valued in accordance with the Net Asset Value of the Fund (VLGF) determined by the management company in the amount of Euro 374,556 thousand (31 December 2016: Euro 390,602 thousand) of which Euro 213,546 thousand (31 December 2016: Euro 213,063 thousand) relate to real estate investment funds. The assets of specialized credit recovery funds which are valued in the accounts of the respective funds, at fair value, by internal methodologies used by the management company.

The assets of real estate investment funds are valued by the management company based on the valuation reports prepared by experts registered with the CMVM.

For all financial assets recorded in level 3, the sensitivity analysis carried out considered a 10% change in the value of the financial asset, and consequently, an impact of Euro 53,374 thousand was calculated on 31 December 2017 (31 December 2016: Euro 55,448 thousand).

Instruments classified as level 3 have associated unrealised gains and losses in the positive amount of Euro 32,362 thousand (31 December 2016: positive amount of Euro 42,812 thousand) recognised in fair value reserves.

As at 31 December 2017, the impairment amount registered for these securities amounts to Euro 75,814 thousand (31 December 2016: Euro 67,492 thousand).

The movements occurred in available-for-sale financial assets recorded in level 3 are analysed as follows:

(Thousands of Euro)

	2017	2016
Balance on 1 January	554 484	404 066
Acquisitions	4 722	17 102
Revaluations	(19 293)	6 771
Disposals	(6 169)	(8 659)
Transfers	-	135 204
Balance on 31 December	533 744	554 484

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

(Thousands of Euro)

	2017	2016
Balance on 1 January	98 276	67 309
Charge for the period		
Continuing operations	9 117	79 278
Discontinuing operations	1	3
Write-back for the period		
Continuing operations	(1 351)	(34 794)
Discontinuing operations	(3)	-
Impairment charged-off	(27 116)	(13 517)
Transfers related to discontinuing operations	2	(3)
Balance on 31 December	78 926	98 276

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2017, is as follows:

(Thousands of Euro)

	2017					
	Due within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined	Total
Fixed income securities						
Issued by public entities						
Portuguese	2 715	132 607	510 378	69 749	-	715 449
Foreign	781	66 438	659 963	131 054	-	858 236
Issued by other entities						
Portuguese	193	826	30 998	8 451	1 400	41 868
Foreign	54	1 119	15 593	26 090	-	42 856
	3 743	200 990	1 216 932	235 344	1 400	1 658 409
Variable income securities						
Shares						
Portuguese	-	-	-	-	84 725	84 725
Foreign	-	-	-	-	75 703	75 703
Mutual funds	-	-	-	-	382 056	382 056
	-	-	-	-	542 484	542 484
	3 743	200 990	1 216 932	235 344	543 884	2 200 893

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2016, is as follows:

(Thousands of Euro)

	2016				
	Due within 3 months	3 months to 1 year	Over 1 year	Undetermined	Total
Fixed income securities					
Issued by public entities					
Portuguese	14 918	81 790	1 263 709	-	1 360 417
Foreign	5 612	13 473	321 948	-	341 033
Issued by other entities					
Portuguese	-	10	31 942	696	32 648
Foreign	5 466	254	91 717	788	98 225
	25 996	95 527	1 709 316	1 484	1 832 323
Variable income securities					
Shares					
Portuguese	-	-	-	82 428	82 428
Foreign	-	-	-	87 273	87 273
Mutual funds	-	-	1 805	395 675	397 480
	-	-	1 805	565 376	567 181
	25 996	95 527	1 711 121	566 860	2 399 504

Securities pledged as collateral recorded in Available-for-sale financial assets, 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 2,557,271 thousand at 31 December 2017 after hair cut (31 December 2016: Euro 3,524,496 thousand), as described in note 33;

- Securities pledged as collateral to the Portuguese Securities Market Commission under the Investors' Compensation Fund in the nominal amount of Euro 1,000 thousand at 31 December 2017 and 2016;
- The amount of the EIB loan obtained is collateralised by securities of Portuguese and Greek states in the nominal amount of Euro 507,939 thousand (31 December 2016: 331,855 thousand), registered in the balance Available-for-sale financial assets, as described in note 34; and
- Securities pledged as collateral to the Deposit Guarantee Fund in the nominal amount of Euro 23,500 thousand at 31 December 2017 (31 December 2016: Euro 25,000 thousand), as mentioned in note 49.

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 referred in notes 35 and 36.

25 Held-to-maturity investments

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Fixed income securities		
Bonds issued by Portuguese public entities	-	1 126 125

In the first half of 2017, the Group reclassified Portuguese public debt bonds from the portfolio of financial assets held-to-maturity to the portfolio of available-for-sale financial assets in the amount of Euro 800,059 thousand, whose market value was, at the date of transfer, of Euro 840,613 thousand, as described in notes 7 and 24. The decision was part of the process of strengthening the Group's capital ratios, in accordance with the strategy defined by the Board of Directors to respond to the challenges posed by the ECB's prudential requirements and involved the reclassification, on the date of decision, of all Portuguese public debt bonds recorded in the held-to-maturity securities portfolio. In accordance with IAS 39, CEMG will not be able to classify assets in this category until the end of 2019.

The held-to-maturity investments, as at 31 December 2016, are analysed as follows:

(Thousands of Euro)

Issue	Issue date	Maturity date	Interest rate	Book value
OT 2.875% 15-Oct-2025	January 2015	October 2025	Fixed rate of 2.875%	36 058
OT 4.450% 15-June-2018	March 2008	June 2018	Fixed rate of 4.450%	216 604
OT 2.200% 17-Oct-2022	September 2015	October 2022	Fixed rate of 2.200%	90 422
OT 3.850% 15-April-2021	February 2005	April 2021	Fixed rate of 3.850%	256 707
OT 4.950% 25-Oct-2023	June 2008	October 2023	Fixed rate of 4.950%	99 465
OT 5.650% 15-Feb-2024	May 2013	February 2024	Fixed rate of 5.650%	98 618
OT 2.875% 21-July-2026	January 2016	July 2026	Fixed rate of 2.875%	328 251
				1 126 125

The held-to-maturity investments are recognised_in accordance with the accounting policy described in note 1 d).

During 2016, the Group did not transfer from or to this assets category.

As at 31 December 2016, the analysis of held-to-maturity investments by maturity date is as follows:

(Thousands of Euro)

	2016				
	Due within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Bonds issued by portuguese public issuers	10 879	10 022	462 041	643 183	1 126 125

As at 31 December 2016, the amount of loans obtained from EIB is collateralised by bonds of the Portuguese State at the nominal value of Euro 303,934 thousand, provided as collateral and recorded under the caption Investments held until maturity, as disclosed in note 34.

26 Investments in associated companies

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3 399	3 344
Montepio - Gestão de Activos Imobiliários, ACE	698	698
Naviser – Transportes Marítimos Internacionais, S.A.	150	150
	4 247	4 192
Impairment of investments in subsidiaries and associated companies	(150)	(150)
	4 097	4 042

The subsidiaries and associates included in the consolidation perimeter are presented in note 61.

In December 2016, the Group cancelled the capital invesment in Pinto & Bulhosa, S.A., which was 100% impaired.

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, since it was fully provided.

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 costs
31 December 2017						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	37 789	20 796	16 993	10 427	1 304	3 399
Montepio - Gestão de Ativos Imobiliários, ACE	3 726	1 276	2 450	4 949	-	698
31 December 2016						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	39 089	22 371	16 718	9 510	1 248	3 344
Montepio - Gestão de Ativos Imobiliários, ACE	3 734	1 284	2 450	4 927	-	698

(Thousands of Euro)

	Percentage held		Book value		Associated companies net profit	
	2017	2016	2017	2016	2017	2016
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	20.00%	20.00%	3 399	3 344	166	250
Montepio - Gestão de Activos Imobiliários, ACE	28.50%	28.50%	698	698	-	-
Naviser - Transportes Marítimos Internacionais, S.A.	20.00%	20.00%	-	-	-	-

The movement for this balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Balance on 1 January	4 192	5 356
Disposals	-	(1 107)
Share of profit of associates	166	250
Other reserves and retained earnings	(111)	(307)
Balance on 31 December	4 247	4 192

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

(Thousands of Euro)

	2017	2016
Balance on 1 january	150	1 448
Charge-off	-	(1 298)
Balance on 31 December	150	150

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

27 Non-current assets held for sale

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Interests arising from recovered loans	885 210	908 615
Impairment for non-current assets held-for-sale	(142 989)	(148 411)
	742 221	760 204

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 2,177 thousand (31 December 2016: Euro 2,089 thousand) related with other non-current assets held for sale resulting from the foreclosure of contracts of loans to customers, which have an associated impairment of Euro 2,059 thousand (31 December 2016: Euro 1,939 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 pro-solvency).

The Group has implemented a plan to sell immediately the non-current assets held for sale. According to the 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 32,729 thousand (31 December 2016: Euro 13,347 thousand).

The movements, in 31 December 2017 and 2016, for non-current assets held for sale are analysed as follows:

(Thousands of Euro)

	2017	2016
Balance on 1 January	908 615	892 163
Acquisitions	133 805	189 249
Disposals	(156 952)	(148 773)
Transfers related to discontinuing operations	-	(575)
Transfers	-	(23 102)
Other movements	(258)	(347)
Balance on 31 December	885 210	908 615

The movement in impairment for non-current assets held for sale balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Balance on 1 January	148 411	137 265
Charge for the period	12 985	44 059
Write-back for the period	(2 844)	(11 453)
Charge-off	(15 563)	(21 460)
Balance on 31 December	142 989	148 411

In addition to impairment losses, the Group recognised in profit or loss for 2017, gains on real estate arising from its disposal in the amount of Euro 6,328 thousand (31 December 2016: losses in the amount of Euro 2,203 thousand), as described in note 9.

28 Investment properties

The balance Investment properties considers the real estate properties owned by "Valor Prime – 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" and "Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto" which are fully consolidated, according to the accounting policy described in note 1 b) and the real estate held by SSAGINCENTIVE – Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A. The real estate properties are measured in accordance with the accounting policy described in note 1 q), based on independent evaluations performed by experts registered in CMVM and in compliance with legal requirements.

The amount of income received related to investment properties amounts to Euro 15,211 thousand (31 December 2016: Euro 15,469 thousand) and maintenance costs of leased and not leased properties amounts to Euro 10,180 thousand (31 December 2016: Euro 9,632 thousand).

The movements in this balance are analysed as follows:

(Thousands of Euro)

	2017	2016
Balance on 1 January	607 968	692 485
Acquisitions	3 545	19 078
Revaluations	5 646	(44 996)
Disposals	(78 534)	(81 701)
Transfers	-	23 102
Balance on 31 December	538 625	607 968

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

29 Property and equipment

This balance is analysed as follows:

	2017	2016
	(Thousands of Euro)	
Cost		
Land and buildings		
For own use	218 292	219 194
Leasehold improvements in rented buildings	40 347	41 545
Equipment		
IT equipment	91 639	89 098
Interior installations	25 456	20 767
Furniture	19 036	18 849
Transportation	1 620	2 007
Security equipment	7 387	7 242
Machinery and tools	2 684	2 677
Other equipment	5	5
Assets in operational lease	323	534
Works of art	2 870	2 870
Other tangible assets	2 101	2 101
Work in progress	3 402	4 515
	415 162	411 404
Accumulate depreciation		
Charge for the period	10 947	11 727
Accumulated charge in previous periods	169 748	161 180
	180 695	172 907
Impairment for property and equipment	1 155	1 400
	233 312	237 097

During the first quarter of 2016, CEMG acquired from MGAM premises for own use in the amount of Euro 199,444 thousand, as described in note 53.

The movements in Property and equipment, during 2017, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Acquisitions/ Charges	Disposals/ Write-offs	Adjustment/ Transfers	Balance on 31 December
Cost					
Land and buildings					
For own use	219 194	-	-	(902)	218 292
Leasehold improvements in rentend buildings	41 545	50	1 434	186	40 347
Equipment					
IT equipment	89 098	2 570	37	8	91 639
Interior installations	20 767	288	-	4 401	25 456
Furniture	18 849	229	43	1	19 036
Transportation	2 007	380	766	(1)	1 620
Security equipment	7 242	155	10	-	7 387
Machinery and tools	2 677	7	-	-	2 684
Other equipment	5	-	-	-	5
Assets in operational lease	534	-	211	-	323
Works of art	2 870	-	-	-	2 870
Other tangible assets	2 101	-	-	-	2 101
Work in progress	4 515	3 515	33	(4 595)	3 402
	411 404	7 194	2 534	(902)	415 162
Accumulated depreciation					
Land and buildings					
For own use	16 249	4 718	-	(1 419)	19 548
Leasehold improvements in rented buildings	25 150	1 589	1 194	29	25 574
Equipment					
IT equipment	83 172	2 762	37	(1)	85 896
Interior installations	17 468	1 052	-	-	18 520
Furniture	17 761	401	43	1	18 120
Transportation	1 147	134	321	(1)	959
Security equipment	6 846	243	10	-	7 079
Machinery and tools	2 650	11	-	-	2 661
Other equipment	5	-	-	-	5
Assets in operational lease	394	34	163	-	265
Other tangible assets	2 065	3	-	-	2 068
	172 907	10 947	1 768	(1 391)	180 695
Impairment	1 400	(245)	-	-	1 155
	237 097				233 312

The movements in Property and equipment, during 2016, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Acquisitions/ Charges		Disposals/ Write-offs	Adjustment/ Transfers	Transfers resulting from discontinuing operations	Balance on 31 December
		Continuing operations	Discontinuing operations				
Cost							
Land and buildings							
For own use	39 266	199 591	-	2 815	(2 301)	(14 547)	219 194
Leasehold improvements in rented buildings	71 841	33	-	12 245	13 170	(31 254)	41 545
Equipment							
IT equipment	90 053	3 064	-	195	6	(3 830)	89 098
Interior installations	22 303	361	-	63	(241)	(1 593)	20 767
Furniture	22 239	233	-	1 120	-	(2 503)	18 849
Transportation	5 302	604	-	1 772	-	(2 127)	2 007
Security equipment	8 086	88	-	118	-	(814)	7 242
Machinery and tools	3 396	2	-	157	-	(564)	2 677
Outro equipamento	34	-	-	-	-	(29)	5
Assets in operational lease	656	-	-	122	-	-	534
Works of art	2 870	-	-	-	-	-	2 870
Other tangible assets	2 443	-	-	88	-	(254)	2 101
Work in progress	4 114	1 369	-	-	(299)	(669)	4 515
	272 603	205 345	-	18 695	10 335	(58 184)	411 404
Accumulated depreciation							
Land and building							
For own use	10 098	3 655	274	1 010	4 711	(1 479)	16 249
Leasehold improvements in rented buildings	39 447	2 379	142	11 106	1 309	(7 021)	25 150
Equipment							
IT equipment	82 088	3 336	447	198	1	(2 502)	83 172
Interior installations	16 708	1 313	92	62	-	(583)	17 468
Furniture	18 839	496	207	1 120	-	(661)	17 761
Transportation	3 267	161	340	1 454	(8)	(1 159)	1 147
Security equipment	7 487	275	44	116	-	(844)	6 846
Machinery and tools	2 939	16	29	158	(1)	(175)	2 650
Other equipment	(26)	-	1	-	-	30	5
Assets in operational lease	424	69	-	99	(1)	1	394
Other tangible assets	2 217	27	9	88	-	(100)	2 065
	183 488	11 727	1 585	15 411	6 011	(14 493)	172 907
Impairment	-	1 400	-	-	-	-	1 400
	89 115						237 097

The movements in the balance Impairment for property and equipment are analysed as follows:

(Thousands of Euro)

	2017	2016
Balance on 1 January	1 400	-
Charge for the period	-	1 400
Charge-off	(245)	-
Balance on 31 December	1 155	1 400

As at 31 December 2017, the Group has impairment for other property and equipment in the amount of Euro 1,155 thousand (31 December 2016: Euro 1,400 thousand), given that the carrying amount of the asset exceeds its recoverable amount, as mentioned in note 16.

30 Intangible assets

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Cost		
Software	108 569	97 546
Revaluation and consolidation differences (Goodwill)	-	9
Other intangible assets	1 067	1 645
Work in progress	5 732	5 921
	115 368	105 121
Accumulated depreciation		
Charge for the period	13 862	12 543
Accumulated charge in previous periods	70 135	57 597
	83 997	70 140
Impairment for intangbile assets	-	(60)
	31 371	34 921

Following the application of IFRS 5 to the financial instruments held in the subsidiaries Finibanco Angola and Banco Terra, goodwill and associated impairment were reclassified to Non-current assets held for sale - Discontinued operations, as described in note 62.

These intangible assets do not have defined useful life, and as referred in the accounting policies, notes 1 b), 1 b) 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 Board of Directors on the economic conditions may afect each subsidiary, the budgets and the latest projections approved by the 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, is determined by the higher value between the fair value net of selling costs and the value in use, in respect to continuing subsidiaries, and by fair value net of selling costs, in respect to discontinuing subsidiaries.

The value in use is 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, as detailed in note 62.

The movements in Intangible assets, during 2017 and 2016, are analysed as follows:

(Thousands of Euro)

	2017				
	Balance on 1 January	Acquisitions/ Charges	Disposals/ Write-offs	Adjustments/ Transfers	Balance on 31 December
Cost					
Software	97 546	-	6	11 029	108 569
Revaluation and consolidation differences (Goodwill)	-	-	-		-
Other intangible assets	1 644	-	61	(516)	1 067
Work in progress	5 921	10 831	-	(11 020)	5 732
	105 111	10 831	67	(507)	115 368
Accumulated amortisation					
Software	70 140	13 862	5	-	83 997
	70 140	13 862	5	-	83 997
Impairment	60	-	60	-	-
	34 911				31 371

(Thousands of Euro)

	2016						
		Acquisitions/ Charges					
	Balance on 1 January	Continuing operations	Discontinuing operations	Disposals/ Write-offs	Adjustments/ Transfers	Effect on discontinuing operations	Balance on 31 December
Cost							
Software	88 856	5 544	-	-	10 229	(7 083)	97 546
Revaluation and consolidation differences (Goodwill)	56 304	-	-	-	9	(56 304)	9
Other intangible assets	409	-	-	-	-	1 236	1 645
Work in progress	8 073	10 854	-	-	(11 384)	(1 622)	5 921
	153 642	16 398	-	-	(1 146)	(63 773)	105 121
Accumulated amortisation							
Software	61 208	12 543	400	-	-	(4 011)	70 140
	61 208	12 543	400	-	-	(4 011)	70 140
Impairment	26 572	-	17 672	-	-	(44 184)	60
	65 862						34 921

Impairment movements for intangible assets are analysed as follows:

(Thousands of Euro)

	2017	2016
Balance on 1 January	60	26 572
Charge for the period		
Discontinuing operations	-	17 672
Charge-off	(60)	-
Transfers related to discontinuing operations	-	(44 184)
Balance on 31 December	-	60

31 Taxes

Deferred tax assets and liabilities as at 31 December 2017 and 2016 are analysed as follows:

(Thousands of Euro)

	Assets		Liabilities		Net	
	2017	2016	2017	2016	2017	2016
Financial instruments	4 087	24 925	(10 657)	(12 666)	(6 570)	12 259
Provisions / impairment						
Granted credit impairment	203 865	230 526	-	-	203 865	230 526
Other risks and charges	7 611	6 594	-	-	7 611	6 594
Impairment in securities and non-financial assets	37 325	49 783	-	-	37 325	49 783
Employee benefits	42 398	45 867	-	-	42 398	45 867
Other	2 049	2 210	(109)	(229)	1 940	1 981
Tax losses carried forward	179 431	174 706	-	-	179 431	174 706
Net deferred tax asset / (liability)	476 766	534 611	(10 766)	(12 895)	466 000	521 716

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 Employee benefits includes the amount of Euro 10,793 thousand (31 December 2016: Euro 13,266 thousand) related to deferred taxes of actuarial losses recognised against reserves as a result of the change in the accounting policy. This balance, as at 31 December 2017, also includes the amount of Euro 3,235 thousand (31 December 2016: Euro 3,410 thousand) related to deferred taxes associated with the expense generate 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 in 2011 is deductible for tax purposes in equal parts, for a 10-year period starting on 1 January 2012. The expense generate 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 Group’s case).

As at 31 December 2017, deferred taxes associated with Employee benefits includes the amount of Euro 13,781 thousand (31 December 2016: Euro 13,551 thousand) related with employee benefits in excess when compared with the existing limits.

As at 31 December 2017, and due to (i) tax rates effective after 1 January 2018 and ii) the expectation underlying the conversion into costs and tax-deductible profits and the estimation of tax profit or tax losses in each one of the subsequent periods, the Group changed the rate (base rate and surcharges) used for calculating deferred taxes, from 29.5% and 21% to 30% and 21%, respectively, depending on specific cases associated with temporary differences or tax losses carried forward.

Analysis of the recoverability of deferred tax assets

Deferred tax assets related to 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 recognised in the Group's financial statements have an underlying high expectation of recoverability. The evaluation of the recoverability of deferred tax assets is based on the latest exercise prepared on the 2018 budget, assuming a pre-tax income growth assumption between 2019 and 2024.

Thus, the recoverability of deferred tax assets, namely related to tax losses carried forward, is supported in the Group's forecasted financial statements, prepared under the aforementioned budget, which considered the macroeconomic and competitive environment where the Group operates as well as the strategic priorities established in the Strategic Plan for the period between 2016 and 2018.

The recovery of profitability, liquidity and capital levels recommended in the Strategic Plan is fundamentally supported by favorable impacts induced by:

(i) recovery of the core banking product: by increasing the net interest income provided by the monitoring of turnover and pricing, particularly the cost of deposits, as well as by the increase in commissions, benefiting from the impact of the price increase to be implemented;

(ii) a reduction in operating costs: this is reflected in the positive effects associated with the downsizing of the branch network and the number of employees completed in 2016, as well as the reduction in the level of investments;

(iii) reinforcing risk management: materializing the favorable effects of the improvement introduced in the credit granting, monitoring and recovery processes that have been put into practice; and

(iv) strengthening of the institutional model.

Following this assessment, and as at 31 December 2017 and 2016, the Group recognised all deferred tax assets, thus, there are no deferred tax assets to be recognised.

In addition, a sensitivity analysis was carried out considering a scenario in which profit and loss before tax evolved at a 10% rate lower than those considered in the aforementioned projections, and no impact on deferred taxes was determined.

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

(Thousands of Euro)

Expiration date	2017	2016
2022	4 751	-
2027	51 639	50 915
2028	123 041	123 791
	179 431	174 706

Tax recognised in the income statement and reserves during 2017 and 2016 is analysed as follows:

(Thousands of Euro)

	2017		2016		
	Charged to net income/ (loss)	Charged to reserves and retained earnings	Charged to net income/ (loss)	Charged to reserves and retained earnings	Other movements from discontinuing operations
Financial instruments	-	(18 829)	-	12 370	-
Provisions / impairment	(38 102)	-	107 139	-	-
Employee benefits	(1 104)	(2 365)	3 963	703	-
Other	(41)	-	768	-	(393)
Tax losses carried forward	3 356	1 369	(13 929)	12 321	(4 732)
Deferred taxes/ recognised as profit/ (losses)	(35 891)	(19 825)	97 941	25 394	(5 125)
Current taxes	(6 470)	-	(1 697)	-	-
	(42 361)	(19 825)	96 244	25 394	(5 125)

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

(Thousands of Euro)

	2017		2016	
	%	Value	%	Value
Net income/ (loss) before taxes		46 062		(173,515)
Income tax based on the current nominal tax rate	(29.5)	(13 588)	21.0	36 438
State and municipal surcharge	-	-	0.1	(245)
Extraordinary contribution for the banking sector	(8.1)	(3 749)	1.6	(2 778)
Post-employment benefits and Pension Fund	1.7	801	-	-
Tax benefits	(0.1)	(51)	0.0	(5)
Autonomous taxation	(2.6)	(1,179)	0.8	(1 349)
Other	(7.9)	(3 640)	(1.0)	1 690
Deferred taxes not previously recognised	(0.2)	(111)	-	-
Corrections to previous periods	1.8	811	(0.6)	1 005
Effect of differences in income tax for the period	9.4	4 316	(9.1)	15 808
Deductions for taxable profit purposes (*)	(56.4)	(25 971)	(26.3)	45 681
Income taxes for the period	(92.0)	(42 361)	(55.5)	96 244

(*) Corresponds to losses determined by investment funds included in the perimeter and other consolidation adjustments.

The Tax Authority may review CEMG'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 the 2015 period, inclusive.

32 Other assets

This balance is analysed as follows:

	(Thousands of Euro)	
	2017	**2016**
Other debtors	90 072	172 390
Other accrued income	3 563	44 405
Recoverable subsidies from Portuguese Government	4 991	5 521
Prepayments and deferred costs	1 454	1 856
Sundry debtors	127 882	36 587
	227 962	260 759
Impairment for other assets	(35 689)	(37 848)
	192 273	222 911

As at 31 December 2017 and 2016, the balance Other debtors is analysed as follows:

	(Thousands of Euro)	
	2017	**2016**
SilverEquation	29 909	101 012
Supplementary capital contributions	14 910	14 910
Public entities	6 667	6 983
Other	38 586	49 485
	90 072	172 390

The balance SilverEquation includes the receivable amounts under the operation of sale of credits and property to SilverEquation in 2014. In 2017, the amount of Euro 71,103 thousand was received, with the remaining amount of Euro 29,909 thousand expected to be received in 2019, as disclosed in note 22.

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, which are fully provided.

As at 31 December 2017, the balance Public Entities includes the amounts related to receivable amounts from public entities, mostly related with courts in the context of insolvency proceedings and lodge claims.

As at 31 December 2017, the balance Others includes the amount receivable of Euro 1,762 thousand (31 December 2016: Euro 7,569 thousand) under the operation of sale of credits carried out during the first semester of 2016, as described in note 22.

As at 31 December 2016, the balance Other receivables includes an amount of Euro 36,000 thousand referring to receivables related with services rendered by CEMG to Montepio Geral - Associação Mutualista, which was settled in 2017.

The balance Recoverable subsidies receivable from the Portuguese Government corresponds to recoverable subsidies referring to mortgage and PME's loans, in accordance with the legal provisions applicable to low-interest loan. These amounts do not bear interest and are claimed monthly.

As at 31 December 2017 and 2016, the balance Recoverable subsidies receivable from the Portuguese Government are presented as follows:

(Thousands of Euro)

	2017	2016
Overdue subsidies unclaimed	3 224	3 262
Recoverable subsidies from the Portuguese Government unliquidated	1 631	2 206
Subsidies unclaimed	136	53
	4 991	5 521

As at 31 December 2017, the balance Sundry debtors includes the amount of Euro 106,182 thousand (31 December 2016: Euro 424 thousand), related to outstanding securities transactions.

As at 31 December 2017 and 2016, the balance Sundry debtors includes the earn-out of Visa Inc. (deferred cash: it shall be paid soon after the third year of the conclusion of the transaction), in the amount of Euro 704 thousand.

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

(Thousands of Euro)

	2017	2016
Balance on 1 January	37 848	29 536
Charge for the period	9 381	7 874
Reversal for the period	(6 727)	(1 047)
Charge-off	(4 813)	(660)
Transfers	-	2 145
Balance on 31 December	35 689	37 848

As at 31 December 2016, 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 400 thousand, as described in note 22 and the amount of Euro 1,745 thousand, as described in note 38.

33 Deposits from central banks

As at 31 December 2017 and 2016, 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.

As at 31 December 2017 and 2016, the analysis of deposits from Central Banks by maturity is as follows:

(Thousands of Euro)

	2017	2016
Up to 3 months	-	375 000
Over 6 months	1 557 840	1 947 947
	1 557 840	2 322 947

The operations are remunerated at the rates of Bank of Portugal in force at the contract date.

34 Deposits from other financial institutions

This balance is analysed as follows:

(Thousands of Euro)

	2017			2016		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from financial institutions in Portugal						
Deposits repayable on demand	4 480	-	4 480	10 304	-	10 304
Term deposits	-	7 995	7 995	-	26 521	26 521
OIC loans	-	8	8	-	25	25
Other deposits	1	-	1	-	416	416
	4 481	8 003	12 484	10 304	26 962	37 266
Deposits from financial institutions abroad						
BEI loan	-	460 433	460 433	-	460 471	460 471
Deposits repayable on demand	19 679	-	19 679	80 785	-	80 785
Term deposits	-	4 270	4 270	-	4 672	4 672
Sales operations with repurchase agreement	-	1 275 552	1 275 552	-	1 625 776	1 625 776
CSA's	50	-	50	4 340	-	4 340
Repo Collaterals	-	13 405	13 405	-	5 917	5 917
Other deposits	844	-	844	2 905	53 805	56 710
	20 573	1 753 660	1 774 233	88 030	2 150 641	2 238 671
Adjustments arising from fair value option operations	-	-	-	3	-	3
	25 054	1 761 663	1 786 717	98 337	2 177 603	2 275 940

The balance Deposits from other financial institutions, analysed by maturity, is as follows:

(Thousands of Euro)

	2017	2016
Up to 3 months	142 919	821 026
3 to 6 months	65 982	82 828
6 months to 1 year	415 169	11 419
1 to 5 years	891 708	504 494
Over 6 years	270 939	856 170
	1 786 717	2 275 937
Adjustments arising from fair value option operations	-	3
	1 786 717	2 275 940

As part of derivative financial instruments operations with institutional counterparties, according to the signed contracts, CSA has, on 31 December 2017, the amount of Euro 50 thousand (31 December 2016: Euro 4,340 thousand) deposits from other credit institutions received as collateral for these operations.

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

The balance Deposits from other financial institutions abroad – Other deposits includes issues at fair value through profit and loss according to internal valuation methodologies, considering mainly market observed data, in the amount of Euro 53,818 thousand, on 31 December 2016. So, in accordance with the hierarchy of the valuation sources, as referred in IFRS 13, these instruments are categorized 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 517,939 thousand (31 December 2016: Euro 638,289 thousand), recorded in the balance Financial assets held for trading, available-for-sale financial assets and Held-to-maturity investments, as described in notes 23, 24 and 25, respectively.

The fair value adjustment at 31 December 2016 amounts to Euro 3 thousand. Financial liabilities included in this balance are revaluated against results, according with the accounting policy described in note 1 d), having been recognised, at 31 December 2017, a gain of Euro 3 thousand (31 December 2016: a gain of Euro 518 thousand), related to changes in the fair value, as referred in notes 6 and 23.

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

35 Deposits from customers

This balance is analysed as follows:

(Thousands of Euro)

	2017			2016		
	Non-interest bearing	Interest-bearing	Total	Non-interest bearing	Interest-bearing	Total
Deposits repayable on demand	3 207 994	277 437	3 485 431	3 144 799	137 699	3 282 498
Term deposits	-	8 539 258	8 539 258	-	8 751 841	8 751 841
Saving accounts	-	113 044	113 044	-	113 823	113 823
Other deposits	23 274	400 000	423 274	19 735	299 910	319 645
Adjustments arising from fair value option operations	33	-	33	12	-	12
	3 231 301	9 329 739	12 561 040	3 164 546	9 303 273	12 467 819

In the terms of Ordinance no. 180/94, of 15 December, the deposit guarantee fund was established to guarantee the reimbursement of funds deposited in credit institutions. The criteria to calculate the annual contributions to the referred fund are defined by Regulation 11/94 of the Bank of Portugal, of 29 December.

The caption Term deposits includes deposits at fair value through profit and loss, measured in accordance with internal evaluation techniques considering, mainly, observable market inputs, in the amount of Euro 14,789 thousand (31 December 2016: Euro 15,631 thousand). So, in accordance with the hierarchy of the valuation sources, as referred in IFRS 13, these instruments are categorized in Level 2. Financial liabilities included in this balance are revaluated against results, according with the accounting policy described in note 1 d), having been recognised a loss, at 31 December 2017, in the amount of Euro 21 thousand (31 December 2016: Euro 4 thousand) related to fair-value variations associated to CEMG credit risk, as referred in notes 6 and 23.

The balance Deposits from customers, analysed by maturity, is as follows:

(Thousands of Euro)

	2017	2016
Deposits repayable on demand	3 485 431	3 282 498
Term deposits and saving accounts		
Up to 3 months	808 442	703 235
3 to 6 months	3 514 898	3 412 458
6 months to 1 year	2 287 697	1 804 298
1 to 5 years	1 989 784	2 893 762
Over 5 years	51 481	51 911
	12 137 733	12 148 162
Other deposits		
Up to 3 months	423 274	319 645
	12 561 007	12 467 807
Adjustments arising from fair value option operations	33	12
	12 561 040	12 467 819

During 2017, deposits from clients were remunerated at the average rate of 0.70% (31 December 2016: 1.07%).

36 Debt securities issued

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Bonds	375 300	1 040 534
Covered bonds	746 238	265 028
Securitizations	422 516	574 560
Euro Medium Term Notes (EMTN)	-	39 913
	1 544 054	1 920 035

The fair value of the debt securities issued is presented in note 50.

The balance Debt securities issued includes issues at fair value through profit or loss, in the amount of Euro 7,094 thousand (31 December 2016: Euro 67,237 thousand), measured in accordance with internal valuation techniques and considering, mainly, observable market data. According with the hierarchy of the evaluation sources, as referred in IFRS 13, these instruments are classified in Level 2. Financial liabilities are revalued against the income statement, as referred in the accounting policy presented in note 1 d). As at 31 December 2017, a loss in the amount of Euro 523 thousand (31 December 2016: a loss of Euro 1,716 thousand) was recognised regarding the fair value variations associated to credit risk of CEMG, as described in notes 6 and 23.

As at 31 December 2017 and 2016, the analysis of Debt securities issued outstanding by maturity is as follows:

(Thousands of Euro)

	2017	2016
Due within 6 months	174 237	434 428
6 months to 1 year	80 578	160 347
1 to 5 years	868 525	750 688
Over 5 years	422 516	574 524
	1 545 856	1 919 987
Adjustments arising from hedging operations	(1 802)	48
	1 544 054	1 920 035

Under the Issuance of covered bonds program, with a maximum amount of Euro 5,000,000 thousand, the Group issued a total of Euro 2,300,000 thousand at nominal value.

As at 31 December 2017, 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 - 5S	500 000	500 132	December 2015	December 2020	Quarterly	Euribor 3M + 0.80%	A3/A+/A
Covered bonds - 6S	300 000	300 204	November 2016	November 2023	Quarterly	Euribor 3M + 0.80%	A3/A+/A
Covered bonds - 8S	500 000	500 103	December 2016	December 2026	Quarterly	Euribor 3M + 0.90%	A3/A+/A
Covered bonds - 9S	250 000	250 148	May 2017	May 2024	Quarterly	Euribor 3M + 0.85%	A3/A+/A
Covered bonds - 10S	750 000	746 238	October 2017	October 2022	Annual	Fixed at 0.875%	A3/A+/A
	2 300 000	2 296 825					

As at 31 December 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 - 4S	500 000	500 053	May 2013	May 2017	Monthly	Euribor 1M + 0.75%	A3/A/A
Covered bonds - 5S	500 000	500 148	December 2015	December 2020	Quarterly	Euribor 3M + 0.80%	A3/A/A
Covered bonds - 6S	300 000	300 211	November 2016	November 2023	Quarterly	Euribor 3M + 0.80%	A3/A/A
Covered bonds - 7S	500 000	500 090	December 2016	December 2022	Quarterly	Euribor 3M + 0.75%	A3/A/A
Covered bonds - 8S	500 000	500 122	December 2016	December 2026	Quarterly	Euribor 3M + 0.90%	A3/A/A
	2 300 000	2 300 624					

The covered bonds are guaranteed by cover pool assets, comprised of mortgage loans which are segregated as an autonomous asset in the Group's accounts, thus providing a statutory special creditor privilege to the holders of these securities over any other creditor.

The legal and regulatory framework of these obligations is set out in Decree-Law no. 59/2006, Regulations no. 5/2006, of 20 June, no. 6/2006, of 11 October, no. 7/2006, of 11 October, and no. 8/2006, of 11 October, of Bank of Portugal and Instruction no.13/2006, of 15 November, of Bank of Portugal.

As at 31 December 2017, the amount of credits that collateralise these issues amounted to Euro 2,726,854 thousand (31 December 2016: EUR 2,725,631 thousand), according with note 22.

The movements in Debt securities issued in the period ended 31 December 2017 is analysed as follows:

	Balance on 1 January	Issues	Reimbursements	Net purchases	Other movements [(a)]	Balance on 31 December
Bonds	1 040 534	-	(265 185)	(384 350)	(15 699)	375 300
Covered bonds	265 028	750 000	(265 000)	-	(3 790)	746 238
Securitizations	574 560	154 055	(306 099)	-	-	422 516
Euro Medium Term Notes (EMTN)	39 913	-	(39 750)	-	(163)	-
	1 920 035	904 055	(876 034)	(384 350)	(19 652)	1 544 054

(a) Included is the movement of accrued interest on the balance sheet date, corrections for operations at the fair value option and exchange variation.

The movements in Debt securities issued in the period ended 31 December 2016 is analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Issues	Reimbursements	Net purchases	Other movements [(a)]	Balance on 31 December
Bonds	1 340 138	-	(114 898)	(175 112)	(9 594)	1 040 534
Covered bonds	520 113	1 300 000	(1000 000)	(620 000)	64 915	265 028
Securitizations	430 293	-	(87 380)	231 647	-	574 560
Euro Medium Term Notes (EMTN)	61 138	-	-	(23 000)	1 775	39 913
Commercial Paper	2 520	-	(2 520)	-	-	-
	2 354 202	1 300 000	(1204 798)	(586 465)	57 096	1 920 035

(a) Included is the issuance of Euro 65,000 thousand, the movement of accrued interest on the balance sheet date, corrections for operations at fair value and exchange

As at 31 December 2017, the Group performed the reimbursement of Euro 876,034 thousand (31 December 2016: 1,204,798 thousand).

In 2017, under the Covered Bond Programm, the Group issued an amount of Euro 750.000 thousand at 5 years and an interest rate of 0.875% and reimbursed an amount of Euro 265.000 thousand.

In accordance with the account policy described in note 1 d), the purchase of debt securities issued by the Group is withdrawn 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 2017, the Group recognised a gain of Euro 2,054 thousand (31 December 2016: gain of Euro 701 thousand), according to note 10.

As at 31 December 2017, bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 0.00% and 7.48% (31 December 2016: 0.38% and 13.61%).

As at 31 December 2017, the balance Debt securities issued includes the following issues:

(Thousands of Euro)

Issue	Issue date	Maturity date	Interest rate	Book value
OBRIGAÇÕES CAIXA-MG TAXA FIXA SETEMBRO 2010-2020	09-09-2010	09-09-2020	Annual fixed rate of 4%	100
OBRIGAÇÕES CAIXA-CRPC-2012-2020-1.SERIE	30-03-2012	31-03-2020	Annual fixed rate of 5.25% (4th year: 6% e 5th year: 6.75%; 6th, 7th and 8th coupon Max[6.25% and Min (IPC+2%;9.15%)]	3 300
OBRIGAÇÕES CAIXA-MONTEPIO CAPITAL CERTO 2012-2020-2ªSERIE	31-05-2012	01-06-2020	Annual fixed rate of 8.2583% (4th year: 9.7083%; 5th year: 10.7250%; 6th year: 7.4750%; 7th year: 8.3% and 8th year: 11.1583%)	600
OBRIGAÇÕES CAIXA-MG CAPITAL CERTO 2013/2018-1.SERIE	31-01-2013	01-02-2018	Annual fixed rate of 5.00% (3rd year Rate: 5.15%; 4th year Rate: 5.25%; 5th year Rate: 5.50%)	44 000
OBRIGAÇÕES CAIXA-MONTEPIO PARTIC-USD-FEV/13	13-02-2013	13-02-2018	Fixed rate of 3.90%	225
OBRIGAÇÕES CAIXA-MG CAPITAL CERTO 2013/2018-2.SERIE	28-02-2013	01-03-2018	Annual fixed rate of 4.85% (3rd year and 4th year Rate: 5.00%; 5th year Rate: 5.40%)	33 300
OBRIGAÇÕES CAIXA-MG CAPITAL CERTO 2013/2021-1.SERIE	28-02-2013	01-03-2021	Annual fixed rate: 5.15% (3rd year Rate: 5.30%; 4th year Rate: 5.30%; 5th year Rate: 5.90%; 6th coupon Max[5.95%; Min (IPC+2%;8.25%)];7th coupon Max[6.15%; Min (IPC+2%;8.50%)]; 8th coupon Max[6.45%; Min (IPC+2%;8.50%)])	2 148
OBRIGACOES CAIXA-MONTEPIO PARTICULAR MAR/13-05032018	05-03-2013	05-03-2018	Annual fixed rate of 4.25% (3rd year Rate: 4.50%; 4th year Rate: 4.70%; 5th year Rate: 4.90%)	250
OBRIGAÇÕES CAIXA-MG CAPITAL CERTO 2013/2018-3.SERIE	28-03-2013	29-03-2018	Annual fixed rate of 4.40% (3rd year Rate: 4.75%; 4th year Rate: 4.90%; 5th year Rate: 5.65%)	23 500
OBRIGAÇÕES CAIXA-MONTEPIO POUPANÇA FAMILIAR 2013-2018-1.SE	30-04-2013	01-05-2018	Annual fixed rate of 4.40% (3rd year Rate: 4.75%; 4th year Rate: 4.90%; 5th year Rate: 6.70%)	1 550
OBRIGAÇÕES CAIXA-MG CAPITAL CERTO 2013/2018-4.SERIE	30-04-2013	01-05-2018	Annual fixed rate of 4.40% (3rd year Rate: 4.75%; 4th year Rate: 4.90%; 5th year Rate: 6.70%)	31 200
OBRIGS CAIXA-MG CAPITAL CERTO 2013/2018-6.SERIE	28-06-2013	29-06-2018	Annual fixed rate of 4.4% (3rd year Rate: 4.6%, 4th year Rate: 4.75% and 5th year Rate: 4.9%)	30 100
OBRIGS CAIXA-MG CAPITAL CERTO 2013/2021-2.SERIE	28-06-2013	29-06-2021	Annual fixed rate of 4.9% (3rd year Rate: 5.1%, 4th year Rate: 5.1%, 5th year Rate: 5.65% and 6th to 8th year Rate: Max(5.95%;Min(IPC+2%;8.15%))	812
OBRIGS CAIXA-MG CAPITAL CERTO 2013/2018-10.SERIE	31-10-2013	01-11-2018	Annual fixed rate of 3.75% (3rd year: 4%, 4th year Rate: 4.1% and 5th year Rate: 4.4%)	30 950
CEMG CAP CERTO 2013/2018 11 SERIE	29-11-2013	30-11-2018	Annual fixed rate of 3.65% (3rd year Rate: 3.7%, 4th year Rate: 3.75% and 5th year Rate: 4%)	27 000
MONTEPIO CAP CERTO 2013/2018 12ª SERIE	30-12-2013	31-12-2018	Annual fixed rate of 3.65% (3rd year Rate: 3.7%, 4th year Rate: 3.75% and 5th year Rate: 4%)	20 600
MONTEPIO CAPITAL CERTO 2014/2019 1S	31-01-2014	01-02-2019	Annual fixed rate of 3.4% (3rd year Rate: 3.45%, 4th year Rate: 3.5%, 5th year Rate: 3.75%)	27 400
MONTEPIO CAPITAL CERTO 2014/2019 2S	28-02-2014	01-03-2019	Annual fixed rate of 3.4% (3rd year Rate: 3.45%, 4th year Rate: 3.5%, 5th year Rate: 3.75%)	33 050
CEMG CAP CERTO 2014/2019 3 SERIE	28-03-2014	29-03-2019	Annual fixed rate of 3.4% (3rd year Rate: 3.45%, 4th year Rate: 3.5%, 5th year Rate: 3.75%)	33 400
CEMG CAP CERTO 2014/2019 9S	30-09-2014	01-10-2019	Annual fixed rate of 2.75% (3rd year Rate: 3.00%, 4th year Rate: 3.10%, 5th year Rate: 3.35%)	17 900
MONTEPIO CAP CERTO 2014/2029 12S	02-01-2015	31-12-2019	Annual fixed rate of 2.90% (2nd to 4th year Rate: 2.95%, 5th year Rate: 3.25%)	2 250
OBRIGAÇÕES HIPOTECÁRIAS - 10S	17-11-2017	17-11-2022	Annual fixed rate of 0.875%	750 000
PELICAN MORTGAGES n.º 3	30-03-2007	15-09-2054	Euribor 3M + 0.13%	90 178
PELICAN SME n.º 2	05-03-2015	25-02-2043	Euribor 3M + 0.30%	178 283
AQUA FINANCE n.º 4 A	11-07-2017	23-06-2035	Euribor 3M + 1.05%	139 146
AQUA FINANCE n.º 4 B	11-07-2017	23-06-2035	Euribor 3M + 2.65%	14 909
			Debt securities issued	1 536 151
			Amounts corrected by hedge operations	(1 802)
			Accruals, expenses and deferred income	9 705
				1 544 054

37 Hedging derivatives

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Liability		
Interest rate swap	1 663	-

CEMG contracted an interest rate swap to hedge its interest rate risks. The accounting method depends on the nature of the hedged risk, namely if the Group is exposed to fair value changes, cash flows changes or probable forecast transactions.

The Group performs periodical effectiveness tests of the hedging relationships.

The analysis of the hedging derivatives portfolio by maturity date, as at 31 December 2017 is as follows:

(Thousands of Euro)

	2017							
	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 derivative with interest rate risk:								
Interest rate swap	-	-	750 000	750 000	-	-	1 663	1 663
	-	-	750 000	750 000	-	-	1 663	1 663

As at 31 December 2017, the fair value hedge operations can be analysed as follows:

(Thousands of Euro)

	2017						
Derivative	Hedged item	Hedged risk	Notional	Fair value [(1)]	Changes in fair value of the derivative in the period	Hedged item fair value [(2)]	Changes in fair value of the hedged item in the period [(2)]
Interest rate swap	Available-for-sale financial assets	Interest rate	750 000	(1 663)	(1 663)	2 373	2 373
			750 000	(1 663)	(1 663)	2 373	2 373

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

38 Provisions

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Provisions for guarantees and commitments	16 147	13 857
Provisions for other risks and charges	10 949	7 963
	27 096	21 820

The movements in provisions for guarantees and commitments assumed in 2017 and 2016 are analysed as follows:

(Thousands of Euro)

	2017	2016
Balance on 1 January	13 857	252
Charge for the period		
Continuing operations	16 558	11 456
Discontinuing operations	961	1 749
Write-back for the period		
Continuing operations	(14 268)	(19 952)
Discontinuing operations	(834)	(1 327)
Transfers	-	22 353
Transfers related to discontinuing operations	(127)	(674)
Balance on 31 December	16 147	13 857

As at 31 December 2016, the balance Transfers refers to the impairment associated with off-balance sheet credit exposure which, in 2016, are registered in the balance Provisions for guarantees and commitments, in the amount of Euro 22,340 thousand and Euro 3 thousand which are now registered in the balance Other assets, as described in notes 22 and 32, respectively.

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

(Thousands of Euro)

	2017	2016
Balance on 1 January	7 963	16 335
Charge for the period		
Continuing operations	10 193	35 944
Discontinuing operations	1	684
Write-back for the period		
Continuing operations	(2 160)	(33 756)
Discontinuing operations	(142)	(54)
Charge-off	(5 047)	(8 250)
Transfers	-	(1 745)
Transfers related to discontinuing operations	141	(1 195)
Balance on 31 December	10 949	7 963

The balance Transfers includes the amount of Euro 1,745 that is now recorded in Other assets, as desribed in note 32.

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 loss best estimate of the amount.

39 Other subordinated debt

As at 31 December 2017, the main characteristics of Other subordinated debt, are analysed as follows:

(Thousands of Euro)

Description	Issue date	Maturity date	Issue amount	Interest rate	Book value
CEMG/08 1st series	Feb 2008	Feb 2018	150 000	Euribor 6 months+1.5%	111 321
CEMG/08 2nd series	Jul 2008	Jul 2018	150 000	Euribor 6 months+1.5%	113 169
CEMG/08 3rd series	Jun 2008	Jun 2018	28 000	Euribor 12 months+1.5%	4 200
FNB 08/18 1st/2nd series	Dec 2008	Dec 2018	10 363	Euribor 6 months+0.15% (i)	7 503
					236 193

As at 31 December 2016, the main characteristics of Other subordinated debt, are analysed as follows:

(Thousands of Euro)

Description	Issue date	Maturity date	Issue amount	Interest rate	Book value
CEMG/08 1st series	Feb 2008	Feb 2018	150 000	Euribor 6 months+1.5%	111 348
CEMG/08 2nd series	Jul 2008	Jul 2018	150 000	Euribor 6 months+1.5%	113 216
CEMG/08 3rd series	Jun 2008	Jun 2018	28 000	Euribor 12 months+1.5%	4 202
FNB 08/18 1st/2nd series	Dec 2008	Dec 2018	10 363	Euribor 6 months+0.15% (i)	7 504
Ob. Cx Subordinadas Finicrédito	Nov 2007	Nov 2017	17 902	Tx base+0.90% (barrier level)	15 814
					252 084
				Value correction for hedging operations	(1 056)
					251 028

(i) - Remuneration paid on a half-yearly basis.

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

As at 31 December 2017 and 2016, the movement under Other subordinated debt was as follows:

(Thousands of Euro)

	Balance on 1 January 2017	Reimbursements	Net purchases	Other movements (a)	Balance on 31 December 2017
CEMG/08 1st series	111 348	-	-	(27)	111 321
CEMG/08 2nd series	113 216	-	-	(47)	113 169
CEMG/08 3rd series	4 202	-	-	(2)	4 200
FNB 08/18 1st/2nd series	7 504	-	-	(1)	7 503
Ob. Cx Subordinadas Finicrédito	15 814	(15 814)	-	-	-
	252 084	(15 814)	-	(77)	236 193

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

(Thousands of Euro)

	Balance on 1 January 2016	Reimbursements	Net purchases	Other movements (a)	Balance on 31 December 2016
CEMG/06	26 148	(26 100)	-	(48)	-
CEMG/08 1st series	121 232	-	(9 740)	(144)	111 348
CEMG/08 2nd series	120 894	-	(7 507)	(171)	113 216
CEMG/08 3rd series	18 177	-	(13 808)	(167)	4 202
FNB 08/18 1st/2nd series	9 589	-	(2 042)	(43)	7 504
FNB Grandes empresas 07/16_ 1st series	4 753	(4 670)	-	(83)	-
FNB Grandes empresas 07/16 2nd/3rd	18 922	(18 554)	-	(368)	-
Ob. Cx Subordinadas Finicrédito	15 684	-	-	130	15 814
	335 399	(49 324)	(33 097)	(894)	252 084

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

The financial liabilities included in this balance were revaluated through the income statement in accordance with the accounting policy described in note 1 d) and at 31 December 2017 a negative amount of Euro 1,056 thousand (31 December 2016: negative amount of Euro 1,304 thousand) was recognised related with the variations in fair value associated with the Group's credit risk, as described in notes 6 and 23.

As at 31 December 2017, the subordinated debt bears postponed interest every three and six months and its effective interest rate range is set between 1.23% and 1.48% (31 December 2016: 1.31% and 1.53%).

Other subordinated debt portfolio is recorded at fair value, as presented in note 50.

40 Other liabilities

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Creditors		
Suppliers	9 760	10 681
Other creditors	115 030	74 933
Administrative public sector	11 239	13 080
Charges with staff expenses	22 999	27 881
Other expenses	18 506	16 190
Deferred income	4 975	6 061
Other sundry liabilities	188 211	98 202
	370 720	247 028

As at 31 December 2017, the balance Charges with staff expenses includes the amount of Euro 113 thousand (31 December 2016: Euro 7,127 thousand), related to seniority bonus and the amount of Euro 479 thousand related to final career award. Additionally, as at 31 December 2017, this balance also includes the amount of Euro 20,188 thousand (31 December 2016: Euro 20,754 thousand) related to holidays and holiday subsidies.

As at 31 December 2017, the balance Other sundry liabilities includes the amount of Euro 6,907 thousand (31 December 2016: Euro 13,300 thousand), related to net liabilities recognised in the balance sheet, which present the difference between the costs with pensions, health benefits and death subsidy and the assets, as referred in note 51.

As at 31 December 2017, the balance Other sundry liabilities includes the amount of Euro 86,855 thousand (31 December 2016: Euro 3,068 thousand), resulting from stock exchange operations which are pending settlement.

41 Share capital

CEMG's share capital, which is fully paid, amounts to Euro 2,420,000 thousand (Insitutional capital as of 31 December 2016: Euro 1,770,000 thousand), fully belonging to MGAM.

As at 14 September 2017, CEMG was transformed into a public limited company with CEMG's Participation Fund, in the amount of Euro 400,000 thousand, becoming extinct, by conversion into share capital and its mutual funds were converted into common shares, as described in note 42.

At 30 June 2017, the Group performed a capital increase subscribed by Montepio Geral - Associação Mutualista, in accordance with the statutory resolutions of MGAM General Meeting, the General and Supervisory Council and the Executive Board of Directors of CEMG.

The referred capital increase was materialised by MGAM, fully paid-up in cash, through the realization of institutional capital in the amount of Euro 250,000 thousand, as described in note 63.

At 18 March 2016, the Group performed a capital increase subscribed by MGAM, in accordance with the statutory resolutions of MGAM General Meeting, the General and Supervisory Council and the Executive 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.

42 Participation fund

As at 14 September 2017, the deed of the bylaws was executed, transforming CEMG into a public limited company. As a result of this transformation, CEMG's Participation Fund became extinct by conversion into share capital, and therefore its mutual funds were also converted into common shares, as described in note 41.

As at 31 December 2016, CEMG'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 Mutual Funds holders of CEMG Participation Funds, where was considered the withdrawal of the preference right attributed to the mutual funds 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 CEMG, 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 CEMG, theses securities do not grant the right to attend the Shareholders General 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 CEMG.

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.

As at 31 December 2016, the units in the Group´s participation fund held by related parties are presented as follows:

	2017		2016	
	Number of Investment Fund Units held	Percentage	Number of Investment Fund Units held	Percentage
Related parties				
Montepio Geral Associação Mutualista	-	-	284 113 190	71.03%

43 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 cancelled from equity and the difference between the purchase value and its book value is recognised in equity.

As at 30 December 2017 and 2016, the Group repurchased perpetual subordinated instruments in the amount of Euro 8,677 thousand. After this operation, the balance Other equity instruments amounts to Euro 6,323 thousand.

Payment

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

During 2017, the Group proceeded to the interest payment for this emission in the amount of Euro 318 thousand (31 December 2016: Euro 370 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).

As at 31 December 2017 and 2016, these obligations are considered as a positive element of the CEMG's Core Capital (Tier 2), as required by Regulation 575/2013 of the European Union.

44 Treasury stock

As at 13 September 2017, the Group sold 80,918 mutual funds, under the general and voluntary public offering for the acquisition of mutual funds representing MGAM’s Participation Fund.

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

As at 31 December 2016, the Group owned 80,918 units with an average unit cost of Euro 0,782 and a nominal value of Euro 81 thousand.

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

45 General and special reserves

According to what is disposed in the art.º 97º of Legal Framework of Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras – RGICSF), approved by the Decree-Law n. 298/92, of 31 December and replaced by the Decree-Law n. 201/2002, CEMG should reinforce annualy the legal reserve with, at least, 10% of annual net profits, until to the limit equal to the value of share capital or to the sum of the reserves and retained earnings, if higher. This reserve can not, normally, be distributed.

The variation of the general and special reserves balances is analysed in note 46.

46 Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Fair value reserves		
Fair value reserves		
Available-for-sale financial assets	32 348	(21 596)
Loans and advances to customers	2 146	2 477
	34 494	(19 119)
Taxes		
Available-for-sale financial assets	(5 937)	12 989
Loans and advances to customers	(633)	(730)
	(6 570)	12 259
Fair value reserve net of taxes	27 924	(6 860)
Other reserves and retained earnings		
General reserve	187 532	187 532
Special reseve	68 273	68 273
Deferred tax reserve	54 530	55 526
Consolidation exchange reserves	(29 049)	(43 694)
Other reserves and retained earnings	(1 011 884)	(917 238)
	(730 598)	(649 601)

The fair value reserves represent the potential gains and losses on available-for-sale financial assets 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 and advances to customers refers to the amount, of the fair value reserve, regarding the credit portfolio reclassified from Available for sale financial assets to Loans to customers, as described in note 24.

The movements in the fair value reserve on available-for-sale financial assets, during 2017, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Revaluation	Acquisitions	Disposals	Impairment recognised in the period	Balance on 31 December
Fixed income securities						
Bonds issued by public Portuguese entities	(59 940)	1 042	455	59 775	-	1 332
Bonds issued by public foreign entities	(7 210)	1 029	(3 834)	5 941	-	(4 074)
Bonds issued by other entities						
Portuguese	469	661	27	4	-	1 161
Foreign	973	(27 439)	275	(845)	27 641	605
	(65 708)	(24 707)	(3 077)	64 875	27 641	(976)
Variable income securities						
Shares in companies						
Portuguese	8 189	2 298	-	-	-	10 487
Foreign	14 722	(12 005)	48	(185)	29	2 609
Mutual funds	21 201	9 098	24	(1 775)	(8 320)	20 228
	44 112	(609)	72	(1 960)	(8 291)	33 324
	(21 596)	(25 316)	(3 005)	62 915	19 350	32 348

The movements in the fair value reserve on available-for-sale financial assets, during 2016, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Revaluation	Acquisitions	Disposals	Impairment recognised in the period	Balance on 31 December
Fixed income securities						
Bonds issued by public Portuguese entities	(16 967)	(23 893)	(13 950)	(5 130)	-	(59 940)
Bonds issued by public foreign entities	7 853	(12 780)	(1 930)	(7 696)	7 343	(7 210)
Bonds issued by other entities	-	-	-	-	-	
Portuguese	186	2 818	(6)	(722)	(1 807)	469
Foreign	(21 756)	49 112	499	(950)	(25 932)	973
Commercial paper	-	-	-	(998)	998	-
	(30 684)	15 257	(15 387)	(15 496)	(19 398)	(65 708)
Variable income securities						
Shares in companies						
Portuguese	7 900	(4 064)	-	289	4 064	8 189
Foreign	3 697	18 506	322	(9 840)	2 037	14 722
Mutual funds	15 986	23 704	164	(984)	(17 669)	21 201
	27 583	38 146	486	(10 535)	(11 568)	44 112
	(3 101)	53 403	(14 901)	(26 031)	(30 966)	(21 596)

The fair value reserves on available-for-sale financial assets, are detailed as follows:

(Thousands of Euro)

	2017	2016
Amortised cost of available-for-sale financial assets	2 247 471	2 519 376
Accumulated impairment recognised	(78 926)	(98 276)
Amortised cost of available-for-sale financial assets, net of impairment	2 168 545	2 421 100
Market value of available-for-sale financial assets	2 200 893	2 399 504
Net/ unrealised gains/ (losses) recognised in the fair value reserve	32 348	(21 596)

47 Dividends distribution

During 2017 and 2016, CEMG did not distributed profits.

48 Non-controlling interests

This balance is analysed as follows:

(Thousands of Euro)

	Statement of Financial Position		Income Statement	
	2017	2016	2017	2016
Finibanco Angola, S.A.	20 955	12 121	1 327	1 992
Banco Terra, S.A.	11 880	11 080	49	37
	32 835	23 201	1 376	2 029

The movements on this balance are analyzed as follows:

(Thousands of Euro)

	2017	2016
Opening balance	23 201	28 669
Exchange differences	687	(7 982)
Other reserves	-	485
Dividends	(1 202)	-
Effect of the IAS 29 adoption	8 580	-
Changes in the consolidation perimeter	193	-
	31 459	21 172
Net income attributable to non-controlling interests	1 376	2 029
	32 835	23 201

			Percentage held by non-controlling interests	
Name	**Headquarters**	**Segment**	**2017**	**2016**
Finibanco Angola, S.A.	Luanda	Banking	18.63%	18.43%
Banco Terra, S.A.	Maputo	Banking	54.22%	54.22%

The summary of the financial information for the Institutions mentioned above, prepared in accordance with the IFRS, is disclosed in note 62.

In accordance with IFRS 5, these entities are classified as to be discontinued.

49 Obligations and other commitments

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Guarantees granted	500 063	491 072
Commitments to third parties	1 287 516	1 272 659
Deposit and custody of securities	8 439 037	6 893 858
	10 226 616	8 657 589

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

(Thousands of Euro)

	2017	2016
Guarantees granted		
Guarantees	444 564	432 259
Open documentary credits	55 499	58 813
	500 063	491 072
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit lines	609 515	488 069
Annual contribution to the Guarantee Deposits Fund	22 768	22 768
Potential obligation with the Investors' Indemnity System	1 499	1 592
Revocable commitments		
Revocable credit lines	653 734	760 230
	1 287 516	1 272 659

Bank guarantees granted are financial operations that do not translate necessarily into mobilisation of cash flows by the Group.

The balances Guarantees granted and Commitments to third parties - Irrevocable commitments – irrevocable credit lines include Euro 53,008 thousand (31 December 2016: Euro 63,655 thousand) regarding commitments assumed with the customers of Finibanco Angola, S.A. and Banco Terra, S.A, entities that are classified as discontinued, as described in note 62.

Documentary credits correspond to irrevocable commitments with the Group's clients, 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 cancellable without the express agreement of all parties involved.

Revocable and irrevocable commitments represent contractual agreements to extend credit to the CEMG's customers (for example unused credit facilities). 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 commitments, the analysis of these operations follows the same basic principles of any commercial operation, namely the solvency of the underlying client and business, and considering that the Group requires these operations to be adequately covered by collaterals when needed. Considering that is expected that the majority of these commitments expire without having being used, the indicated amounts do not represent necessarily future cash flow needs.

As at 31 December 2017 and 2016, 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 that Fund.

As at 31 December 2017, under the Deposit Guarantee Fund, the Group granted as pledge treasury bonds (OT 4.8% 15/06/2020), recorded as available-for-sale financial assets, with a nominal value of Euro 23,500 thousand (31 December 2016: Euro 25,000 thousand), as described in note 24.

As at 31 December 2017 and 2016, 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 due 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 credit recoveries or collaterals.

50 Fair value

Fair value is based on market prices, whenever these are available. If market prices are not available, as it happens regarding many products sold to clients, fair value is estimated through internal models based on cash-flow discounting techniques. Cash flows for the different instruments sold are calculated according to its financial characteristics and the discount rates used include both the interest rate curve and the current conditions of the Group’s pricing policy.

Therefore, the fair value obtained is influenced by the parameters used in the evaluation model that, necessarily have some degree of judgement and reflect exclusively the value attributed to different financial instruments. However, it does not consider prospective factors, like the future business evolution. Under these conditions, the values presented cannot be understood as an estimate of the economic value of the Group.

The main methods and assumptions used in estimating the fair value for the financial assets and liabilities are presented as follows:

- *Cash and deposits at central banks, Loans and advances to credit institutions repayable on demand and Other loans and advances to credit institutions*

  Considering the short maturity of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

- *Other loans and advances to credit institutions, Deposits from other financial institutions and Assets with repurchase agreements*

The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates.

For Deposits from Central Banks it was considered that the book value is a reasonable estimate of its fair value, given the nature of operations and the associated term. The rate of return of funding with the European Central Bank is of 0.0% for the operations negotiated at December 2017.

Regarding loans and advances not measured at fair value, the discount rate used reflects the current conditions applied by the Group on identical instruments for each of the different residual maturities. The discount rate includes the market rates for the residual maturity dates (rates from monetary market or from interest rate swap market, at the end of the period). For 31 December 2017, the average discount rate was 0.36% (31 December 2016: 0.73%) for Repos and 0.30% (31 December 2016: 0.17%) for the remaining resources.

For Loans and advances to the other credit instituions investments a discount rate reflecting the conditions in use by CEMG for the most significant residual term options was applied. Considering the short maturity of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

- *Financial assets held for trading (except derivatives), Financial liabilities held for trading (except derivatives), Available-for-sale financial assets and Other financial Assets at the fair value through profit and loss*

These financial instruments are accounted at fair value. Fair value is based on market prices (*Bid-price*), whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

Interest rates are determined based on information disseminated by the suppliers of financial contents - *Reuters and Bloomberg* - more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar sources but regarding interbank money market. The interest rate curve obtained is also calibrated against the values of short-term interest rate forwards. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are also used in the projection of the non-deterministic cash flows, such as indexes.

When optionality is involved, the standard models (Black-Scholes, Black, Ho and others) considering the volatility surfaces applicable are used. Whenever there are no references in the market of sufficient quality or that the available models do not fully apply to meet the characteristics of the financial instrument, it is applied specific quotations supplied by an external entity, typically a counterparty of the business.

- *Financial assets held to maturity*

  These financial instruments are accounted at amortised cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the respective market conditions and terms.

- *Hedging and trading derivatives*

  All derivatives are recorded at fair value.

  In case of those who are quoted in organised markets their market price is used. As for derivatives traded "over the counter", the numerical methods based on techniques of discounted cash flow and options valuation models, considering market variables namely the market interest rates applicable to the instruments concerned, and where necessary, their volatility, shall apply.

  Interest rates are determined based on information disseminated by the suppliers of financial contents - *Reuters and Bloomberg* - more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar sources but regarding interbank money market. The interest rate curve obtained is also calibrated against the values of short-term interest rate forwards. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are also used in the projection of the non-deterministic cash flows, such as indexes.

- *Loans and advances to clients without defined maturity date and Deposits from clients repayable on demand*

  Considering the short maturity of this type of financial instruments, the conditions of this portfolio are similar to those in force at the reporting date. Therefore, the amount in the balance sheet is a reasonable estimate of its fair value.

- *Loans and advances to customers with defined maturity date*

  The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates. For loans in default, the net impairment value of these operations is a reasonable estimate of its fair value, considering the economic valuation performed in the calculation of this impairment for individually significant customers. The discount rate used reflects the current conditions applied by the Group in similar instruments for each of the homogeneous classes of this type of instrument and with similar maturity. The discount rate includes the market rates for the residual maturity dates (rates from the monetary market or from the interest rate swap market, at the end of the year) and the spread used at the reporting date, which was calculated from the average of production for the last quarter. The average discount rate was 3.06% for mortgage loans (31 December 2016: 2.70%), 6.32% for individual credit (31 December 2016: 5.55%) and 3.69% for the remaining loans (31 December 2016: 4.15%), assuming the projection of variable rates according to the evolution of the forward rates implicit in the interest rate curves. The calculations also include the credit risk spread.

- *Deposits from customers*

The fair value of these financial instruments is calculated by discounting the expected principal and interest future cash flows, considering that payments occur in the contractually defined dates. The discount rate used reflects the current conditions applied by the Group in identical instruments with a similar maturity. The discount rate includes the market rates of the residual maturity dates (rates of monetary market or the interest rate swap market, at the end of the year) and the spread of the Group at the reporting date, which was calculated from the average production of the fourth quarter of 2017. The average discount rate at 31 December 2017 was of 0.84% (31 December 2016: 1.1%).

- *Debt securities issued and Other subordinated debt*

For these financial instruments, fair value was calculated for the components that are not yet reflected on the balance sheet. For the fixed interest rate instruments for which the Group applies a hedge-accounting policy, the fair value regarding the interest rate risk is already accounted for.

In fair value calculation, the other risk components were also considered, apart from the interest rate risk. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted by associated factors, predominantly the credit risk and trading margin, the latter only in the case of issues placed for non-institutional customers of the Group.

As original reference, the Group applies the curves resulting from the interest rate swaps markets for each specific currency. The credit risk (credit spread) is represented by an excess from the curve of interest rate swaps established specifically for each term and class of instruments based on the market prices on equivalent instruments.

In case of issues of covered bonds, the fair value is determined based on quotations disseminated by financial content provider *Bloomberg*.

In respect of subordinated issues the discount rate was of 3.99% (31 December 2016: 9.09%). The average discount rate calculated for senior issues placed on the retail market was 0.72% (31 December 2016: 0.79%).

Issues placed in the institutional market were revalued at the market value available on 31 December 2017 and 2016.

As at 31 December 2017, the following table presents the values of the interest rate adopted in the calculation of the interest rate curve of the major currencies, including Euro, United States Dollar, Sterling Pound, Swiss Franc and Japanese Yen used to determine the fair value of financial assets and liabilities of the Group:

	Currencies				
	Euro	United States Dollar	Sterling Pound	Swiss Franc	Japanese Yen
1 day	-0.4500%	1.5050%	0.5000%	-0.8450%	-0.1700%
7 days	-0.3780%	1.4804%	0.5000%	-0.7950%	-0.0338%
1 month	-0.3680%	1.6500%	0.5050%	-0.7500%	-0.2600%
2 months	-0.3400%	1.6900%	0.5100%	-0.7500%	-0.2200%
3 months	-0.3290%	1.7600%	0.5100%	-0.7500%	-0.2200%
6 months	-0.2710%	1.9100%	0.5500%	-0.7200%	-0.2000%
9 months	-0.2170%	2.0200%	0.6600%	-0.6800%	-0.1500%
1 year	-0.1860%	2.1800%	0.7400%	-0.6200%	-0.1500%
2 years	-0.1500%	2.0770%	0.7860%	-0.4820%	0.0175%
3 years	0.0110%	2.1680%	0.8870%	-0.3540%	0.0350%
5 years	0.3130%	2.2560%	1.0370%	-0.1390%	0.0900%
7 years	0.5610%	2.3210%	1.1460%	0.0380%	0.1625%
10 years	0.8800%	2.4050%	1.2770%	0.2710%	0.2975%
15 years	1.2440%	2.4960%	1.4100%	0.5380%	0.5250%
20 years	1.4188%	2.5313%	1.4100%	0.5380%	0.5250%
30 years	1.5013%	2.5388%	1.4100%	0.5380%	0.5250%

As at 31 December 2016, the following table presents the values of the interest rate adopted in the calculation of the interest rate curve of the major currencies, including Euro, United States Dollar, Sterling Pound, Swiss Franc and Japanese Yen used to determine the fair value of financial assets and liabilities of the Group:

	Currencies				
	Euro	United States Dollar	Sterling Pound	Swiss Franc	Japanese Yen
1 day	-0.3730%	0.7700%	0.2750%	-0.8350%	-0.0854%
7 days	-0.3730%	0.7233%	0.2750%	-0.8350%	-0.0854%
1 month	-0.3680%	0.7750%	0.2900%	-0.8250%	-0.4000%
2 months	-0.3380%	0.8500%	0.3700%	-0.7950%	-0.4900%
3 months	-0.3190%	1.0500%	0.3600%	-0.8000%	-0.3000%
6 months	-0.2210%	1.2500%	0.4500%	-0.6950%	-0.2500%
9 months	-0.1390%	1.4500%	0.6800%	-0.6250%	-0.2500%
1 year	-0.0820%	1.4750%	0.8000%	-0.6500%	-0.2500%
2 years	-0.1600%	1.4780%	0.6110%	-0.6000%	-0.0050%
3 years	-0.1000%	1.6820%	0.6910%	-0.5270%	0.0025%
5 years	0.0750%	2.0050%	0.8780%	-0.3210%	0.0450%
7 years	0.3150%	2.1970%	1.0470%	-0.0980%	0.0975%
10 years	0.6600%	2.3790%	1.2440%	0.1530%	0.1975%
15 years	1.0300%	2.5090%	1.4260%	0.4260%	0.4150%
20 years	1.1750%	2.5380%	1.4260%	0.4260%	0.4150%
30 years	1.2350%	2.5650%	1.4260%	0.4260%	0.4150%

Exchange rates and volatility

We present below the exchange rates (European Central bank) at the balance sheet date and the implied volatilities (at the Money) for the main currencies used on the derivatives valuation:

			Volatility (%)				
Exchange rates	**2017**	**2016**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.1993	1.0541	6.500	7.375	7.350	7.425	7.550
EUR/GBP	0.8872	0.8562	6.475	7.550	7.713	7.850	8.087
EUR/CHF	1.1702	1.0739	5.912	6.500	6.425	6.475	6.450
EUR/JPY	135.01	123.40	6.950	8.425	8.650	8.900	8.990

Concerning the exchange rates, the Group uses in its valuation models the spot rate observed in the market at the time of the valuation.

The fair value of the financial assets and liabilities of the Group, at 31 December 2017 and 2016, is presented as follows:

(Thousands of Euro)

	2017				
	At fair value through profit or loss	At fair value through reserves	Amortised cost	Book value	Fair value
Financial assets					
Cash and deposits at central banks	-	-	1 733 628	1 733 628	1 733 628
Loans and advances to credit institutions repayable on demand	-	-	50 205	50 205	50 205
Loans and advances to credit institutions	-	-	312 203	312 203	310 088
Loans and advances to customers	24 633	-	13 004 685	13 029 318	12 954 403
Financial assets held for trading	184 076	-	-	184 076	184 076
Available-for-sale financial assets	-	2 200 893	-	2 200 893	2 200 893
	208 709	2 200 893	15 100 721	17 510 323	17 433 293
Financial liabilities					
Deposits from central banks	-	-	1 557 840	1 557 840	1 557 840
Deposits from other credit institutions	-	-	1 786 717	1 786 717	1 788 676
Deposits from customers	14 789	-	12 546 251	12 561 040	12 570 211
Debt securities issued	7 094	-	1 536 960	1 544 054	1 553 288
Financial liabilities held for trading	16 171	-	-	16 171	16 171
Hedge derivatives	1 663	-	-	1 663	1 663
Other subordinated debt	-	-	236 193	236 193	234 006
	39 717	-	17 663 961	17 703 678	17 721 855

(Thousands of Euro)

	2016				
	At fair value through profit or loss	At fair value through reserves	Amortised cost	Book value	Fair value
Financial assets					
Cash and deposits at central banks	-	-	381 289	381 289	381 289
Loans and advances to credit institutions repayable on demand	-	-	69 568	69 568	69 568
Loans and advances to credit institutions	-	-	559 091	559 091	559 091
Loans and advances to customers	40 713	-	13 820 321	13 861 034	13 742 484
Financial assets held for trading	78 168	-	-	78 168	78 168
Available-for-sale financial assets	-	2 399 504	-	2 399 504	2 399 504
Held-to-maturity investments	-	-	1 126 125	1 126 125	1 087 911
	118 881	2 399 504	15 956 394	18 474 779	18 318 015
Financial liabilities					
Deposits from central banks	-	-	2 322 947	2 322 947	2 322 947
Deposits from other credit institutions	53 818	-	2 222 122	2 275 940	2 289 634
Deposits from customers	15 631	-	12 452 188	12 467 819	12 438 474
Debt securities issued	82 921	-	1 837 114	1 920 035	1 958 372
Financial liabilities held for trading	26 148	-	-	26 148	26 148
Other subordinated debt	15 684	-	235 344	251 028	228 372
	194 202	-	19 069 715	19 263 917	19 263 947

The following table summarises, by valuation levels, the fair value of the Group's financial assets and liabilities, as at 31 December 2017:

(Thousands of Euro)

	2017				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair Value
Financial assets					
Cash and deposits at central banks	1 733 628	-	-	-	1 733 628
Loans and advances to credit institutions repayable on demand	50 205	-	-	-	50 205
Loans and advances to credit institutions	-	-	310 088	-	310 088
Loans and advances to customers	-	24 633	12 929 770	-	12 954 403
Financial assets held for trading	38 194	24 553	121 329	-	184 076
Available-for-sale financial assets	1 618 616	43 306	533 744	5 227	2 200 893
	3 440 643	92 492	13 894 931	5 227	17 433 293
Financial liabilities					
Deposits from central banks	1 557 840	-	-	-	1 557 840
Deposits from other credit institutions	-	-	1 788 676	-	1 788 676
Deposits from customers	-	14 789	12 555 422	-	12 570 211
Debt securities issued	-	7 094	1 546 194	-	1 553 288
Financial liabilities held for trading	901	15 270	-	-	16 171
Hedge derivatives	-	1 663	-	-	1 663
Other subordinated debt	-	-	234 006	-	234 006
	1 558 741	38 816	16 124 298	-	17 721 855

The following table summarises, by valuation levels, the fair value of the Group's financial assets and liabilities, as at 31 December 2016:

(Thousands of Euro)

	2016				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair Value
Financial assets					
Cash and deposits at central banks	381 289	-	-	-	381 289
Loans and advances to credit institutions repayable on demand	69 568	-	-	-	69 568
Loans and advances to credit institutions	-	-	559 091	-	559 091
Loans and advances to customers	-	40 713	13 701 771	-	13 742 484
Financial assets held for trading	44 940	33 228	-	-	78 168
Available-for-sale financial assets	1 796 441	43 352	554 484	5 227	2 399 504
Held-to-maturity investments	1 087 911	-	-	-	1 087 911
	3 380 149	117 293	14 815 346	5 227	18 318 015
Financial liabilities					
Deposits from central banks	2 322 947	-	-	-	2 322 947
Deposits from other credit institutions	-	53 818	2 235 816	-	2 289 634
Deposits from customers	-	15 631	12 422 843	-	12 438 474
Debt securities issued	-	82 921	1 875 451	-	1 958 372
Financial liabilities held for trading	1 458	24 690	-	-	26 148
Other subordinated debt	-	15 684	212 688	-	228 372
	2 324 405	192 744	16 746 798	-	19 263 947

The Group uses the following hierarchy for fair value with 3 levels in the evaluation of financial instruments (assets and liabilities), which reflects the level of judgment, the observability of the data used and the importance of the parameters used in determining the fair value measurement of the instrument, as referred in IRFS 13:

- Level 1: Fair value is determined based on unadjusted quoted prices, captured in transactions in active markets involving identical instruments to the ones being valued. If there is more than one active market for the same financial instrument, the relevant price is what prevails in the main market of the instrument, or most advantageous market for which there is access.
- Level 2: Fair value is determined based on evaluation techniques supported by observable inputs in active markets, being direct data (prices, rates, spreads, etc.) or indirect data (derivatives), and evaluation assumptions similar to what an unrelated party would use in estimating the fair value of that financial instrument.
- Level 3: Fair value is determined based on unobservable inputs in active markets, using techniques and assumptions that market participants would use do evaluate the same instruments, including assumptions about the inherent risks, the evaluation technique used and inputs used and review processes to test the accuracy of the values obtained.

The Group considers an active market where transactions of particular financial instruments occur with frequency and business volumes sufficient for providing information over prices continuously. The following minimum conditions should verify:

- Existence of frequent daily prices trading in the last year;
- The above quotations are exchanged regularly; and
- There are executable quotes from more than one entity.

A parameter used in a valuation technique is considered observable in the market, if the following conditions are met:

- If its value is determined in an active market;
- Or, if there is an OTC market and it is reasonable to assume that the conditions of an active market are met, with the exception of the condition of trading volumes; and
- Or, the parameter value can be obtained by the inverse calculation of prices of financial instruments or derivatives where the remaining parameters required for initial assessment are observable in a liquid market or an OTC market that comply with the preceding paragraphs.

51 Employee benefits

The Group assumed the responsibility to pay to their employees' seniority and disability retirement pensions and others benefits, in accordance with the accounting policy described in note 1 v). In addition, and in accordance with the same policy, the Group calculates on an annual basis, as of 31 December of each year, pension liabilities and other benefits. Therefore, the amounts presented in this note only reflect current service cost.

The general pension plan for the employees refers to liabilities for retirement benefits provided for in the Collective Labour Agreement for the banking sector and is a complementary plan of the public social security scheme.

Under the Collective Labour Agreement ("ACT") for the banking sector, the employees hired after 1 January 1995 contribute with 5% of their monthly remuneration to the Pension Fund.

The existing pension plan corresponds to a defined benefit plan, since it defines the criteria for determining the amount of pension that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and retribution.

The benefits provided by this pension plan are as follows:

- Retirement by presumable disability (old age);

- Retirement by disability;

- Survivor's pension.

All social benefits are granted to beneficiaries, according to the terms, conditions and values included in the pension plan, as employees of the Group at their retirement date, as well as those who have belonged to their effective board and on retirement meet all the requirements defined in the pension plan.

The pension provided by the fund corresponds to the employee level in reform and seniority, according to the salary scale applicable. In the case of employees entitled to a pension under the General Pension Fund or the National Pensions Centre, the latter will be reduced to the pension guaranteed by this plan.

In case of death of an active employee or a pensioner, the pension plan guarantees a survivor's pension of 40% of the remuneration to which the employee would be entitled if achieved the situation of retirement or the pension he would receive, respectively.

The Group's former employees, when placed in the old-age pension or disability status, are entitled to payment by the fund of a pension calculated in the previous terms, in proportion to the time of service provided to the Group.

Additionally, the pension plan guarantees the costs of Social-Medical Assistance Services (SAMS) and the death grant under the ACT.

The Group has no other mechanisms to ensure the coverage of liabilities assumed towards old-age pensions, disability, survivors, health benefits and death benefits of its employees.

In December 2016, the Group issued a new Collective Labor Agreement (ACT), introducing a number of changes in the employment benefits, such as the change in the retirement age, in line with the general Social Security system, and the attribution of an end-of-career premium which replaced the extinguished seniority award.

In addition to the change in the benefit plan, there were also a number of special temporary provisions which impact on the calculation of the current liabilities value, in particular the freezing of salary increases for 2016 and 2017 and the freeze on automatic career promotions. As a result of the amendment to the ACT, contributions to SAMS were made based on a fixed cost per employee and were no longer indexed to salaries.

The main actuarial assumptions used in calculating the current value of liabilities are as follows:

	Assumptions	
	2017	**2016**
Financial assumptions		
Wage growth rate	1,00%	0% 2017;1.0% 2018+
Pension growth rate	0,50%	0% 2017;0.5% 2018+
Rate of return of plan assets	2,10%	2,00%
Discount rate	2,10%	2,00%
Revaluation rate		
Wage growth rate - Social Security	1,50%	2,00%
Pension growth rate	1,00%	1,00%
Demographic assumptions and valuation methods		
Mortality table		
Men	TV 88/90	TV 88/90
Women	TV 88/90 -3 years	TV 88/90
Actuarial method	UCP	UCP

The assumptions used in calculating the present value of liabilities, in accordance with the requirements of IAS 19. The determination of the discount rate considered: (i) the evolution of the main indices regarding high quality corporate brands and (ii) duration of the responsibilities.

As at 31 December 2017, the duration of liabilities amounts to 20.80 years (31 December 2016: 20.70 years).

The number of persons covered by the pension plan is as follows:

	2007	**2016**
Active	3 593	3 643
Retirees and survivors	1 249	1 232
	4 842	4 875

Based on the accounting policy described in note 1 u), post-employment benefits, other benefits and respective coverage levels are presented as follows:

(Thousands of Eur

	2017	2016
Net assets/ (liabilities) recognised in the balance sheet		
Liabilities with pension benefits		
Pensioners	(272 594)	(266 139)
Active	(409 406)	(391 116)
	(682 000)	(657 255)
Liabilities with healthcare benefits		
Pensioners	(20 354)	(20 518)
Active	(35 205)	(31 140)
	(55 559)	(51 658)
Liabilities with death benefits		
Pensioners	(1 593)	(1 604)
Active	(1 605)	(1 501)
	(3 198)	(3 105)
Total liabilities	(740 757)	(712 018)
Coverages		
Pension Fund value	733 850	698 718
Net assets/ (liabilities) in the balance sheet (see note 40)	(6 907)	(13 300)
Accumulated actuarial losses recognised in other comprehensive income	187 637	190 897

Changes in the defined benefit obligation can be analysed as follows:

(Thousands of Euro)

	2017				2016			
	Pension benefits	Healthcare benefits	Death benefits	Total	Pension benefits	Healthcare benefits	Death benefits	Total
Liabilities at the beginning of the period	657 255	51 658	3 105	712 018	611 267	55 591	1 611	668 469
Current service cost	(1 859)	1 866	57	64	2 728	1 669	44	4 441
Interest cost	13 145	1 033	63	14 241	16 818	1 530	44	18 392
Actuarial gains/ (losses)								
- Changes in the assumptions	28 148	31	(2)	28 177	56 981	(5 997)	663	51 647
- Not related to changes assumptions	3 255	785	(2)	4 038	(4 508)	2 076	777	(1 655)
Change of the retirement age	-	-	-	-	(38 040)	(1 840)	(19)	(39 899)
Pensions paid by the fund	(16 629)	-	-	(16 629)	(13 648)	(1 371)	(15)	(15 034)
Pensions paid by CEMG	(4 781)	-	-	(4 781)	-	-	-	-
Early retirement, mutually agreed terminations and others	1 155	186	(23)	1 318	23 304	-	-	23 304
Participant contributions	2 311	-	-	2 311	2 353	-	-	2 353
Liabilities at the end of the period	682 000	55 559	3 198	740 757	657 255	51 658	3 105	712 018

As mentioned, CEMG amended the ACT, and changed the retirement age. This represents a cut in employees' benefits, in accordance with IAS 19, and its impact was recorded against the income statement.

The evolution of the Pension fund's value in the years ended 31 December 2017 and 2016 is analysed as follows:

(Thousands of Euro)

	2017	2016
Balance of the funds at the beginning of the period	698 718	653 704
Expected return on plan assets	13 975	17 987
Actuarial gains/ (losses)	35 475	(10 292)
Group's contributions	-	50 000
Participant contributions	2 311	2 353
Pensions paid by the Fund	(16 629)	(15 034)
Balance of the funds at the end of the period	733 850	698 718

The Group's contributions balance relates to contributions made in cash by the Group.

As at 31 December 2017 and 2016, the assets of the pension fund, divided between quoted and non-quoted, can be analysed as follows:

(Thousands of Euro)

	2017			2016		
	Assets of the Fund	Quoted	Non-quoted	Assets of the Fund	Quoted	Non-quoted
Variable income securities						
Shares	73 029	73 029	-	51 162	51 162	-
Shares investment fund	107 302	-	107 302	101 235	96 316	4 919
Equity shares	-	-	-	1 245	1 245	-
Bonds	500 124	452 355	47 769	434 234	424 624	9 610
Real estate	6 603	-	6 603	7 589	-	7 589
Real estate investment funds	24 914	475	24 439	26 147	5 975	20 172
Venture capital funds	10 652	-	10 652	4 940	-	4 940
Hedge funds - Uncorrelated investments	14	-	14	-	-	-
Investments in banks and other	11 212	-	11 212	72 166	-	72 166
Total	733 850	525 859	207 991	698 718	579 322	119 396

The assets of the pension fund used by the Group or representative of securities issued by other Group entities are analysed as follows:

(Thousands of Euro)

	2017	2016
Investments in banks and other	11 212	72 166
Real estate	6 603	7 589
Bonds	2 234	45
Other	-	1 245
	20 049	81 045

The changes in the accumulated actuarial gains and losses are analysed as follows:

	2017	2016
	(Thousands of Euro)	
Actuarial gains/ (losses) at the beginning of the period	190 897	130 613
Actuarial gains/ (losses) for the period		
Changes in assumptions	28 177	51 647
Experience adjustments	(31 437)	8 637
Actuarial gains/ (losses) recognised in other comprehensive income	187 637	190 897

The actuarial gains and losses in 2017 include, among others: (i) the negative amount of Euro 14,263 thousand resulting from the revaluation of salaries for the purpose of determining the Social Security's pension, (ii) the positive amount of Euro 11,288 thousand resulting from the change in the discount rate and (iii) the negative amount of Euro 25,202 thousand from the effect resulting from the change in the mortality table for women.

The costs with pensions, healthcare benefits and death subsidies are analysed as follows:

	2017	2016
	(Thousands of Euro)	
Current service cost	64	4 441
Net interest income/ (expense) in the liabilities coverage balance	266	405
Costs with early retirement, mutually agreed terminations and others	1 318	23 304
Change of the retirement age	-	(39 899)
Costs for the period	1 648	(11 749)

As at 31 December 2017 and 2016, the evolution of net assets/ (liabilities) in the balance sheet is analysed as follows:

	2017	2016
	(Thousands of Euro)	
At the beginning of the period	(13 300)	(14 765)
Group's contribution	-	50 000
Current service cost	(64)	(4 441)
Net interest income/ (expense) in the liabilities coverage balance	(266)	(405)
Actuarial gains/ (losses)	(32 215)	(49 992)
Financial gains/ (losses)	35 475	(10 292)
Change of the retirement age	-	39 899
Pensions paid by CEMG	4 781	-
Early retirement, mutually agreed terminations and others	(1 318)	(23 304)
At the end of the period	(6 907)	(13 300)

The actuarial assumptions have a significant impact in the pension liabilities and other benefits. Considering, this impact, the Group proceeded to a sensitivity analysis to a positive and negative change of 25 basis points in some of the actuarial assumptions with the purpose of calculating the impact in the value of pension liabilities, whose impact is analysed as follows:

(Thousands of Euro)

	2017		2016	
	Liabilities		Liabilities	
	Increase	Decrease	Increase	Decrease
Discount rate (0.25% change)	(40 740)	40 485	(35 968)	36 140
Wage growth rate (0.25% change)	26 156	(23 285)	22 844	(20 593)
Pension growth rate (0.25% change)	25 467	(23 371)	22 433	(20 810)
SAMS contribution (0.25% change)	3 664	(3 510)	3 176	(3 073)
Future death (1 year change)	(20 788)	20 134	(18 662)	18 287

As a result of the ACT's change, as at 31 December 2017, the cost associated with the final career award amounted to Euro 481 thousand, which replaced the extinguished seniority premium.

As at 31 December 2016, liabilities with the seniority premium amounted to Euro 7,127 thousand.

The cost associated with the seniority award, for 2016, amounted to Euro 1,612 thousand. Following the revision of the ACT applicable to CEMG, there was a profit of Euro 7,421 thousand in the year 2016, related to the extinction of this benefit.

As at 31 December 2017, the SAMS cost associated to the defined contribution plan amount to Euro 617 thousand.

The cost associated with the defined contribution plan amounted to Euro 46 thousand (31 December 2016: Euro 52 thousand).

52 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 31 December 2017 and 2016, the amount of the investment funds managed by Group companies is analysed as follows:

(Thousands of Euro)

	2017	2016
Securities investment fund	169 202	177 402
Real estate investment fund	292 058	294 436
Pension fund	220 773	205 839
Bank and insurance	26 913	45 415
	708 946	723 092

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

53 Transactions with related parties

As defined in IAS 24, are considered related parties of the Group the companies detailed in note 61, the Pension Fund, the members of the Management and the key management elements. In addition to the members of the Board of Directors and key management elements, are also considered related parties their family and entities controlled by them or those whose management have significant influence.

According to Portuguese law, in particular under articles 85 and 109 of the General Law for Credit Institutions and Financial Companies ("RGICSF"), are also considered related parties the members of the supervisory board and the shareholder of CEMG, which holds 100% of the voting rights, as well as individuals related to these categories and entities controlled by them or whose management have significant influence.

The Group's first-line directors are considered in Other key management personnel.

On this basis, the list of related parties considered by the Group is presented as follows:

Shareholder
Montepio Geral Associação Mutualista

Board of Directors (after 20 March 2018)
Carlos Manuel Tavares da Silva (Chairman)
Luís Eduardo Henriques Guimarães (Non-executive member)
Amadeu Ferreira de Paiva (Non-executive member)
Manuel Ferreira Teixeira (Non-executive member)
Vítor Manuel do Carmo Martins (Non-executive member)
Rui Pedro Brás de Matos Heitor (Non-executive member)
Nuno Cardoso Correia da Mota Pinto (Executive member)
José Carlos Sequeira Mateus (Executive member)
Pedro Miguel Nunes Ventaneira (Executive member)
Carlos Miguel Lopez Leiria Pinto (Executive member)
Helena Catarina Gomes Soares de Moura Costa Pina (Executive member)

Audit Committee (after 20 March 2018)
Luís Eduardo Henriques Guimarães (Chairman)
Amadeu Ferreira de Paiva (Member)
Manuel Ferreira Teixeira (Member)
Vítor Manuel do Carmo Martins (Member)

Executive Board of Directors (until 20 March 2018)
José Manuel Félix Morgado (Chairman)
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

General and Supervisory Board (until 20 March 2018)
Álvaro João Duarte Pinto Correia (Chairman)
António Fernando Menezes Rodrigues
José António de Arez Romão
Vitor Manuel do Carmo Martins
Francisco José Fonseca da Silva
Acácio Jaime Liberato Mota Piloto
Luís Eduardo Henriques Guimarães
Rui Pedro Bras Matos Heitor
Eugénio Óscar Garcia Rosa

Other Related Parties'
Board of Directors
Alberto Carlos Nogueira Fernandes da Silva
Amândio Manuel Carrilho Coelho
Ana Lúcia Louro Palhares
António Francisco de Araújo Pontes
António Manuel Jesus Gouveia
António Manuel Sezões de Almeida Porto
António Paulo da Silva Gonçalves Raimundo
António Tomás Correia
Artur Luís Martins
Bernard Johannes Christiaanse
Carlos Vicente Morais Beato
Eduardo José da Silva Farinha
Fernando Dias Nogueira
Fernando Ribeiro Mendes
Fernão Vasco de Almeida Bezerra Fernandes Thomaz
Francisco António Laranjeira Souto
Francisco José Gonçalves Simões
Isabel Maria Loureiro Alves Brito
João Andrade Lopes
João Carlos Carvalho das Neves

Other related parties'
Board of Directors (cont.)
João Filipe Milhinhos Roque
João Francisco Mendes Almeida Gouveia
Joaquim Manuel Marques Cardoso
Johannes Hendricus de Roo
Jorge Manuel Santos Oliveira
Jorge Rafael Torres Gutierrez de Lima
José António Fonseca Gonçalves
José de Almeida Serra
José Joaquim Fragoso
José Luís Esparteiro da Silva Leitão
Luís Filipe dos Santos Costa
Luís Miguel Marques Ferreira Cardoso
Manuel Aranda da Silva
Manuel de Pinho Baptista
Margarida Maria Pinto Rodrigues D'Archambeau Duarte
Maria Lúcia Ramos Bica
Maria Manuela Traquina Rodrigues
Maria Rosa Almas Rodrigues
Mário José Brandão Ferreira
Mário José Matos Valadas
Miguel Alexandre Teixeira Coelho
Norberto da Cunha Junqueira Fernandes Félix Pilar
Nuno da Silva Figueiredo
Nuno Henrique Serra Mendes
Paulo José Martins Jorge da Silva
Pedro António Castro Nunes Coelho
Pedro Jorge Gouveia Alves
Pedro Miguel Moura Líbano Monteiro
Ricardo Canhoto de Carvalho
Tereza de Jesus Teixeira Barbosa Amado
Virgílio Manuel Boavista Lima
Vitor Guilherme de Matos Filipe

Other Key management personnel
Alexandra Manuela Quirino Pereira Silva
Alexandra Melo Ponciano
Ana Maria Guerreiro Almeida
António Fernando Figueiredo Lopes
António José Miranda Lopes Coutinho
Fernando Emanuel Mendes Teixeira
Fernando Jorge Lopes Centeno Amaro
Fernando Manuel Silva Costa Alexandre
Gabriel Fernando Sá Torres
Jaquelina Maria Almeida Rodrigues Miguens
João Eduardo Dias Fernandes
Joaquim António Canhoto Gonçalves Silva
Luís Miguel Oliveira Melo Correia
Luísa Maria Xavier Machado
Maria Carmo Martins Ventura Calvão
Maria Fernanda Infante Melo Costa Correia
Maria Margarida Carrusca Pontes Rosário Ribeiro Andrade
Nuno Augusto Pereira Coelho
Patricia Ester Carvalho Esteves Fernandes
Paulo Jorge Andrade Rodrigues
Pedro Jorge Ponte Araújo
Pedro Maria Corte Real Alarcão Júdice
Pedro Miguel Rodrigues Crespo
Pedro Nuno Coelho Pires
Rosária Fátima Miranda de Abreu
Rui Sérgio Carvalho Santos Calheiros Gama
Vasco Francisco Coelho Almeida
Vitor Fernando Santos Cunha

Other Related Parties

Bem Comum, Sociedade de Capital de Risco, S.A.
Bolsimo - Gestão de Activos, S.A.
Clínica CUF Belém, S.A
Clínica de Serviços Médicos Computorizados de Belém, S.A.
Empresa Gestora de Imóveis da Rua do Prior S.A.
Fundação Montepio Geral
Fundo de Pensões - Montepio Geral
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.
Germont – Empreendimentos Imobiliários, S.A.
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.
Leacock - Prestação de Serviços, LDA.
Lusitania Vida, Companhia de Seguros, S.A.
Lusitania, Companhia de Seguros, S.A.
Moçambique Companhia de Seguros, S.A.R.L.
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.
Montepio Gestão de Ativos Imobiliários, ACE
Montepio Imóveis – Sociedade Imobiliária, S.A.
Montepio Seguros, S.G.P.S., S.A.
N Seguros, S.A.
NAVISER - Transportes Marítimos Internacionais, S.A.
Nebra Energias Renovables, S.L.
Nova Câmbios - Instituição de Pagamento, S.A.
Residências Montepio, Serviços de Saúde, S.A.
SAGIES - Segurança e Higiene no Trabalho, S.A.
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.
Sociedade Portuguesa de Administrações, S.A.

As at 31 December 2017, assets held by the Group regarding related parties, under article no. 109, represented or not by securities, included in the balances Loans and advances to customers (Gross), Impairment of loans and advances to customers, Available-for-sale financial assets, Impairment of available-for-sale financial assets, Other Assets and Guarantees and commitments provided to third parties, are presented as follows:

(Thousands of Euro)

	2017						
Companies	Loans and advances to customers	Impairment of loans and advances to customers	Available-for-sale financial assets	Impairment of available-for-sale financial assets	Other assets	Guarantees and commitments provided to third parties	Total
Clínica de Serviços Médicos Computorizados de Belém, S.A.	3	-	-	-	-	-	3
Board of Directors of Other Related Parties	1 108	-	-	-	-	-	1 108
Executive Board of Directors (until 20 March 2018)	134	-	-	-	-	-	134
Board of Directors (after 20 March 2018)	141	-	-	-	-	-	141
General and Supervisory Board (until 20 March 2018)	2 323	24	-	-	-	282	2 581
Other Key Management Personnel	3 042	-	-	-	-	8	3 050
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	2	-	-	-	-	-	2
Germont – Empreendimentos Imobiliários, S.A.	11 330	207	-	-	-	731	11 854
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	3 500	3 500
Lusitania Vida, Companhia de Seguros, S.A.	1	-	-	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	1	-	3 207	1 807	-	-	1 401
Montepio Geral Associação Mutualista	62	23	-	-	945	72	1 056
Montepio Imóveis – Sociedade Imobiliária, S.A.	10 240	69	-	-	-	-	10 171
Nova Câmbios - Instituição de Pagamento, S.A.	501	7	-	-	-	1 559	2 053
Residências Montepio, Serviços de Saúde, S.A.	551	5	-	-	-	-	546
	29 439	335	3 207	1 807	945	6 152	37 601

For members of the current Governing Bodies, which were previously members, it was considered that, for reporting purposes, the engagement with CEMG should be included in the current Governing Bodies.

As at 31 December 2016, assets held by the Group regarding related parties, under article no. 109, represented or not by securities, included in the balances Loans and advances to customers (Gross), Impairment of loans and advances to customers, Available-for-sale financial assets, Impairment of available-for-sale financial assets, Other Assets and Guarantees and commitments provided to third parties, are presented as follows:

(Thousands of Euro)

	2016						
Companies	Loans and advances to customers	Impairment of loans and advances to customers	Available-for-sale financial assets	Impairment of available-for-sale financial assets	Other assets	Guarantees and commitments provided to third parties	Total
Bolsimo - Gestão de Activos, S.A.	1	-	-	-	-	-	1
Clínica de Serviços Médicos Computorizados de Belém, S.A.	12	-	-	-	-	-	12
Board of Directors of Other Related Parties	1 181	-	-	-	-	-	1 181
Executive Board of Directors	145	-	-	-	-	-	145
General and Supervisory Board	859	5	-	-	-	-	854
Other Key Management Personnel	3 489	-	-	-	-	-	3 489
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	1	-	-	-	-	-	1
Germont – Empreendimentos Imobiliários, S.A.	16 323	50	-	-	-	2 731	19 004
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	2 449	35	-	-	-	1 050	3 464
Lusitania Vida, Companhia de Seguros, S.A.	1	-	-	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	-	9	2 500	1 807	-	1 500	2 184
Montepio Geral Associação Mutualista	11	1	-	-	36 834	177	37 021
Montepio Imóveis – Sociedade Imobiliária, S.A.	13 452	288	-	-	-	-	13 164
Nova Câmbios - Instituição de Pagamento, S.A.	1	2	-	-	-	1 000	999
Residências Montepio, Serviços de Saúde, S.A.	1 242	138	-	-	-	-	1 104
	39 167	528	2 500	1 807	36 834	6 458	82 624

As at 31 December 2017, the Group's liabilities with related parties, under article no. 109, included in the balances Deposits from customers, Liabilities represented by securities and Other subordinated debt, are analysed as follows:

(Thousands of Euro)

Companies	2017 Deposits from customers	2017 Liabilities represented by securities and Other subordinated debt	2017 Total
Bolsimo - Gestão de Activos, S.A.	850	-	850
Clínica CUF Belém, S.A.	29	-	29
Clínica de Serviços Médicos Computorizados de Belém, S.A.	8	-	8
Board of Directors of Other Related Parties	2 962	125	3 087
Executive Board of Directors (until 20 March 2018)	947	-	947
Board of Directors (after 20 March 2018)	914	55	969
General and Supervisory Board (until 20 March 2018)	524	-	524
Other Key Management Personnel	1 541	20	1 561
Empresa Gestora de Imóveis da Rua do Prior S.A	5	-	5
Fundação Montepio Geral	882	-	882
Fundo de Pensões - Montepio Geral	13 671	2 250	15 921
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	4 063	-	4 063
Germont – Empreendimentos Imobiliários, S.A.	612	-	612
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	44	-	44
Lusitania Vida, Companhia de Seguros, S.A.	10 819	21 250	32 069
Lusitania, Companhia de Seguros, S.A.	3 386	13 000	16 386
Montepio Geral Associação Mutualista	217 230	386 344	603 574
Montepio Gestão de Activos - Soc Gestora Fundos de Investimento, S.A.	2 451	-	2 451
Montepio Gestão de Activos Imobiliários, ACE	2 182	-	2 182
Montepio Imóveis – Sociedade Imobiliária, S.A.	3 030	-	3 030
Montepio Seguros, S.G.P.S., S.A.	479	-	479
N Seguros, S.A.	442	-	442
Nova Câmbios - Instituição de Pagamento, S.A.	472	-	472
Residências Montepio, Serviços de Saúde, S.A.	225	-	225
SAGIES - Segurança e Higiene no Trabalho, S.A.	77	-	77
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	2 674	-	2 674
Sociedade Portuguesa de Administrações, S.A.	243	-	243
	270 762	423 044	693 806

For members of the current Governing Bodies, which were previously members, it was considered that, for reporting purposes, the engagement with CEMG should be included in the current Governing Bodies.

As at 31 December 2016, the Group's liabilities with related parties, under article no. 109, included in the balances Participation Fund, Deposits from customers, Liabilities represented by securities and Other subordinated debt, are analysed as follows:

(Thousands of Euro)

	2016			
Companies	Participation fund	Deposits from customers	Liabilities represented by securities and Other subordinated debt	Total
Bolsimo - Gestão de Activos, S.A.	-	5 884	-	5 884
Clínica CUF Belém, S.A.	-	13	-	13
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	9	-	9
Board of Directors of Other Related Parties	69	3 036	130	3 235
Executive Board of Directors	45	1 528	-	1 573
General and Supervisory Board	55	1 895	-	1 950
Other Key Management Personnel	36	1 299	20	1 355
Empresa Gestora de Imóveis da Rua do Prior S.A	-	5	-	5
Finibanco Vida – Companhia de Seguros de Vida, S.A.	-	2 227	1 000	3 227
Fundação Montepio Geral	-	982	-	982
Fundo de Pensões - Montepio Geral	2 998	74 578	50	77 626
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	1 574	-	1 574
Germont – Empreendimentos Imobiliários, S.A.	-	62	-	62
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	73	-	73
Lusitania Vida, Companhia de Seguros, S.A.	-	15 399	21 250	36 649
Lusitania, Companhia de Seguros, S.A.	500	13 394	13 000	26 894
Montepio Geral Associação Mutualista	284 113	253 604	994 714	1 532 431
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	1 290	-	1 290
Montepio Gestão de Activos Imobiliários, ACE	-	2 168	-	2 168
Montepio Seguros, S.G.P.S., S.A.	-	159	-	159
N Seguros, S.A.	220	1 073	-	1 293
Nova Câmbios - Instituição de Pagamento, S.A.	302	462	-	764
Residências Montepio, Serviços de Saúde, S.A.	-	88	-	88
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	81	-	81
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	2 093	-	2 093
Sociedade Portuguesa de Administrações, S.A.	-	146	-	146
	288 338	383 122	1 030 164	1 701 624

As at 31 December 2017, the Group's income and expenses with related parties, under article no. 109, included in the balances Interest and similar income, Interest and similar expense, Net fee and commission income, Other operating income and General and administrative expenses are analysed as follows:

(Thousands of Euro)

Companies	2017				
	Interest and similar income	Interest and similar expense	Net fee and commission income	Other operating income	General and administrative expenses
Bolsimo -Gestão de Activos, S.A.	-	-	1	-	-
Board of Directors of Other Related Parties	3	16	2	-	-
Executive Board of Directors (until 20 March 2018)	-	9	1	-	-
Board of Directors (after 20 March 2018)	4	7	-	-	-
General and Supervisory Board (until 20 March 2018)	6	4	1	-	-
Other Key Management Personnel	10	12	2	1	-
Fundo de Pensões - Montepio Geral	-	73	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	36	5	-	-
Germont – Empreendimentos Imobiliários, S.A.	379	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	21	-	1	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	158	5 159	-	-
Lusitania, Companhia de Seguros, S.A.	6	93	3 066	9	-
Montepio Geral Associação Mutualista	5	37 291	2 509	16 041	2 093
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	-	17	3	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	2 536	3 930
Montepio Imóveis – Sociedade Imobiliária, S.A.	443	1	-	-	-
Montepio Seguros, S.G.P.S., S.A.	-	-	19	-	-
N Seguros, S.A.	-	1	22	-	-
Nova Câmbios - Instituição de Pagamento, S.A.	9	-	43	1	-
Residências Montepio, Serviços de Saúde, S.A.	29	-	33	14	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	21	-	-	-
	915	37 739	10 867	18 602	6 023

For members of the current Governing Bodies, which were previously members, it was considered that, for reporting purposes, the engagement with CEMG should be included in the current Governing Bodies.

As at 31 December 2016, the Group's income and expenses with related parties, under article no. 109, included in the balances Interest and similar income, Interest and similar expense, Net fee and commission income, Other operating income and General and administrative expenses are analysed as follows:

(Thousands of Euro)

	2016				
Companies	Interest and similar income	Interest and similar expense	Net fee and commission income	Other operating income	General and administrative expenses
Bolsimo -Gestão de Activos, S.A.	-	-	1	-	-
Board of Directors of Other Related Parties	2	27	2	1	-
Clínica de Serviços Médicos	1	-	-	-	-
Executive Board of Directors	-	10	1	-	-
General and Supervisory Board	9	20	1	-	-
Other Key Management Personnel	12	11	2	-	-
Finibanco Vida – Companhia de Seguros de Vida, S.A.	-	62	46	-	-
Fundo de Pensões - Montepio Geral	-	41	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	19	5	-	-
Germont – Empreendimentos Imobiliários, S.A.	378	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	195	-	1	-	-
Lestinvest, S.G.P.S., S.A.	-	-	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	385	7 798	-	-
Lusitania, Companhia de Seguros, S.A.	11	198	4 910	6	-
Montepio Geral Associação Mutualista	-	55 578	1 455	15 785	5 555
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S	-	5	5	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	2 864	-
Montepio Imóveis – Sociedade Imobiliária, S.A.	175	-	1	-	-
Montepio Seguros, S.G.P.S., S.A.	-	-	37	-	-
N Seguros, S.A.	-	8	10	-	-
Nova Câmbios - Instituição de Pagamento, S.A.	41	-	35	-	-
Residências Montepio, Serviços de Saúde, S.A.	22	-	30	24	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	16	-	-	-
	846	56 380	14 340	18 680	5 555

Salaries and other expenses to the Management, General and Supervisory Board and with Other key management personnel are detailed in note 11.

During 2016, the following relevant transactions were carried out with other related parties:

- Acquisition of properties for own use to MGAM, in the total amount of Euro 199,444 thousand, as described in note 29;
- Acquisition of subordinated and perpetual debt securities, in the total amount of Euro 45,191 thousand to Montepio Geral - Associação Mutualista;
- Acquisition of 2,868,092 Units of the Finipredial Participation Fund, in the amount of Euro 24,738 thousand to MGAM; and
- Acquisition of 31,500,000 Units of the Participation Fund by MGAM, in the total amount of Euro 18,302 thousand.

During 2017 and 2016, there were no transactions with the pension's fund of the Group.

54 Securitization transactions

As at 31 December 2017, there are eight securitization transactions, seven of which originated in the Group and one in Montepio Investimento, S.A., currently integrated into the Group, following the success of General and Voluntary Public Offering on the equity representative shares of Montepio Holding, S.G.P.S., S.A. (previously named Finibanco Holding, S.G.P.S., S.A.) and transmission of almost all assets and liabilities (business acquisitions) for the Group, as mentioned in the accounting policy described in note 1 a).

The following paragraphs present some additional details of these securitization transactions.

As at 30 March, 2007, CEMG had settled a securitization operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 3. The referred agreement consists in a mortgage credit transfer for a period of 47 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 762,375 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0165% of the referred nominal value.

As at 20 May 2008, CEMG had settled a securitization operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 4. The referred agreement consists in a mortgage credit transfer for a period of 48 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,028,600 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.083% of the referred nominal value.

As at 9 December 2008, Montepio Investimento S.A. (to the date, Finibanco S.A.) had settled a mortgage credit portfolio to Tagus – Sociedade de Titularização de Créditos, S.A. in the amount of Euro 236,500 thousand (Aqua Mortage No. 1). The total period of this operation is 55 years, with a revolving period of 2 years.

As at 25 March 2009, CEMG had settled a securitization operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 5. The referred agreement consists in a mortgage credit transfer for a period of 52 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,027,500 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0564% of the referred nominal value.

As at 5 March 2012, CEMG had settled a securitization operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage No. 6. The referred agreement consists in a mortgage credit transfer for a period of 51 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,107,000 thousand. The transfer price by which the loans were transferred was their nominal value, including the initial selling costs which represented 0.1083% of the Asset Backed Notes.

As at 7 May 2014, CEMG and Montepio Crédito celebrated with Tagus - Sociedade de Titularização, SA, a contract for the sale of consumer loans within a securitization of credits (Pelican Finance No. 1). The total period of the operation is 14 years, with an initial revolving period of 18 months, amended in November 2015 to 42 months and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 308,700 thousand. The sale was made at their nominal value, including the initial selling costs which represented 0.1871% of Asset Backed Notes.

As at 5 March 2015, CEMG signed with Sagres - Sociedade de Titularização de Créditos, S.A a securitisation contract for small and medium size companies, Pelican SME No. 2. The total period of operation is 28 years with revolving period of 24 months and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,124,300 thousand. The sale was made at their nominal value with the cost of the initial sales process represented 0.0889% of Asset Backed Notes.

As at 11 July 2017, Montepio Crédito signed with Tagus - Sociedade de Titularização de Créditos, S.A., a securitisation contract for consumer loans Aqua Finance No. 4. The term of the operation is 18 years, with a revolving period of 18 months and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 200,200 thousand. The sale was made at par value, including the initial selling costs which represented 0.6991% of Asset Backed Notes.

The entity that guarantees the debt service (servicer) of these operations is CEMG assuming the collection of credits sold and assigned amounts received by deposits, to Sociedades Gestoras de Fundos de Titularização de Créditos (Pelican Mortgages No. 1) and to Sociedades de Titularização de Créditos (Pelican Mortgages No. 3, Pelican Mortgages No. 4, Pelican Mortgages No. 5, Pelican Mortgages No. 6, Aqua Mortgages No. 1, Pelican Finance No. 1 and Pelican SME No. 2). Montepio Crédito – Instituição Financeira de Crédito, S.A. assures the same functions for operation Pelican Finance No. 1.

As at 31 December 2017, the securitzation operations executed by the Group are presented as follows:

(Thousands of Euro)

Issue	Settlement date	Currency	Asset transferred	Credit: Initial amount	Credit: Current amount	Liabilities: Initial nominal value	Liabilities: Current nominal value	Liabilities: Third party amount *
Pelican Mortgages No. 3	March 2007	Euro	Mortgage credit	762 375	222 997	762 375	227 114	90 178
Pelican Mortgages No. 4	May 2008	Euro	Mortgage credit	1 028 600	615 516	1 028 600	642 411	-
Aqua Mortgage No. 1	December 2008	Euro	Mortgage credit	236 500	120 699	236 500	115 566	-
Pelican Mortgages No. 5	March 2009	Euro	Mortgage credit	1 027 500	613 297	1 027 500	636 245	-
Pelican Mortgages No. 6	February 2012	Euro	Mortgage credit	1 107 000	812 326	1 107 000	863 990	-
Pelican Finance No. 1	May 2014	Euro	Consumer credit	308 700	286 927	308 700	299 342	-
Pelican SME No. 2	March 2015	Euro	Small companies	1 124 300	759 583	1 124 300	817 141	178 283
Aqua Finance No. 4	July 2017	Euro	Consumer credit and other	200 200	191 695	200 200	200 200	154 055
				5 795 175	3 623 040	5 795 175	3 802 009	422 516

* Includes nominal value, accrued interest and other adjustments.

In December 2017, CEMG settled Pelican Mortgages No.1 through the exercise of the existing call option.

As at 31 December 2016, the securitzation operations executed by the Group are presented as follows:

(Thousands of Euro)

Issue	Settlement date	Currency	Asset transferred	Credit		Liabilities	
				Initial amount	Current amount	Initial amount	Current amount
Pelican Mortgages No. 1	December 2002	Euro	Mortgage credit	653 250	48 553	653 250	36 405
Pelican Mortgages No. 3	March 2007	Euro	Mortgage credit	762 375	250 542	762 375	121 955
Pelican Mortgages No. 4	May 2008	Euro	Mortgage credit	1 028 600	669 799	1 028 600	-
Aqua Mortgage No. 1	December 2008	Euro	Mortgage credit	236 500	133 455	236 500	-
Pelican Mortgages No. 5	March 2009	Euro	Mortgage credit	1 027 500	668 633	1 027 500	-
Pelican Mortgages No. 6	February 2012	Euro	Mortgage credit	1 107 000	873 879	1 107 000	-
Pelican Finance No. 1	May 2014	Euro	Consumer credit	308 700	293 567	299 342	-
Pelican SME No. 2	March 2015	Euro	Small companies	1 124 300	1 026 425	1 124 300	416 200
				6 248 225	3 964 853	6 238 867	574 560

Additionally, the detail of debt securities issued not derecognized, by securitization operation and nature of the contracts, at 31 December 2017, is presented as follows:

(Thousands of Euro)

	Not derecognised securitisation transactions								
	Pelican Mortgage no. 3	Pelican Mortgage no. 4	Aqua Mortgage no. 1	Pelican Mortgage no. 5	Pelican Mortgage no. 6	Pelican Finance no. 1	Aqua Finance no. 4	Pelican SME no. 2	Total
Domestic credit									
Corporate									
Loans and advances	-	-	-	-	-	-	-	589 601	589 601
Pledged current account	-	-	-	-	-	-	-	65 442	65 442
Other credits	-	-	-	-	-	-	108 932	32 422	141 354
Retail									
Mortgage	221 813	612 642	116 676	610 494	801 579	-	-	-	2 363 204
Consumer and other credits	-	-	-	-	-	282 643	82 413	55 149	420 205
	221 813	612 642	116 676	610 494	801 579	282 643	191 345	742 614	3 579 806
Credit and overdue interest									
Less than 90 days	53	1 153	670	815	3 210	419	286	1 046	7 652
More than 90 days	1 131	1 721	3 353	1 988	7 537	3 865	64	15 923	35 582
	1 184	2 874	4 023	2 803	10 747	4 284	350	16 969	43 234
	222 997	615 516	120 699	613 297	812 326	286 927	191 695	759 583	3 623 040

Additionally, the detail of debt securities issued not derecognized, by securitization operation and nature of the contracts, at 31 December 2016, is presented as follows:

(Thousands of Euro)

	Not derecognised securitisation transactions							
	Pelican Mortgage no. 3	Pelican Mortgage no. 4	Aqua Mortgage no. 1	Pelican Mortgage no. 5	Pelican Mortgage no. 6	Pelican Finance no. 1	Pelican SME no. 2	Total
Domestic credit								
Corporate								
Loans and advances	-	-	-	-	-	-	735 889	735 889
Pledged current account	-	-	-	-	-	-	139 310	139 310
Other credits	-	-	-	-	-	-	62 466	62 466
Retail								
Mortgage	249 498	666 603	129 452	665 858	864 865	-	-	2 576 276
Consumer and other credits	-	-	-	-	-	290 372	73 863	364 235
	249 498	666 603	129 452	665 858	864 865	290 372	1 011 528	3 878 176
Credit and overdue interest								
Less than 90 days	155	697	553	630	1 745	421	680	4 881
More than 90 days	889	2 499	3 450	2 145	7 269	2 774	14 217	33 243
	1 044	3 196	4 003	2 775	9 014	3 195	14 897	38 124
	250 542	669 799	133 455	668 633	873 879	293 567	1 026 425	3 916 300

As at 31 December 2017, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bonds	Issue amount Euro	Current amount Euro	CEMG's interest retention (nominal value) Euro	Maturity date	Rating (initial)				Rating (current)			
						Fitch	Moodys	S&P	DBRS	Fitch	Moodys	S&P	DBRS
Pelican Mortgages No 3	Class A	717 375 000	210 543 589	120 365 825	2054	AAA	Aaa	AAA	n.a.	BBB-	A3	BBB-	n.a.
	Class B	14 250 000	5 435 937	5 435 937	2054	AA-	Aa2	AA-	n.a.	BBB-	Ba1	B-	n.a.
	Class C	12 000 000	4 577 631	4 577 631	2054	A	A3	A	n.a.	BB	B2	B-	n.a.
	Class D	6 375 000	2 431 867	2 431 867	2054	BBB	Baa3	BBB	n.a.	B	Caa1	B-	n.a.
	Class E	8 250 000	-	-	2054	BBB-	n.a.	BBB-	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	4 125 000	4 125 000	4 125 000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 4	Class A	832 000 000	484 091 607	484 091 607	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	A (h)
	Class B	55 500 000	42 853 602	42 853 602	2056	AA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	46 328 218	46 328 218	2056	A-	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	25 000 000	19 303 424	19 303 424	2056	BBB	n.a.	n.a.	n.a.	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	21 233 767	21 233 767	2056	BB	n.a.	n.a.	n.a.	B	n.a.	n.a.	n.a.
	Class F	28 600 000	28 600 000	28 600 000	2056	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 5	Class A	750 000 000	423 213 189	423 213 189	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	148 224 982	148 224 982	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	20 903 523	20 903 523	2061	B	n.a.	n.a.	n.a.	BBB-	n.a.	n.a.	n.a.
	Class D	27 500 000	20 903 523	20 903 523	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	4 500 000	-	-	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	23 000 000	23 000 000	23 000 000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 6	Class A	750 000 000	508 789 579	508 789 579	2063	A	n.a.	A-	AA	A+	n.a.	A	AA (h)
	Class B	250 000 000	250 000 000	250 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	1 800 000	-	-	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class D	65 000 000	65 000 000	65 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	40 200 000	40 200 000	40 200 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua Mortgage No 1	Class A	203 176 000	85 732 409	85 732 409	2063	n.a.	n.a.	AAA	n.a.	n.a.	n.a.	A+	AA (h)
	Class B	29 824 000	26 333 982	26 333 982	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	3 500 000	3 500 000	3 500 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Finance No 1	Class A	202 900 000	193 541 835	193 541 835	2028	A	n.a.	n.a.	A	A	n.a.	n.a.	A
	Class B	91 100 000	91 100 000	91 100 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	14 700 000	14 700 000	14 700 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican SME No 2	Class A	545 900 000	233 840 775	55 558 072	2043	A+	n.a.	n.a.	A (lo)	A+	n.a.	n.a.	AA
	Class B	76 400 000	76 400 000	76 400 000	2043	A	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	87 300 000	87 300 000	87 300 000	2043	BBB	n.a.	n.a.	n.a.	BBB+	n.a.	n.a.	n.a.
	Class D	398 500 000	398 500 000	398 500 000	2043	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	16 200 000	21 100 000	21 100 000	2043	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua Finance n.º 4	Class A	140 000 000	139 146 000	-	2035	n.a.	A3	n.a.	A(lo)	n.a.	A3	n.a.	A(lo)
	Class B	15 000 000	14 909 000	-	2035	n.a.	Ba2	n.a.	BBB(lo)	n.a.	Ba2	n.a.	BBB(lo)
	Class C	45 200 000	45 200 000	45 200 000	2035	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

As at 31 December 2016, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bonds	Issue amount Euro	Current amount Euro	CEMG's interest retention (nominal value) Euro	Maturity date	Rating (initial) Fitch	Rating (initial) Moodys	Rating (initial) S&P	Rating (initial) DBRS	Rating (current) Fitch	Rating (current) Moodys	Rating (current) S&P	Rating (current) DBRS
Pelican Mortgages No 1	Class A	611 000 000	5 327 017	2 184 600	2037	AAA	Aaa	n.a.	n.a.	A+	A1	n.a.	n.a.
	Class B	16 250 000	16 250 000	-	2037	AAA	A2	n.a.	n.a.	A+	A1	n.a.	n.a.
	Class C	22 750 000	22 750 000	5 750 000	2037	BBB+	Baa2	n.a.	n.a.	A+	A1	n.a.	n.a.
	Class D	3 250 000	3 250 000	3 250 000	2037	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 3	Class A	717 375 000	236 777 846	114 821 933	2054	AAA	Aaa	AAA	n.a.	BBB-	A3	BB+	n.a.
	Class B	14 250 000	6 113 269	6 113 250	2054	AA-	Aa2	AA-	n.a.	BBB-	Ba2	B-	n.a.
	Class C	12 000 000	5 148 016	5 148 000	2054	A	A3	A	n.a.	BB	B2	B-	n.a.
	Class D	6 375 000	2 734 883	2 734 875	2054	BBB	Baa3	BBB	n.a.	B	Caa1	B-	n.a.
	Class E	8 250 000	-	-	2054	BBB-	n.a.	BBB-	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	4 125 000	4 125 000	4 125 000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 4	Class A	832 000 000	527 322 161	527 322 161	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	A (h)
	Class B	55 500 000	46 680 533	46 680 533	2056	AA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	50 465 441	50 465 441	2056	A-	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	25 000 000	21 027 267	21 027 267	2056	BBB	n.a.	n.a.	n.a.	BB	n.a.	n.a.	n.a.
	Class E	27 500 000	23 129 994	23 129 994	2056	BB	n.a.	n.a.	n.a.	B	n.a.	n.a.	n.a.
	Class F	28 600 000	28 600 000	28 600 000	2056	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 5	Class A	750 000 000	461 406 237	461 406 237	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	161 601 606	161 601 606	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	22 789 970	22 789 970	2061	B	n.a.	n.a.	n.a.	BBB-	n.a.	n.a.	n.a.
	Class D	27 500 000	22 789 970	22 789 970	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	4 500 000	-	-	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	23 000 000	23 000 000	23 000 000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 6	Class A	750 000 000	570 574 444	570 574 444	2063	A	n.a.	A-	AA	A+	n.a.	A-	AA (h)
	Class B	250 000 000	250 000 000	250 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	1 800 000	-	-	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class D	65 000 000	65 000 000	65 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	40 200 000	40 200 000	40 200 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua Mortgage No 1	Class A	203 176 000	96 484 665	96 484 665	2063	n.a.	n.a.	AAA	n.a.	n.a.	n.a.	A+	AA (h)
	Class B	29 824 000	28 980 484	28 980 484	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	3 500 000	3 500 000	3 500 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Finance No 1	Class A	202 900 000	202 900 000	202 900 000	2028	A	n.a.	n.a.	A	A	n.a.	n.a.	A
	Class B	91 100 000	91 100 000	91 100 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	14 700 000	14 700 000	14 700 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican SME No 2	Class A	545 900 000	545 900 000	129 700 000	2043	A+	n.a.	n.a.	A (lo)	A+	n.a.	n.a.	A (l)
	Class B	76 400 000	76 400 000	76 400 000	2043	A	n.a.	n.a.	n.a.	A	n.a.	n.a.	n.a.
	Class C	87 300 000	87 300 000	87 300 000	2043	BBB	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	398 500 000	398 500 000	398 500 000	2043	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	16 200 000	21 100 000	21 100 000	2043	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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

The segmental reporting is presented in accordance with IFRS 8. In compliance with the Group's management model, the disclosed segments correspond to the segments used for management purposes by the 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 private clients, companies and institutions, 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 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 31 December 2017, the Group had a network of 324 branches in Portugal, a local bank in Cape Verde, one financial institution in Angola with 24 branches and one financial institution in Mozambique with 10 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 Cape 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, micro-enterprises and IPSS, commercially designated by Individuals and Small Businesses segment fundamentally originated by the branches network, agent network and electronic channels. The financial information of these segment includes, among other products and related services such as 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 Cape 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 by the Group 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 emphasized 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 financial participations, the activity related to interest and exchange rate risk management, management of short and long positions of financial investments which favorites 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 the 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 securitize 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 from other 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 those units with the respective consolidation and elimination adjustments.

The report by operating segments as at 31 December 2017, is presented as follows:

(Thousands of Euro)

			Other segments				
Income Statement	**Retail**	**Corporate and Institutional**	**Markets**	**Non core assets (Real estate)**	**Discontinuing operations**	**Other operating segments**	**Total**
Interest and similar income	224 230	106 454	52 684	26 167	-	11 096	**420 631**
Interest and similar expense	75 832	6 315	57 016	8 045	-	7 197	**154 405**
Net interest income	**148 398**	**100 139**	**(4 332)**	**18 122**	**-**	**3 900**	**266 226**
Dividends from equity instruments	-	-	12 611	-	-	-	**12 611**
Fee and commission income	99 703	25 196	-	-	-	(5 090)	**119 808**
Net gains/ (losses) arising from assets and liabilities at fair value through profit and loss	-	-	(14 807)	-	-	-	**(14 807)**
Net gains/ (losses) arising from available-for-sale financial assets through profit and loss	-	-	83 622	-	-	-	**83 622**
Net gains arising from foreign exchange differences	-	-	1 922	-	-	-	**1 922**
Net gains/ (losses) arising from sale of other financial assets	-	-	14 375	22 535	-	940	**37 850**
Other operating income	8 807	944	(1 271)	(1 440)	-	(9 005)	**(1 965)**
Total operating income	**256 907**	**126 278**	**92 120**	**39 217**	**-**	**(9 256)**	**505 267**
Staff costs	99 044	20 249	6 144	11 907	-	18 863	**156 207**
General and administrative expenses	43 918	7 636	1 970	25 732	-	7 750	**87 005**
Depreciation and amortisation	-	-	-	-	-	24 809	**24 809**
	142 962	**27 885**	**8 114**	**37 639**	**-**	**51 421**	**268 021**
Total provisions and impairment	25 967	14 470	7 766	130 414	-	12 732	**191 350**
Total operating profit	**87 978**	**83 923**	**76 240**	**(128 836)**	**-**	**(73 409)**	**45 896**
Share of profits of associates under equity method	**-**	**-**	**-**	**-**	**-**	**166**	**166**
Income before taxes and non-controlling interests	**87 978**	**83 923**	**76 240**	**(128 836)**	**-**	**(73 243)**	**46 062**
Current and deferred taxes	**(25 953)**	**(24 757)**	**(22 491)**	**38 007**	**-**	**(7 166)**	**(42 361)**
Net gains/ (losses) arising from continuing operations	**62 024**	**59 166**	**53 749**	**(90 829)**	**-**	**(80 409)**	**3 701**
Net gains/ (losses) arising from discontinuing operations	**-**	**-**	**-**	**-**	**4 112**	**-**	**4 112**
Consolidated net gains/ (losses) after taxes	**62 024**	**59 166**	**53 749**	**(90 829)**	**4 112**	**(80 409)**	**7 813**
Non-controlling interests	**-**	**-**	**-**	**-**	**1 376**	**-**	**1 376**
Consolidated net profit for the period attributable to the shareholder	**62 024**	**59 166**	**53 749**	**(90 829)**	**2 736**	**(80 409)**	**6 437**
Net assets	8 784 890	2 791 187	2 384 969	2 841 101	474 475	2 923 403	**20 200 024**
Liabilities	10 268 900	1 468 122	1 798 081	-	330 392	4 571 608	**18 437 103**
Investment in associates	-	-	4 097	-	-	-	**4 097**

Other segments - Discontinuing Operations includes the contribution of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A., whose impact on the several balances of the Income Statement is disclosed in note 62.

The report by operating segments as at 31 December 2016, is presented as follows:

(Thousands of Euro)

Income Statement	Retail	Corporate and Institutional	Other segments				Total
			Markets	Non core assets (Real estate)	Discontinuing operations	Other operating segments	
Interest and similar income	270 042	103 621	135 699	-	-	24 977	534 338
Interest and similar expense	136 722	30 101	105 557	-	-	8 785	281 165
Net interest income	133 319	73 520	30 142	-	-	16 192	253 173
Dividends from equity instruments	-	-	11 647	-	-	-	11 647
Fee and commission income	96 451	28 368	380	-	-	(23 710)	101 489
Net gains/ (losses) arising from assets and liabilities at fair value through profit and loss	-	-	(18 194)	-	-	-	(18 194)
Net gains/ (losses) arising from available-for-sale financial assets through profit or loss	-	-	53 736	-	-	-	53 736
Net gains arising from foreign exchange differences	-	-	1 445	-	-	-	1 445
Net gains/ (losses) arising from sale of other financial assets	13 230	-	-	2 203	-	(3 272)	12 161
Other operating income	18 389	1 180	701	(17 467)	-	(46 738)	(43 935)
Total operating income	261 389	103 067	79 858	(15 264)	-	(57 528)	371 522
Staff costs	90 066	18 147	2 152	1 322	-	53 818	165 505
General and administrative expenses	51 498	23 426	1 881	3 504	-	13 714	94 024
Depreciation and amortisation	-	-	-	-	-	24 270	24 270
	141 564	41 573	4 033	4 827	-	91 803	283 799
Total provisions and impairment	105 372	77 107	44 484	34 005	-	520	261 488
Total operating profit	14 454	(15 613)	31 341	(54 096)	-	(149 851)	(173 765)
Share of profits of associates under equity method	-	-	-	-	-	250	250
Income before taxes and non-controlling interests	14 454	(15 613)	31 341	(54 096)	-	(149 601)	(173 515)
Current and deferred taxes	(4 264)	4 606	(9 245)	15 958	-	89 189	96 244
Non-controlling interests	-	-	-	-	2 029	-	2 029
Net gains/ (losses) arising from discontinuing operations	-	-	-	-	(7 184)	-	(7 184)
Consolidated net profit for the period attributable to the holders of Institutional capital and Participation fund	10 190	(11 007)	22 095	(38 137)	(9 213)	(60 412)	(86 484)
Net assets	10 394 000	3 768 000	3 603 797	1 368 172	-	2 211 940	21 345 909
Liabilities	10 089 000	1 557 000	2 197 211	-	-	6 046 200	19 889 411
Investment in associates	-	-	4 042	-	-	-	4 042

Other segments - Discontinuing Operations includes the contribution of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A., whose impact on the several balances of the Income Statement is disclosed in note 62.

As at 31 December 2017, the net contribution of the main geographical areas is as follows:

(Thousands of Euro)

Income Statement	**Activity**		
	Domestic	**International**	**Total**
Interest and similar income	416 943	3 688	420 631
Interest and similar expense	151 118	3 287	154 405
Net interest income	265 825	401	266 226
Dividends from equity instruments	12 611	-	12 611
Fee and commission income	119 808	-	119 808
Net gains/ (losses) arising from assets and liabilities at fair value through profit and loss	(14 807)	-	(14 807)
Net gains/ (losses) arising from available-for-sale financial assets	83 622	-	83 622
Net gains arising from foreign exchange differences	1 776	146	1 922
Net gains from sale of other financial assets	37 850	-	37 850
Other operating income	(1 963)	(2)	(1 965)
Total operating income	504 722	545	505 267
Staff costs	156 114	93	156 207
General and administrative expenses	86 466	539	87 005
Depreciation and amortisation	24 802	7	24 809
	267 382	639	268 021
Loans impairment	160 711	-	160 711
Other financial assets impairment	7 766	-	7 766
Other assets impairment	12 550	-	12 550
Other provisions	10 323	-	10 323
Total operating profit	45 990	(94)	45 896
Share of profits of associates under equity method	166	-	166
Income before taxes and non-controlling interests	46 156	(94)	46 062
Current taxes	(6 470)	-	(6 470)
Deferred taxes	(35 891)	-	(35 891)
Net gains/ (losses) arising from discontinuing operations	-	4 112	4 112
Non-controlling interests	-	1 376	1 376
Consolidated net profit for the period attributable to the shareholder	3 795	2 642	6 437

The International Activity includes in the balance Income from discontinuing operations, the contribution of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A., whose impact on the several balances of the Income Statement is disclosed in note 62.

As at 31 December 2017, the net contribution of the main geographical areas is as follows:

(Thousands of Euro)

Statement of Financial Position	Activity		Total
	Domestic	International	
Cash and deposits at credit institutions	1 902 913	193 123	2 096 036
Loans and advances to customers	13 029 318	-	13 029 318
Investments in financial assets and associated companies	2 389 066	-	2 389 066
Non-current assets held for sale	742 221	-	742 221
Investment properties	538 625	-	538 625
Non-current assets held for sale - discontinuing operations	-	474 475	474 475
Other assets	930 203	80	930 283
Total Assets	19 532 346	667 678	20 200 024
Deposits from central banks and credit institutions	3 344 085	472	3 344 557
Deposits from customers	12 379 697	181 343	12 561 040
Debt securities issued and other subordinated debt	1 780 245	2	1 780 247
Non-current liabilities held for sale - discontinuing operations	-	330 392	330 392
Other liabilities	419 034	1 833	420 867
Total Liabilities	17 923 061	514 042	18 437 103
Non-controlling interests	-	32 835	32 835
Total Equity attributable to the shareholder	1 609 285	120 801	1 730 086
Total Equity	1 609 285	153 636	1 762 921
Total Liabilities and Equity	19 532 346	667 678	20 200 024

The International Activity includes in the balances Non-current assets and liabilities held for sale – discontinuing operations, the contribution of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A., whose impact on the several balances of the Statement of Financial Position is disclosed in note 62.

As at 31 December 2016, the net contribution of the main geographical areas is as follows:

(Thousands of Euro)

Income Statement	**Activity**		
	Domestic	**International**	**Total**
Interest and similar income	534 336	2	534 338
Interest and similar expense	274 689	6 476	281 165
Net interest income	259 647	(6 474)	253 173
Dividends from equity instruments	11 647	-	11 647
Fee and commission income	101 489	-	101 489
Net gains/ (losses) arising from assets and liabilities at fair value through profit and loss	(18 194)	-	(18 194)
Net gains/ (losses) arising from available-for-sale financial assets	53 736	-	53 736
Net gains arising from foreign exchange differences	1 507	(62)	1 445
Net gains from sale of other financial assets	12 161	-	12 161
Other operating income	(45 195)	1 260	(43 935)
Total operating income	376 798	(5 276)	371 522
Staff costs	165 429	76	165 505
General and administrative expenses	93 888	136	94 024
Depreciation and amortisation	24 254	16	24 270
	283 571	228	283 799
Loans impairment	182 479	-	182 479
Other financial assets impairment	44 484	-	44 484
Other assets impairment	40 833	-	40 833
Other provisions	(6 308)	-	(6 308)
Total operating profit	(168 261)	(5 504)	(173 765)
Share of profits of associates under equity method	250	-	250
Income before taxes and non-controlling interests	(168 011)	(5 504)	(173 515)
Current taxes	(1 697)	-	(1 697)
Deferred taxes	97 941	-	97 941
Net gains/ (losses) arising from discontinuing operations	-	(7 184)	(7 184)
Non-controlling interests	-	2 029	2 029
Consolidated net profit for the period attributable to the holders of Insitutional capital and Participation Fund	(71 767)	(14 717)	(86 484)

The International Activity includes in the balance Net gains/ (losses) arising from discontinuing operations, the contribution of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A., whose impact on the several balances of the Income Statement is disclosed in note 62.

As at 31 December 2016, the net contribution of the main geographical areas is as follows:

(Thousands of Euro)

Statement of Financial Position	Activity Domestic	Activity International	Total
Cash and deposits at credit institutions	731 510	278 438	1 009 948
Loans and advances to customers	13 861 034	-	13 861 034
Investments in financial assets and associated companies	3 607 839	-	3 607 839
Non-current assets held for sale	760 204	-	760 204
Investment properties	607 968	-	607 968
Non-current assets held for sale - discontinuing operations	-	458 297	458 297
Other assets	1 040 533	86	1 040 619
Total Assets	20 609 088	736 821	21 345 909
Deposits from central banks and credit institutions	4 577 338	21 549	4 598 887
Deposits from customers	12 232 282	235 537	12 467 819
Debt securities issued and subordinated debt	2 143 759	27 304	2 171 063
Non-current liabilities held for sale - discontinuing operations	-	354 781	354 781
Other liabilities	295 076	1 785	296 861
Total Liabilities	19 248 455	640 956	19 889 411
Non-controlling interests	-	23 201	23 201
Total Equity attributable to the holders of Institutional capital and Participation Fund	1 360 633	72 664	1 433 297
Total Equity	1 360 633	95 865	1 456 498
Total Liabilities and Equity	20 609 088	736 821	21 345 909

The International Activity includes in the balances Non-current assets and liabilities held for sale – discontinuing operations, the contribution of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A., whose impact on the several balances of the Statement of Financial Position is disclosed in note 62.

56 Risk management

Objectives of the Risk Management Policy

CEMG is exposed to a number of risks, including credit, concentration, market, interest rate, currency, liquidity, real estate, operational and pension fund risks. Aditionally, the Group is subject to other risks of non-financial nature, namely the operational risk, reputation risk, strategy risk and business risk. Depending on the nature and relevance of the risk, plans, programs or actions are designed, supported by information systems and procedures providing a high degree of reliability regarding risk management measures that have been established in due course. All risks identified as material are subject to regular monitoring and mitigation actions in order to reduce potential losses to CEMG.

The monitoring of these risks is centralised in the Risk Department, which informs the Board of its development and proposes action measures when necessary.

The Board of Directors seeks to ensure sufficient capital to meet regulatory requirements to cover potential losses, with an optimized balance sheet structure that maintains a stable funding capacity and strong liquidity, allowing them to face stress situations and ensuring the continuity of its operations and the protection of its depositors and holders of non-subordinated debt.

Particularly, CEMG Group has clear objectives, determined in its strategic plan, for capital ratios, ratio of transformation of deposits into credit and liquidity and financing ratios, in addition to a feasible and sustainable business model aligned with risk appetite.

Risk appetite is based on certain principles - namely consistency, sustainability and profitability - and is defined in terms of the strategic plan and the intended market positioning. CEMG analyzes the risks it faces in its activities and identifies those that are materially relevant. For these, objectives are set according to the desired level of return and strategy, tolerance levels, that is, ranges of risk variation that can lead to discussions and decisions about corrective measures, and limits that are exceeded can lead to immediate corrective measures.

The main concern of the Board of Directors in determining risk appetite consists of its compliance with other organizational components (business strategy and global vectors of risk strategy). In addition, the Board of Directors seeks to ensure that risk appetite is well understood across the entire organization, especially the business units responsible for decision making, which may affect risk exposure and its monitoring.

CEMG's Group risk management policy is designed to ensure adequate relationship at all times between its own funds and the business it carries on, and also to evaluate the risk/return profile by business line. Thus, monitoring and control of the main types of financial risk – credit, market, liquidity real estate and operational – to which CEMG's business is subject are of particular importance.

CEMG's Group overall risk management is the responsibility of the Board of Directors, which defines the tolerance levels and maximum risk limits, for each specific risk considered materially relevant, in accordance with the defined strategic objectives and business plans. This policy is reviewed regularly.

Control and efficient risk management have played a key role in CEMG's balanced and sustained development. In addition, it contributes to the optimization of the profitability / risk binomial of the various lines of business, they also ensure the maintenance of a conservative risk profile in solvency and liquidity.

Risk management has maintained the following main objectives:

- Identification, measurement and control of the different types of risk assumed;
- Continuous contribution to the improvement of tools to support operation decisions and the development of internal techniques for performance evaluation and optimization of the capital base; and
- Follow-up of CEMG’s international activities and strategies, participating in the design of organizational solutions and in the assumed risk monitoring and reporting.

Credit risk

Credit risk is associated with the uncertainty of expected returns due to the inability of both the lessee (and his guarantor, if any), or the issuer of a security or counterparty to comply with its obligations.

The credit risk management process is based on the existence of a solid process of credit analysis and decision, prepared on a set of tools supporting the credit decision process. The quantification of credit risk is also supported in the model for calculating impairment losses.

The fundamental principle of credit risk analysis is independence towards business decisions. In this analysis instruments are used and rules defined according to the materiality of the exposures, familiarity with the types of risk involved (e.g. the modeling capacity of such risks) and the liquidity of the instruments.

Credit risk models play a significant role in credit decision process. Indeed, the decision process concerning the credit portfolio depends on a group of policies based on scoring models developed to individual and business clients and the rating for the corporate sector.

Regarding the analysis methodologies, within the credit risk, the credit risk techniques and models are based on econometric modeling, based on the institution's experience in granting various types of credit facilities and, where possible, recovery.

Credit decisions are dependent upon risk ratings and compliance with various rules governing financial capacity and applicants' behavior. In order to support commercial strategies reactive scoring models are also used, namely in the main individual credit portfolios, such as mortgage and individual loans, distinguishing between customers and non-customers (or new customers).

In corporate credit, internal rating models are used to medium and large companies, distinguishing the construction sector and the third sector from the remaining business sectors, whereas for customers "Empresários em nome individual" (ENI's) and small companies the scoring model business is applied.

Regardless of the typology of the applicable model, any proposal, contract or credit customer is classified into a single risk scale class, in ascending order of Probability of Default, and this scale composed of 19 classes, of which the first 15 correspond to performing risk classes, classes 16 to 18 to credit incidents and 19th to non-compliance.

The pricing of the active operations reflects the expected loss, as well as the capital borrowed cost and equity and the administrative costs. In quantifying the expected loss, the marginal probabilities of default for the term of the operation, associated with the internal risk classes and the loss severity, quantified through market estimates, are considered, taking into account the types of credit and of collaterals. Pricing also reflects the business relationship with customers.

It is possible to exceed the response of scoring systems, internal ratings and internal price lists, only by higher decision levels, in accordance with principles of delegation of responsibilities set out. Rejection situations are defined in order to minimize the risk of adverse selection, however there is always a risk class for rejection.

Intervention limits are also defined for the different decisions, by amount of operation and global customer exposure, type of operation / collateral and assigned risk class. In this context, the principle that higher hierarchical positions have to approve operations with lower adjusted ROE risk or higher exposures is highlighted. These limits are approved by the Board of Directors, and the highest decision scale corresponds to the Board of Directors. At intermediate stages, it is compulsory to intervene in a collegial system of at least two players, one belonging to the commercial network and the other to the Department of Credit Analysis (independent body of the commercial structure) as well as the Risk Department, which is responsible for the development of credit risk models (scoring and rating), and for the monitoring of CEMG's risk control, on a global basis.

Risk analysis also involves regular internal reporting on key types of risk. Within credit risk, monthly internal reports are prepared, with the main risk indicators of credit portfolios and metrics on the use of rating / scoring models. In terms of preventive monitoring, an alert system is in place for the main indicators of credit risk tightening (Early Warning Signs).

The Group's Calculation Model of Impairment losses on the Loan Portfolio has been in force since June 2006 and is subject to regular updates, governed by the general principles defined in IAS 39, as well as by the guidelines contained in the Circular Letter no. 02/2014/DSP of the Bank of Portugal, in order to align the calculation process with the best international practices.

The Group's impairment model begins by segmenting the credit portfolio customers into three distinct groups, depending on the existing signs of impairment (including internal and external information) and the size of the set of exposures of each economic group/customer:

- Individually Significant: individual Customers or Economic Groups that meet at least one of the following requirements are subject to individual analysis:
    - Exposure above Euro 1 million, with signs of impairment;
    - Exposure above Euro 2.5 million, without signs of impairment
    - Regulatory Client: clients / economic groups subject to individual analysis in the previous month and that do not meet the current exposure criteria.

Regarding the impairment collective analysis, the allocation is made taking into account the following criteria:

- Homogeneous Populations with signs of impairment: Customers or Economic Groups that do not fulfill the criteria to be Individually Significant and that present at least a sign of impairment.
- Homogeneous populations without signs of impairment: Customers or Economic Groups that do not fulfill the criteria to be Individually Significant and that do not show any sign of impairment.

Depending on the group in which the clients are classified, the operations are dealt through Individual Analysis or Collective Analysis.

For each of the active clients / credits, a set of impairment signs is verified, which includes internal and external information, which in turn, aggravate impairment values as they represent an increase in the risk of default. It should be noted that credit restructured due to financial difficulties is a sign of impairment and therefore the loan portfolio classified as restructured is included in the credits with signs of impairment.

In the group of homogeneous populations, customer exposures are subject to collective analysis. The calculation of the impairment value for customer loans belonging to homogeneous populations results from the product of the EAD exposure (deducted from risk-free financial collateral) by the following risk parameters:

- PD (probability of default): corresponds to internal default estimates, based on risk classifications associated with operations / clients, segment and respective impairment / credit status (if any). If the credit is in default or cross-default, the PD corresponds to 100%;
- LGD (default loss): corresponds to internal loss estimates, which vary depending on the segment, whether or not there is a real guarantee, Loan-to-Value (LTV) and default seniority, based on the historical experience of credits recovery that have been in default.

In the group of individually significant clients, client exposures are subject to individual analysis. This analysis focuses on the credit quality of the debtor, as well as on the expectations of recovering the credit, considering collateral and existing collateral, as well as the remaining relevant factors.

Impairment value for Individually Significant Clients is determined using the discounted cash-flows method, that is, the impairment value corresponds to the difference between the credit value and the sum of the expected cash flows for the client's various operations, updated according to the interest rates of each operation.

The following information is related to the exposure of the CEMG to the credit risk, where the most relevant item in terms of exposure is, so as in terms of the associated risk, is loans to customers. It should be noted that the portfolio of available-for-sale financial assets is essentially composed of public debt securities of the European Union.

The information contained in the tables presented excludes the balance componente of entities to the application of the IFRS 5, which correspond to the subsidiaries in Angola and Mozambique, which is recorded under the caption Non-current assets held for sale in discontinuing operations.

The Group's credit risk exposure can be analysed as follows:

(Thousands of Euro)

	2017	2016
Deposits in credit institutions repayable on demand	50 205	69 568
Other loans and advances to credit institutions	312 203	559 091
Loans and advances to customers	13 029 318	13 861 034
Financial assets held for trading	174 175	70 998
Available-for-sale financial assets	1 658 409	1 832 323
Held-to-maturity investments	-	1 126 125
Investment in associated companies	4 097	4 042
Other assets	184 245	215 694
Guarantees granted	483 916	491 501
Irrevocable commitments	609 515	488 069
	16 506 083	18 718 445

The analysis of the credit risk exposure by sector of activity, for 2017, can be analysed as follows:

(Thousands of Euro)

Activity	2017										
	Deposits in credit institutions repayable on demand	Other loans and advances to credit institutions	Loans and advances to customers		Financial assets held for trading	Available-for-sale financial assets		Investiment in associated companies	Guarantees granted, documentary credits, securities and indemnities (counterguarantees)		Irrevocable commitments
	Book value	Book value	Gross amount	Impairment	Book value	Gross amount	Impairment	Book value	Off-balance value	Provisions for guarantees and commitments	Book value
Agriculture, forestry and fishing	-	-	145 289	8 724	-	-	-	-	2 012	125	5 301
Mining	-	-	21 136	1 849	-	-	-	-	975	68	1 438
Food, beverage and tobacco	-	-	228 414	13 473	-	1 020	-	-	2 964	94	57 796
Textiles	-	-	89 048	10 120	-	-	-	-	1 218	2	8 688
Shoes	-	-	43 446	4 418	-	-	-	-	31	-	5 437
Wood and cork	-	-	34 965	4 338	-	-	-	-	476	39	4 624
Printing and publishing	-	-	44 155	7 889	-	907	-	-	426	36	3 667
Petroleum refining	-	-	501	45	-	2 489	-	-	-	-	-
Chemicals and rubber	-	-	88 731	5 438	-	-	-	-	4 681	95	18 305
Non-metallic minerals	-	-	142 817	5 017	-	-	-	-	1 985	140	5 440
Basic metalurgic industries and metallic products	-	-	172 151	18 497	-	-	-	-	10 325	99	21 695
Production of machinery	-	-	43 878	3 159	-	-	-	-	2 071	127	5 277
Production of transport material	-	-	44 188	1 517	-	1 037	-	-	3 109	190	3 723
Other transforming industries	-	-	48 013	5 315	-	-	-	-	514	3	4 481
Energy, gas and water	-	-	153 367	2 588	-	14 302	-	-	2 823	70	26 513
Construction	-	-	965 577	304 865	-	-	-	-	109 740	6 053	74 753
Wholesale and retail	-	-	1 062 786	121 547	-	10 142	-	-	72 651	3 082	130 969
Tourism	-	-	497 335	20 032	-	-	-	3 399	10 628	238	18 244
Tranports	-	-	475 750	60 466	-	-	-	-	10 580	327	17 748
Communication and information activities	-	-	89 760	6 556	-	2 864	-	-	4 954	275	21 799
Financial activities	50 205	312 203	640 830	69 087	24 553	24 816	9 307	-	157 813	714	40 313
Real estate activities	-	-	808 053	122 809	121 329	4 277	-	-	15 266	818	61 335
Services rendered to companies	-	-	630 039	41 075	-	27 963	-	698	35 304	237	44 325
Public services	-	-	143 085	3 927	28 293	1 573 685	-	-	527	11	3 551
Other activities of collective services	-	-	449 885	24 424	-	-	-	-	14 203	3 134	20 349
Mortgage loans	-	-	6 738 833	133 346	-	31 158	26 944	-	4 017	148	445
Other	-	-	261 734	10 548	-	-	-	-	31 199	22	3 299
	50 205	312 203	14 063 766	1 011 069	174 175	1 694 660	36 251	4 097	500 492	16 147	609 515

The analysis of the credit risk exposure by sector of activity, for 2016, can be analysed as follows:

(Thousands of Euro)

Activity	Deposits in credit institutions repayable on demand	Other loans and advances to credit institutions	Loans and advances to customers		Financial assets held for trading	Available-for-sale financial assets		Held to maturity investments	Investiment in associated companies	Guarantees granted, documentary credits, securities and indemnities (counterguarantees)		Irrevocable commitments
2016												
	Book value	Book value	Gross amount	Impairment	Book value	Gross amount	Impairment	Valor de Balanço	Book value	Off-balance value	Provisions for guarantees and commitments	Book value
Agriculture, forestry and fishing	-	-	159 747	12 837	-	2 138	-	-	-	1 460	23	4 421
Mining	-	-	17 417	1 695	-	-	-	-	-	996	72	4 349
Food, beverage and tobacco	-	-	235 450	20 094	-	981	-	-	-	2 483	95	38 058
Textiles	-	-	89 450	11 469	-	-	-	-	-	934	2	6 735
Shoes	-	-	45 029	4 246	-	-	-	-	-	245	0	6 120
Wood and cork	-	-	38 896	5 546	-	-	-	-	-	522	27	4 360
Printing and publishing	-	-	109 818	8 364	-	-	-	-	-	377	59	3 816
Petroleum refining	-	-	328	41	-	14 011	-	-	-	-	-	-
Chemicals and rubber	-	-	123 526	12 743	-	-	-	-	-	3 219	99	13 476
Non-metallic minerals	-	-	147 077	5 480	-	-	-	-	-	1 974	137	5 610
Basic metalurgic industries and metallic products	-	-	180 300	19 046	-	-	-	-	-	6 104	109	21 299
Production of machinery	-	-	41 015	2 913	-	-	-	-	-	1 532	95	6 655
Production of transport material	-	-	36 505	1 442	-	-	-	-	-	6 725	222	2 683
Other transforming industries	-	-	56 059	7 337	-	-	-	-	-	5 369	1	4 290
Energy, gas and water	-	-	194 940	2 769	-	29 441	-	-	-	4 923	254	31 218
Construction	-	-	1 126 457	339 924	-	998	998	-	-	128 754	5 863	44 376
Wholesale and retail	-	-	1 238 224	163 832	-	7 064	-	-	-	68 486	2 765	134 256
Tourism	-	-	499 696	33 065	-	-	-	-	3 344	9 458	217	15 089
Tranports	-	-	471 380	53 612	-	-	-	-	-	12 227	434	20 509
Communication and information activities	-	-	103 576	8 716	-	22 675	-	-	-	6 317	40	13 022
Financial activities	69 568	559 091	734 671	64 443	56 338	114 729	9 209	-	-	119 672	1 342	32 624
Real estate activities	-	-	682 875	131 047	-	-	-	-	-	19 615	1 076	17 971
Services rendered to companies	-	-	656 754	52 347	-	-	-	-	698	69 630	275	24 668
Public services	-	-	135 419	4 783	14 660	2 263 821	7 343	1 126 125	-	517	11	4 999
Other activities of collective services	-	-	460 449	30 460	-	-	-	-	-	9 126	427	23 560
Mortgage loans	-	-	7 226 569	169 298	-	108 861	32 040	-	-	4 327	205	503
Other	-	-	229 027	12 069	-	3 369	-	-	-	6 510	33	3 402
	69 568	559 091	15 040 651	1 179 617	70 998	2 568 088	49 590	1 126 125	4 042	491 501	13 881	488 069

The Group's total loans portfolio, including in addition to loans and advances to customers (entities subject to the adoption of IFRS 5), guarantees provided and documentary credits in the amount of Euro 500,063 thousand (31 December 2016: Euro 491,072 thousand) and irrevocable credit amounting to Euro 609,515 thousand (31 December 2016: Euro 488,069 thousand), broken down between loans with impairment and loans without impairment, is presented as follows:

(Thousands of Euro)

	2017	2016
Total loans	15 119 708	15 956 137
Individually significant		
Gross amount	4 948 126	5 259 203
Impairment	(643 356)	(631 581)
Net amount	4 304 770	4 627 622
Collective analysis		
Loans with signs of impairment		
Gross amount	1 503 842	1 941 787
Impairment	(393 134)	(548 908)
Net amount	1 110 708	1 392 879
Loans without signs of impairment	8 667 740	8 755 147
Impairment (IBNR)	(13 477)	(12 985)
Net amount	14 069 741	14 762 663

As at 31 December 2017 and 2016, impairment determined according to the accounting policy described in note 1 c), is presented as follows:

(Thousands of Euro)

	2017						
	Impairment calculated on an individual basis		Impairment calculated on a portfolio basis		Total		
	Loans amount	Impairment	Loans amount	Impairment	Loans amount	Impairment	Loans net of impairment
Corporate loans	4 896 424	628 961	2 690 531	253 499	7 586 955	882 460	6 704 495
Morgage loans	18 140	818	6 676 715	72 914	6 694 855	73 732	6 621 123
Other loans	33 563	13 577	804 335	80 198	837 898	93 775	744 123
	4 948 127	643 356	10 171 581	406 611	15 119 708	1 049 967	14 069 741

(Thousands of Euro)

	2016						
	Impairment calculated on an individual basis		Impairment calculated on a portfolio basis		Total		
	Loans amount	Impairment	Loans amount	Impairment	Loans amount	Impairment	Loans net of impairment
Corporate loans	5 178 687	617 914	2 729 499	372 427	7 908 186	990 341	6 917 845
Mortgage loans	23 923	1 392	7 136 075	96 324	7 159 998	97 716	7 062 282
Other loans	56 593	12 275	831 360	93 142	887 953	105 417	782 536
	5 259 203	631 581	10 696 934	561 893	15 956 137	1 193 474	14 762 663

The analysis of the fair value of collaterals associated to the Group's total portfolio:

(Thousands of Euro)

	2017	2016
Loans with impairment		
Securities and other financial assets	165 407	207 299
Residential real estate - Mortgage loans	29 290	39 653
Real estate - Construction and CRE	2 548 752	1 968 615
Other real estate	1 613 007	1 799 299
Other guarantees	494 691	482 654
	4 851 147	4 497 520
Parametric analysis:		
Securities and other financial assets	17 203	24 659
Residential real estate - Mortgage loans	1 110 592	1 415 103
Real estate - Construction and CRE	275 404	381 828
Other real estate	293 260	360 348
Other guarantees	26 612	29 564
	1 723 071	2 211 502
Loans without impairment		
Securities and other financial assets	263 485	265 297
Residential real estate - Mortgage loans	12 099 298	12 265 692
Real estate - Construction and CRE	364 851	242 739
Other real estate	961 873	839 790
Other guarantees	329 875	284 584
	14 019 382	13 898 102
	20 593 600	20 607 124

The Group uses physical and financial collaterals as instruments for mitigating credit risk. The physical collaterals correspond mainly to mortgages on residential properties in the course of the mortgage and other types of mortgages on properties in other types of loans. To reflect the market value of them, these effects are reviewed regularly based on evaluations conducted by certified independent testing organizations or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are re-evaluated based on market values of their assets, when available, and certain coefficients applied depreciation to reflect its volatility. Most of the physical collaterals are revaluated at least once a year.

The Group's total loans portfolio, by segment and respective impairment, as of 31 December 2017 and 2016, is presented as follows:

(Thousands of Euro)

	2017		2016	
Segment	Total exposure	Total impairment	Total exposure	Total impairment
Corporate	5 271 773	421 957	5 617 940	484 565
Construction and CRE	2 315 182	460 503	2 290 246	505 776
Mortgage loans	6 694 855	73 732	7 159 998	97 716
Other loans	837 898	93 775	887 953	105 417
	15 119 708	1 049 967	15 956 137	1 193 474

The loans portfolio, by segment and by production year, as of 31 December 2017, is presented as follows:

(Thousands of Euro)

	Corporate			Construction and CRE			Mortgage loans			Othre loans		
Year of production	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment
2004 and previous	1 598	79 477	16 500	1 299	230 918	101 909	57 062	1 981 156	23 529	40 811	29 555	6 943
2005	523	29 153	4 793	352	71 822	35 012	13 371	717 741	8 388	4 892	8 291	1 511
2006	672	61 818	6 816	466	105 640	41 557	16 225	887 657	13 597	6 883	23 924	4 446
2007	1 033	88 252	11 503	605	114 853	38 944	16 419	887 473	12 363	37 843	39 186	13 912
2008	4 921	80 578	10 822	1 069	82 843	20 440	8 586	462 685	7 219	51 150	36 211	6 758
2009	4 105	127 641	16 936	1 194	107 176	31 851	4 689	287 817	2 997	36 646	34 059	8 108
2010	4 456	206 304	32 045	1 207	83 307	24 753	4 900	331 142	2 837	18 595	34 659	12 842
2011	5 657	219 133	59 977	1 292	72 890	20 338	1 834	123 740	556	19 390	33 081	10 929
2012	5 438	218 607	35 977	1 135	57 986	17 404	1 179	80 250	707	11 146	28 535	7 512
2013	12 240	605 203	91 266	1 653	125 558	25 337	1 514	105 868	735	16 881	45 987	6 796
2014	17 680	753 462	54 051	3 970	233 030	31 922	1 822	129 600	333	25 542	85 271	7 294
2015	17 575	750 926	39 174	2 647	212 154	9 920	2 113	159 667	158	28 458	109 209	3 320
2016	17 159	920 163	22 843	3 480	329 984	35 230	2 829	235 225	188	39 387	154 993	2 387
2017	23 272	1 131 056	19 254	4 084	487 021	25 886	3 695	304 834	125	37 690	174 937	1 017
	116 329	5 271 773	421 957	24 453	2 315 182	460 503	136 238	6 694 855	73 732	375 314	837 898	93 775

The loans portfolio, by segment and by production year, as of 31 December 2016, is presented as follows:

(Thousands of Euro)

	Corporate			Construction and CRE			Mortgage loans			Other loans		
Year of production	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment
2004 and previous	2 171	109 638	23 663	1 652	270 594	118 093	61 898	2 281 879	32 878	42 013	35 351	8 399
2005	715	37 230	7 273	455	89 521	42 069	14 366	803 155	12 136	5 043	10 478	2 108
2006	968	71 926	9 560	595	124 042	41 170	17 207	976 953	16 589	7 287	28 869	4 332
2007	1 663	109 695	21 984	915	145 290	50 753	17 526	980 842	16 679	40 468	45 154	15 868
2008	6 014	112 364	27 972	1 518	114 843	30 739	9 099	510 070	8 261	54 325	43 660	9 844
2009	8 735	193 452	41 100	2 726	136 623	40 097	5 010	320 996	4 180	41 529	45 396	11 511
2010	8 176	297 330	72 391	1 797	112 007	36 188	5 206	362 531	3 593	21 253	48 996	14 923
2011	11 778	278 761	52 679	2 649	106 226	28 025	1 983	138 387	1 108	22 120	44 516	11 720
2012	8 233	301 326	48 445	1 685	85 107	23 479	1 327	92 811	971	13 291	39 073	7 893
2013	16 917	769 224	77 439	2 119	168 683	34 658	1 674	121 839	814	19 526	63 981	7 555
2014	21 956	1 046 433	55 443	4 279	288 409	31 975	1 964	145 871	239	29 592	118 912	7 385
2015	19 421	939 058	28 614	3 142	248 501	11 106	2 256	178 601	138	33 835	149 464	2 613
2016	25 246	1 351 503	18 003	5 380	400 400	17 424	2 932	246 063	130	45 938	214 103	1 265
	131 993	5 617 940	484 566	28 912	2 290 246	505 776	142 448	7 159 998	97 716	376 220	887 953	105 416

The loans gross exposure and impairment, individual and collective, by segment, as of 31 December 2017 and 2016, is analysed as follows:

(Thousands of Euro)

	2017									
	Corporate		Construction and CRE		Mortgage loans		Other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	3 135 592	249 951	1 760 832	379 010	18 140	818	33 563	13 577	4 948 127	643 356
Collective	2 136 181	172 006	554 350	81 493	6 676 715	72 914	804 335	80 198	10 171 581	406 611
	5 271 773	421 957	2 315 182	460 503	6 694 855	73 732	837 898	93 775	15 119 708	1 049 967

(Thousands of Euro)

	2016									
	Corporate		Construction and CRE		Mortgage loans		Other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	3 458 792	237 258	1 719 895	380 656	23 923	1 392	56 593	12 275	5 259 203	631 581
Collective	2 159 148	247 308	570 351	125 120	7 136 075	96 324	831 360	93 141	10 696 934	561 893
	5 617 940	484 566	2 290 246	505 776	7 159 998	97 716	887 953	105 416	15 956 137	1 193 474

The loans gross exposure and impairment, individual and collective, by business sector, as of 31 December 2017 and 2016, is analysed as follows:

(Thousands of Euro)

	2017											
	Construction		Industries		Trade		Real estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	816 276	251 653	581 217	34 930	355 471	37 998	784 348	117 793	2 359 112	186 587	4 896 424	628 961
Collective	278 473	53 468	588 945	47 638	809 218	81 097	128 871	11 432	885 024	59 864	2 690 531	253 499
	1 094 749	305 121	1 170 162	82 568	1 164 689	119 095	913 219	129 225	3 244 136	246 451	7 586 955	882 460

(Thousands of Euro)

	2016											
	Construction		Industries		Trade		Real estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	936 879	257 675	697 132	41 240	448 943	39 761	609 512	112 093	2 486 221	167 145	5 178 687	617 914
Collective	289 597	81 786	564 222	60 063	875 528	120 853	125 209	19 530	874 943	90 196	2 729 499	372 428
	1 226 476	339 461	1 261 354	101 303	1 324 471	160 614	734 721	131 623	3 361 164	257 341	7 908 186	990 342

The loans gross exposure, performing and non-performing, by business sector for the period of 2017 and 2016 is as follows:

(Thousands of Euro)

	2017												
	Gross carrying values of performing and non-performing							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		of which performing but past due >30 days and <= 90 days	of which performing forborne	of which non-performing				on performing exposures		on non-performing exposures		on non-performing exposures	of which forborne exposures
					of which defaulted	of which impaired	of which forborne		of which forborne		of which forborne		
Debt securities (a)	2 192 561	-	-	4 300	4 300	4 300	-	36 387	-	1 806	-	-	-
Loans and advances (b)	15 587 390	71 678	122 416	2 300 459	2 300 459	2 257 078	1 036 712	46 858	4 433	983 877	397 897	970 986	582 138
Off-balance sheet exposures ©	1 763 312	2 284	1 419	157 188	157 188	155 574	3 590	4 526	131	11 620	44	-	-

(a) Includes Debt instruments of the available-for-sale financial assets portfolio and commercial paper and bonds recognized in the line of credit to customers.
(b) Includes Loans to customers, Cash and cash equivalents and investments in central banks and other credit institutions and exchange operations to be regularized.
(c) Includes revocable and irrevocable credit lines, guarantees and documentary credits provided.

(Thousands of Euro)

	2016												
	Gross carrying values of performing and non-performing							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		of which performing but past due >30 days and <= 90 days	of which performing forborne	of which non-performing				on performing exposures		on non-performing exposures		on non-performing exposures	of which forborne exposures
					of which defaulted	of which impaired	of which forborne		of which forborne		of which forborne		
Debt securities (a)	3 528 813	-	-	4 300	4 300	4 300	-	66 186	-	1 075	-	-	-
Loans and advances (b)	15 143 460	76 840	176 831	2 800 889	2 800 889	2 740 455	1 158 830	50 694	4 346	1 125 553	398 913	1 282 693	780 860
Off-balance sheet exposures ©	1 739 372	1 518	724	234 175	234 175	228 414	21 731	3 907	3	9 951	122	-	-

(a) Includes Debt instruments of the available-for-sale financial assets portfolio and commercial paper and bonds recognized in the line of credit to customers.
(b) Includes Loans to customers, Cash and cash equivalents and investments in central banks and other credit institutions and exchange operations to be regularized.
(c) Includes revocable and irrevocable credit lines, guarantees and documentary credits provided.

The fair value of the collateral underlying the loans portfolio of the Construction and Commercial Real Estate (CRE) and Mortgage segments, as at 31 December 2017, is presented as follows:

(Thousands of Euro)

	Construction and CRE				Mortgage			
	Real estate		Other collateral		Real estate		Other collateral	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	4 162	503 249	1 739	69 641	106 171	12 961 920	340	11 351
>= 0,5 M€ and <1M€	244	168 262	29	18 105	347	214 551	1	500
>= 1 M€ and <5M€	250	529 758	18	30 669	39	62 709	-	-
>= 5 M€ and <10M€	37	266 903	4	27 453	-	-	-	-
>= 10 M€ and <20M€	29	399 339	2	26 099	-	-	-	-
>= 20 M€ and <50M€	14	396 579	2	66 000	-	-	-	-
>= 50M€	5	924 916	-	-	-	-	-	-
	4 741	3 189 006	1 794	237 967	106 557	13 239 180	341	11 851

The fair value of the collateral underlying the loans portfolio of the Construction and Commercial Real Estate (CRE) and Mortgage segments, as at 31 December 2016, is presented as follows:

(Thousands of Euro)

	Construction and CRE				Mortgage			
	Real Estate		Other collateral		Real Estate		Other collateral	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	5 312	625 815	1 760	70 562	110 646	13 403 439	337	11 872
>= 0,5 M€ and <1M€	293	204 301	39	25 191	350	215 782	-	-
>= 1 M€ and <5M€	303	641 715	20	34 652	41	63 727	-	-
>= 5 M€ and <10M€	32	229 208	3	19 115	-	-	-	-
>= 10 M€ and <20M€	26	369 133	1	12 609	2	37 500	-	-
>= 20 M€ and <50M€	9	246 591	-	-	-	-	-	-
>= 50M€	3	276 419	-	-	-	-	-	-
	5 978	2 593 182	1 823	162 129	111 039	13 720 448	337	11 872

The LTV (loan to value) ratio of the Corporate, Construction and CRE and Mortgage segments, as of 31 December 2017 and 2016, is presented as follows:

(Thousands of Euro)

Segment/ Ratio	2017 Number of real estate	2017 Total exposure	2017 Impairment	2016 Number of real estate	2016 Total exposure	2016 Impairment
Corporate						
Without real estate (*)	-	4 146 160	312 618	-	4 375 715	354 271
< 60%	2 201	374 454	20 752	2 250	381 493	34 545
>= 60% and < 80%	984	412 304	20 961	1 018	420 682	30 432
>= 80% and < 100%	1 015	264 699	23 259	1 004	339 271	26 465
>= 100%	107	74 156	28 418	287	100 780	38 851
Construction and CRE						
Without real estate (*)	-	1 005 725	183 922	-	1 084 854	180 207
< 60%	1 784	479 582	74 311	2 086	418 515	89 258
>= 60% and < 80%	988	315 003	47 311	931	240 158	42 602
>= 80% and < 100%	1 387	327 548	44 686	1 793	265 342	47 332
>= 100%	582	187 325	105 079	1 168	281 377	146 377
Mortgage loans						
Without real estate (*)	-	585 242	22 868	-	631 797	17 798
< 60%	64 940	2 582 221	6 230	64 610	2 595 204	9 087
>= 60% and < 80%	27 096	2 208 224	8 255	28 640	2 307 062	12 343
>= 80% and < 100%	12 735	1 163 967	12 708	15 260	1 404 887	20 526
>= 100%	1 786	155 829	23 672	2 529	221 048	37 963

(*) Includes operations with other associated collaterals, namely financial collaterals.

The fair value and net value of real estate receivables, by type of asset, as of 31 December 2017 and 2016 are presented as follows:

(Thousands of Euro)

Assets	2017 Number of real estate	2017 Fair value	2017 Book value
Land	**2 018**	**406 480**	**357 622**
Urban	1 738	292 405	266 534
Rural	280	114 075	91 088
Buildings under construction	**698**	**99 167**	**89 599**
Commercial	86	7 267	6 527
Housing	486	90 442	81 687
Other	126	1 458	1 385
Constructed buildings	**2 827**	**333 351**	**294 882**
Commercial	920	128 474	113 019
Housing	1 395	187 965	167 379
Other	512	16 912	14 484
	5 543	838 998	742 103

(Thousands of Euro)

Assets	2016 Number of real estate	Fair value	Book value
Land	**1 983**	**376 813**	**343 715**
Urban	1 698	300 279	279 664
Rural	285	76 534	64 051
Buildings under construction	**842**	**122 267**	**112 423**
Commercial	92	9 093	7 613
Housing	601	111 655	103 360
Other	149	1 519	1 450
Constructed buildings	**2 942**	**341 153**	**303 916**
Commercial	868	120 913	106 477
Housing	1 562	203 971	183 202
Other	512	16 269	14 237
	5 767	840 233	760 054

The time lapse since the assignment / execution of properties received, as of 31 December 2017 and 2016, is presented as follows:

(Thousands of Euro)

Elapsed time since the recovery/execution	2017 < 1 year	>= 1 year and <2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**61 556**	**81 483**	**163 349**	**51 234**	**357 622**
Urban	63 844	57 167	101 551	43 972	266 534
Rural	(2 288)	24 316	61 798	7 262	91 088
Buildings under construction	**5 374**	**20 558**	**42 334**	**21 333**	**89 599**
Commercial	114	1 508	3 147	1 758	6 527
Housing	5 260	18 628	38 485	19 314	81 687
Other	-	422	702	261	1 385
Constructed buildings	**45 651**	**62 538**	**131 280**	**55 413**	**294 882**
Commercial	14 023	17 954	63 169	17 873	113 019
Housing	30 446	37 978	62 870	36 085	167 379
Other	1 182	6 606	5 241	1 455	14 484
	112 581	164 579	336 963	127 980	742 103

(Thousands of Euro)

Elapsed time since the recovery/execution	2016 < 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**96 304**	**53 833**	**183 063**	**10 515**	**343 715**
Urban	90 059	48 051	133 374	8 180	279 664
Rural	6 245	5 782	49 689	2 335	64 051
Buildings under construction	**11 565**	**49 991**	**47 338**	**3 529**	**112 423**
Commercial	805	3 174	3 416	218	7 613
Housing	10 760	46 231	43 058	3 311	103 360
Other	-	586	864	-	1 450
Constructed buildings	**57 767**	**92 198**	**139 934**	**14 017**	**303 916**
Commercial	12 120	25 396	62 871	6 090	106 477
Housing	43 640	58 890	73 528	7 144	183 202
Other	2 007	7 912	3 535	783	14 237
	165 636	196 022	370 335	28 061	760 054

Concentration Risk

In order to reduce concentration risk, CEMG seeks to diversify, as far as possible, its areas of activity and sources of income, as well as to diversify its exposures and sources of financing.

The concentration risk is analysed at the individual and sector level, seeking to reflect any shortcomings of diversification.

The concentration risk management is carried out in a centralized way, with regular monitoring of the concentration indexes by the Department of Risk. In particular, the level of concentration of the largest depositors and, with respect to the credit portfolio, the degree of regional diversification, the individual concentration level and the degree of diversification of the quality of the portfolio of companies are regularly monitored by the Department of Risk. Maximum exposure limits are established per client / group of clients related to each other, as well as limits for the concentration of the largest depositors.

Market Risk

The concept of market risk reflects the potential loss that can be registered by a given portfolio as a result of changes in rates (interest and exchange rates) and / or prices of the different financial instruments that comprise it, considering both existing correlations between them, and respective volatilities.

The Group calculates its own portfolios "VaR", given a 10-day horizon and a 99% confidence interval, by the method of historical simulation. The types of risk considered in this methodology are the risk of interest rate, exchange rate risk, price risk, CDS risk, the options risk and specific credit risk.

The Group's investment portfolio is mainly concentrated in bonds, and as of 31 December 2017 represented 76.6% (31 December 2016: 83.9%) of the total portfolio, maintaining its dominant position in bonds of sovereign issuers, essentially of the Portuguese and Italian Republics.

With regard to credit derivatives, CEMG held no position in these instruments at 31 December 2017 and 2016.

Regarding the credit quality of debt securities, it is important to note the improvement of the Portuguese public debt rating. Concerning the composition of the portfolio, the major changes resulted from a reduction in exposure to Portuguese sovereign debt and an increase in exposure of the Italian sovereign debt.

The distribution of the bond portfolio, recognised in the held for trading financial assets, available-for-sale financial assets and held-to-maturity investments (which excludes positions held by subsidiaries subject to the application of IFRS 5), is presented as follows:

(Thousands of Euro)

Rating	2017		2016		Change	
	Amount	%	Amount	%	Amount	%
AAA	-	-	8 081	0.4	(8 081)	(100.0)
AA+	-	-	2 131	0.1	(2 131)	(100.0)
AA	1 798	0.1	1 412	-	386	27.3
AA-	1 728	0.1	1 025	-	703	68.6
A+	1 528	0.1	4 558	0.1	(3 030)	(66.5)
A	2 086	0.1	4 443	0.1	(2 357)	(53.0)
A-	2 018	0.1	5 415	0.2	(3 397)	(62.7)
BBB+	297 348	15.1	179 061	5.7	118 287	66.1
BBB	577 539	29.3	177 068	5.6	400 471	226.2
BBB-	859 844	43.7	23 763	0.8	836 081	3 518.4
BB+	-	-	2 497 867	79.5	(2 497 867)	(100.0)
B+	-	-	2 561	0.1	(2 561)	(100.0)
B-	17 164	0.9	-	-	17 164	-
CCC	-	-	12 371	0.4	(12 371)	(100.0)
D	-	-	35 116	1.1	(35 116)	(100.0)
NR	46 978	2.3	41 347	1.3	5 631	13.6
Subtotal	1 808 031	91.8	2 996 219	95.4	(1 188 188)	(39.7)
Discontinuing subsidiaries	161 589	8.2	145 485	4.6	16 104	11.1
Total	1 969 620	100.0	3 141 704	100.0	(1 172 084)	(37.3)

As at 31 December 2017, the amount of Euro 1,969,620 thousand (31 December 2016: Euro 3,141,704 thousand) includes the amount of Euro 161,589 thousand (31 December 2016: Euro 145,485 thousand), which corresponds to the securities portfolio of Finibanco Angola and Banco Terra, which belong to the subsidiaries subject to the application of IFRS 5 and which are consequently recorded in discontinued operations.

The amount of securities recognised in the trading portfolio amounts to Euro 149,622 thousand and the amount of securities recognised in the available-for-sale financial assets amounts to Euro 1,658,409 thousand.

Regarding trading book, the main VaR indicators are as follows:

(Thousands of Euro)

	2017	Average	Minimum	Maximum	2016
Market VaR	508	383	193	532	316
Interest rate risk	121	152	53	168	98
Exchange risk	93	80	62	113	78
Price risk	479	319	162	482	318
Diversification risk	*(185)*	*(168)*	*(84)*	*(231)*	*(178)*
Credit VaR	2 349	1 381	302	2 412	285
VaR Total	**2 857**	**1 764**	**495**	**2 944**	**601**

Bank Portfolio Interest Rate Risk

The assessment of interest rate risk caused by banking portfolio operations is performed by a sensitivity analysis to the risk, in a consolidated view for the Group's entities (including subsidiaries recognised in discontinuing operations).

Interest rate risk is measured according to the impact on net interest income, net worth and equity caused by changes in market interest rates. The main risk factors arise from the term adjustments of the interest rate reset and / or residual maturities between assets and liabilities (repricing risk), non-parallel variations in yield curve risk, the lack of a perfect correlation between different indexes with the same term of repricing (basis risk) and the options associated with instruments enabling a different performance of the players/participants depending on the level of rates contracted and practiced at the moment (option risk).

Based on the financial characteristics of each contract, it is made its projection of expected cash flows, according to the dates of rate reset and any behavioral assumptions considered.

Aggregation, for each currency analysed the expected cash flows in each of the time intervals to determine the interest rate gaps by repricing period.

The following tables present the interest rates gaps in the period of 2017 and 2016:

(Thousands of Euro)

	Within 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years
31 December 2017					
Assets	8 090 272	3 323 150	638 092	1 796 706	1 022 751
Off-balance sheet	9 990	-	-	782 972	-
Total	8 100 262	3 323 150	638 092	2 579 678	1 022 751
Liabilities	4 732 106	1 903 838	2 509 450	8 049 434	274 933
Off-balance sheet	758 550	9 850	9 740	14 822	-
Total	5 490 656	1 913 688	2 519 190	8 064 256	274 933
GAP (Assets - Liabilities)	2 609 606	1 409 462	(1 881 098)	(5 484 578)	747 818
31 December 2016					
Assets	8 378 174	3 293 221	703 584	1 676 869	2 443 828
Off-balance sheet	7 959 536	20 500	43 821	66 148	-
Total	16 337 710	3 313 721	747 405	1 743 017	2 443 828
Liabilities	4 825 789	1 955 423	2 014 075	8 963 287	281 761
Off-balance sheet	7 922 524	63 370	1 012	103 160	-
Total	12 748 313	2 018 793	2 015 087	9 066 447	281 761
GAP (Assets - Liabilities)	3 589 397	1 294 928	(1 267 682)	(7 323 430)	2 162 067

The following table presents the interest rate gaps for 31 December 2017 and 2016:

(Thousands of Euro)

	2017				2016			
	December	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Interest rate gap	(2 598 790)	(2 071 755)	(1 544 721)	(2 598 790)	(1 544 721)	(1 530 516)	(1 309 808)	(1 737 019)

Sensitivity to the balance sheet interest rate risk is calculated by the difference between the current value of the mismatch interest rate discounted at market interest rates and the discounted value of these cash flows simulating parallel shifts of the market interest rate curve.

As at 31 December 2017, based on the interest rate gaps observed, an instantaneous and parallel positive variation in the interest rates by 100 bp would cause a change in the economic value expected in the banking portfolio in Euro 12,243 thousand (31 December 2016: reduction of Euro 30,531 thousand).

The following table presents the average interests, in relation to the Group's major assets and liabilities categories for the years ended 31 December 2017 and 2016, as well as the average balances and income and expense for the period:

(Thousands of Euro)

	2017			2016		
	Average balance	Average interest rate (%)	Interest	Average balance	Average interest rate (%)	Interest
Interest assets generators						
Deposits at central banks and OCI	468 753	-	12	340 532	0.05	181
Loans and advances to OCI	414 059	0.94	3 966	182 353	2.16	3 999
Loans and advances to customers	14 738 284	2.43	363 701	15 316 627	2.54	394 449
Securities portfolio	2 470 694	1.46	36 477	2 962 028	1.99	59 890
Other (includes derivatives)	-	-	16 475	-	-	75 819
	18 091 790	**2.29**	**420 631**	**18 801 540**	**2.80**	**534 338**
Interest liabilities generators						
Deposits from ECB	2 322 365	0.04	1 003	2 806 845	0.04	1 063
Deposits from OCI	2 057 221	0.66	13 689	1 752 884	0.58	10 372
Deposits from customers	11 918 658	0.70	84 696	12 090 533	1.07	131 147
Senior debt	1 540 062	2.44	38 110	2 147 635	2.91	55 527
Subordinated debt	248 745	1.20	3 038	273 674	1.41	3 909
Other (includes derivatives)	-	-	13 869	-	-	79 147
	18 087 051	**0.84**	**154 405**	**19 071 571**	**1.45**	**281 165**
Net interest income		**1.45**	**266 226**		**1.33**	**253 173**

Currency Risk

Regarding currency risk, the procedure is the application of funds raised in various currencies through active money market and for terms not exceeding those of the resources. Thus, existing exchange rate gaps are essentially due to possible mismatches between the terms of the applications and of the resources.

As such, the Group exchange rate exposure in consolidated terms arises, essentially, from the structural positions resulting from the conversion of the balance sheets of subsidiaries into their main currencies, namely Kwanza and North American Dollar, with regard to Finibanco Angola and Metical, in Banco Terra, Mozambique. Aditionally, CEMG holds a large exposure to Brasilian real, resulting from an asset received in the context of a credit recovery process.

The breakdown of assets and liabilities, by currency, as at 31 December 2017 and 2016 is analysed as follows:

(Thousands of Euro)

	2017							
	Euro	**United States Dollar**	**Angolan Kwanza**	**Mozambican Metical**	**Sterling Pound**	**Brazilian Real**	**Other foreign currencies**	**Total**
Assets by currency								
Cash and deposits at central banks	1 715 640	11 761	-	-	1 473	102	4 652	1 733 628
Loans and advances to credit institutions repayable on demand	25 928	17 697	4 448	-	447	-	1 685	50 205
Other loans and advances to credit institutions	271 844	12 385	-	-	3 707	-	24 267	312 203
Loans and advances to customers	12 910 078	119 045	-	-	167	-	28	13 029 318
Financial assets held for trading	180 662	3 006	-	-	-	-	408	184 076
Available-for-sale financial assets	2 142 810	372	-	-	-	57 614	97	2 200 893
Investments in associated companies and others	4 097	-	-	-	-	-	-	4 097
Non-current assets held for sale	742 221	-	-	-	-	-	-	742 221
Non-current assets held for sale - discontinuing operations	6 373	132 202	287 430	48 138	1	-	331	474 475
Investment properties	538 625	-	-	-	-	-	-	538 625
Property and equipment	233 312	-	-	-	-	-	-	233 312
Intangible assets	31 371	-	-	-	-	-	-	31 371
Current tax assets	7 327	-	-	-	-	-	-	7 327
Deferred tax assets	466 000	-	-	-	-	-	-	466 000
Other assets	192 011	259	-	-	3	-	-	192 273
Total Assets	**19 468 299**	**296 727**	**291 878**	**48 138**	**5 798**	**57 716**	**31 468**	**20 200 024**
Liabilities by currency								
Deposits from central banks	1 557 840	-	-	-	-	-	-	1 557 840
Deposits from other credit institutions	1 726 127	31 885	-	-	3 847	-	24 858	1 786 717
Deposits from customers	12 409 969	96 967	-	-	11 339	-	42 765	12 561 040
Debt securities issued	1 514 465	29 589	-	-	-	-	-	1 544 054
Financial liabilities held for trading	15 694	477	-	-	-	-	-	16 171
Hedging derivatives	1 663	-	-	-	-	-	-	1 663
Non-current liabilities held for sale - discontinuing operations	34 409	68 058	199 430	28 478	7	-	10	330 392
Provisions	27 096	-	-	-	-	-	-	27 096
Current tax liabilities	5 217	-	-	-	-	-	-	5 217
Other subordinated debt	236 193	-	-	-	-	-	-	236 193
Other liabilities	367 937	1 338	-	-	287	-	1 158	370 720
Total Liabilities	**17 896 610**	**228 314**	**199 430**	**28 478**	**15 480**	**-**	**68 791**	**18 437 103**
Exchange forward transactions		(49 974)	-	-	9 919	-	40 313	
Exchange gap		18 439	92 448	19 660	237	57 716	2 990	
Stress Test		**(3 688)**	**(18 490)**	**(3 932)**	**(47)**	**(11 543)**	**(598)**	

(Thousands of Euro)

	2016							
	Euro	**United States Dollar**	**Angolan Kwanza**	**Mozambican Metical**	**Sterling Pound**	**Brazilian Real**	**Other foreign currencies**	**Total**
Assets by currency								
Cash and deposits at central banks	372 834	4 568	-	-	1 052	84	2 751	381 289
Loans and advances to credit institutions repayable on demand	51 218	16 230	-	-	440	-	1 680	69 568
Other loans and advances to credit institutions	490 713	34 541	-	-	3 871	-	29 966	559 091
Loans and advances to customers	13 704 376	155 922	-	-	-	-	736	13 861 034
Financial assets held for trading	75 512	2 460	-	-	-	-	196	78 168
Available-for-sale financial assets	2 332 421	212	-	-	-	66 871	-	2 399 504
Held to maturity investments	1 126 125	-	-	-	-	-	-	1 126 125
Investments in associated companies and others	4 042	-	-	-	-	-	-	4 042
Non-current assets held for sale	760 204	-	-	-	-	-	-	760 204
Non-current assets held for sale - discontinuing operations	-	155 362	273 676	40 970	23	-	385	470 416
Investment properties	607 968	-	-	-	-	-	-	607 968
Property and equipment	237 097	-	-	-	-	-	-	237 097
Intangible assets	34 921	-	-	-	-	-	-	34 921
Current tax assets	11 855	-	-	-	-	-	-	11 855
Deferred tax assets	521 716	-	-	-	-	-	-	521 716
Other assets	222 204	703	-	-	4	-	-	222 911
Total Assets	**20 553 206**	**369 998**	**273 676**	**40 970**	**5 390**	**66 955**	**35 714**	**21 345 909**
Liabilities by currency								
Deposits from central banks	2 322 947	-	-	-	-	-	-	2 322 947
Deposits from other credit institutions	2 203 962	37 742	-	-	3 990	-	30 246	2 275 940
Deposits from customers	12 297 346	111 473	-	-	10 376	-	48 624	12 467 819
Debt securities issued	1 863 724	56 311	-	-	-	-	-	1 920 035
Financial liabilities held for trading	25 971	177	-	-	-	-	-	26 148
Non-current liabilities held for sale - discontinuing operations	-	91 730	239 993	23 034	7	-	17	354 781
Provisions	21 820	-	-	-	-	-	-	21 820
Current tax liabilities	1 865	-	-	-	-	-	-	1 865
Other subordinated debt	251 028	-	-	-	-	-	-	251 028
Other liabilities	245 631	631	-	-	2	-	764	247 028
Total Liabilities	**19 234 294**	**298 064**	**239 993**	**23 034**	**14 375**	**-**	**79 651**	**19 889 411**
Exchange forward transactions	9 517	(63 684)	-	-	9 038	-	45 508	
Exchange gap		8 250	33 683	17 936	53	66 955	1 571	
Stress Test		**(1 650)**	**(6 737)**	**(3 587)**	**(10)**	**(13 391)**	**(314)**	

The result of the stress test performed corresponds to the estimate impact (before tax) in equity, including minority interests, due to a devaluation of 20% in exchange rate of each currency against Euro.

Liquidity risk

Liquidity risk reflects the Group's inability to meet its obligations at due date, without incurring significant losses arising from a deterioration in financing conditions (financing risk) and / or the sale of its assets at lower values to market values (market liquidity risk).

The assessment of the liquidity risk is made using regulatory indicators defined by the supervisory authorities, as well as other internal metrics for which are defined exposure limits. This control is reinforced with weekly execution of stress tests, in order to characterize the risk profile of CEMG and ensure that the Group fulfills its obligations in a liquidity crisis scenario. The calculation of the CRL prudential ratio is performed on a weekly basis.

As at 31 December 2017, the recorded amount in LCR was 153.2%. (31 December 2016: 106.6%).

As at 31 December 2017, the Group’s financing was as follows:

(Thousands of Euro)

	2017	Undetermined	Within 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 557 840	-	-	-	-	1 557 840
Financial liabilities held for trading	16 171	-	902	1	221	15 047
Deposits from other credit institutions	1 786 717	-	142 919	65 982	415 169	1 162 647
Deposits from customers	12 561 040	-	4 717 147	3 514 898	2 287 697	2 041 298
Debt securities issued	1 544 054	-	109 036	65 201	80 578	1 289 239
Non-current libilities held for sale - - discontinuing operations	330 392	330 392	-	-	-	-
Hedge derivatives	1 663	-	-	-	-	1 663
Other subordinated debt	236 193	-	111 934	4 206	120 053	-
Other liabilities	370 720	370 720	-	-	-	-
Total Financing	**18 404 790**	**701 112**	**5 081 938**	**3 650 288**	**2 903 718**	**6 067 734**

As at 31 December 2016, the Group’s financing was as follows:

(Thousands of Euro)

	2016	Undetermined	Within 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	2 322 947	-	375 000	-	-	1 947 947
Financial liabilities held for trading	26 148	-	2 758	35	3 839	19 517
Deposits from other credit institutions	2 275 940	-	821 026	82 828	11 419	1 360 667
Deposits from customers	12 467 819	-	4 305 378	3 412 458	1 804 298	2 945 685
Debt securities issued	1 920 035	-	96 075	338 317	160 347	1 325 296
Non-current libilities held for sale - - discontinuing operations	354 781	354 781	-	-	-	-
Other subordinated debt	251 028	-	499	34	16 482	234 013
Other liabilities	247 028	247 028				-
Total Financing	**19 865 726**	**601 809**	**5 600 736**	**3 833 672**	**1 996 384**	**7 833 125**

Within the instruction No. 28/2014 of the Bank of Portugal, of 15 January 2015, which focuses on the guidance of the European Banking Authority in relation to the disclosure of encumbered and unencumbered assets (EBA/GL/2014/3) and considering the recommendation by the European Systemic Risk Committee, we present the following information, as at 31 December 2017 and 2016 on the assets and collaterals:

(Thousands of Euro)

	2017			
Assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets from the reporting institution	5 721 933		14 478 091	
Equity instruments	-	-	552 385	636 068
Debt securities	1 177 559	1 173 674	1 126 431	3 086 521
Other assets	-		2 786 993	

(Thousands of Euro)

	2016			
Assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets from the reporting institution	6 380 472	-	14 965 437	-
Equity instruments	-	-	574 351	651 423
Debt securities	1 893 490	1 838 568	1 605 832	2 241 062
Other assets	-	-	3 284 835	-

(Thousands of Euro)

	2017	
Collateral received	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Assets from the reporting institution	77 463	-
Equity instruments	-	-
Debt securities	77 463	-
Other collateral received	-	-
Own securities issued that are not own covered bonds or ABS	-	-

(Thousands of Euro)

	2016	
Collateral received	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Assets from the reporting institution	81 127	-
Equity instruments	-	-
Debt securities	81 127	-
Other collateral received	-	-
Own securities issued that are not own covered bonds or ABS	-	-

(Thousands of Euro)

	2017
Encumbered assets, encumbered collateral received and associated liabilities	Carrying amount of selected financial liabilities
Associated liabilities, contingent liabilities and securities borrowed	3 709 616
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	5 711 477

(Thousands of Euro)

	2016
Encumbered assets, encumbered collateral received and associated liabilities	Carrying amount of selected financial liabilities
Associated liabilities, contingent liabilities and securities borrowed	4 783 325
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	6 434 521

The encumbered assets are mostly related to collateralise financing of the Group, in particular the ECB's, repo transactions, issuance of covered bonds and securitization programs. The type of assets used as collateral of these financing transactions, whether placed outside the Group, whether to improve the pool of collateral with the ECB, are customer's loans contracts. Repo transactions in the money market are collaterised, mainly by covered bonds and securitization programs in which CEMG is the originator, and by debt securities issued operations.

The amounts presented previously correspond to the position as at 31 December 2017 and 2016 and reflect the high level of collateralisation of the wholesale funding of the Group. The buffer of eligible assets for the ECB, after haircuts, less net borrowing at the ECB, as at 31 December 2017 amounts to Euro 1,036,095 thousand (31 December 2016: Euro 1,214,995 thousand).

It should be noted that the total amount of collateral available at the European Central Bank (ECB) on 31 December 2017 amounted to Euro 2,557,271 thousand (31 December 2016: Euro 3,524,496 thousand) with a usage of Euro 1,557,840 thousand (31 December 2016: Euro 2,322,946 thousand):

(Thousands of Euro)

	2017	2016
Total eligible collateral	**4 272 244**	**5 924 629**
Total collateral in the pool	2 557 271	3 524 496
Collateral outside the pool	1 714 973	2 400 133
Used collateral	**3 236 149**	**4 709 634**
Collateral used for ECB	1 557 840	2 322 946
Collateral committed to other financing operations	1 678 309	2 386 688
Available collateral for ECB	**999 431**	**1 201 549**
Total available collateral	**1 036 095**	**1 214 995**

Note: collateral amount considers the applied haircut

Real Estate Risk

Real estate risk results from possible negative impacts on CEMG's results or equity due to fluctuations in the market price of real estate.

The real estate risk results from exposure in real estate, whether from credit recovery processes or from real estate fund units held in securities portfolio. These exposures are monitored through scenario analyses that attempt to estimate potential impacts of changes in real estate markets in portfolios of these real estate assets and make available the information elements needed for the definition of the policy for real estate management.

As at 31 December 2017 and 2016, exposure to real estate and investments real estate fund units presented the following value:

	(Thousands of Euro)	
	2017	**2016**
Real estate received as loan guarantee	742 103	758 690
Investment properties	538 625	607 968
Real estate investment fund units	213 546	213 063
	1 494 274	1 579 721
	(149 427)	(157 972)

Stress test

Stress test results correspond to the estimated impact in equity (before taxes) of a 10% variation in values of real estate and real estate funds.

Operational risk

Operational risk is the potential loss resulting from failures or inadequacies in internal processes, people or systems, or potential losses resulting from external events.

The Group has the approval from the Bank of Portugal for the use of the standard method for quantifying its own capital requirements for operational risk. An integrated continuing business plan is implanted, based on the identification, evaluation, monitoring, measurement, mitigation and reporting of this type of risk.

The risk department has the corporate function of operational risk management of CEMG which is supported by the existence of responsible employees in the different organic units that ensure the proper implementation of CEMG's operational risk management.

The operational risk profile assessment for new products, processes and systems and the consequent follow-up, on a regular basis, has allowed the prior identification and mitigation of operational risk situations.

Regarding risk monitoring, the main activities carried out were the collection and analysis of operational risk loss events, the analysis of Key Risk Indicators, the evaluation of the exposure to Operational Risk and the preparation of periodic reports on the profile of Operational risk of the Institution. In particular, quarterly monitoring reports of operational risk loss events and mitigation measures are prepared. An annual report is prepared annually, which includes the analysis of all operational risk management instruments.

Within the mitigation phase, Action Plans were suggested for the most significant risks, identified based on the operational risk management tools previously mentioned.

In addition, CEMG has implemented a business continuity management process, supported by a set of evaluation, design, implementation and monitoring activities, integrated into a cycle of continuous improvement.

This process is crucial as a risk mitigation tool, making the business processes more resilient and allowing to ensure the continuity of operations in the event situations that cause the interruption of the activity, considering the established Recovery Time Objective (RTO).

Pension Fund Risk

The pension fund risk results from the potential devaluation of the fund's assets portfolio or the decrease in the expected returns. In such scenarios, CEMG will have to make unplanned contributions in order to maintain the benefits defined by the Fund.

Regular monitoring and analysis of CEMG's Pension Fund management is carried out by the Pension Fund Monitoring Committee. In addition, the Risk Department ensures the production of monthly reports with the evolution of the Pension Fund portfolio's market value and associated risk indicators.

Considering the provisions of the investment policy of the Montepio Geral Pension Fund relating to the exposure to various risks and different legal provisions, the control of these limits is monitored daily by means of a detailed analysis of "legal limits and investments exceeded", with a set of procedures that are performed may the limits be exceeded.

Subsequently, the Department of Risk monitors the effect of the measures adopted and their impact on the investment policy. At the same time, the levels of exposure to the legal and prudential limits that regulate the Montepio Geral Pension Fund are also monitored.

Besides verifying compliance with the investment policy and the legal and prudential limits, the management entity (Futuro) has decided to strengthen control and monitoring through a variety of risk measures and a set of internal procedures aimed at maintaining the prudent management of the risk. On this basis, a risk management model based on the technical perspective of EIOPA's "QIS Pension Funds" studies is used. The development of tolerance indicators for this model allows monitoring the variations of these indicators, in accordance with the investment policy defined for the Pension Fund.

Market risk monitoring is based on VaR calculation, with a confidence/reliability interval of 99.5% for one-year time horizon. Since VaR does not totally guarantees that risks do not exceed the probability used, Stress Tests are also carried out, with the purpose to calculate the impact of several extreme scenarios on the value of the portfolio.

The shareholder liquidity level and bond component of the Pension Fund is assessed through a liquidity test. With shares, this analysis is done based on the number of days to settle, considering the assets in the portfolio. This test consists of verifying the liquidity of the shareholder segment, assessing how many days are necessary for its settlement in the market, considering the costs associated with these transactions and the average historical volume of transactions in the various markets. In addition, in the bond segment, the cash receipts (positive cash-flows) resulting from bond coupon (interest) payments and amortisations or possible call exercises for one month are calculated. All these tests allow to assess the degree of liquidity in the short term and to monitor or act before a possible shortage of liquidity in a timely manner.

Other risks

With regard to other risks – reputation, strategy and business risk - these are also monitored by the Board of Directors, and risks are controlled and corrective measures taken based on the results obtained against the objectives / limits established in the risk appetite, being the monitoring in the scope of the ALCO comitee, namely the control of deviations from the approved strategic plan and budget.

Coverage Policies and Risk Reduction

For the purpose of reducing credit risk, the risk mitigation elements associated with each operation are considered. In particular, real mortgage guarantees and financial collateral are relevant, as well as the provision of personal credit protection, namely collateral.

The enforcement of collateral depends of specific characteristics for each transaction, typically occurring in larger volume transactions or in specific products, especially in construction financing and housing acquisition, and always that the operation on risk profile is worth.

Regarding real mortgage guarantees, CEMG has defined valuation and revaluation models to be applied to properties that may constitute collateral for credit operations. The asset evaluation is carried out by independent experts, and the management of evaluations and inspection is centralised in a structuring unit of the Institution, regardless of the commercial area. In accordance with (EU) Regulation no. 575/2013 (CRR), the requirements for the validation and reassessment of the asset's value, depending on the cases, either by statistical and computerized methods or by review or revaluation of the valuation value by the expert.

For credit guarantees, the principle of substitution of the customer's risk by that of the protection provider is applied, provided that does not originate credit derivatives on the portfolio exposure.

The Group does not usually use on-balance sheet and off-balance sheet processes, nor does it generate credit derivatives on exposure in its portfolio.

Trading portfolio market risk mitigation techniques essentially consist of hedging exposures for financial products with symmetric risk to decrease the total risk of operations or the partial or total sale of exposures to reduce exposure or cancel it completely.

With regard to banking portfolio, interest rate and foreign exchange risk mitigation techniques are the negotiation of hedging transactions with derivatives and closing exposures through the sale of open exposures.

Own Funds and Capital Ratios

The own funds of the Group are established in accordance with the applicable regulatory standards, namely Directive 2013/36/EU (CRD IV) and Regulation (EU) no. 575/2013 (CRR) adopted by the European Parliament and by the Council, and the Notice no. 6/2013 of the Bank of Portugal. Own funds include own funds of level 1 (tier 1) and own funds of level 2 (tier 2). Tier 1 includes own funds core of level 1 (common equity tier 1 – CET1) and the additional own funds of level 1 with the following composition:

- *Own Funds Core of Level 1 or Common Equity Tier 1 (CET1)*: this category includes the realized capital (with deduction of own funds), eligible reserves (including fair-value reserves), retained earnings, positive and certified retained earnings for the period or wholly if negative. The value of reserves and retained earnings is adjusted by reversal of the results in financial liabilities at fair value through profit or loss in the part corresponding to the risk of the institution's own credit. Non-controlling interests are only eligible to the extent necessary to cover the Group's capital requirements attributable to minority shareholders. It is deducted the balance value of the amounts related to goodwill, other intangible assets, as well as the gap, if positive, between the asset and the pension fund responsibility. The amount of the prudent valuation calculated in accordance with CRR Articles no. 34 and 105 is also deducted. The deferred tax assets related to tax losses are also deducted. Concerning financial investments on financial sector entities and deferred tax assets by temporary differences on which depends the future profitability, the values in these accounts are deducted when, individually, overcome 10% of CET1, or posteriorly 15% of CET1 when considered as aggregated (only on the non-deducted part on the first barrier of 10% and considering only significant participations). Non-deducted values will be subject to weight of 250% for the fullness of risk-weighted assets. Regarding investments in financial institutions, the eventual deduction is proportionally realized on the respective held capital levels. As part of the implementation of this new prudential regulation (EU no. 575/2013), a transitory period will be in force until 2018 that will allow to gradually acknowledge the majors impacts of this new regulation. Emphasis for the transitory plan applied to deferred tax assets and negative actuarial deviations of the Pension Fund that allows to acknowledge 20% per year, being in 2017, 80% of the eventual negative effects caused by the new standards. Fair-value reserves will also be subject to a transitory plan of 20%/year, cumulatively, being 80% in 2017.

- *Own Funds of Level 1 or Tier 1 (T1)*: includes capital equivalent instruments, whose conditions are in accordance with Article no. 52 from Regulation no. 575/2013 and approved by the Bank of Portugal. Non-controlled interests relating to additional own funds minimum requirements of the institutions for which the Group does not hold full ownership are also eligible. The eventual detentions of capital T1 from financial institutions subjected to deduction are deducted from this capital.

- *Own Funds of Level 2 or Tier 2 (T2)*: includes capital equivalent instruments, whose conditions are in accordance with the Article no. 63 from EU Regulation no. 575/2013 and approved by the Bank of Portugal. Non-controlled interests relating to the minimum own funds requirements of the institutions for which CEMG does not hold full ownership are also eligible if exist. The eventual detentions of capital T2 from financial institutions subjected to deduction are deducted from this capital.

Totals Own Funds or Total Capital are constituted by the sum of the three levels previous referred.

Regarding the calculation of risk-weighted assets, in addition to credit, operational and market risks requirements, a particular reference to the weighting of 250% of deferred tax assets from temporary differences that depend on future earnings and investments that are within the established limit for non-deduction to CET1. CVA requirement (Credit Valuation Adjustment) is also determined.

As previously referred, until 2018 the effects of Basel III's new regulation will gradually being introduced. This process is usually named as Phasing-in. The full assumption of the new regulation, without considering transitory plans, is named as Full Implementation. Phasing-in process is currently in force, and it is on this basis that an entity verifies that has its own funds for an amount not below its own funds, thus certifying the adequacy of its capital. This relation is reflected on the different capital ratios, namely CET1 ratio, T1 ratio and total capital ratio (formerly designated by solvability ratio, represented by the percentage of capital level correspondent to the amount of 12.5 times the own funds requirements).

For these ratios, regulatory minimums are indicated by CRD IV / CRR of 4.5% for CET1, 6% for Tier 1 and 8% for total Capital. However, on these regulatory minimums, reserves of own funds (such as Conservation Reserve, Counter-Cyclical Reserve and Reserves for Other Systemic Institutions) are applied, the value of which is defined by the Bank of Portugal. In June 2017, the Bank of Portugal defined a 0% Counter-cyclical Reserve, and the Reserve for Other Systemic Institutions was only defined for consolidated purposes. Regarding Conservation Reserve, the Bank of Portugal, in its Notice 6/2016, defines its application according to the transitory plan set out in Article no. 160 of CRD IV, thus the value of this reserve is 0.625% in 2016, 1.250% in 2017, 1.875% in 2018 and 2.5% after 1 January 2019. With respect to the Reserve for Other Systemic Institutions, the Bank of Portugal has set a reserve for CEMG, on a consolidated basis, of 0% in 2017, 0.0625% in 2018, 0.125% in 2019, 0.1875% in 2020 and 0.25% by 2021.

Under the SREP, the Bank of Portugal defined for CEMG an additional 3% Pillar 2 requirement to be met on a consolidated basis.

Pursuant to these provisions, as of 31 December 2017, the Common Equity Tier 1, Tier 1 and Total regulatory minimum ratios were 8.75%, 10.25% and 12.25%, respectively, including Own Fund Reserves, referred to above.

The summary of the calculation for the Group's capital requirements as at 31 December 2017 and 2016 is presented as follows:

	(Thousands of Euro)	
	2017	**2016**
Capital Common Equity Tier 1		
Paid-up capital	2 420 000	2 170 000
Net profit, reserves and retained earnings	(696 237)	(742 945)
Other regulatory adjustments	(151 600)	(96 079)
	1 572 163	1 330 976
Capital Tier 1	1 572 163	1 330 976
Capital Tier 2		
Subordinated loans	24 250	74 339
Regulatory adjustments	(16 166)	(13 191)
	8 084	61 148
Total own funds	1 580 247	1 392 124
Own funds requirements		
Credit risk	825 814	921 598
Market risk	28 093	14 222
Operational risk	57 748	60 394
Other requirements	38 325	30 155
	949 980	1 026 369
Prudential Ratio		
Ratio Common Equity Tier 1	13.24%	10.37%
Ratio Tier 1	13.24%	10.37%
Total Capital Ratio	13.31%	10.85%

57 Accounting standards recently issued

The recently issued accounting standards and interpretations already in force and which CEMG applied in the preparation of its financial statements are as follows:

Issued by IASB:

- On 19 January 2016, and applicable for annual periods beginning on or after 1 January 2017, amendments to IAS 12 clarifying the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice (adopted by European Commission Regulation no. 1989/2017, of 6 November).
- On 29 January 2016, and applicable for annual periods beginning on or after 1 January 2017, amendments to IAS 7 Disclosure initiative require companies to provide information about changes in their financing liabilities in order to provide information that helps the investors to better understand changes in a company's debt (adopted by European Commission Regulation no. 1990/2017, of 6 November).
- The annual improvements cycle 2014-2016, issued by IASB on 8 December 2016, introduce amendments to IFRS 12 (clarification of the scope of the Standard), with effective date on or after 1 January 2017.

None of these amendments had an impact on the Group's financial statements.

CEMG has decided not to early apply the following standards and / or interpretations adopted by the European Union.

Financial instruments

IFRS 9 - Financial Instruments was approved by EU in November 2016 and enters into force for periods beginning on or after 1 January 2018. IFRS 9 will replace IAS 39 - Financial Instruments: Recognition and Measurement and will establish new standards for the accounting of financial instruments, bringing forward significant changes particularly regarding impairment requirements. For this reason, it is a standard that has been subject to a detailed and complex implementation process involving all key areas with the purpose to understand the impacts and changes in processes, governance and business strategy that may imply.

Requirements presented by IFRS 9 are applied retrospectively by adjusting the opening balance sheet at the date of the initial application.

The Group has been working on this process and has formed, under this context, a Working Group which is responsible for making key decisions regarding the requirements defined by IFRS 9 and for monitoring the status of the process of analysis and implementation of this new standard. The main departments involved in this project are DRI, DPECC and DSI.

Internal Audit and the External Auditor are also involved in the process, namely in the review and validation component. With regard to the IFRS 9 implementation process, the Group has identified a number of risks that may arise and several mitigating factors and control actions to prevent those risks.

In July 2014, IASB issued the final version of IFRS 9 - Financial Instruments. IFRS 9 is effective for periods beginning on or after 1 January 2018 with early adoption permission, and replaces IAS 39 - Financial Instruments: Recognition and Measurement.

In October 2017, IASB issued "Anticipated Payments with Negative Compensation" (amendments to IFRS 9). Changes are effective for annual periods beginning on 1 January 2019, with early adoption permission.

The Group will apply IFRS 9 as issued in July 2014 for the period beginning on 1 January 2018 and will adopt in advance amendments to IFRS 9 made on the same date.

According to the assessments up to date, the estimated total impact (net of taxes) of the IFRS 9 adoption in retained earnings of the Group, as at 1 January 2018, is approximately Euro 90 million, representing:

- Euro 139 million related to impairment requirements and the impact of the adoption of the fair value concept to some credit operations; and
- Euro 49 million related to impacts on deferred tax.

The mentioned impact should be considered as a preliminary evaluation, since the transition is not yet concluded, corresponding to the best estimate of the impact of the adoption of the new accounting standard as the present date. The current impact of the IFRS 9 adoption as at 1 January 2018 may still change for the following reasons:

- The Group is accurating the ECL calculation models, which includes revision and confirmation of the methodologies and assumptions in several geographies;
- As the present date, is not yet concluded the fiscal framework related to the transition adjustment resulting from the adoption of IFRS 9;
- Given that the international accounting standards are based on principles that incorporate some degree of subjectivity, it is expected that we will observe the reinforcement by the regulators and supervisors regarding the harmonization of implementation and the criteria adopted, in order to ensure the level playing field.

I – Classification – Financial Assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model used in the asset management as well as the characteristics of its cash flows.

IFRS 9 includes three main classification categories for financial assets: measured at amortised cost, at fair value with changes in comprehensive income (FVOCI – Fair Value through Other Comprehensive Income) and at fair value with changes in profit or loss (FVTPL - Fair Value through Profit or Loss). Consequently, the existing categories in IAS 39 of "Held to Maturity", "Loans and Receivables" and "Available-for-Sale" have been eliminated.

A financial asset is measured at amortised cost if it meets, simultaneously, the following requirements and is not recorded at FVTPL (use of the Fair Value Option):

- the financial asset is held in a business model whose main purpose is to held the asset to collect its contractual cash flows (HTC – Held to collect); and
- its contractual cash flows occur on specific dates and correspond solely to payments of principal and interest on the SPPI (Solely Payments of Principal and Interest).

A financial asset is measured at FVOCI if it meets, simultaneously, the following requirements and is not recorded at FVTPL (use of the Fair Value Option):

- the financial asset is held in a business model whose purpose is to collect its contractual cash flows and the sale of financial assets (Held to collect and Sell); and
- contractual cash flows occur on specific dates and correspond solely to payments of principal and interest on the outstanding amount (SPPI).

In the initial recognition of an equity instrument that is not held for trading, the Group may irrevocably classify it to FVOCI. This classification is made on a case-by-case basis, investment-to-investment.

All financial assets that are not measured, according to the criteria described above, at amortised cost or FVOCI, are measured to FVTPL. In addition, at initial recognition, the Bank may irrevocably classify a financial asset, which otherwise meets the requirements to be measured at amortised cost or FVOCI, such as FVTPL, if the classification significantly eliminates the accounting mismatch that would otherwise exist (Fair Value Option).

A financial asset is classified in one of these categories on its initial recognition. Please refer to (VII) on the transition requirements related to the classification of financial assets.

In the context of IFRS 9, derivatives embedded in financial assets are not separated for classification purposes, so a hybrid instrument is valued as a whole.

Business Model Assessment

The Group is conducting, with reference to 1 January 2018, an assessment of the business model in which the financial instrument is held, at a portfolio level, as this approach reflects the best way in which assets are managed and how the information is made available to management bodies. The information considered in this assessment includes:

- policies and goals established for the portfolio and the practical operability of these policies, including how the management strategy focuses on receiving contractual interest, keeping a certain interest rate profile, adjusting the lifetime of financial assets to the lifetime of liabilities that sponsor these assets or generating cash flows through the sale of the assets;
- how the portfolio's performance is assessed and reported to the Group's management bodies;
- assessing the risks that affect the performance of the business model (and of the financial assets held under this business model) and how these risks are managed;
- the remuneration of business managers – e.g. to what extent the compensation depends on the fair value of assets under management or contractual cash flows received; and

- the frequency, volume and periodicity of sales in previous periods, the reasons for such sales and the expectations about future sales. However, sales information should not be considered separately, but as part of an overall assessment of how the Group sets goals for managing financial assets and how cash flows are obtained.

Financial assets held for trading and financial assets managed and valued at fair value (Fair Value Option) will be measured at FVTPL, as they are not held either for the collection of contractual cash flows (HTC) nor for the collection of cash flows and sale of financial assets (HTC and Sell).

Assess if contractual cash flows correspond solely to payments of principal and interest (SPPI)

For the purpose of this assessment, "principal" is defined as the fair value of the financial asset at initial recognition. "Interest" is defined as the compensation for the time value of money, the credit risk associated with the outstanding amount over a given period of time and for other risks and costs associated to the activity (e.g. liquidity risk and administrative costs), as well as a mark-up rate.

In the assessment of financial instruments in which contractual cash flows relate exclusively to the payments of principal and interest, the Group considered the original contractual terms of the instrument. This assessment included the analysis of existing situations in which the contractual terms can change the periodicity and the amount of cash flows which fail to comply with the SPPI condition. In the assessment process, the Group considered:

- contingent events that may change the periodicity and amount of cash flows;
- characteristics resulting in leverage;
- prepayment and extension of maturity terms clauses;
- provisions that may restrict the Group’s right to claim cash flows relating to specific assets (e.g. contracts with terms preventing the access to assets in default cases – “non-recourse asset”); and
- characteristics that may change time-value compensation of money – e.g. periodic resetting interest rates.

A contract with a prepayment option is consistent with the SPPI criteria if the prepayment amount represents the unpaid principal and interest amounts of the outstanding principal amount (accrual), which may include reasonable compensation for the prepayment (i.e. administrative cost or servicing fee incurred by anticipated termination of the contract).

In addition, a prepayment is consistent with the SPPI criteria if (i) the financial asset is acquired or originated with a premium or discount as to the contractual nominal value, (ii) the prepayment represents substantially the nominal amount of the contract plus accrued interests, but not yet paid (this may include reasonable compensation for prepayment); and (iii) the prepaid fair value is insignificant at initial recognition.

Impact assessment

The standard will have an impact on the classification and measurement of financial assets held on 1 January 2018, as follows:

- Assets held for trading and Derivatives held for risk management, which are classified as "Held-for-Trading" and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9;
- Loans and advances to customers and investments in Financial Institutions measured at amortised cost under IAS 39 will generally be measured at amortised cost under IFRS 9;
- Investments in held-to-maturity securities, measured at amortised cost under IAS 39, will generally be measured at amortised cost under IFRS 9;
- Investments in debt securities that are classified as held for sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on certain circumstances;
- Loans and advances to customers and investment securities that are measured at fair value (Fair Value Option) under IAS 39 will continue to be measured at FVTPL under IFRS 9;
- Most equity instruments, which are classified as held for sale under IAS 39, will be measured at FVTPL under IFRS 9. However, some of these equity instruments are held under a long-term strategic investment and should be recorded at FVOCI on 1 January 2018.

Based on the analysis performed to this date and on the strategy defined, no material changes are expected to the measurement criteria related with the Group’s financial assets.

II – Impairment – Financial Assets, Commitments and Financial Guarantees

IFRS 9 replaces the "incurred losses" model in IAS 39 with a forward-looking model of "expected credit losses (ECL)", which considers expected losses over the life of financial instruments. Therefore, in determining ECL, macroeconomic factors are considered as well as other forward looking information, whose changes impact the expected losses.

The new impairment model is applicable to the following set of Bank instruments, which are not measured at FVTPL:

- Financial assets classified as debt instruments;
- Commitments and financial guarantees issued (for which impairment was calculated in accordance with IAS 37 - Provisions, Liabilities and Contingent Assets).

In accordance with IFRS 9, impairment is not recognised for equity instruments.

Instruments subject to impairment will be divided into three stages, considering their level of credit risk, as follows:

- Stage 1: without significant increase in credit risk since its initial recognition. In such cases, impairment will reflect expected credit losses resulting from default events that may occur in the 12 months following the reporting date.

- Stage 2: instruments in which there has been a significant increase in credit risk since initial recognition, but for which there is still no objective evidence of impairment. In such cases, impairment will reflect the expected credit losses resulting from default events that may occur over the expected residual life of the instrument.
- Stage 3: instruments for which there is objective evidence of impairment, namely the existence of default as a result of events that resulted in losses. In such cases, the impairment amount will reflect the expected credit losses over the expected residual life of the instrument.

Impairment requirements of IFRS 9 are complex and require management decisions, estimates and assumptions, particularly in the following areas:

- Assessment of an increase in significant risk since the moment of initial recognition; and
- Inclusion of forward-looking information on the ECL calculation.

ECL Calculation

ECLs are weighted estimates of credit losses that will be determined as follows:

- Financial assets with no signs of impairment at the reporting date: the present value of the difference between the contractual cash flows and the cash flows that the Group expects to receive;
- Financial assets with impairment signs at the reporting date: the difference between the gross book value and the present value of the estimated cash flows;
- Unused credit commitments: the present value of the difference between the resulting contractual cash flows if the commitment is fulfilled and the cash flows that the Group expects to receive;
- Financial guarantees: the present value of expected repayments less the amounts that the Group expects to recover.

IFRS 9 defines financial assets with impairments signs similar to financial assets with impairment in accordance with IAS 39.

Definition of default

Under IFRS 9, the Group will consider its financial assets to be in default by applying the same definition that is applied for regulatory purposes.

Significant increase in credit risk

In the context of IFRS 9, in order to determine whether there has been a significant increase in credit risk (i.e. default risk) since the initial recognition of the financial instrument, the Group will consider relevant information that is available at no cost and / or excessive effort, including both quantitative and qualitative information and an analysis based on the CEMG's history, expert judgment.

Under IFRS 9, the identification of a significant increase in credit risk should be performed by comparing:

- The remaining PD lifetime at the time of the reporting date and
- The current remaining PD lifetime, which will have been estimated at the initial moment of the exposure recognition.

The Group will identify the occurrence of a significant increase in credit risk for an exposure by comparing the current 12 month PD and the 12 month PD estimated at the time of contract recognition as a proxy for the comparison between the amounts of the current remaining PD lifetime and the remaining PD lifetime calculated at the initial time of the contract.

As a backstop, the Group will consider that an increase in credit risk occurs whenever a customer is more than 30 days overdue between others.

Levels of credit risk

According to the current management of the Group's credit risk each customer, and consequently its exposures, are allocated to a risk level of the masterscale.

The Group will use these levels of risk as a key factor in identifying the significant increase in credit risk under IFRS 9.

Inputs in ECL measurement

The main inputs used to measure ECLs on a collective basis should include the following variables:

- Probability of Default – PD;
- Loss given default – LGD; and
- Exposure at Default – EAD.

These parameters will be achieved through internal statistical models and other relevant historical data, considering existing regulatory models and tailored to reflect forward-looking information.

PDs will be estimated based on a certain historical period, and will be calculated based on statistical models. These models will be based on internal data comprising both quantitative and qualitative factors. If there is a change in the risk of the counterparty or exposure, the estimate of the associated PD will also change. PDs will be calculated considering the contractual maturity of exposures.

The risk levels will be a highly relevant input for determining PDs associated with each exposure. The Group will collect performance and default indicators on its credit risk exposures with analysis by types of customers and products.

LGD is the extent of the loss that is expected to occur may the exposure goes into default. CEMG will estimate LGD parameters based on the historical recovery rates after counterparty defaults. LGD models will consider the associated collaterals, the counterparty typology, the default time, as well as recovery costs. In case of contracts secured by real estate, it is expected that LTV (loan-to-value) ratios be a parameter of high relevance in determining LGD.

EAD represents the expected exposure if the exposure and / or the customer enter into defaults. The Group will obtain EAD amounts from the counterparty's current exposure and potential changes to the current allowable amount under contractual conditions, including amortisations and prepayments. For commitments and financial guarantees, the EAD amount will consider both the amount of credit used and the prospective potential amount that may be used in accordance with the agreement.

As described above, with the exception of financial assets that consider a 12-month PD once they do not present a significant increase in credit risk, the Group will calculate the ECL amount considering the risk of default during the maximum contractual period of the contract. The maximum contractual period shall be considered as the period up to the date on which CEMG has the right to demand payment or terminate the commitment or guarantee.

Forward-Looking Information

Under IFRS 9, the Group includes forward-looking information both in its assessment of the significant risk increase and in the measurement of ECL. The Group will develop a future outlook of the relevant macroeconomic variables based on the assessment of internal experts and other external data. This outlook represents a forecast of what is most expected to occur and will be in line with the data used by the Group for other purposes such as strategic planning and budgeting.

III – Classification – Financial Liabilities

IFRS 9 generally maintains the requirements in IAS 39 regarding the classification of Financial Liabilities.

However, under IAS 39 all changes in the fair value of financial liabilities recorded at FVTPL (Fair Value Option) are recognised in profit or loss, whereas under IFRS 9 these fair value changes will be presented as follows:

- the amount related to the change in the fair value attributable to changes in the credit risk of the liability will be presented in OIC; and
- the remaining amount of the change in fair value will be recorded in profit and loss.

The Group has adopted the Fair Value Option for some of its own issues that contain embedded derivatives or associated hedging derivatives, or when this designation eliminates or significantly reduces the accounting mismatch of operations. In the IFRS 9 adoption, these changes in fair value will be recognised in OCI, and the amount recognised in OCI in each year will be variable. The accumulated amount recognised in OCI will be null if these liabilities are reimbursed at maturity date.

IV – Derecognition and changes to contracts

IFRS 9 includes the requirements in IAS 39 for derecognition of financial assets and liabilities without significant changes.

The Group estimates an immaterial impact arising from the adoption of these new requirements.

V – Disclosures

IFRS 9 will require an extensive set of new disclosures, namely with respect to hedge accounting, credit risk and ECLs.

VI – Impact on Capital Planning

Considering the application of the International Financial Reporting Standard IFRS 9 - Financial Instruments with effect from 1 January 2018, and considering Regulation (EU) 2017/2395 of the European Parliament and of the Council of 12 December, there are two approaches for recognizing the impact of the adoption of the standard on regulatory capital:

- Phasing-in of the total impact on an ongoing basis over a 5-year period; or
- Recognition of the total impact on the day of adoption.

The Group decided to adopt the first approach.

In the context of the implementation of IFRS 9, the main impact on the Group's regulatory capital results from the application of new impairment requirements.

In accordance with current regulatory requirements, and given that the Group uses the standard approach for the purpose of calculating capital requirements, provisions for impairment losses have specific treatment recquirements.

Capital requirements are calculated in accordance with the gross exposures net of specific provisions – i.e. net exposure. The adoption of IFRS 9 is expected to increase the losses associated with individual assets, therefore net exposure and capital requirements will decrease. However, this reduction in capital requirements will be offset in capital by the one-for-one deductions from the increase in impairment losses under IFRS 9. The capital impact assessment of the IFRS9 adoption will be a reduction in CET1 of approximately 6 basis points as of 1 January 2018. If the Group had chosen the alternative option, the impact would have been of 95 basis points in CET1.

VII - Transition

Changes in accounting policies resulting from the application of IFRS 9 will generally be applied retrospectively, with the exception of the following:

1) The Group will benefit from the exception that allows non-restatement of prior period comparative information regarding classification and measurement changes (including impairment). The differences in the balance sheet amounts of financial assets and liabilities resulting from the adoption of IFRS 9 will be recognised in Reserves and Retained Earnings as of 1 January 2018.
2) The following assessment shall be made based on facts and circumstances that existed at the time of initial application:
   - determining the business model in which de financial asset is held;
   - the designation and revocation of prior designations of certain financial assets and liabilities designated at FVTPL;
   - the designation of certain equity instruments that are not held for trading as FVOCI; and
   - for financial liabilities designated to Fair Value Option (FVTPL), to assess whether the presentation of the change effects in the credit risk of the financial liabilities in OIC would create or increase an accounting mismatch in profit or loss.

IFRS 15 – Revenue from Contracts with Customers

IASB, issued on 28 May 2014, IFRS 15 - Revenue from Contracts with Costumers. IFRS 15 was endorsed by EU Commission Regulation 1905/2016, of 22 September 2016, with an effective date of application for periods beginning on or after 1 January 2018.

An early adoption is allowed. This standard replaces IAS 11 - Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programs, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenue - Barter Transactions Involving Advertising Services.

IFRS 15 provides a model based on 5 steps of analysis in order to determine when revenue should be recognised and the amount. The model specifies that the revenue should be recognised when an entity transfers goods or services to the customer, measured by the amount that the entity expects to be entitled to receive. Depending on the fulfilment of certain criteria, revenue is recognised:

- At a time when the control of the goods or services is transferred to the customer; or
- Over the period, to the extent that represents the performance of the entity.

CEMG does not expect relevant impacts from the adoption of this standard.

IFRS 16 - Leases

IASB, issued on 13 January 2016, IFRS 16 - Leases, effective for annual periods beginning on or after 1 January 2019. Its anticipated adoption is permited if IFRS 15 is also adopted. This new standard replaces IAS 17 - Leases. IFRS 16 removes the classification of leases as either operating leases or finance leases, treating all leases as finance leases.

Short-term leases (below 12 months) and leases of low-value assets (such as personal computers) are exempt from the requirements.

CEMG does not expect significant impacts by applying this standard.

Recently issued pronouncements that are not yet effective for the Group

IFRS 14 – Regulatory Deferral Accounts

IASB issued on 30 January 2014 a standard that defines interim measures for those adopting IFRS for the first time and has activity with regulated tariff. The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.

This standard is not applicable to the Group.

IFRIC 22 – Foreign Currency Translations and Advance Consideration

It has been issued on 8 December 2016, IFRIC 22, effective for annual periods beginning on or after 1 January 2018.

This new IFRIC 22 defines that, has been an advance in foreign currency for an asset, expense or revenue, applying paragraphs 21-22 of IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency (or if there are multiple payments or receives, the foreign currency exist at each advance consideration date).

The Group does not expects a significant impact form this interpretation.

IFRIC 23 – Uncertainty over Income Tax Treatment

On 7 June 2017 an interpretation was issued on how to handle, in an accounting manner, uncertainties about the tax treatment of income taxes, especially when tax legislation requires that a payment be made to the Authorities in the context of a tax dispute and the entity intends to appeal to a tax examination which resulted in a payment to a taxation authority.

The interpretation has determined that the payment can be considered as a tax asset, if it is related to income taxes, in accordance with IAS 12 applying the criterion of probability defined by the standard as to the favorable outcome in favor of the entity on the matter concerned.

In this context, the entity may use the most likely amount method or, if the resolution can dictate ranges of values, use the expected value method.

IFRIC 23 becomes effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

The Group does not expect significant changes in the adoption of this interpretation.

Other Amendments

It was also issued by IASB:

- On 20 June 2016, and applicable for annual periods beginning on or after 1 January 2018, amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions.
- On 8 December 2016, and applicable for annual periods beginning on or after 1 January 2018, amendments to IAS 40 - Transfers of Investment Property to clarify whether an entity should transfer property under construction or development to, or from, investment property when there is a change in the use of such property which is supported by evidence other than specifically listed in paragraph 57 of IAS 40.

- The annual improvements cycle 2014-2016, issued by IASB on 8 December 2016, introduce amendments, with effective date for annual periods beginning on or after, 1 July 2018, to the standards IFRS 1 (elimination of short-term exemption for first-time adopters) and IAS 28 (measuring an associate or joint venture at fair value) and amendments, with effective date on, or after, 1 January 2017 to IFRS 12 (clarification of the scope of the Standard).
- The annual improvements cycle 2015-2017, issued by IASB on 12 December 2017, introduce amendments, with effective date for annual periods beginning on or after, 1 January 2019, to the standards IFRS 3 (remeasure its previously held interest in a joint operation when it obtains control of the business), IFRS 11 (not remeasure its previously held interest in a joint operation when it obtains joint control of the business), IAS 12 (accounts for all income tax consequences of dividend payments in the same way), IAS 23 (treat as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale).

The Group expects no impact from the adoption of this amendment on its financial statements.

58 Sovereign debt of European Union countries subject to bailout

As at 31 December 2017, the exposure of the Group to sovereign debt of European Union countries subject to bailout is as follows:

(Thousands of Euro)

	2017						
Issuer / portfolio	Book value	Fair value	Fair value reserve	Impairment	Average interest rate %	Average maturity (years)	Measurement level
Greece							
Available-for-sale financial assets	17 164	17 164	(1 128)	-	2.51%	20.28	1

As at 31 December 2016, the exposure of the Group to sovereign debt of European Union countries subject to bailout is as follows:

(Thousands of Euro)

	2016						
Issuer / portfolio	Book value	Fair value	Fair value reserve	Impairment	Average interest rate %	Average maturity (years)	Measurement level
Greece							
Available-for-sale financial assets	12 365	12 365	(6 148)	-	3.00%	18.43	1

As at 31 December 2017, the value of the securities includes respective accrued interest in the amount of Euro 52 thousand (31 December 2016: Euro 460 thousand).

59 Transfer of assets

The Group performed a set of transactions of sale of financial assets (namely loans and advances to customers) for specialised Funds in the recovery of loans. These funds take the responsibility for management of the companies or assets received as collateral with the objective of ensuring a pro-active management through the implementation of plans to explore/increase the value of the companies/assets.

The financial assets sold under these transactions are derecognised from the balance sheet of the Group, since the transactions result in the transfer to the Funds of a substantial portion of the risks and benefits associated with the assets as well as the control on the assets.

The specialised funds that acquire financial assets to the Group are closed funds, in which the holders of the mutual funds have no possibility to request the reimbursement of its investment throughout the useful life of the Funds.

These mutual funds are held by several banks, which are the sellers of the loans, in percentages that vary through the useful life of the Funds, ensuring however that, separately, none of the Group's entities holds more than 50% of the capital of the Funds.

The Funds have a specific management structure (General Partner), fully independent from the Group's entities and that is selected on the date of establishment of the Funds.

The management structure of the Funds has as main responsibilities:

- determine the objective of the Funds; and
- manage exclusively the Fund, determining the objectives and investment policy and the conduct in management and business of the Funds.

The management structure is remunerated through management commissions charged to the Funds.

These funds, in most transactions (in which the Group holds minority positions) establish companies under the Portuguese law in order to acquire the loans to CEMG's, which are financed through the issuance of senior and junior bonds.

The value of the senior bonds fully subscribed by the funds that hold the share capital of the companies match the fair value of the asset sold, determined in accordance with a negotiation based on valuations performed by both parties. These bonds are remunerated at an interest rate that reflects the risk of the company that holds the assets. The value of the junior bonds is equivalent to the difference between the fair value based on the valuation of the senior bonds and the sale value.

These junior bonds, when subscribed by the Group, provide the right to a contingent positive value if the recovered amount for the assets transferred is above the nominal value amount of senior bonds plus it related interest.

However, considering that these junior bonds reflect a difference between the valuations of the assets sold based on the appraisals performed by independent entities and the negotiation between the parties, the junior bonds are fully provided.

Therefore, following the transactions that occurred, the Group subscribed:

- Mutual funds of the Funds, for which the cash-flows that allow the recovery arise mainly from a set of assets transferred from the participant banks (where the Group has clearly a minority interest). These securities are booked in the available-for-sale portfolio and are accounted for at fair value based on the market value, as disclosed by the Funds and audited at each year end; and
- Junior bonds (with higher subordination degree) issued by the companies held by the funds and which are fully provided to reflect the best estimate of impairment of the financial assets transferred.

Within this context, not withholding control but maintaining an exposure to certain risks and rewards, the Group, in accordance with IAS 39.21 performed an analysis of the exposure to the variability of risks and rewards in the assets transferred, before and after the transaction, having concluded that it does not hold substantially all the risks and rewards.

Considering that it does not hold control and does not exercise significant influence on the funds or companies management, the Group performed the derecognition of the assets transferred under the scope of IAS 39.20 c (i) and the recognition of the assets received as follows:

(Thousands of Euro)

	2017			2016		
	Values associated with the transfer of assets			Values associated with the transfer of assets		
	Net assets transferred	Amount received	Accumulated result obtained with the transfer	Net assets transferred	Amount received	Accumulated result obtained with the transfer
Fundo Vega, FCR	27 857	43 124	15 267	27 857	43 124	15 267
Vallis Construction Sector Fund	23 506	26 776	3 270	23 506	26 776	3 270
Discovery Portugal Real Estate Fund	13 698	15 415	1 717	13 698	15 415	1 717
Fundo Aquaris, FCR	13 060	13 485	425	13 060	13 485	425
Fundo de Reestruturação Empresarial, FCR	45 349	45 509	160	45 349	45 509	160
	123 470	144 309	20 839	123 470	144 309	20 839

As at 31 December 2017 and 2016, the assets received under these transactions are as follows:

(Thousands of Euro)

	2017				
	Senior securities	Junior securities	Total	Impairment	Net amount
Fundo Vega, FCR	28 839	-	28 839	(2 043)	26 796
Vallis Construction Sector Fund	19 269	7 838	27 107	(27 107)	-
Discovery Portugal Real Estate Fund	14 515	-	14 515	-	14 515
Fundo Aquarius, FCR	14 370	-	14 370	(1 110)	13 260
Fundo de Reestruturação Empresarial, FCR	44 484	-	44 484	(2 878)	41 606
	121 477	7 838	129 315	(33 138)	96 177

(Thousands of Euro)

	2016				
	Senior securities	Junior securities	Total	Impairment	Net amount
Fundo Vega, FCR	30 318	-	30 318	-	30 318
Vallis Construction Sector Fund	19 148	7 838	26 986	(21 243)	5 743
Discovery Portugal Real Estate Fund	13 738	-	13 738	-	13 738
Fundo Aquarius, FCR	13 800	-	13 800	(901)	12 899
Fundo de Reestruturação Empresarial, FCR	43 875	-	43 875	(2 370)	41 505
	120 879	7 838	128 717	(24 514)	104 203

As at 31 December 2017, were recorded impairment losses in Vallis Construction Sector Fund in amounting to Euro 5,864 thousand (31 December 2016: Euro 15,090 thousand), in Fundo Vega, FCR in amounting to Euro 2,043 thousand, in Fundo de Reestruturação Empresarial, FCR in amounting to Euro 508 thousand (31 December 2016: Euro 1,597 thousand) and Fundo Aquarius, FCR in amounting to Euro 209 thousand (31 December 2016: Euro 377 thousand) relating to the devaluation of the mutual funds, as described in note 15.

As at 31 December 2017 and 2016, junior securities refer to mutual funds on the amount of Euro 7,838 thousand, as referred in note 24, which are fully provided.

In addition, during 2016, the Group acquired mutual funds in Fundo Vega, in the amount of Euro to 3,026 thousand.

Although junior bonds are fully provided, the Group still holds an indirect exposure to financial assets transferred, under the minority investment that holds in the pool of assets transferred by all financial institutions involved, through the holding of shares of the funds (denominated in the table as senior bonds).

60 Contingencies

Resolution Fund

Resolution measure of Banco Espírito Santo, S.A. (BES)

The Bank of Portugal applied a resolution measure to Banco Espírito Santo, SA on 3 August 2014, pursuant to the provisions of Article 145 C (1.b) of the General Regime for Credit Institutions and Financial Companies (RGICSF), in the partial transfer method of assets, liabilities, off-balance sheet assets and assets under management to a transition bank, Novo Banco, SA (Novo Banco). As part of this process, the Resolution Fund made a capital injection in Novo Banco in the amount of Euro 4,900,000 thousand, becoming the sole shareholder, and contracted loans in the amount of Euro 4,600,000 thousand, of which Euro 3,900,000 thousand were granted by the Portuguese State and Euro 700,000 thousand were granted by a group of credit institutions, of which Euro 70,000 thousand were granted by the Group.

On 29 December 2015, the Bank of Portugal transferred to the Resolution Fund the emerging liabilities from possible negative effects of future decisions arising from the resolution process, resulting in liabilities or contingencies.

On 7 July 2016, the Resolution Fund stated that it would review and assess the proceedings to take following the disclosure of the report on the results of the independent evaluation exercise, which was carried out to estimate the level of credit recovery for each class of creditors in the possible scenario of a normal BES insolvency procedure on 3 August 2014.

Thus, under the applicable law, and where it is found that at the time of BES settlement, creditors whose credit facilities have not been transferred to Novo Banco, assume a loss higher than would have been hypothetically if BES had entered into a settlement procedure immediately prior to the application of the resolution measure, these creditors are entitled to receive the difference from the Resolution Fund. To date, there is a relevant body of legal proceedings underway against the Resolution Fund.

The Bank of Portugal announced on 20 February 2017 that it has decided to choose the potential Lone Star investor for a definitive phase of negotiations and in conditions of exclusivity aiming to complete the terms in which the sale of the Fund's share Resolution on Novo Banco, SA would come about/will be held, and on 31 March 2017, a further statement was issued stating:

"Today, the Bank of Portugal choose Lone Star to complete the sale of the Novo Banco and the Resolution Fund signed the transaction's contract documents.

Under the terms of the agreement, Lone Star will make capital injections in Novo Banco for a total amount of Euro 1,000,000 thousand, of which Euro 750,000 thousand at the time of the transaction completion and Euro 250,000 thousand within a period of up to 3 years.

Due to this capital injection, Lone Star will hold 75% of the capital stock of the Novo Banco and the Resolution Fund will maintain 25% of the capital.

The conditions agreed also include the existence of a contingent capitalization mechanism, under which the Resolution Fund, as a shareholder, commits to make capital injections in the event of certain cumulative conditions, related to: i) the performance of a delimited set of assets of Novo Banco and ii) with the development of the Bank's capitalization levels.

Possible capital injections to be made pursuant to this contingent mechanism benefit from a capital buffer resulting from the planned injection to be made under the terms of the operation and are subject to an absolute ceiling.

The agreed conditions also provide for mechanisms to safeguard the interests of the Resolution Fund, the alignment of benefits and supervision, despite the restrictions arising from the application of the State aid rules.

The completion of the sale is dependent on obtaining the usual regulatory authorizations (including the European Central Bank and the European Commission) and a liability management exercise, subject to the approval of the bondholders, which will cover non-subordinated bonds of Novo Banco and that, by offering new bonds, it will generate at least Euro 500 million of own funds eligible for the calculation of the CET1 ratio. "

On 18 October 2017, the Bank of Portugal announced the sale of the Novo Banco, stating that:

- "The Bank of Portugal and the Resolution Fund concluded today the sale of Novo Banco to Lone Star through the injection of Euro 750 million by the new shareholder, which will be followed by a new capital injection of Euro 250 million, to be completed by the end of 2017".
- "The conclusion of this operation entails a complex process of negotiations with the new shareholder, the European institutions and other national institutions, in close cooperation with the Government."
- "The completion of the operation announced on 31 March allows a very significant strengthening of the equity of Novo Banco and ceases the transition status applicable to the bank since its inception."
- "As of this date, Novo Banco will be held by Lone Star and by the Resolution Fund, with holdings of 75% and 25%, respectively, and will be provided with the necessary means to execute a plan guaranteeing that the bank will continue to play its decisive role in financing the national economy."

On 28 March 2018, the Resolution Fund issued a statement on the payment to be made to Novo Banco about the results of 2017, from which is about the activation of the contingent capitalization mechanism provided for in the contracts celebrated for Novo Banco's sale. The amount to be paid to Novo Banco in 2018 by the Resolution Fund in relation to 2017 financial statements amounts to Euro 792 million.

The conditions agreed with the sale of Novo Banco, S.A. also include a contingent capitalisation mechanism, under which the Resolution Fund undertakes to make payments to Novo Banco, S.A. if certain cumulative conditions materialise, related to: i) the performance of a delimited set of assets and ii) an increase of the Bank's capitalisation levels. In case these conditions are met, the payments are subject to a maximum limit of Euro 3,890 thousands. However, payment will only be made after the statutory clearance of accounts and after a verification procedure to be made by an independent entity, which aims to confirm that the amount to be paid by the Fund is correctly calculated.

Firstly, the Fund will use the available financial resources, resulting from contributions paid, directly or indirectly by the banking sector. These resources will be complemented by a loan to be obtained from the State, on the agreed terms in October 2017, as it was disclosed back then. The concrete amount of this loan is not yet accurate, but it is estimated to be a maximum Euro 450 millions, below the annual limit of Euro 850 millions, with budget.

The Fund has already disbursed a total of Euro 4,900 millions of financial support to the resolution measure applied to Banco Espírito Santo, S.A., corresponding to the realization of capital of the new bank in August 2014. The Fund did not made any other payment, but has already registered in it's 2017 accounts a provision of Euro 792 millions, payment due in 2018.

Resolution measure of Banif – Banco Internacional do Funchal, S.A. (Banif)

The Board of Directors of Bank of Portugal decided on 19 December 2015 to declare that Banif was "at risk or in a situation of insolvency" and to start an urgent resolution of the institution by the partial or total disposal method of its activity, which has materialized, on 20 December 2015, in the disposal of rights and obligations, representing assets, liabilities, off-balance sheet assets and assets under management of Banif to Banco Santander Totta S.A. (BST).

Most of the assets that were not disposed of were transferred to an asset management vehicle called Oitante, S.A. (Oitante), created specifically for this purpose, which has as sole shareholder the Resolution Fund, with the Oitante proceeding to the issuance of debt bonds in the amount of Euro 746,000 thousand, and a guarantee provided by the Resolution Fund and a counter-guarantee by the Portuguese State.

The transaction involved public support, of which Euro 489,000 thousand by the Resolution Fund. The Euro 489,000 thousand assumed by the Resolution Fund were financed through a mutual agreement granted by the State.

Other relevant conditions

The resolution measures applied to BES and Banif referred to above determined that, as at 31 December 2016, the Resolution Fund held the entire capital stock of Novo Banco and Oitante, at the same time as the Resolution Fund contracted a loan and assumed other liabilities and contingent liabilities, namely:

- Effects of the application of the principle that no institutions' creditor under resolution may incur greater loss than it would have assumed may that institution had entered into settlement.
- Negative effects arising from the resolution process resulting in additional liabilities or contingencies for the Novo Banco, S.A., which must be neutralized by the Resolution Fund.
- Legal proceedings against the Resolution Fund.
- Guarantee provided to the bonds issued by Oitante SA for a total amount of Euro 746,000 thousand, counter-guaranteed by the Portuguese State, for which Oitante, S.A. made an early repayment of Euro 90,000 thousand.

In order to satisfy the responsibilities of the Resolution Fund, in particular to repay the loans obtained and to meet other responsibilities that may arise, the Resolution Fund essentially has revenues from initial and periodic contributions of the participating institutions and the banking sector established by Law no. 55-A /2010. In this regard, the possibility of the Government establishing, through an ordinance, that participating institutions make special contributions is also expected, in the situations provided for in applicable legislation, particularly in the event that the Resolution Fund does not have its own resources to satisfy its obligations.

CEMG's financial statements of 31 December 2017 mirror the expectation that no new special or extraordinary contributions will be required to the institutions participating in the Resolution Fund.

According to non confidential information from the European Comission, the three support measures of the Resolution Fund and the State that compose the sale agreement of Novo Banco and that are connected to a portfolio of loans with uncertain coverage are as follows:

(i) Lone Star has the right to claim from the Resolution Fund the financing costs, losses and provisioning of that portfolio until the maximum of Euro 3,89 thousand million, subject to several conditions, namely in terms of reduction of the capital ratio CET1;

(ii) Novo Banco may issue debt until Euro 400 million, from Tier 2, that the Resolution Fund will subscribe for lack of investors, and which is deducted from the Euro 3,89 billion related to the contingent capital mechanism;

(iii) In the case the total capital ratio reaches values below those defined in the Supervisory Review and Evaluation Process ("SREP"), the Portuguese State may inject adicional capital in Novo Banco, subject to determined conditions.

In the future, in case of need to use these contributions, may have relevance to the financial statements.

Since 2013, the Group has made mandatory contributions, as established in Decree-Law no. 24/2013, of 19 February, which establishes the method for determining the initial, periodic and special contributions to the Resolution Fund provided for in the RGICSF.

On 3 November 2015, the Bank of Portugal issued a Circular Letter under which 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 the Article 9 of the aforementioned Decree-Law. CEMG 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 Banco Espírito Santo (BES). Therefore, the eventual collection of a special contribution appears to be unlikely".

In accordance with Decree-Law no. 24/2013, it is Bank of Portugal's responsibility to determine, by instruction, the rate to be applied in each year based on the objective incidence of periodic contributions. Bank of Portugal Instruction No. 19/2015, published on 29 December, stipulates that Portuguese banks paid contributions to the Resolution Fund in 2016, calculated at a 0.02% base rate. Instruction No. 21/2016 of the Bank of Portugal, of 26 December, sets the base rate to be effective in 2017 for the determination of periodic contributions to the Resolution Fund by 0.0291%.

As at 31 December 2017, the Group made regular contributions to the Resolution Fund in the amount of Euro 3,612 thousand (31 December 2016: Euro 3,005 thousand) and paid the contribution to the banking sector in the amount of Euro 11,875 thousand (31 December 2016: Euro 13,226 thousand) and were recognised as expense in April and June, in accordance with IFRIC 21 – Levies.

On 28 September 2016, the Resolution Fund announced that it had agreed with the Ministry of Finance to review the loan of Euro 3,900,000 thousand originally granted by the Portuguese State to the Resolution Fund in 2014 to finance the resolution measure applied to BES. According to the Resolution Fund, the maturity extension of the loan was intended to ensure the ability of the Resolution Fund to meet its obligations through its regular revenues, regardless of the contingencies to which the Resolution Fund is exposed. On the same day, the Minister of Finance announced that increases in liabilities arising from materialization of future contingencies will determine the maturity adjustment of Portuguese State and Bank loans to the Resolution Fund in order to maintain the required contribution to the banking sector at current levels.

The announcement made by the Resolution Fund at 21 March 2017 states:

- "The conditions of the loans obtained by the Fund for the financing of the resolution measures applied to Banco Espírito Santo, SA and Banif - Banco Internacional do Funchal, SA have been changed." These loans amounted to Euro 4,953,000 thousand, of which Euro 4,253,000 thousand were granted by the Portuguese State and Euro 700,000 thousand were granted by a set of banks.
- "Those loans will due in December 2046, without loss/prejudice to the possibility of early/anticipated repayment based on the use of revenues/receipts from the Resolution Fund. The maturity will be adjusted in conditions that guarantee the ability of the Resolution Fund to fully meet its obligations based on regular revenues/income and without the need for special contributions or any other extraordinary contributions. Following the resolution measures of BES and Banif, liabilities arising from contracts obtained by the Resolution Fund with the Portuguese State and the banks, compete in pari passu among themselves."
- "The review of loan conditions aimed to ensure the sustainability and financial balance of the Resolution Fund."
- "The new conditions allow for full payment of the Resolution Fund's liabilities and their remuneration, without the need for special contributions or any other extraordinary contributions from the banking sector."

Following these changes to the loans contracted by the Resolution Fund, as at 31 December 2017, the amount of credit and interest owed to the Group amounted to Euro 70,000 thousand (31 December 2016: Euro 74,730 thousand).

In this context, considering the above-mentioned exposure, it is not possible at this date to estimate the effects on the Resolution Fund arising from the application of the principle that no creditor of the credit institution under resolution may incur greater loss than the one it would have assumed may that institution entered into settlement of liabilities or additional contingences for Novo Banco, S.A. that have to be neutralized by the Resolution Fund, legal proceedings against the Resolution Fund, including the so-called Harmed BES process; and the guarantee given to the bonds issued by Oitante.

Thus, and regardless the possibility provided for in the applicable legislation for the collection of special contributions, given the recent developments regarding the renegotiation of the conditions of loans granted to the Resolution Fund by the Portuguese State and by a group of banks, CEMG included, and to the public announcements made by the Resolution Fund and by the Minister of Finance which state that this possibility will not be used. The financial statements, as of 31 December 2017, reflect CEMG's expectation that the institutions participating in the Resolution Fund will not be required to make special contributions or any other extraordinary contributions to finance the resolution measures applied to BES and Banif.

Single Resolution Fund

Under the Single European Resolution Fund ('FUR') the Group made an initial contribution of Euro 8,590 thousand in 2015, which, under the Intergovernmental Agreement on the transfer of the mutualisation of contributions to FUR, was not transferred to FUR but used for the compliance with obligations of the Resolution Fund resulting from the application of resolution measures prior to the date of application of the Agreement. This amount will have to be re-set over an 8-year period (starting in 2016) through periodic contributions to FUR. The amount of the cash contribution as at 31 December 2017 attributable to the Group was Euro 9,702 thousand (31 December 2016: Euro 10,121 thousand). The Group also opted for the settlement of Euro 3,475 thousand in the form of irrevocable payment commitment, in accordance with notes 10 and 21.

61 Subsidiary and associated companies

As at 31 December 2017, the subsidiary companies of the Group, are 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	992 000 000	Escudo Cabo Verdiano	Banking	100.00%	100.00%
Montepio Holding, S.G.P.S., S.A.	Lisboa	175 000 000	Euro	Management of shareholdings	100.00%	100.00%
Montepio Investimento, S.A.	Lisboa	180 000 000	Euro	Banking	100.00%	100.00%
Montepio Crédito - Instituição Financeira de Crédito, S.A.	Porto	30 000 000	Euro	Specialised loans	100.00%	100.00%
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	Lisboa	1 550 000	Euro	Management of investment funds	100.00%	100.00%
Finibanco Angola, S.A.	Luanda	4 181 999 740	Kwanza	Banking	51.00%	81.37%
Banco Terra, S.A.	Maputo	2 627 743 000	Metical	Banking	45.78%	45.78%
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.	Lisboa	100 000	Euro	Real estate management	100.00%	100.00%

As at 31 December 2017, the associated companies of the Group, held directly or indirectly, are as follows:

Subsidiary Company	Head Office	Share Capital	Activity	% held
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	São Miguel island	Euro 10 000 000	Accommodation, catering and similar/ Hotels with restaurant	20,00%
Montepio Gestão de Activos Imobiliários, A.C.E.	Lisbon	Euro 2 449 707	Real estate asset management	28,50%

Finibanco Angola

In 2015, a contract was signed for the sale of 1,727,782 shares of Finibanco Angola S.A., representing 30.57% of the share capital, for US 26,346,178 million.

The Group analysed the effectiveness of regulatory and legal requirements, and decided not to recognise the disposal of the financial investment until the settlement has been made.

In 2017, the financial settlement corresponding to 11,476 shares, representing 0.20% of the share capital, was made in the amount of USD 174,984, with the Group holding 81.37% of the subsidiary Finibanco Angola, S.A.

Upon completion of the transaction, the Group will continue to control Finibanco Angola, S.A.

SSAGINCENTIVE, Sociedade de Serviços Auxiliares e de Gestão Imóveis, S.A.

On 16 June 2016, the Group incorporated the company SSAGINCENTIVE, Sociedade de Serviços Auxiliares e de Gestão Imóveis, S.A., with a share capital of Euro 50 thousand. The purpose of this company is the transaction and management of real estate essential to the installation and operation of credit institutions and/or financial companies, its shareholders and/or companies that are in a domain or group relationship, as well as the management and purchase for resale of properties acquired by its shareholders and/or companies that are in a domain or group relationship as a result of the repayment of their own credit.

On 19 July 2017, the Group increased its share capital by Euro 50 thousand. After this capital increase, the Group's share capital amounted to Euro 100 thousand.

EAM - Évora *Asset Management, S.A.*

On 21 December 2016, the Group acquired 100% of the share capital of the company Semelhanças e Coincidências S.A., which was renamed EAM – Évora Asset Management, S.A., for the amount of Euro 24 thousand. This company is engaged in the purchase and sale of real estate and the resale of those acquired for this purpose, as well as the management of property owned by the company, including its lease, as well as any other acts or transactions directly related to the above-mentioned activity.

On 25 October 2017, the Group sold the entire capital of EAM - Évora Asset Management, S.A.

Montepio Recuperação de Crédito, A.C.E.

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

Montepio Capital de Risco, S.C.R., S.A.

On 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.

As at 31 December 2017, 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
Valor *Prime* - Fundo de Investimento Imobiliário Aberto	1997	2012	Lisboa	65.24%	Full
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2011	2011	Lisboa	100%	Full
Montepio Arrendamento II – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2013	2013	Lisboa	100%	Full
Montepio Arrendamento III – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2013	2013	Lisboa	100%	Full
Polaris - Fundo de Investimento Imobiliário Fechado	2009	2012	Lisboa	100%	Full
PEF - Portugal Estates Fund	2013	2013	Lisboa	100%	Full
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto (FEIIA)	2013	2013	Lisboa	100%	Full

As at 14 December 2017, the Group settled Pelican Mortgages No. 1 PLC.

As at 14 December 2016, the Group settled Pelican Mortgages No. 2 PLC.

On 26 February 2016, the Group settled Fundo de Capital de Risco Montepio Crescimento.

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 2017.

62 Discontinued or discontinuing operations

CEMG is in a negotiating process with a group of investors with the purpose to refocusing the approach to the African market in view of the deconsolidation of the current financial holdings held in Finibanco Angola SA and Banco Terra, SA.

Considering the deliberations already taken by the Board of Directors, as well as the provisions of IFRS 5, the activities performed by these subsidiaries were considered as discontinuing operations in 2016.

At the level of the income statement, the results of these subsidiaries were recognized in a balance denominated "Results from discontinuing operations" and, at the balance sheet level, under "Non-current assets held for sale - Discontinuing operations" and "Non-current liabilities held for sale - Discontinuing operations".

In accordance with paragraph 33(a) of IFRS 5, net cash flows attributable to operating, investing and financing activities of discontinued operations shall be disclosed, but shall not be mandatory for groups of newly acquired assets held for sale that meet the criteria for classification as available for sale in the acquisition.

In addition, it should be noted that as mentioned in the accounting policies, on 31 December 2017, the Group applied IAS 29 to Finibanco Angola on the grounds that the relevant conditions to consider the Angolan economy as a hyperinflationary economy were met.

Thus, before the functional currency was translated into the reporting currency in the financial statements of Finibanco Angola, SA, the amounts relating to assets, liabilities, equity, income and expenses were monetarily restated based on the general price index which reflects the changes in the purchasing power of the currency of the country in which the operations are generated, as follows:

(i) monetary items are not restated because they are already stated in the current monetary unit at the reporting date;

(ii) assets and liabilities linked by agreement to price changes are adjusted under the terms of the agreement in order to determine the amount outstanding at the date of the statement of financial position;

(iii) all other assets and liabilities are non-monetary and are restated (except for certain items that are recorded at current amounts at the reporting date, such as net realizable value and market value);

(iv) all items of the income statement are restated by applying the change in the general price index from the dates on which income and expense items were initially recorded in the financial statements.

The price index used was the National Consumer Price Index (IPCN) disclosed by the National Statistical Institute (INE) of Angola, in its Rapid Information Sheet for December 2017. The table below presents the index and the accumulated percentage variation over the last 3 years:

	2015	2016	2017
IPC (Basis - 31 December 2014 = 100)	114.27	162.20	204.79
Annual variation	14%	48%	42%

In this context, proforma accounts of the subsidiary Finibanco Angola, SA were prepared, considering the effects of applying IAS 29, namely for non-monetary assets and liabilities, including goodwill, and equity items were restated by applying the price index from the date of acquisition or date of the last revaluation. If restated asset amounts exceed their recoverable amount, these are reduced to their recoverable amount. The effects of applying IAS 29 calculated with reference to 1 January 2016 were recorded under equity items, without impact on the income statement. The effects of applying IAS 29 for the 2017 period were recorded in the income statement.

The Group's consolidated accounts also considered the following aspects:

- The restatement of non-monetary assets and liabilities and equity items of Finibanco Angola, S.A., in accordance with the requirements of IAS 29;
- After considering the effects of applying IAS 29 described above, the book value of the investment in Finibanco Angola, SA was compared to its recoverable amount on 1 January 2017 and 31 December 2017, in order to assess on the need for impairment recognition regarding the investment in this associate.

The application of IAS 29 to the shareholding held by the Group in Finibanco Angola, S.A. had equity impacts in 2017, involving:

(i) an increase in reserves and retained earnings of Euro 37,474 thousand;

(ii) a decrease of net income of Euro 4,084 thousand;

(iii) the recognition of an impairment loss for the period in the amount of Euro 33,433 thousand.

The statement of financial position of Finibanco Angola, S.A. and Banco Terra, S.A., as at 31 December 2017, is presented as follows:

(Thousands of Euro)

	2017			
	Finibanco Angola	Banco Terra	Adjustments	Total
Cash and deposits at central banks and credit institutions	81 602	5 803	(11 334)	76 071
Other loans and advances to credit institutions	5 273	1 227	(5 273)	1 227
Loans and advances to customers	122 636	34 144	-	156 780
Securities portfolio and derivatives	155 468	6 287	-	161 755
Intangible assets	1 149	456	9 931	11 536
Other assets	94 689	5 850	(33 433)	67 106
Total assets	**460 817**	**53 767**	**(40 109)**	**474 475**
Deposits from central banks	4 036	5 194	(3 760)	5 470
Deposits from customers	309 420	26 154	(20 446)	315 128
Other subordinated debt	27 331	-	(25 497)	1 834
Provisions	2 175	34	-	2 209
Other liabilities	5 378	472	(99)	5 751
Total liabilities	**348 340**	**31 854**	**(49 802)**	**330 392**

The statement of financial position of Finibanco Angola, S.A. and Banco Terra, S.A., as at 31 December 2016, is presented as follows:

(Thousands of Euro)

	2016			
	Finibanco Angola	Banco Terra	Adjustments	Total
Cash and deposits at central banks and credit institutions	55 740	6 780	(20 926)	41 594
Other loans and advances to credit institutions	52 553	1 297	(23 722)	30 128
Loans and advances to customers	145 772	33 915	-	179 687
Securities portfolio and derivatives	144 980	654	-	145 634
Intangible assets	3 856	187	12 121	16 164
Other assets	51 614	5 595	-	57 209
Total assets	**454 515**	**48 428**	**(32 527)**	**470 416**
Deposits from other credit institutions	21 557	2 004	(24 587)	(1 026)
Deposits from customers	333 928	23 119	(10 011)	347 036
Other subordinated debt	27 330	-	(27 302)	28
Provisions	633	192	-	825
Other liabilities	5 287	2 677	(46)	7 918
Total liabilities	**388 735**	**27 992**	**(61 946)**	**354 781**
Total equity	**65 780**	**20 436**	**-**	**86 216**
Total liabilities and equity	**454 515**	**48 428**	**(61 946)**	**440 997**

The main income statement items related to these discontinuing operations are analysed as follows:

(Thousands of Euro)

	2017					2016			
	Finibanco Angola		Banco Terra						
	Initial	Adjustment	Initial	Adjustment	Total	Finibanco Angola	Banco Terra	Adjustment	Total
Net interest income	31 608	-	6 190	-	37 798	28 596	4 849	-	33 445
Dividends from equity instruments	-	-	-	-	-	-	-	-	-
Fee and commision income	8 213	-	497	-	8 710	5 863	562	-	6 425
Net gains/ (losses) arising from financial operations	4 468	-	(235)	-	4 233	9 258	1 842	-	11 100
Other operating income/ (expense)	(7 952)	(925)	123	-	(8 754)	(2 348)	225	-	(2 123)
Total operating income	**36 337**	**(925)**	**6 575**	**-**	**41 987**	**41 369**	**7 478**	**-**	**48 847**
Staff costs	9 812	-	3 320	-	13 132	7 791	3 366	-	11 157
General and administrative expenses	9 602	(10)	2 472	-	12 064	8 615	2 699	-	11 314
Depreciation and amortisation	1 805	-	548	-	2 353	1 500	484	-	1 984
Total operating expense	**21 219**	**(10)**	**6 340**	**-**	**27 549**	**17 906**	**6 549**	**-**	**24 455**
Loans, other assets and other provisions impairment	5 934	269	49	1 919	8 171	10 837	764	17 672	29 273
Operating profit	**9 184**	**(1 184)**	**186**	**1 919**	**6 267**	**12 626**	**165**	**(17 672)**	**(4 881)**
Profit before income tax	**9 184**	**(1 184)**	**186**	**1 919**	**6 267**	**12 626**	**165**	**(17 672)**	**(4 881)**
Taxes	2 059	-	96	-	2 155	2 205	98	-	2 303
Net profit/ (loss) for the period	**7 125**	**(1 184)**	**90**	**1 919**	**4 112**	**10 421**	**67**	**(17 672)**	**(7 184)**

Finibanco Angola, S.A.

The assessment performed for Finibanco Angola was based on a study considering: market multiples, comparable transactions and discounted dividend method. In addition, the estimated amount on the sale of Finibanco Angola was considered, in accordance with the acquisition proposal submitted by a third party.

On this basis, the valuation of 81.37% position held by Montepio Holding in Finibanco Angola stood at USD 81,597 thousand, approximately Euro 68,037 thousand.

In the assessment methodologies used the following assumptions were considered:

- The peer group selection process considered the following criteria (by the following order): market share, capitalization, country, country risk premium (Damodaran), non-performing loans/total loans ratio, net interest income/total assets ratio and cost/income ratio;

- For application of the comparable transactions methodology purposes it was considered to be a transaction executed in the Angolan market; and

- In the dividend method assessment it was considered the business plan of Finibanco Angola for the 2017/2019 period and a growth rate of 3% for 2020.

These assessments above also include a forward of 200.3 for the calculation of the foreign exchange rate AOA/EUR as of 31 December 2017.

Banco Terra, S.A.

The fair value estimate of Banco Terra, S.A. was determined based on the fair value net of selling costs which corresponds to a multiple of 1 on the equity amount as of 31 December 2017.

As at 31 December 2017, the amounts registered in the balance sheet, related to goodwill and consolidation differences, correspond to the difference between the cost of acquisition and the total fair value of the assets and liabilities and contingent liabilities of: (i) Finibanco Angola, S.A. acquired at 31 March 2011 from Montepio Geral - Associação Mutualista, as described in note 1 a), in the amount of Euro 53,024 thousand (31 December 2016: Euro 42,863 thousand) and; (ii) of Banco Terra, acquired in December 2014, in the amount of Euro 3,280 thousand. It should be noted that these amounts are fully provided.

63 Relevant facts

Capital increase

As at 30 June 2017, the Group proceeded to an institutional 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 aforementioned capital increase was fulfilled by MGAM by conducting institutional capital in cash in the amount of Euro 250,000 thousand.

Legal transformation into a public limited company

Due to an asset higher than Euro 50,000.000, CEMG was automatically considered as Caixa Económica Bancária, in accordance with the provisions of Article 6 no. 1 of Decree-Law No. 190/2015 of 10 September.

Pursuant to paragraph 2 of the above legal provision, the Bank of Portugal decided to transform CEMG into a public limited company, which, through its letter dated 21 November 2016, addressed to the Executive Board of Directors of CEMG , stated as follows: "We inform you that under the terms and for the purposes of articles 111 and 114 of the Administrative Procedure Code, which the Board of Directors of the Bank of Portugal deliberated on 21 November 2016, in accordance with the competence conferred by Article 6 (2) of the Decree-Law No. 190/2015, of 10 September, the transformation of Caixa Económica Montepio Geral into a limited company, under the terms and grounds set out in the enclosed decision.”

In addition, and in accordance with Article 6 (3) of Decree-Law No. 190/2015, the Portuguese Securities Market Commission was duly consulted by the Bank of Portugal.

The Executive Board of Directors of CEMG prepared an information report which set out the grounds for the transformation and presented a proposal of by-laws that submitted the approval of the Bank of Portugal, in accordance with Article 6 (4.b) of the Decree- Law No. 190/2015.

The Bank of Portugal has issued a favorable opinion on the compliance of the information report and the proposed amendment to CEMG's by-laws, authorizing, as proposed, the transformation of this bank into a public limited company, under the terms and for the purposes of Article 6 (4.b) of the Decree-Law No. 190/2015.

At the meeting held on 4 April 2017, the General Meeting of Caixa Económica Montepio Geral approved: i) the Caixa Económica Montepio Geral, caixa económica bancária, S.A. by-laws; ii) the Information Report presented by the Executive Board of Directors; iii) the transformation of Caixa Económica Montepio Geral, which was a bank with a foundational nature, into an anonymous commercial company, reaffirming the decision already taken at the General Meeting of 13 December 2016, all without prejudice to the necessary Ratification by the General Meeting of Montepio Geral - Associação Mutualista; and iv) the company resulting from the transformation will be governed by the by-laws already approved at that session.

The above mentioned resolutions adopted by the General Meeting of CEMG need to be ratified by resolution of the General Meeting of Montepio Geral - Associação Mutualista, held in extraordinary session on 9 May 2017, in accordance with Article 6 (4.g) of the Decree-Law No. 190/2015, Articles 32 and 33 of the CEMG's by-laws and Article 25 (g) of the Montepio Geral - Associação Mutualista's by-laws.

Under the terms and for the purposes of articles 175 and 176 of the Portuguese Securities Code ("*Código VM*"), Montepio Geral - Associação Mutualista, launched a general and voluntary public offering for the acquisition of mutual funds representing the Caixa Económica Montepio Geral Participation Fund, which form (atypical) securities for the purposes of article 1 (g) of the Portuguese Securities Code ("Offering").

As a result of this operation, Montepio Geral – Associação Mutualista held 393,102,992 mutual funds (98.28%) of the Caixa Económica Montepio Geral Participation Fund.

In accordance with article 248-A of the Portuguese Securities Code, CEMG informs that, by letter dated 11 September 2017, MGAM notified them of the entry into force, on 15 September 2017, of the standing purchase order of the common shares outside the regulated market, for the unit price of Euro 1.00, payable in cash, that will be issued in the meantime, replacing the institutional capital and the representative mutual funds of the Participation Fund, as a consequence of the transformation of CEMG into a public limited company. This standing purchase order will be in force until the release of CMVM's decision on CEMG's request for loss of status as a public company.

As at 14 September 2017, the Deed of the bylaws was executed, transforming Caixa Económica Montepio Geral into a public limited company, changing its legal name to Caixa Económica Montepio Geral, caixa económica bancária, S.A.

As a result of this transformation into public limited company, CEMG's Participation Fund, in the amount of Euro 400,000 thousand, became extinct by conversion into share capital, and therefore its mutual funds were also converted into common shares.

Status of public company

At the meeting held on 9 October 2017, the Extraordinary Shareholders' Meeting of Caixa Económica Montepio Geral, decided with 99.75% of votes in favor, representing 99.75% of CEMG's share capital, to approve (i) the loss of public company status under the terms and for the purposes of Article 27 (1) (b) of the Portuguese Securities Code and (ii) the request to be submitted by the Board of Directors to CMVM.

Following a request made on 10 October 2017 by Caixa Económica Montepio Geral, caixa económica bancária, SA (CEMG), the Board of Directors of the Securities Market Commission (CMVM) decided to aprove, at a meeting held on 13 October 2017, with effect upon this date, the request submitted for the loss of the public company status.

The release of CMVM's decision on CEMG's loss of status as a public company implies, pursuant to the provisions of article 29 (2) of the Portuguese Securities Code, that, within the period of one year, the admission of CEMG's shares on a regulated market is forbidden.

For the purposes of complying with the provisions of article 27 (3) of the Portuguese Securities Code, Montepio Geral - Associação Mutualista was obliged to buy the shares held by shareholders who did not approve that decision, having to this end covered its payment to Caixa Económica Montepio Geral, caixa económica bancária, S.A. The total amount of the contribution is available for a three-month period between 16 October 2017 and 16 January 2018, for the unit price of one euro each, resulting from the summoning of the criteria set forth in article 188, applicable by virtue of article 27 (4), both of the Portuguese Securities Code. The offer remained in force until 16 November 2017.

MGAM became the holder of 2,415,256,113 (two thousand, four hundred and fifteen million, two hundred and fifty-six thousand, one hundred and thirteen) shares of CEMG, as a result of the shares already held, of the outcome of the offer under of article 490 (2) of the Portuguese Commercial Companies Code and of the purchases made from the standing purchase order, under the provisions of article 27 (3) of the Portuguese Securities Code.

Under the terms and for the purposes of article 490 (3) of the Portuguese Commercial Companies Code, Montepio Geral - Associação Mutualista, exercised its protest right to acquire the remaining 4,743,887 (four million, seven hundred and forty-three thousand eight hundred and eighty-seven) shares held by the shareholders of CEMG who did not voluntarily accept the purchase offer mentioned above, holding 2,420,000,000 (two thousand, four hundred and twenty million) shares representing the entire share capital of CEMG.

For the purpose of the events referred above, MGAM proceeded to the commercial registration and release of the protest acquisition, extinguishing on this date (17 November 2017) the standing purchase order of CEMG shares made by MGAM in compliance with the provisions of article 27 (3) of the Portuguese Securities Code.

Issuance of covered bonds

On 9 October 2017, CEMG returned to the market and placed an issuance of covered bonds, included in the program for the issuance of covered bonds registered and approved by the Central Bank of Ireland. This issuance, in the amount of Euro 750,000 thousand, has a term of five years, an issuance price of 99.922% and an interest rate of 0.875% a year, which was translated into a spread of sixty-five basis points over the five-year mid-swap rate.
At the placement of the issuance, CEMG had the collaboration of three institutions with proven experience in the offering of this class of assets, J.P. Morgan, NatWest Markets and UniCredit.

Election of the Corporate Bodies

CEMG's General Meeting, in its extraordinary session of 16 March 2018, changed the nature of its governance model, leading CEMG governing bodies to include, namely, a Board of Directors and an Audit Committe, and elected new members of governing bodies for the 2018-2021 period.

In 4 April 2018, the Bank of Portugal granted the final endorsement, including its composition, of the following corporate bodies: General Meeting, Board of Directors and Audit Committee.

The above mentioned corporate bodies came into effect on the 21 March 2018 and Dr. Carlos Manuel Tavares da Silva will exercise, under the authorized terms of the Bank of Portugal, functions of President of the Board of Directors and President of the Executive Committee.

64 Subsequent events

In addition to the information disclosed in this document, there were no significant transactions and / or relevant events to be disclosed.

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

Caixa Económica Montepio Geral, caixa económica bancária, S.A.

Income Statement
for the periods ended at 31 December 2017 and 2016

(Thousands of Euro)

	Notes	2017	2016
Interest and similar income	3	404 080	515 134
Interest and similar expense	3	154 006	276 672
Net interest income		250 074	238 462
Dividends from equity instruments	4	14 084	12 750
Net fee and comission income	5	123 811	109 233
Net gains / (losses) arising from assets and liabilities at fair value through profit or loss	6	(13 831)	(19 790)
Net gains / (losses) arising from available-for-sale financial assets	7	90 418	54 329
Net gains / (losses) arising from foreign exchange differences	8	1 639	2 593
Net gains / (losses) arising from the sale of other assets	9	39 380	25 624
Other operating income/(expenses)	10	(16 944)	(36 717)
Total operating income		488 631	386 484
Staff costs	11	149 069	157 566
General and administrative expenses	12	72 589	84 136
Depreciation and amortisation	13	22 791	22 828
		244 449	264 530
Loans impairment	14	160 414	182 555
Other financial assets impairment	15	17 595	92 485
Other assets impairment	16	(34 901)	195 842
Other provisions	17	6 432	(6 856)
Operating profit		94 642	(342 072)
Income taxes			
Current	29	(293)	317
Deferred	29	(36 689)	97 988
Net profit / (loss) for the period		57 660	(243 767)

CHIEF ACCOUNTANT

BOARD OF DIRECTORS

The following notes form an integral part of these financial statements

Caixa Económica Montepio Geral, caixa económica bancária, S.A.

Statement of Financial Position as at 31 December 2017 and 2016

(Thousands of Euro)

	Notes	2017	2016
Assets			
Cash and deposits at central banks	18	1 733 626	381 288
Loans and advances to credit institutions repayable on demand	19	59 472	71 039
Other loans and advances to credit institutions	20	558 711	729 040
Loans and advances to customers	21	12 748 717	13 799 711
Held-for-trading financial assets	22	184 076	78 161
Available-for-sale financial assets	23	2 602 791	2 888 732
Held-to-maturity investments	24	-	1 126 125
Investments in subsidiaries and associated companies	25	315 903	259 287
Non-current assets held for sale	26	714 133	723 742
Property and equipment	27	220 002	222 809
Intangible assets	28	30 092	33 013
Current tax assets	-	6 589	9 281
Deferred tax assets	29	458 864	513 808
Other assets	30	176 615	205 631
Total Assets		19 809 591	21 041 667
Liabilities			
Deposits from central banks	31	1 557 840	2 307 947
Deposits from other financial institutions	32	2 011 197	2 600 733
Deposits from customers	33	12 555 325	12 370 011
Debt securities issued	34	1 389 999	1 883 629
Financial liabilities held for trading	22	16 171	26 148
Hedging derivatives	35	1 663	-
Provisions	36	26 207	20 993
Current tax liabilities	-	1 104	1 271
Other subordinated debt	37	237 016	237 094
Other liabilities	38	284 058	203 979
Total Liabilities		18 080 580	19 651 805
Equity			
Share capital	39	2 420 000	1 770 000
Participation fund	40	-	400 000
Other equity instruments	41	6 323	6 323
Fair value reserves	43	27 976	(2 303)
Other reserves and retained earnings	42 and 43	(782 948)	(540 391)
Net profit / (loss) for the period		57 660	(243 767)
Total Equity		1 729 011	1 389 862
Total Liabilities and Equity		19 809 591	21 041 667

CHIEF ACCOUNTANT

BOARD OF DIRECTORS

The following notes form an integral part of these financial statements

Caixa Económica Montepio Geral, caixa económica bancária, S.A.

Statement of Cash Flows
for the periods ended at 31 December 2017 and 2016

(Thousands of Euro)

	2017	2016
Cash flows arising from operating activities		
Interest income received	391 623	562 292
Commission income received	146 906	138 649
Interest expense paid	(241 653)	(18 783)
Commission expense paid	(21 827)	(24 681)
Payments to employees and suppliers	(227 220)	(335 941)
Recovery of loans and interests	2 544	6 669
Other payments and receivables	14 387	21 067
Income tax payment	2 232	11 983
	66 992	361 255
(Increases) / decreases in operating assets		
Loans and advances to credit institutions and customers	1 058 742	(165 553)
Deposits held for monetary control purposes	(1 385 059)	(10 443)
Other assets	122 230	146 978
	(204 087)	(29 018)
Increases / (decreases) in operating liabilities		
Deposits from customers	195 832	186 995
Deposits from credit institutions	(587 647)	572 532
Deposits from central banks	(749 390)	46 240
	(1 141 205)	805 767
	(1 278 300)	1 138 004
Cash flows arising from investing activities		
Dividends received	14 084	12 750
(Acquisition) / sale of financial assets held-for-trading	(125 862)	(78 185)
Interests received from financial assets held-for-trading	(2 478)	(463 016)
(Acquisition) / sale of financial assets available-for-sale	366 521	1 069 685
Interests received from financial assets available-for-sale	112 761	110 589
(Acquisition) / sale of hedging derivatives	-	270
(Acquisition) / sale of held-to-maturity investments	1 119 599	(1 079 245)
Increase of investments in subsidiary and associated companies	(10 000)	(62 500)
(Acquisition) / sale of other financial assets	650	128
Acquisition of fixed assets	(17 416)	(220 374)
	1 457 859	(709 898)
Cash flows arising from financing activities		
Capital increase	250 000	270 000
Other equity instruments	(320)	(2 322)
Proceeds from issuance of bonds and subordinated debt	750 000	1 300 000
Reimbursement of bonds and subordinated debt	(1 223 979)	(1 963 907)
	(224 299)	(396 229)
Effect of changes in exchange rate on cash and cash equivalents	452	1 265
Net changes in cash and cash equivalents	(44 288)	33 142
Cash and cash equivalents at the beginning of the period	282 685	249 543
Net changes in cash and cash equivalents	(44 288)	33 142
Cash and cash equivalents at the end of the period	238 397	282 685
Cash and cash equivalents at the end of the period includes:		
Cash (note 18)	178 925	211 646
Loans and advances to credit institutions repayable on demand (note 19)	59 472	71 039
Total	238 397	282 685

The following notes form an integral part of these financial statements

Caixa Económica Montepio Geral, caixa económica bancária, S.A.

Statement of Changes in Equity
for the periods ended at 31 December 2017 and 2016

(Thousands of Euro)

	Total Equity	Share Capital	Participation fund	Other equity instruments	General and special reserves	Fair value reserves	Retained earnings
Balance on 31 December 2015 (restated)	1 423 149	1 500 000	400 000	8 273	254 273	6 866	(746 263)
Other comprehensive income:							
Actuarial gains/(losses) for the period (note 47)	(61 053)	-	-	-	-	-	(61 053)
Deferred taxes related to balance sheet changes accounted for reserves (note 29)	13 024	-	-	-	-	-	13 024
Changes in fair value (note 43)	(22 394)	-	-	-	-	(22 394)	-
Deferred taxes related to fair value changes (note 29)	13 225	-	-	-	-	13 225	-
Net profit / (loss) for the period	(243 767)	-	-	-	-	-	(243 767)
Total comprehensive income for the period	(300 965)	-	-	-	-	(9.169)	(291 796)
Costs related to the issue of perpetual subordinated instruments (note 41)	(372)	-	-	-	-	-	(372)
Own perpetual subordinated instruments (note 41)	(1 950)	-	-	(1 950)	-	-	-
Institutional capital increase (note 39)	270 000	270 000	-	-	-	-	-
Balance on 31 December 2016	1 389 862	1 770 000	400 000	6 323	254 273	(2 303)	(1 038 431)
Other comprehensive income:							
Actuarial gains/(losses) for the period (note 47)	2 524	-	-	-	-	-	2 524
Deferred taxes related to balance sheet changes accounted for reserves (note 29)	(996)	-	-	-	-	-	(996)
Changes in fair value (note 43)	47 538	-	-	-	-	47 538	-
Deferred taxes related to fair value changes (note 29)	(17 259)	-	-	-	-	(17 259)	-
Net profit / (loss) for the period	57 660	-	-	-	-	-	57 660
Total comprehensive income for the period	89 467	-	-	-	-	30 279	59 188
Costs related to the issue of perpetual subordinated instruments (note 41)	(318)	-	-	-	-	-	(318)
Share capital increase (note 39)	250 000	250 000	-	-	-	-	-
Conversion of the participation fund into share capital (note 40)	-	400 000	(400 000)	-	-	-	-
Balance on 31 December 2017	1 729 011	2 420 000	-	6 323	254 273	27 976	(979 561)

The following notes form an integral part of these financial statements

Caixa Económica Montepio Geral
caixa económica bancária, S.A.

Statement of Comprehensive Income
for the periods ended at 31 December 2017 and 2016

(Thousands of Euro)

	Notes	2017	2016
Items that may be reclassified into the Income Statement			
Fair value reserves			
Available-for-sale Financial Assets	43	47 538	(22 394)
Taxes	29 and 43	(17 259)	13 225
		30 279	(9 169)
Items that won't be reclassified into the Income Statement			
Actuarial gains / (losses) for the period	47	2 524	(61 053)
Deferred taxes	29	(996)	13 024
		1 528	(48 029)
Other comprehensive income / (loss) for the period		31 807	(57 198)
Net profit / (loss) for the period		57 660	(243 767)
Total comprehensive income / (loss) for the period		89 467	(300 965)

1 Accounting policies

bb) Basis of presentation

Caixa Económica Montepio Geral, caixa económica bancária, S.A. (hereinafter "CEMG") is a credit institution, based at Rua Áurea, 219-241, Lisbon, held by Montepio Geral - Associação Mutualista (hereinafter "MGAM"), 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 perform 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.

As at 14 September 2017, the Deed of the bylaws was executed, transforming Caixa Económica Montepio Geral into a public limited company, changing its legal name to Caixa Económica Montepio Geral, caixa económica bancária, S.A.

In 2010, MGAM, sole shareholder of CEMG, has made an acquisition of 100% of Finibanco Holding, S.G.P.S., S.A. share capital through a Public Acquisition Offering in the amount of Euro 341,250 thousand.

As at 31 March 2011, MGAM 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 and in the Mutual Association Code. Following the publication of this Decree-Law, CEMG changed its classification to "caixa económica bancária".

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, CEMG's financial statements are required to be prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU") from 2017 onwards. 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 individual financial statements presented herein were approved by the Executive Board of Directors of CEMG on May 10th 2018. The financial statements are presented in Euro rounded to the nearest thousand.

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

The financial statements of CEMG for the period ended 31 December 2017 have been prepared in accordance with the IFRS, as adopted by the European Union and effective at that date.

CEMG has adopted IFRS and interpretations mandatory for accounting periods beginning on or after 1 January 2017, as disclosed in Note 51.

The accounting policies presented 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 and available-for-sale financial assets, except those for which a reliable measure of fair value is not available. Financial assets and liabilities that are classified 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 z).

cc) Loans and advances to customers

Loans and advances to customers includes loans and advances originated by CEMG 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 CEMG to their respective cash flows have expired; or (ii) CEMG transferred substantially all the associated risks and rewards of ownership; or (iii) notwithstanding the fact that CEMG 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

CEMG'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 CEMG 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:

- CEMG'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 existence of preferencial creditors; 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 CEMG 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) above).

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 CEMG in order to monitor the differences between estimated and real losses.

In accordance with Circular letter 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.

dd) Financial instruments

(i) Classification, initial recognition and subsequent measurement

Financial assets are recognised on their trade date, which is the date on which CEMG 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 from financial assets at fair value through profit or loss.

The interest from debt instruments are recognised as net interest income.

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 captions.

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

CEMG 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 changes of CEMG'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 (Fair Value Option) 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 of those financial assets and liabilities eliminates or significantly reduces the accounting mismatch of the transactions; and
- the assets and liabilities include embedded 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 (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) Available-for-sale financial assets

Available-for-sale financial assets held with the purpose of being maintained by CEMG, namely bonds, treasury bills or shares, are classified as available-for-sale, except if they are classified in another category of financial assets. The available-for-sale financial assets 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 CEMG 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 available-for-sale financial assets. 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 CEMG to reclassify the entire portfolio as available-for-sale financial assets and CEMG 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 CEMG does not intend to sell immediately or in a near future, may be classified in this category.

In addition to loans granted, CEMG 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, debt securities issued, 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

As 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 CEMG'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 available-for-sale financial assets, 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.

ee) Hedge accounting

(i) Hedge accounting

CEMG 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 derivatives.

Derivative hedging instruments are recorded at fair value and gains and losses on re-measurement are recognised in accordance with the hedge accounting model adopted by CEMG. An 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, CEMG 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.

ff) Reclassifications between financial instruments categories

In October 2008, 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 available-for-sale financial assets, to Loans and Receivables - Loans represented by securities or to Held-to-maturity investments.

CEMG adopted this possibility for a group of financial assets.

Transfers of financial assets recognised in the category of available-for-sale financial assets to Loans to customers - Loans represented by securities and to held-to-maturity financial assets 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.

gg) Derecognition

CEMG 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 CEMG does not maintain control over the assets.

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

hh) 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.

ii) 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

CEMG 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.

jj) Investments in subsidiaries and associates

Investments in subsidiaries and associated companies are recorded in CEMG's individual financial statements at their historical cost less any impairment losses.

Subsidiaries are entities (including investment funds and securitisation vehicles) controlled by CEMG. CEMG 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).

Associates are those entities, in which CEMG has significant influence, but not control, over the financial and operating policy decisions of the investee. It is assumed that CEMG has significant influence when it holds, directly or indirectly, 20% or more of the voting rights of the investee. If CEMG holds, directly or indirectly less than 20% of the voting rights of the investee, it is presumed that CEMG does not have significant influence, unless such influence can be clearly demonstrated.

The existence of significant influence by CEMG 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 CEMG and the investee;
- interchange of the management team; and
- provision of essential technical information.

Impairment

The recoverable amount of the instruments in subsidiaries and associates is assessed whenever there are signs of evidence of impairment. Impairment losses are calculated based on the difference between the recoverable amounts of the investments in subsidiaries and associated and their book value. Impairment losses identified are charged against results and subsequently, if there is a reduction of the estimated impairment loss, the charge is reversed, in a subsequent period. The recoverable amount is determined based on the higher between the assets value in use and the fair value deducted of selling costs, calculated using valuation methodologies supported by discounted cash flow techniques, considering market conditions, the time value of money and the business risks.

kk) 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.

CEMG 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.

CEMG 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 independent experts registered with the Securities and Exchange Commission (CMVM).

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

ll) Financial 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 year 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.

mm) Interest income and expense

Interest income and expense for financial instruments measured at amortised cost are recognised in the interests and similar income or interests and similar expenses (net interest income) through the effective interest rate method. The interest related to available-for-sale financial assets 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, CEMG 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 is 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).

nn) Financial results (Results arising from available-for-sale financial assets 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 available-for-sale financial assets 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.

oo) Fee and commission income

Income from fees and commissions is recognised in accordance with 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.

pp) Fiduciary activities

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

qq) Property, plant and equipment

Property, plant 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 CEMG. All other repairs and maintenance expenses are charged to the income statement during the financial period 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
Building for own use	50
Expenditure on rented buildings	10
Other property and equipment assets	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 property and equipment are recognised in profit and loss.

rr) Intangible assets

Software

CEMG 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. CEMG does not capitalise internal costs arising from software development.

Other intangible assets

The recoverable amount of intangible assets without finite useful life recorded as an asset is reviewed annually, regardless of the existence of signs of impairment. Any determined impairment losses are recognised in the income statement.

ss) 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 trade date, including cash and deposits with banks.

Cash and cash equivalents exclude restricted balances with Central Banks.

tt) Offsetting

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

uu) 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 available-for-sale financial assets, for which the difference is recognised against equity.

vv) Post-employment and long-term benefits

Defined benefit plans

CEMG has the responsibility to pay its employees old-age, disability and survival pensions, health benefits and death subsidy, in accordance with the terms and conditions of Collective Labor Agreement (ACT). In 2016, amendments were made to this agreement, namely the change in the retirement age, in line with the general Social Security system and the attribution of an end-of-career award corresponding to 1.5 times the monthly retribution received at the retirement date.

Arising from the signing of the Collective Labor Agreement (ACT) and subsequent amendments, CEMG sets up pension funds 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% 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.

In December 2016, CEMG issued a new Collective Labor Agreement/ACT, introducing a number of changes in the employment benefits, such as the change in the retirement age, in line with the general Social Security system, and the attribution of an end-of-career award which replaced the extinguished old-age bonus, as disclosed in Note 47.

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.

CEMG´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 fund that is managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A.

CEMG´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 CEMG, 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.

CEMG 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 retirement age.

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

Payments to the Fund shall be made by CEMG 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.

Defined contribution plan

As at 31 December 2017, CEMG has a defined contribution plan for employees who were admitted after 3 March 2009. For this plan, designated as contributory, contributions are made monthly and equal to 1.5% of the effective remuneration to be made by the company and 1.5% to be made by the employee.

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.

ww) 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 by 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 the income statement, 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 available-for-sale financial assets and cash flow hedging derivatives recognised in equity are subsequently recognised in profit and loss in the year the results that originated the deferred taxes are recognised.

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 periods.

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 the 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 tax 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).

As established in IAS 12, paragraph 74, CEMG 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 realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

xx) Segmental reporting

CEMG 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 the Group operational decisions about allocating resources to the segment and assess its performance; and (iii) for which distinct financial information is available.

Considering that the individual financial statements are presented together with the Group's consolidated financial statements, in accordance with the paragraph 4 of IFRS 8, CEMG is dismissed to present individual information regarding Segmental Reporting.

yy) Provisions

Provisions are recognised when (i) CEMG 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 provision measurement is according with the principles defined in IAS 37 in respect of the best estimate of expected cost, the more likely result for the ongoing processes, considering the risk and uncertainties related to the process. In cases where the discount effect is material, provisions correspond 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.

zz) Insurance and reinsurance brokerage services

CEMG is duly authorised by the Insurance and Pension Funds Supervisory Authority (Autoridade de Supervisão de Seguros e Fundos de Pensões - "ASF") 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 and investment contracts, which is defined in agreements/protocols established between CEMG and the Insurers.

Commission received for insurance brokerage services refers 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; and

- 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".

aaa) 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 CEMG 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, CEMG 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 CEMG'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 available for-sale financial assets

CEMG determines that available-for-sale financial assets 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, CEMG evaluates among other factors, the volatility in the prices of the financial assets. According to CEMG's policies, 30% depreciation in the fair value of an equity instrument is considered a significant devaluation and the one year period is assumed to be a prolonged decrease in the fair value below the acquisition cost.

In 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 income statement of CEMG.

Impairment losses on loans and advances to customers

CEMG reviews its loan portfolios to assess impairment losses on a regularly basis, as described in the accounting policy described in note b).

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 income statement of CEMG.

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.

Impairment for investments in subsidiary and associated companies

CEMG assesses the recoverable amount whenever there are signs of evidence of impairment. Impairment losses are calculated based on the difference between the recoverable amounts of the investments in subsidiaries and associated and their book value. Impairment losses identified are charged against results and subsequently, if there is a reduction of the estimated impairment loss, the charge is reversed, in a subsequent period.

The recoverable amount is determined based on the higher between the assets value in use and the market value deducted of selling costs, calculated using valuation methodologies supported by discounted cash flow techniques, considering market conditions, the time value of money and the business risks, 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 income statement of CEMG.

Entities included in the consolidation perimeter

For the purposes of determining entities to include in the consolidation perimeter, CEMG assesses 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 CEMG requires the use of judgment, estimates and assumptions to determine what extend CEMG is exposed to the variable returns and its ability to use its power to affect those returns.

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

Income taxes

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 period.

The Portuguese Tax and Customs Authorities are entitled to review CEMG determination of its annual taxable earnings, for a period of four years, save where any deduction or tax credit has been made in which the period is 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.

Pensions and other employee benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections and others, such as discount rate, pensions' growth rate and wages and mortality table, 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.

Impairment of intangible assets with indefinite useful life

The recoverable amount of CEMG's intangible assets with indefinite useful life is revised annually regardless the existence of signs of impairment.

For this purpose, the carrying amount of the business units of CEMG for which assets with indefinite useful life has been recognised is compared with the respective recoverable amount. Impairment losses are 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.

Valuation of non-current assets held for sale

Non-current assets held for sale are measured at the lower between its fair value net of selling costs and the book value of the existing credit at the date the change was made. Fair value is determined on the basis of periodic assessments made by external experts registered with CMVM. Different methodologies and assumptions would have an impact on the determination of the assets fair value and consequently on the financial statements.

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. Different assumptions and judgments would have an impact in determining the amount of provisions and consequently in the individual financial statements.

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

IFRS requires a separate disclosure of net interest income, net gains arising from assets and liabilities at fair-value through profit or loss and available-for-sale financial assets, 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 available-for-sale financial assets 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 available-for-sale financial assets.

The amount of this account is comprised of:

(Thousands of Euro)

	2017	2016
Net interest income	250 074	238 462
Net gains arising from assets and liabilities at fair value through profit and loss	(13 831)	(19 790)
Net gains arising from available-for-sale financial assets	90 418	54 329
	326 661	273 001

3 Net interest income

The amount of this account is comprised of:

(Thousands of Euro)

	2017	2016
Interest and similar income:		
Interest from loans to customers	350 302	378 404
Interest from held for trading financial assets	15 946	76 006
Interest from available-for-sale finacial assets	21 321	38 893
Interest from held-to-maturity financial assets	12 504	18 761
Interest from deposits and other investments	2 389	2 754
Interest from hedging derivatives	1 348	307
Other interest and similar income	270	9
	404 080	515 134
Interest and similar expense:		
Interest from deposits of customers	82 010	124 783
Interest from held for trading financial liabilities	13 100	71 626
Interest from securities issued	36 697	54 227
Interest from loans of Central Banks and other financial institutions	18 384	18 529
Interest from subordinated liabilities	3 051	3 909
Interest from hedging derivatives	762	20
Other interest and similar expense	2	3 578
	154 006	276 672
Net interest income	250 074	238 462

The balances Interest and similar income – Loans to customers and Interest and similar expenses – Other interests and similar expenses include, the positive amount of Euro 19,771 thousand and the negative amount of Euro 2,805 thousand (31 December 2016: the positive amount of Euro 20,263 thousand and the negative amount of 3,576 thousand), respectively, 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).

Interest and similar income includes at 31 December 2017 the amount of Euro 66,311 thousand (31 December 2016: Euro 64,982 thousand) related to income from customers with signs of impairment, representing 16.4% of the total balance.

4 Dividends from equity instruments

The amount of this account is comprised of:

(Thousands of Euro)

	2017	2016
Dividends from available-for-sale financial assets	14 084	11 647
Dividends from subsidiaries	-	1 103
	14 084	12 750

The balance Dividends from available-for-sale financial assets include dividends and income from investment fund units received during the period.

The balance Dividends from subsidiaries, in 2016, corresponds to dividends paid by Banco Montepio Geral Cabo Verde Sociedade Unipessoal, S.A.

5 Net fee and commission income

The amount of this account is comprised of:

(Thousands of Euro)

	2017	2016
Fee and commission income:		
From banking services	101 330	91 611
From transactions on behalf of third parties	29 310	20 688
From insurance brokerage services	7 572	11 418
Guarantees provided	6 255	6 523
Other fee and commission income	2 717	6 308
	147 184	136 548
Fee and commission expense:		
From banking services rendered by third parties	16 096	15 442
From transactions with securities	658	694
Other fee and commission expense	6 619	11 179
	23 373	27 315
Net fee and commission income	123 811	109 233

As at 31 December 2017 and 2016, insurance brokerage services are presented as follows:

(Thousands of Euro)

	2017	2016
Life insurance	4 815	7 807
Non-life insurance	2 757	3 611
	7 572	11 418

Insurance brokerage services remunerations were received in full and all its fees were the result of insurance intermediation carried out by Lusitania, Companhia de Seguros, S.A. and Lusitania Vida, Companhia de Seguros, S.A.

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

The amount of this account is comprised of:

(Thousands of Euro)

	2017			2016		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Securities						
Bonds and other fixed income securities						
Issued by public entities	11 327	10 886	441	6 138	5 814	324
Issued by other entities	53 708	68 535	(14 827)	8 111	-	8 111
Shares	13 955	13 665	290	10 222	10 989	(767)
Investment units	4 058	4 084	(26)	836	981	(145)
	83 048	97 170	(14 122)	25 307	17 784	7 523
Derivative financial instruments						
Interest rate contracts	148 989	146 136	2 853	130 177	131 120	(943)
Exchange rate contracts	32 650	33 054	(404)	58 090	58 027	63
Futures contracts	3 652	4 221	(569)	6 055	6 033	22
Options contracts	3 586	3 427	159	10 996	10 633	363
Commodities contracts	-	796	(796)	7 754	7 716	38
Credit default contracts (CDS)	-	-	-	21 787	46 629	(24 842)
	188 877	187 634	1 243	234 859	260 158	(25 299)
Other financial assets at fair value through profit or loss						
Loans to customers	60	595	(535)	420	1 219	(799)
	60	595	(535)	420	1 219	(799)
Hedging derivatives						
Interest rate contracts	8 134	10 383	(2 249)	22	35	(13)
	8 134	10 383	(2 249)	22	35	(13)
Financial liabilities at fair value through profit or loss						
Deposits from other credit institutions	3	-	3	1 874	1 356	518
Deposits from customers	38	59	(21)	284	288	(4)
Debt securities issued	294	817	(523)	1 130	2 846	(1 716)
	335	876	(541)	3 288	4 490	(1 202)
Hedged financial liabilities						
Liabilities represented by securities	4 462	2 089	2 373	-	-	-
	4 462	2 089	2 373	-	-	-
	284 916	298 747	(13 831)	263 896	283 686	(19 790)

In accordance with the accounting policies followed by the CEMG, 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.

CEMG 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 whether at inception or subsequently is determined based only on observable market data and reflects the CEMG access to the wholesale financial market.

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

The amount of this account is comprised of:

(Thousands of Euro)

	2017			2016		
	Gains	Losses	Total	Gains	Losses	Total
Fixed income securities						
Bonds						
Issued by public entities	82 735	4 125	78 610	25 931	300	25 631
Issued by other entities	8 287	207	8 080	16 101	1 128	14 973
Shares	769	88	681	17 000	3 286	13 714
Other variable income securities	4 693	1 646	3 047	1 436	1 425	11
	96 484	6 066	90 418	60 468	6 139	54 329

As at 31 December 2017, the balance Fixed income securities – Bonds – issued by public entities includes the amount of Euro 73,029 thousand related with capital gains generated with the sale of Portuguese public debt bonds and Euro 5,393 thousand related with the sale of Spanish and Italian public debt. This caption, on 31 December 2016, includes an amount of Euro 22,623 thousand, related with gains generated with the sale of treasury bonds of the Spanish and Italian public debt.

As at 31 December 2016, the balance Shares includes the amount of Euro 11,975 thousand related with the capital gain generated with the sale of Visa Europe Limited shares: (i) Euro 8,421 thousand regarding the up-front consideration; (ii) Euro 2,850 thousand regarding the received preference shares; and (iii) Euro 704 thousand regarding a deferred payment to be settled in 2019, as described in note 23 and 30.

In the first half of 2017, as part of the measures taken to strengthen the Group's capital ratios, the amount of EUR 800,059 thousand was transferred to the portfolio of available-for-sale financial assets relating to the entire portfolio of Portuguese public debt bonds which was previously recorded in the portfolio of financial assets held to maturity. Part of these securities have already been sold, as described in notes 9, 23 and 24.

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

The amount of this account is comprised of:

(Thousands of Euro)

	2017			2016		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differences	26 954	25 315	1 639	61 800	59 207	2 593

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

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

The amount of this account is comprised of:

(Thousands of Euro)

	2017	2016
Sale of loans and advances to customers	16 207	8 096
Sale of other assets	14 576	1 288
Sale of non-current assets held for sale	8 597	16 240
	39 380	25 624

As at 31 December 2017, the balance Sale of other assets includes the amount of Euro 14,375 thousand related to the gain generated on the sale of part of the portfolio of the Portuguese public debt bonds that was transferred to the portfolio of available-for-sale financial assets and which was previously recorded in the portfolio of financial assets held to maturity, as described in notes 7, 23 and 24.

As at 31 December 2017, the balance Sale of loans and advances to customers includes the gains generated on the sale of two portfolios of loans to customers which were in default, as disclosed in notes 21, 22 and 30.

As at 31 December 2016, the balance Sale of loans and advances to customers includes the gain of Euro 14,695 thousand obtained from the sale of a portfolio of loans to customers which were in default. The nominal amount of loans sold amounted to Euro 362,996 thousand, as described in notes 22 and 30.

The balance Sale of non-current assets held for sale includes essentially the result obtained with the sale of real estate properties, as disclosed in note 26.

10 Other operating income/(expenses)

The amount of this account is comprised of:

(Thousands of Euro)

	2017	2016
Other operating income:		
Staff transfer	21 019	16 388
Profits arising from deposits on demand management	9 628	12 336
Services rendered	4 895	9 294
Reimbursement of expenses	2 306	1 596
Repurchase of debt securities issued	2 054	701
Other	8 627	4 647
	48 529	44 962
Other operating expense:		
Contributions:		
Banking Sector	11 406	12 793
Ex-ante for the Single Resolution Fund	9 645	10 022
National Resolution Fund	3 473	2 907
Deposit Guarantee Fund	13	10
Servicing and expenses with loan recovery	20 152	25 776
Expenses with real estate trading	8 440	8 149
Expenses with issuances	2 694	8 060
Donations and membership	854	827
Taxes	565	303
Repurchase of debt securities issued	631	-
Other	7 600	12 832
	65 473	81 679
Other net operating income/(expenses)	(16 944)	(36 717)

As at 31 December 2017, the balance Other operating income – Staff transfer includes the amount of Euro 20,197 thousand (31 December 2016: Euro 15,490 thousand) related to the staff transfer from CEMG to MGAM and entities of CEMG Group.

The balance Repurchase of debt securities issued is calculated in accordance with accounting policy described in note 1 c) and refers to the re-acquisition of Euro Medium Term Notes and cash bonds.

The caption 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 recorded in the balance sheet 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 Single Resolution Fund corresponds to the annual contribution, 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 accordance with its articles 4, 13 and 20 in the Delegated Regulation. Under the Single Resolution Mechanism this contribution must be transferred to the Single Resolution Fund until 30 June of each year, as stipulated in 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 the Portuguese National Assembly Resolution 129/2015, of 3 September, pursuant to Article 67 (4) of Regulation (EU) 806/2014 of the European Parliament and of the Council of 15 July 2014 (MUR Regulation).

In addition, it is the responsibility of the Single Resolution Council ("CUR"), in close cooperation with the Bank of Portugal, as the national resolution authority, to calculate on an annual basis these contributions, pursuant to and for the purposes Article 70 (2) of the MUR Regulation. In 2016, CEMG opted for the use of irrevocable payment commitments, by 15% of the contribution's value, as provided for in Article 8 (3) of the Implementing Regulation. On this basis, CEMG decided to settle Euro 3,475 thousand (31 December 2016: Euro 1,774 thousand) in the form of irrevocable payment commitments, recorded under the caption Loans and advances to credit institutions abroad - Term deposit, as disclosed in note 20. It should be noted that only cash collateral is accepted as collateral for irrevocable payment commitments.

The item Contribution to the National 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, to be applied in each year and which may be adjusted to the credit institution's risk profile. The periodic 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.

The item Servicing and credit recovery expenses registers servicing costs applied to a portfolio of non-performing credits made by third parties.

11 Staff costs

The amount of this account is comprised of:

(Thousands of Euro)

	2017	2016
Remunerations	112 653	123 082
Mandatory social security charges	29 816	33 525
Charges with the Pension Fund	1 588	(11 420)
Other staff costs	5 012	12 379
	149 069	157 566

As at 31 December 2017, the balance Charges with the Pension Fund includes the amount of Euro 334 thousand (31 December 2016: Euro 4,620 thousand), referring to the current service cost.

Within the strategic plan of CEMG for 2016-2018, a set of measures was defined 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 Group's 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.

This scheme was completed in 2016, being recorded in the 2016 financial statements a cost of Euro 35,225 thousand related to the charges that CEMG incurred as a result of the agreements entered with each of the involved employees. On this basis, as at 31 December 2016, the caption Charges with the Pension Fund includes the amount of Euro 21,510 thousand related with the cost of early retired employees and the caption Other staff costs includes the amount of Euro 13,715 thousand, related to compensations and other charges paid under the above project.

On 31 December 2016, following the review of the ACT applicable to CEMG, gains were recorded under Other costs of Euro 7,308 thousand, related to the extinction of the seniority award, which was replaced by the end-of-career award.

Following the review of the ACT applicable to CEMG, gains were recorded under Pension Fund Charges in the amount of Euro 39,344 thousand, related with the change in the retirement age to 66 years.

Remuneration of the members of the Executive Board of Directors, General and Supervisory Board, General Meeting Board and from Other key management personnel

Other key management personnel are considered first-line managers.

The remuneration of the Executive Board of Directors members aims to be a compensation for their direct activities in CEMG and any function performed in companies or corporate bodies for which they have been designated by indication or on behalf of CEMG.

As at 31 December 2017 and 2016, the Executive Board of Directors did not received any retribution of variable remuneration.

The compensation values for the termination of service to key management elements amounted to Euro 592 thousand in 2016.

The costs with salaries and other benefits attributed to the Executive Board of Directors, General and Supervisory Board, General Meeting Board and Other key management personnel in 2017 are presented as follows:

(Thousands of Euro)

	Executive Board of Directors	General and Supervisory Board and General Meeting Board	Other key management personnel	Total
Salaries and other short-term benefits	1 927	1 070	3 252	6 249
Pension costs	1 747	505	-	2 252
Costs with health-care benefits (SAMS)	12	-	61	73
Social Security charges	430	195	761	1 386
	4 116	1 770	4 074	9 960

The costs with salaries and other benefits attributed to the Executive Board of Directors, General and Supervisory Board, General Meeting Board and Other key management personnel in 2016 are presented as follows:

(Thousands of Euro)

	Executive Board of Directors	General and Supervisory Board and General Meeting Board	Other key management personnel	Total
Salaries and other short-term benefits	1 927	868	3 098	5 893
Pension costs	50	-	442	492
Costs with health-care benefits (SAMS)	17	-	103	120
Social Security charges	437	160	702	1 299
Seniority bonuses	-	-	88	88
	2 431	1 028	4 433	7 892

As at 31 December 2017, the remuneration of the General and Supervisory Board amounted to Euro 1,064 thousand (31 December 2016: Euro 864 thousand).

As at 31 December 2017, loans granted by CEMG to its key management personnel amounted to Euro 3,042 thousand (31 December 2016: Euro 3,489 thousand), to the General and Supervisory Board amounted to Euro 2,323 thousand (31 December 2016: Euro 859 thousand), to the Executive Board of

Directors amounted to Euro 134 thousand (31 December 2016: Euro 145 thousand) and to the Board of Directors amounted to Euro 141 thousand, as referred in note 48.

The average number of employees by professional category at service in CEMG during 2017 and 2016 is as follows:

	2017	2016
Top Management	198	198
Managerial staff	645	673
Technical staff	1 302	1 206
Administrative staff	1 405	1 549
Staff	51	55
	3 601	3 681

12 General and administrative expenses

The amount of this account is comprised of:

(Thousands of Euro)

	2017	2016
Rental costs	11 454	14 674
Specialised services:		
IT services	7 102	10 776
Independent work	4 548	3 399
Other specialised services	18 072	19 212
Communication costs	5 261	6 016
Maintenance and related services	4 754	4 676
Advertising costs	4 358	4 567
Water, energy and fuel	4 090	4 425
Transportation	2 642	2 737
Insurance	1 914	2 000
Consumables	1 538	1 574
Travel, hotel and representation costs	1 004	1 020
Training costs	7	417
Other supplies and services	5 845	8 643
	72 589	84 136

The balance Rental costs, includes the amount of Euro 8,825 thousand (31 December 2016: Euro 12,133 thousand) related to rents paid regarding buildings used by CEMG as lessee.

The balance Other administrative costs includes the amount of Euro 3,304 thousand (31 December 2016: Euro 3,141 thousand) related with services rendered by Montepio Gestão de Activos Imobiliários, A.C.E.

Additionally, this balance includes, as at 31 December 2016, the amount of Euro 3,413 thousand related to services rendered by Montepio Recuperação de Crédito A.C.E.

CEMG has several vehicle operational leasing contracts. Payments made under such leasing contracts are recognised in income during the duration of the contract. The future minimum payments for operational leasing contracts not revocable by maturity, are presented as follows:

(Thousands of Euro)

	2017	2016
Until 1 year	1 290	894
1 to 5 years	407	1 135
	1 697	2 029

The balance Other specialised services includes fees invoiced (excluding VAT) by Group Statutory Auditor within its functions of statutory audit as well as other services, including the ones rendered by its network, as follows:

(Thousands of Euro)

	2017	2016
Audit		
Statutory Audit services	1 215	882
Other reliability assurance services required by law		
Issuance of opinions on the internal control systems	114	114
Issuance of opinions for the regulatory entities and support on engagements for supervisory purposes	165	520
Issuance of several reports	38	43
	317	677
Other reliability services not required by law	339	1 613
	1 871	3 172

13 Depreciation and amortisation

The amount of this account is comprised of:

(Thousands of Euro)

	2017	2016
Intangible assets		
Software	13 726	12 376
Other tangible assets:		
Land and buildings		
For own use	3 059	2 636
Leasehold improvements in rented buildings	1 581	2 379
Equipment:		
IT equipment	2 716	3 272
Interior installations	1 026	1 288
Furniture	395	488
Security equipment	241	273
Office equipment	10	15
Motor vechicles	-	6
Operating leases	34	69
Other tangible assets	3	26
	9 065	10 452
	22 791	22 828

14 Loans impairment

The amount of this account is comprised of:

(Thousands of Euro)

	2017	2016
Loans and advances to customers		
Charge for the period net of reversals	162 958	189 224
Recovery of loans and interest charged-off	(2 544)	(6 669)
	160 414	182 555

The balance Loans to customers contains the estimate of the incurred losses determined in accordance with the accounting policy presented in note 1 b).

15 Other financial assets impairment

The amount of this account is comprised of:

(Thousands of Euro)

	2017	2016
Impairment for available-for-sale financial assets		
Charge for the period net of reversals	17 595	92 485

As at 31 December 2017, the balance Impairment for available-for-sale financial assets includes the amount of Euro 8,085 thousand (31 December 2016: Euro 15,546 thousand) that corresponds to impairment losses recognised for investments units in a Fund specialised in the recovery of loans, acquired under the sale of loans and advances to customers, as referred in note 53.

Additionally, as at 31 December 2017, this balance includes the amount of Euro 10,286 thousand (31 December 2016: Euro 54,542 thousand) related to impairment recognised for participation units in Real Estate Investment Funds.

As at 31 de December 2016, this balance also includes a change for the period in the amount of Euro 27,641 thousand on the position held in Fixed-income securities – Bonds issued by other entities – Foreign, and a reversal net of changes for the period in the amount of Euro 6,930 thousand, related to Greek's government debt securities.

16 Other assets impairment

The amount of this account is comprised of:

(Thousands of Euro)

	2017	2016
Impairment for non-current assets held for sale		
Charge for the period	11 332	41 917
Write-back for the period	(1 790)	(9 653)
	9 542	32 264
Impairment for investments in subsidiaries and associates		
Charge for the period	-	157 297
Write-back for the period	(46 616)	-
	(46 616)	157 297
Impairment for other assets		
Charge for the period	2 558	6 335
Write-back for the period	(385)	(54)
	2 173	6 281
	(34 901)	195 842

17 Other provisions

The amount of this account is comprised of:

(Thousands of Euro)

	2017	2016
Provision for guarantees and commitments		
Charge for the period	16 558	11 456
Write-back for the period	(14 262)	(19 942)
	2 296	(8 486)
Provision for other risks and charges		
Charge for the period	5 709	1 885
Write-back for the period	(1 573)	(255)
	4 136	1 630
	6 432	(6 856)

18 Cash and deposits at central banks

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Cash	178 925	211 646
Central bank		
Bank of Portugal	1 554 701	169 642
	1 733 626	381 288

As at 31 December 2017, the balance Central bank relating to deposits within the Bank of Portugal, includes the amount of Euro 92,448 thousand (31 December 2016: Euro 90,571 thousand) 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.

At as 31 December 2017 and 2016, deposits within the Bank of Portugal were not remunerated.

19 Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Credit institutions in Portugal	1 295	830
Credit institutions abroad	18 535	20 441
Amounts due for collection	39 642	49 768
	59 472	71 039

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

20 Other loans and advances to credit institutions

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Loans and advances to credit institutions in Portugal:		
Loans and advances at central banks	-	150 000
Term deposits	1 986	2 131
Loans	229 113	103 053
Other loans and advances	42 160	81 175
	273 259	336 359
Loans and advances to credit institutions abroad		
Short term deposits	30 000	30 000
Term deposits	7 659	21 339
Subordinate deposits	1 702	1 702
Reverse Repos	3 405	25 444
CSA's	40 226	46 312
Other loans and advances	202 460	267 884
	285 452	392 681
	558 711	729 040

As at 31 December 2016, the caption Loans and advances to credit institutions in Portugal – Loans and advances to central banks includes the amount of Euro 150,000 thousand, referring to an investment made in the Bank of Portugal with maturity in the beginning of January 2017.

The caption Loans and advances to credit institutions in Portugal – Loans includes the relationship engagements with CEMG's subsidiaries.

As at 31 December 2017, the caption Loans and advances to credit institutions abroad - Term deposits includes the amount of Euro 3,475 thousand (31 December 2016: Euro 1,774 thousand) regarding the deposit performed as collateral under the ex-ante contribution to the Single Resolution Fund, as described in note 10.

The caption Loans and advances to credit institutions abroad – Short-term deposits refers to investments made in Finibanco Angola, S.A.

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 CEMG, this collateral might be in the form of securities or cash, however, in the CEMG'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 CEMG 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 CEMG's exposure towards the counterparty.

On this basis, and within operations of derivative financial instruments with institutional counterparties, and as established in the respective contracts, CEMG holds an amount of Euro 40,226 thousand (31 December 2016: Euro 46,312 thousand) related to deposits in credit institutions given as collateral for the above mentioned operations.

The caption Loans and advances to credit institutions abroad – Other loans and advances includes the amounts deposited on behalf of the vehicles set up for the purpose of CEMG's securitization transactions.

The balance Other loans and advances to credit institutions, by maturity is analysed as follows:

(Thousands of Euro)

	2017	2016
Due within 3 months	171 065	403 713
3 to 6 months	160 587	39 331
6 months to 1 year	22 958	18 557
1 to 5 years	9 176	17 223
Over 5 years	184 960	249 092
Undetermined	9 965	1 124
	558 711	729 040

21 Loans and advances to customers

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Corporate		
Loans not represented by securities		
Loans	2 810 474	2 903 553
Commercial lines of credits	470 134	791 117
Finance leases	297 272	292 196
Discounted bills	71 712	89 137
Factoring	143 889	114 954
Overdrafts	2 543	9 245
Other loans	727 366	802 742
Loans represented by securities		
Commercial paper	383 797	376 415
Bonds	242 388	278 749
Retail		
Mortgage Loans	6 598 905	6 997 142
Finance Leases	37 258	34 069
Consumer and other loans	780 937	838 221
	12 566 675	13 527 540
Correction value of assets subject to hedge operations	(1)	534
Overdue loans and interest		
Less than 90 days	80 830	80 902
More than 90 days	1 109 474	1 341 995
	1 190 304	1 422 897
	13 756 978	14 950 971
Impairment for credit risks	(1 008 261)	(1 151 260)
	12 748 717	13 799 711

As at 31 December 2017, the balance Loans and advances to customers includes de amount of Euro 2,726,854 thousand (31 December 2016: Euro 2,725,631 thousand) related to the issue of covered bonds held by CEMG, as referred in note 34.

As at 31 December 2017, loans and advances, guarantees and irrevocable credit facilities (excluding interbank and money market transactions) that CEMG granted to institutional capital owners and to related parties, including entities from the consolidation perimeter, amounted to Euro 372,809 thousand (31 December 2016: Euro 536,525 thousand), as referred in note 48. The conclusion of businesses between CEMG and institutional capital owners or individual or collective persons related to them, according to article 20 of the Portuguese Securities Code, regardless the value, it's always submitted to deliberation and examination of the Executive Board of Directors and the General and Supervisory Board, as proposed by the commercial network, supported by analysis and opinion about the compliance with the limit established in article 109 of the General Law on Credit Institutions and Financial Companies General Law issued by the Risk Division. The impairment amount for credit risks related with these contracts amounts to Euro 335 thousand as at 31 December 2017 (31 December 2016: Euro 528 thousand).

During 2017, CEMG performed a sale operation of two customer loan portfolios which were in default. The capital gains amounted to: (i) Euro 2,783 thousand related to the sale operation of a customer loan portfolio that was in default recorded off-balance sheet, with a nominal value of Euro 215,288 thousand, as describe in notes 9 and 30 and (ii) Euro 13,424 thousand related to the sale operation of a customer loan portfolio that was in default recorded on and off-balance sheet, with a nominal value of Euro 475,136 thousand, as described in notes 9, 22 and 30.

It should be note that the latter disposed portfolio included other rights not recorded either on or off-balance sheet in the amount of Euro 105,590 thousand. In addition, and within this transaction, CEMG acquired all the Class A notes of the vehicle that purchased this portfolio and recorded the amount of Euro 121,329 thousand in the portfolio of financial assets held for trading.

During 2016, CEMG performed a Loans and advances to customer's sale operation which were in default and recorded off balance sheet. The total amount of loans and advances sold amounted to Euro 362,996 thousand and generated a capital gain of Euro 14,695 thousand, as described in note 9.

In 2016, CEMG performed sales of loans and advances to customers to funds specialised in credit recovery. The global amount of credits sold in 31 December 2016 amounted to Euro 5,495 thousand, generating a gain of Euro 1,314 thousand.

As at 31 December 2017, the balance Loans and advances to customers includes the amount of Euro 3,314,738 thousand (31 December 2016: Euro 3,796,840 thousand) related with loans object of securitization and, in accordance with note 1 f), were not subject of derecognition, as referred in note 49.

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

The caption Loans and advances to customers records loans that are valued at fair value through profit or loss in the amount of Euro 24,633 thousand (31 December 2016: Euro 40,713 thousand). The fair value correction amounted to a negative amount of Euro 1 thousand (31 December 2016: Euro 534 thousand), and the impact on results was negative in the amount of Euro 535 thousand (31 December 2016: negative in Euro 799 thousand), according to note 22.

The fair value of the portfolio of loans to customers is presented in note 46.

The analysis of loans and advances to customers, by type of rate as at 31 December 2017 and 2016, is as follows:

(Thousands of Euro)

	2017	2016
Variable interest rate contract	12 563 687	13 755 364
Fixed interest rate contract	1 193 291	1 195 607
	13 756 978	14 950 971

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

(Thousands of Euro)

	2017	2016
Asset-backed loans	818 998	920 716
Other guarantee loans	221 396	325 425
Financial leases	11 089	16 028
Secured loans	4 300	4 300
Other loans	134 521	156 428
	1 190 304	1 422 897

The analysis of loans and advances to customers, by maturity and by type of credit as at 31 December 2017, is as follows:

(Thousands of Euro)

	Loans and advances to customers				
	Due within 1 year	1 to 5 years	Over 5 years	Undetermined	Total
Asset-backed loans	190 621	921 266	8 464 320	818 998	10 395 205
Other guarantee loans	513 830	246 423	385 366	221 396	1 367 015
Financial leases	7 746	103 389	223 395	11 089	345 619
Loans represented by securities	493 714	122 215	10 256	4 300	630 485
Other credits	308 389	103 865	471 879	134 521	1 018 654
	1 514 300	1 497 158	9 555 216	1 190 304	13 756 978

The analysis of loans and advances to customers, by maturity and by type of credit as at 31 December 2016, is as follows:

(Thousands of Euro)

	Loans and advances to customers				
	Due within 1 year	1 to 5 years	Over 5 years	Undetermined	Total
Asset-backed loans	269 095	589 506	9 231 646	920 716	11 010 963
Other guarantee loans	573 150	270 318	432 723	325 425	1 601 616
Financial leases	10 049	104 467	211 749	16 028	342 293
Loans represented by securities	444 955	202 709	7 500	4 300	659 464
Other credits	555 672	251 494	373 041	156 428	1 336 635
	1 852 921	1 418 494	10 256 659	1 422 897	14 950 971

The balance Financial leases, by maturity as at 31 December 2017, is analysed as follows:

(Thousands of Euro)

	Financial Leases			
	Due within 1 year	1 to 5 years	Over 5 years	Total
Outstanding rents	57 643	143 049	125 234	325 926
Outstanding interests	(10 536)	(26 273)	(22 241)	(59 050)
Residual values	2 577	22 894	42 183	67 654
	49 684	139 670	145 176	334 530

The balance Financial leases, by maturity as at 31 December 2016, is analysed as follows:

(Thousands of Euro)

	Financial Leases			
	Due within 1 year	1 to 5 years	Over 5 years	Total
Outstanding rents	56 507	139 532	118 793	314 832
Outstanding interests	(10 635)	(23 094)	(23 325)	(57 054)
Residual values	3 507	24 204	40 776	68 487
	49 379	140 642	136 244	326 265

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

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

(Thousands of Euro)

	2017	2016
Corporate		
Construction/Production	267 222	303 668
Investment	470 513	487 658
Treasury	212 935	323 421
Other loans	40 442	55 663
Retail		
Mortgage loans	91 863	116 975
Consumer credit	50 426	58 887
Other loans	56 903	76 625
	1 190 304	1 422 897

Changes in impairment for credit risks are analysed as follows:

(Thousands of Euro)

	2017	2016
Balance on 1 January	1 151 260	1 219 310
Charge for the period net of reversals	162 958	189 224
Loans charged-off	(305 957)	(234 537)
Transfers	-	(22 737)
Balance on 31 December	1 008 261	1 151 260

During 2017, and as previously mentioned, within the sale operation of two customer loan portfolios that were in default and recorded on and off-balance sheet, CEMG charged-off impairment for credit risk in the amount of Euro 249,299 thousand.

As at 31 December 2016, the balance Transfers is related to the impairment associated with credit exposures off-balance sheet, which began to be registered in the balance Provisions, as described in note 36 and to the impairment associated with renting, which began to be registered in the balance Other assets, as described in note 30, in the amounts of Euro 22,337 thousand and Euro 400 thousand, respectively.

In compliance with note 1 l), 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.

With the release of Bank of Portugal Regulation 5/2015 and the entry into force in 1 January 2016, impairment for credit risks became integrated in the credit impairment model.

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

	2017	2016
	(Thousands of Euro)	
Asset-backed loans	635 830	721 443
Other guaranteed loans	252 693	302 700
Unsecured loans	119 738	127 117
	1 008 261	1 151 260

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

	2017	2016
	(Thousands of Euro)	
Asset-backed loans	121 489	58 031
Other guaranteed loans	43 816	77 931
Unsecured loans	140 652	98 575
	305 957	234 537

The total recovered loans and overdue interest as at 31 December 2017, amounted to Euro 2,544 thousand (31 December 2016: Euro 6,669 thousand), as mentioned in note 14.

In addition, the loan portfolio includes loans that, towards the financial difficulties of the customer, initial conditions of the contract were amended in the amount of Euro 1,148,027 thousand (31 December 2016: Euro 1,328,198 thousand) which have an impairment of Euro 399,831 thousand (31 December 2016: Euro 401,940 thousand).

CEMG 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 the particular forbearance measures, CEMG adopted the ones included in Instruction 32/2013 of the Bank of Portugal, of 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 restructuring operations that were performed during 2017 and 2016 were positive and allowed to mitigate the effect of the economic and financial crisis and within a situation in which is observed some economic recovery signs, adapting the debt service to the disposable income of customers.

Additionally, the loans portfolio includes contracts that resulted in a formal restructuring with the customers and the consequent establishment of a new funding to replace the previous. The restructuring may result in a reinforcement of guarantees and / or liquidation of part of the credit and involve an extension of maturities or a different interest rate. The analysis of restructured loans, performed in 2017 and 2016, by type of credit, is as follows:

(Thousands of Euro)

	2017	2016
Corporate		
Loans not represented by securities		
Loans	109 768	185 837
Commercial lines of credit	3 787	13 357
Financial leases	7 478	7 639
Other loans	39 184	42 776
Retail		
Mortgage Loans	11 523	19 314
Consumer and other loans	3 269	6 776
	175 009	275 699

Restructured loans are subject to an impairment analysis resulting from the revaluation of expectations to meet the new cash flows inherent to the new contractual conditions, discounted at the original effective interest rate and considering the new collaterals.

In respect of restructured loans, the impairment associated to these operations amounts to Euro 28,207 thousand (31 December 2016: Euro 25,456 thousand).

CEMG uses physical and financial collaterals as instruments for mitigating credit risk. The physical collaterals correspond mainly to mortgages on residential properties in the course of the mortgage and other types of mortgages on properties in other types of loans. To reflect the market value of them, these effects are reviewed regularly based on evaluations conducted by certified independent testing organizations or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are re-evaluated based on market values of their assets, when available, and certain coefficients applied depreciation to reflect its volatility.

Most of the physical collaterals are revaluated at least once a year.

22 Financial assets and liabilities held for trading

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

(Thousands of Euro)

	2017	2016
Financial assets held for trading		
Securities		
Shares	6 734	6 870
Bonds	149 622	37 769
Mutual Funds	3 167	300
	159 523	44 939
Derivatives		
Derivatives financial instruments with positive fair value	24 553	33 222
	184 076	78 161
Financial liabilities held for trading		
Securities		
Short sales	901	1 458
Derivatives		
Derivatives financial instruments with negative fair value	15 270	24 690
	16 171	26 148

The balance Financial assets held for trading – Securities – Bonds includes the amount of Euro 121,329 thousand relating to a class A asset securitization transaction which was acquired within a sale operation of a customer loan portfolio that was in default recorded on and off-balance sheet, with a nominal value of Euro 475,136 thousand, as described in notes 9 and 21.

As at 31 December 2017, CEMG regarding an asset assignment (loans and real estate) in the amount of Euro 288,232 thousand, as disclosed in notes 9 and 30 (31 December 2016: Euro 311,532 thousand). Within this operation, CEMG acquired the right to return of a set of parameters of assigned assets, which amounted to Euro 12,000 thousand on 31 December 2016. As at 31 December 2017, this transaction amounted to Euro 11,204 thousand (31 December 2016: Euro 12,000 thousand) and is recorded under the caption Financial instruments with positive fair value.

The balance Derivatives financial instruments with positive fair value includes, at 31 December 2017, the amount of Euro 11,923 thousand (31 December 2016: Euro 15,905 thousand) referred to instruments associated to assets or liabilities at fair value through profit and loss and to trading.

The balance Derivatives financial instruments with negative fair value includes, at 31 December 2017, the valuation of embedded derivatives in accordance with the accounting policy described in note 1 c), in the amount of Euro 4 thousand (31 December 2016: Euro 1,306 thousand).

The balance Derivatives financial instruments with negative fair value includes, at 31 December 2017, the amount of Euro 2,595 thousand (31 December 2016: Euro 6,657 thousand) referred to instruments associated to assets or liabilities at fair value through profit and loss and trading, with the exception of loans and advances to customers in the amount of Euro 45 thousand (31 December 2016: Euro 716 thousand).

As referred in IFRS 13 financial instruments are measured in accordance with the following levels of valuation, described in note 46, as follows:

(Thousands of Euro)

	2017			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Shares	6 734	-	-	6 734
Bonds	28 293	-	121 329	149 622
Mutual Funds	3 167	-	-	3 167
	38 194	-	121 329	159 523
Derivatives				
Derivatives financial instruments with positive fair value	-	24 553	-	24 553
	38 194	24 553	121 329	184 076
Financial liabilities held for trading				
Securities				
Short sales	901	-	-	901
Derivatives				
Derivatives financial instruments with negative fair value	-	15 270	-	15 270
	901	15 270	-	16 171

(Thousands of Euro)

	2016		
	Level 1	Level 2	Total
Financial assets held for trading			
Securities			
Shares	6 870	-	6 870
Bonds	37 769	-	37 769
Mutual Funds	300	-	300
	44 939	-	44 939
Derivatives			
Derivatives financial instruments with positive fair value	-	33 222	33 222
	44 939	33 222	78 161
Financial liabilities held for trading			
Securities			
Short sales	1 458	-	1 458
Derivatives			
Derivatives financial instruments with negative fair value	-	24 690	24 690
	1 458	24 690	26 148

The trading portfolio is recorded at fair value through profit and loss, in accordance with the accounting policy described in note 1 c). 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 analysis of the securities portfolio held for trading by maturity, as at 31 December 2017, is as follows:

(Thousands of Euro)

	2017					
	Due within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined	Total
Fixed income securities						
Bonds						
Portuguese	372	372	1 065	133 564	-	135 373
Foreign	-	80	11 129	3 040	-	14 249
Variable income securities						
Shares						
Portuguese	-	-	-	-	1 092	1 092
Foreign	-	-	-	-	5 642	5 642
Mutual Funds	-	-	-	-	3 167	3 167
	372	452	12 194	136 604	9 901	159 523

The analysis of the securities portfolio held for trading by maturity as at 31 December 2016, is as follows:

(Thousands of Euro)

	2016				
	Due within 3 months	3 months to 1 year	Over 1 year	Undetermined	Total
Fixed income securities					
Bonds					
Portuguese	123	131	8 762	-	9 016
Foreign	-	23	28 730	-	28 753
Variable income securities					
Shares					
Portuguese	-	-	-	632	632
Foreign	-	-	-	6 238	6 238
Mutual Funds	-	-	-	300	300
	123	154	37 492	7 170	44 939

The balance of Derivatives financial instruments as at 31 December 2017, in comparison with the assets and liabilities associated, recorded at fair value, can be analysed as follows:

(Thousands of Euro)

		2017						
		Derivative			Related Asset/Liability			
Derivative	Related financial asset/ liability	Notional	Fair value	Changes in the fair value in the period [1]	Fair value	Changes in the fair value in the period	Book value	Reimbursement amount at maturity date
Interest rate swap	Debt securities issued and subordinated debt	3 300	414	(526)	263	215	3 460	3 300
Interest rate swap	Deposits from customers	15 100	(107)	(59)	33	21	14 789	14 789
Interest rate swap	Deposits from others financial institutions	-	-	(2 576)	-	(3)	-	-
Interest rate swap	Covered Bonds	-	-	2 380	-	-	-	-
Interest rate swap	Loans and advances to customers	24 562	(45)	671	(1)	(535)	24 633	24 562
Interest rate swap	Other	3 669 577	(2 488)	1 741	-	-	-	-
Currency swap (Short)	-	50 481	291	(88)	-	-	-	-
Currency swap (Long)	-	50 744						
Future options (Short)	-	2 978	9	9	-	-	-	-
Future options (Long)	-	-						
Forwards (Short)	-	3 044	-	(4)	-	-	-	-
Forwards (Long)	-	3 051						
Options (Short)	-	54 809	11 209	(797)	-	-	-	-
Options (Long)	-	358 131						
		4 235 777	9 283	751	295	(302)	42 882	42 651

[1] Includes the result of derivatives disclosed in Note 6.

The balance of Derivatives financial instruments as at 31 December 2016, in comparison with the assets and liabilities associated, recorded at fair value, can be analysed as follows:

(Thousands of Euro)

		2016						
		Derivative			Related Asset/Liability			
Derivative	Related financial asset/ liability	Notional	Fair value	Changes in the fair value in the period [1]	Fair value	Changes in the fair value in the period	Book value	Reimbursement amount at maturity date
Interest rate swap	Debt securities issued	90 956	940	123	48	1 716	67 237	66 785
Interest rate swap	Deposits from customers	15 900	(48)	443	12	4	15 631	15 631
Interest rate swap	Deposits from others financial institutions	51 294	2 576	(3 961)	3	(518)	53 818	40 000
Interest rate swap	Covered Bonds	5 456 363	(2 380)	655	-	-	-	-
Interest rate swap	Loans and advances to customers	43 520	(716)	733	534	(799)	40 713	40 562
Interest rate swap	Other	4 144 224	(4 229)	(835)	-	-	-	-
Currency swap (Short)	-	67 540	379	(157)	-	-	-	-
Currency swap (Long)	-	67 914						-
Future options (Short)	-	10 935	-	-	-	-	-	-
Future options (Long)	-	466	-	-	-	-	-	-
Forwards (Short)	-	4 812	4	7	-	-	-	-
Forwards (Long)	-	4 817						
Options (Short)	-	67 666	12 006	11 975	-	-	-	-
Options (Long)	-	395 019			-	-	-	-
Credit Default Swaps	-	-	-	35 176	-	-	-	-
		10 421 426	8 532	44 159	597	403	177 399	162 978

[1] Includes the result of derivatives disclosed in Note 6.

The analysis of Derivative financial instruments held for trading, by maturity, on 31 December 2017, is presented as follows:

(Thousands of Euro)

	2017					
	Notional with remaining term				Fair value	
	Due within 3 months	3 months to 1 year	Over 1 year	Total	Asset	Liability
Interest rate contracts						
Interest rate swaps	250	17 850	3 694 439	3 712 539	12 779	15 005
Options	213	800	108 595	109 608	52	51
Exchange rate contracts						
Currency swaps	101 225	-	-	101 225	292	1
Forwards	4 487	1 608	-	6 095	-	-
Index / Shares contracts						
Futures	2 978	-	-	2 978	9	-
Options	250	-	14 850	15 100	217	213
Credit contracts						
Options	-	-	288 232	288 232	11 204	-
	109 403	20 258	4 106 116	4 235 777	24 553	15 270

The analysis of Derivative financial instruments held for trading, by maturity, on 31 December 2016, is presented as follows:

(Thousands of Euro)

	2016					
	Notional with remaining term				Fair value	
	Due within 3 months	3 months to 1 year	Over 1 year	Total	Asset	Liability
Interest rate contracts						
Interest rate swaps	120 044	5 528 749	4 153 464	9 802 257	19 218	23 075
Options	-	2 199	85 338	87 537	1 601	1 595
Futures	6 513	-	-	6 513	-	-
Exchange rate contracts						
Currency swaps	135 454	-	-	135 454	399	20
Forwards	7 664	1 965	-	9 629	4	-
Index / Shares contracts						
Futures	4 888	-	-	4 888	-	-
Options	5 075	58 291	250	63 616	-	-
Credit contracts						
Options	-	-	311 532	311 532	12 000	-
	279 638	5 591 204	4 550 584	10 421 426	33 222	24 690

As at 31 December 2017, the amount of the loan obtained from EIB is collateralized by Portuguese bonds at the nominal value of Euro 10,000 thousand (31 December 2016: at the nominal value of Euro 2,500 thousand), provided as collateral and recorded under the caption Financial assets held for trading.

23 Available-for-sale financial assets

This balance is analysed as follows:

(Thousands of Euro)

	2017				
	Cost [1]	Fair value reserve		Impairment Losses	Book Value
		Positive	Negative		
Fixed income securities:					
Issued by public entities					
Portuguese	702 901	1 567	(1 111)	-	703 357
Foreign	861 203	1 024	(5 131)	-	857 096
Issued by other entities					
Portuguese	41 293	795	(76)	(28 107)	13 905
Foreign	37 875	471	(86)	(7 000)	31 260
Variable income securities:					
Shares					
Portuguese	76 153	12 113	(1 626)	(1 920)	84 720
Foreign	73 144	10 326	(7 719)	(48)	75 703
Mutual Funds	949 809	22 451	(261)	(135 249)	836 750
	2 742 378	48 747	(16 010)	(172 324)	2 602 791

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

(Thousands of Euro)

	2016				
	Cost [1]	Fair value reserve		Impairment Losses	Book Value
		Positive	Negative		
Fixed income securities:					
Issued by public entities					
Portuguese	1 409 126	3 344	(63 118)	-	1 349 352
Foreign	347 104	1 216	(8 470)	-	339 850
Issued by other entities					
Portuguese	34 714	18	(144)	(28 107)	6.481
Foreign	131 040	7 380	(728)	(34 641)	103 051
Variable income securities:					
Shares					
Portuguese	76 154	9 815	(1 626)	(1 920)	82 423
Foreign	72 628	14 746	(24)	(77)	87 273
Mutual Funds	1 023 525	23 060	(600)	(125 683)	920 302
	3 094 291	59 579	(74 710)	(190 428)	2 888 732

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

As referred in note 53, the balance Variable income securities – Investment fund units includes at 31 December 2017 the amount of Euro 38,770 thousand (31 December 2016: Euro 47,932 thousand) relating to units in a Fund specialised in the recovery of loans acquired under the sale of loans and advances to customers. As at 31 December 2017 and 2016, this amount includes Euro 7,838 thousands engaged to junior securities (investment fund units with a more subordinated character), which are fully provided, according to note 53.

The main assumptions in the evaluation of shares whose book value is determined based on CEMG internal models are as follows:

Monteiro Aranha

The valuation of Monteiro Aranha S.A. ("MASA") was carried out taking into account the fact that MASA's main assets are holdings in listed companies of the Brasilian Stock Exchange. Based on this, the Adjusted Amount in MASA's Equity was calculated was calculated based on the fair value of those listed companies, assuming the price quote on the last 12 months.

Almina

The evaluation of Almina with reference to 31st December 2017 was carried out based on Almina Holding Group business plan, as well as other information provided by Almina's management.

Both relevant businesses for Almina's evaluation correspond to ore exploitation: zinc and copper. The main assumptions that have been used were: use of a discount rate between 10% and 11% and the determination of ore market prices based on international indexes.

In the first half of 2017, the Group reclassified Portuguese public debt bonds from the portfolio of financial assets held-to-maturity to the portfolio of available-for-sale financial assets in the amount of Euro 800,059 thousand, whose market value was, at the date of transfer, of Euro 840,613 thousand, as referred in notes 7 and 9. The decision was part of the process of strengthening the Group's capital ratios, in accordance with the strategy defined by the Executive Board of Directors to respond to the challenges posed by the ECB's prudential requirements and involved the reclassification, on the date of decision, of all Portuguese public debt bonds recorded in the held-to-maturity securities portfolio.

IAS 39 – Financial instruments: Recognition and measurement allows the reclassification of unquoted financial instruments registered in the portfolio of available-for-sale financial assets 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, CEMG 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 available-for-sale financial assets portfolio to the loans and advances to customers category is realized 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 amortised 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;
- A subsequent change in the fair value of the debt instrument over its new amortised cost is not recognised;
- An evaluation of subsequent impairment is performed considering the new amortised cost, the new effective interest rate and the expected future cash flows; and
- 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, CEMG reclassified the securities portfolio from available-for-sale financial assets to loans and advances to customers, in the amount of Euro 358,488 thousands and an impairment in the amount of Euro 1,565 thousands. The fair value reserve of the securities transferred amounted, at the date of reclassification, to Euro 3,858 thousands.

The analysis of the impact of reclassifications until 31 December 2017, is presented as follows:

(Thousands of Euro)

	At the date of reclassification		2017		
	Book value	Fair value	Book value	Fair value	Difference
Available-for-sale financial assets to:					
Loans and advances to customers	358 488	358 488	229 985	236 726	6 741
Investments held to maturity to:					
Available-for-sale financial assets	813 219	840 613	125 341	125 341	-
	1 171 707	1 199 101	355 326	362 067	6 741

The amounts recorded in profit or loss and fair value reserves at 31 December 2017, related to financial assets reclassified in prior years, are as follows:

(Thousands of Euro)

	Profit / (loss) in the period	Variations	
	Interest	Fair value reserves	Equity
Available-for-sale financial assets to:			
Loans and advances to customers	12.047	(330)	(330)
Investments held to maturity to:			
Available-for-sale financial assets	2.692	419	419
	14.739	89	89

If the reclassifications described above had not taken place, the additional amounts recognised in equity at 31 December 2017, would be as follows:

(Thousands of Euro)

	Profit / (loss) in the period		
	Fair value changes	Fair value reserves	Equity
Available-for-sale financial assets to:			
Loans and advances to customers	-	6 741	6 741
Investments held to maturity to:			
Available-for-sale financial assets	-	(419)	(419)
	-	6 322	6 322

During the second half of 2017, a set of transferred bonds were sold, generating an increase in the amount of Euro 38,269 thousand.

The analysis of the impact of these reclassifications as at 31 December 2016, is presented as follows:

(Thousands of Euro)

	At the reclassification date		Dec 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	268 706	280 840	12 134
	358 488	358 488	268 706	280 840	12 134

The amounts recorded in profit or loss and fair value reserves at 31 December 2016, related to financial assets reclassified in prior years, are as follows:

(Thousands of Euro)

	Profit / (loss) in the period	Variations	
	Interest	Fair value reserves	Equity
Available-for-sale financial assets to:			
Loans and advances to customers	12 075	(1 382)	(1 382)
	12 075	(1 382)	(1 382)

If the reclassifications described above had not taken place, the additional amounts recognised in equity at 31 December 2016, would be as follows:

(Thousands of Euro)

	Porfit / (loss) in the period		
	Fair value changes	Fair value reserves	Equity
Available-for-sale financial assets to:			
Loans and advances to customers	12 134	13 515	13 515
	12 134	13 515	13 515

As at 31 December 2017 and 2016, the analysis of available-for-sale financial assets net of impairment, by valuation levels, is presented as follows:

(Thousands of Euro)

	2017				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Total**
Fixed income securities					
Issued by public entities					
Portuguese	703 357	-	-	-	703 357
Foreign	857 096	-	-	-	857 096
Issued by other entities				-	
Portuguese	6 967	1 258	5 680	-	13 905
Foreign	22 246	9 014	-	-	31 260
	1 589 666	10 272	5 680	-	1 605 618
Variable income securities					
Shares					
Portuguese	-	-	79 836	4 884	84 720
Foreign	1 693	-	73 672	338	75 703
Mutual Funds	7 500	-	829 250	-	836 750
	9 193	-	982 758	5 222	997 173
	1 598 859	10 272	988 438	5 222	2 602 791

(Thousands of Euro)

	2016				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Total**
Fixed income securities					
Issued by public entities					
Portuguese	1 349 352	-	-	-	1 349 352
Foreign	339 850	-	-	-	339 850
Issued by other entities				-	
Portuguese	1 496	2 443	2 542	-	6 481
Foreign	73 683	12 896	16 472	-	103 051
	1 764 381	15 339	19 014	-	1 798 734
Variable income securities					
Shares					
Portuguese	-	-	77 539	4 884	82 423
Foreign	1 288	-	85 647	338	87 273
Mutual Funds	6 878	-	913 424	-	920 302
	8 166	-	1 076 610	5 222	1 089 998
	1 772 547	15 339	1 095 624	5 222	2 888 732

As referred in IFRS 13, financial instruments are measured according to the valuation levels described in note 46.

The assets included in level 3, in balance Variable income securities – Investment fund units includes participation units in real estate investment funds, in credit recovery specialised funds and venture capital funds which are valued in accordance with the Net Asset Value of the Fund (VLGF) determined by the management company in the amount of Euro 829,250 thousand (31 December 2016: Euro 913,424 thousand) of which Euro 729,410 thousand (31 December 2016: Euro 800,151 thousand) relate to real estate investment funds. The assets of specialized credit recovery funds which are valued in the accounts of the respective funds, at fair value, by internal methodologies used by the management company.

The assets of real estate investment funds are valued by the management company based on the valuation reports prepared by experts registered with the CMVM.

For all financial assets recorded in level 3, the sensitivity analysis carried out considered a 10% change in the value of the financial asset, and consequently, an impact of Euro 98,844 thousand was calculated on 31 December 2017 (31 December 2016: Euro 109,562 thousand).

Instruments classified as level 3 have associated unrealised gains and losses in the positive amount of Euro 34,325 thousand (31 December 2016: positive amount of Euro 49,778 thousand) recognised in fair value reserves.

As at 31 December 2017, the impairment amount registered for these securities amounts to Euro 169,266 thousand (31 December 2016: Euro 160,789 thousand).

The movements occurred in available-for-sale financial assets recorded in level 3 are analysed as follows:

(Thousands of Euro)

	2017	2016
Balance on 1 January	1 095 624	1 031 856
Acquisitions	4 527	23 467
Revaluations	(28 841)	(33 858)
Disposals	(82 872)	(61 045)
Transfers	-	135 204
Balance on 31 December	988 438	1 095 624

During 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 30.

Additionally, the 3,057 preference shares of Visa Inc (Series C) were recorded in the portfolio of available-for-sale financial assets, in level 3. Those preference shares were recognised in the balance sheet in the amount of Euro 2,850 thousand, at the date of completion of the transaction. The revaluation of these preference shares, as at 31 December 2017, resulted in the recognition of a positive fair value reserve in the amount of Euro 1,205 thousand (31 December 2016: Euro 307 thousand).

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

(Thousands of Euro)

	2017	2016
Balance on 1 January	190 428	112 151
Charge for the period	18 947	130 529
Write-back for the period	(1 352)	(38 044)
Charge-off	(35 699)	(14 208)
Balance on 31 December	172 324	190 428

As at 31 December 2017, impairment for investment units of real estate investment funds amounts to Euro 103,163 thousand (31 December 2016: Euro 101,340 thousand).

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2017, is as follows:

(Thousands of Euro)

	2017					
	Due within 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined	Total
Fixed income securities						
Issued by public entities						
Portuguese	2 716	132 607	498 285	69 749	-	703 357
Foreign	781	118 351	685 501	52 463	-	857 096
Issued by other entities						
Portuguese	193	826	3 035	8 451	1 400	13 905
Foreign	54	82	5 033	26 091	-	31 260
	3 744	251 866	1 191 854	156 754	1 400	1 605 618
Variable income securities						
Shares						
Portuguese	-	-	-	-	84 720	84 720
Foreign	-	-	-	-	75 703	75 703
Mutual Funds	-	-	-	-	836 750	836 750
	-	-	-	-	997 173	997 173
	3 744	251 866	1 191 854	156 754	998 573	2 602 791

The analysis of the available-for-sale financial assets by maturity date, as at 31 December 2016, is as follows:

(Thousands of Euro)

	2016				
	Due within 3 months	**3 months to 1 year**	**Over 1 year**	**Undetermined**	**Total**
Fixed income securities					
Issued by public entities					
Portuguese	14 918	81 790	1 252 644	-	1 349 352
Foreign	5 612	13 473	320 765	-	339 850
Issued by other entities					
Portuguese	-	1 856	3 928	697	6 481
Foreign	5 466	257	96 540	788	103 051
	25 996	97 376	1 673 877	1 485	1 798 734
Variable income securities					
Shares					
Portuguese	-	-	-	82 423	82 423
Foreign	-	-	-	87 273	87 273
Mutual Funds	-	-	1 804	918 498	920 302
	-	-	1 804	1 088 194	1 089 998
	25 996	97 376	1 675 681	1 089 679	2 888 732

Securities pledged as collateral recorded in Available-for-sale financial assets, 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 2,539,595 thousand at 31 December 2017 after hair cut (31 December 2016: Euro 3,508,001 thousand);

- Securities pledged as collateral to the Portuguese Securities Market Commission under the Investors' Compensation Fund in the nominal amount of Euro 1,000 thousands at 31 December 2017 and 2016;

- The amount of the EIB loan obtained is collateralised by securities of Portuguese and Greek states in the nominal amount of Euro 507,939 thousand (31 December 2016: 331,855 thousand), registered in the balance Available-for-sale financial assets; and

- Securities pledged as collateral to the Deposit Guarantee Fund in the nominal amount of Euro 23,500 thousand (31 December 2016: Euro 25,000 thousand).

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 referred in notes 31 and 32.

24 Held-to-maturity investments

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Fixed income securities		
Bonds issued by Portuguese public entities	-	1 126 125

The fair value of held-to-maturity investments portfolio is presented in note 46.

In the first half of 2017, the Group reclassified Portuguese public debt bonds from the portfolio of financial assets held-to-maturity to the portfolio of available-for-sale financial assets in the amount of Euro 800,059 thousand, whose market value was, at the date of transfer, of Euro 840,613 thousand. The decision was part of the process of strengthening the Group's capital ratios, in accordance with the strategy defined by the Executive Board of Directors to respond to the challenges posed by the ECB's prudential requirements and involved the reclassification, on the date of decision, of all Portuguese public debt bonds recorded in the held-to-maturity securities portfolio. In the first half of 2017, part of these securities were sold, as described in notes 7, 9 and 23. In accordance with IAS 39, CEMG will not be able to classify assets in this category until the end of 2019.

The held-to-maturity investments, as at 31 December 2016, are analysed as follows:

(Thousands of Euro)

Issue	Issue date	Maturity date	Interest rate	Book value
OT 2.875% 15-Oct-2025	January 2015	October 2025	Fixed rate of 2.875%	36 058
OT 4.450% 15-June-2018	March 2008	June 2018	Fixed rate of 4.450%	216 604
OT 2.200% 17-Oct-2022	September 2015	October 2022	Fixed rate of 2.200%	90 422
OT 3.850% 15-April-2021	February 2005	April 2021	Fixed rate of 3.850%	256 707
OT 4.950% 25-Oct-2023	June 2008	October 2023	Fixed rate of 4.950%	99 465
OT 5.650% 15-Feb-2024	May 2013	February 2024	Fixed rate of 5.650%	98 618
OT 2.875% 21-July-2026	January 2016	July 2026	Fixed rate of 2.875%	328 251
				1 126 125

The held-to-maturity investments are recognised_in accordance with the accounting policy described in note 1 c).

During 2016, CEMG did not transfer from or to this assets category.

As at 31 December 2016, the analysis of held-to-maturity investments by maturity date is as follows:

(Thousands of Euro)

	2016				
	Due within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Bonds issued by portuguese public issuers	10 879	10 022	462 041	643 183	1 126 125

As at 31 December 2016, the amount of loans obtained from EIB is collateralised by bonds of the Portuguese State at the nominal value of Euro 303,934 thousand, provided as collateral and recorded under the caption Investments held until maturity.

25 Investments in subsidiaries and associated companies

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Montepio Holding, S.G.P.S., S.A.	413 750	403 750
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	8 997	8 997
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3 200	3 200
Montepio Gestão de Activos Imobiliários, ACE	637	637
	426 584	416 584
Impairment of investments in subsidiaries and associated companies	(110 681)	(157 297)
	315 903	259 287

As at 31 December 2017, CEMG made supplementary capital contributions to its subsidiary Montepio Holding, SGPS, S.A. ("Montepio Holding"), amounting to Euro 10,000 thousand (31 December 2016: Euro 62,500 thousand). These supplementary capital contributions were made in order to Montepio Holding could provide its subsidiaries with the development of each one's business.

CEMG analysed the impairment regarding investments made in its subsidiaries, considering the recoverable value of the businesses developed by each one. The recoverable amount, in accordance with the accounting policy described in this report, was determined by the higher of fair value net of selling costs and the value in use for continued subsidiaries and by the fair value of selling costs for discontinued subsidiaries.

The value in use was determined based on the business plan approved by the management, considering also the specificity of the businesses and markets where CEMG's subsidiaries operate, discount rate differentiated levels, for the solvency levels required for banking activity and for the perpetuity growth of net results.

The validation of the assumptions used and the evolution of the macroeconomic and market conditions may result in changes in these assumptions and, consequently, in the recoverable amount calculated for the subsidiaries that are subject of this analysis.

Financial statements were prepared based on the continuity of its operations, which depend on the future development of the assumptions underlying the recoverability of their shareholdings and on the success of the initiatives taken by the Executive Board of Directors with the purpose to strengthen equity.

Montepio Holding

Following the analysis carried out, we concluded on the disclosure in the 2017 financial statements of an impairment in the amount of Euro 110,681 thousand (31 December 2016: Euro 157,297 thousand) related with the shareholding held in Montepio Holding. The book value suffered a reversal of impairment of Euro 46,616 thousand, mainly due to the ongoing negotiations for the sale of discontinued subsidiaries and an adjustment to the values in use for the remaining ones.

Montepio Holding holds 100% of the capital and voting rights of Montepio Investimento, S.A., Montepio Crédito, S.A., Montepio Valor, S.A. and Ssagincentive, S.A., as well as a 81.37% shareholding in Finibanco Angola, S.A. and a 45.78% shareholding in Banco Terra, S.A.

The valuation of Montepio Holding SGPS, S.A. was carried out considering the value of its shareholders' equity adjusted for the potencial values of the entities in which Montepio Holding participates and are presented as follows:

Montepio Investimento

Regarding Montepio Investimento, the value of equity corresponded to the best estimate of the recoverable amount.

Montepio Crédito

Following the analysis of Montepio Crédito's balance sheet, the best estimate of the recoverable amount for this subsidiary would be its equity.

Montepio Valor

Following the analysis of Montepio Valor's balance sheet, the best estimate of the recoverable amount for this subsidiary would be its equity.

Finibanco Angola

The valuation made for Finibanco Angola was based on the average of two evaluations: (i) a study performed by an external advisor who considered the average of three valuation methodologies: market multiples (average valuation values resulting from the P/B and P/E market), comparable transactions and discounted dividend method and ii) a proposal for the acquisition of the company made by a third party.

On this basis, the valuation of 81.37% of the shareholding held by Montepio Holding in Finibanco Angola amounted to USD 81,597 thousand, corresponding to approximately Euro 68,037 thousand.

The following assumptions were adopted in the evaluation methodologies applied:

- The selection process of the peer group had the following criteria in consideration (in order of application): market quote, capitalization, country, country risk premium (Damodaran), non-performing loans/total loans ratio, net interest income/total assets ratio and cost/income ratio;
- For the purposes of the application of the comparable transactions methodology, was considered a transaction that took place in the Angolan market;
- The Finibanco Angola business plan for the triennium 2017/2019 and a growth rate of 3% for 2020 were considered in the valuation by the dividend method.

The evaluations under consideration take into account the clearance of a forward to the calculation of the exchange rate AOA/EUR at December 31st 2017 of 200,3.

BTM - Banco Terra

The fair value estimate of BTM - Banco Terra was determined based on the fair value net of selling costs, which corresponds to a multiple of 1 over the equity amount at December 31st 2018.

Impairment movements of investments in subsidiaries and associates are analysed as follows:

(Thousands of Euro)

	2017	2016
Balance on 1 January	157 297	-
Charge for the period	-	157 297
Write-back for the period	(46 616)	-
Balance on 31 December	110 681	157 297

The financial information concerning subsidiary and associated companies is presented in the following table:

(Thousands of Euro)

	Number of shares	Percentage of direct shares	Unit value Euros	Acquisition cost
31 December 2017				
Montepio Holding, S.P.G.S., S.A.	175 000 000	100.00%	1,00	413 750
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	99 200	100.00%	90,69	8 997
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	400 001	20.00%	5,00	3 200
Montepio - Gestão de Activos Imobiliários, ACE	636 924	26.00%	1,00	637
				426 584
31 December 2016				
Montepio Holding, S.P.G.S., S.A.	175 000 000	100.00%	1,00	403 750
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	99 200	100.00%	90,69	8 997
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	400 001	20.00%	5,00	3 200
Montepio - Gestão de Activos Imobiliários, ACE	636 924	26.00%	1,00	637
				416 584

The list of subsidiaries and associated CEMG's companies is presented in note 55.

26 Non-current assets held for sale

This balance is analysed as follows:

	(Thousands of Euro)	
	2017	**2016**
Investments arising from recovered loans	852 440	867 174
Impairment of non-current assets held for sale	(138 307)	(143 432)
	714 133	723 742

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

The balance Investments arising from recovered loans includes the amount of Euro 1,377 thousand (31 December 2016: Euro 1,496 thousand) related with other non-current assets held for sale resulting from the foreclosure of contracts of loans to customers, which have an associated impairment of Euro 1,375 thousand (31 December 2016: Euro 1,367 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 CEMG; 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 pro-solvency).

CEMG has implemented a plan to sell immediately the non-current assets held for sale. According to CEMG's expectation, these assets are available-for-sale in a period less than 1 year and CEMG 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 CEMG has already established contracts for the sale in the amount of Euro 32,269 thousand (31 December 2016: Euro 12,439 thousand).

The movements, in 31 December 2017 and 2016, for non-current assets held for sale are analysed as follows:

	(Thousands of Euro)	
	2017	**2016**
Balance on 1 January	867 174	866 484
Acquisitions	130 640	184 447
Disposals	(144 764)	(183 685)
Other movements	(610)	(72)
Balance on 31 December	852 440	867 174

The movement in impairment for non-current assets held for sale balance is analysed as follows:

	(Thousands of Euro)	
	2017	**2016**
Balance on 1 January	143 432	132 619
Charge for the period	11 332	41 917
Write-back for the period	(1 790)	(9 653)
Charge-off	(14 667)	(21 451)
Balance on 31 December	138 307	143 432

In addition to the impairment losses, CEMG recognised in the income statement for 2017, losses arising from real estate disposal in the amount of Euro 1,206 thousand and gains in the amount of Euro 9,803 thousand (31 December 2016: losses of Euro 5,499 thousand and gains of Euro 21,739 thousand), as mentioned in note 9.

27 Property and equipment

This balance is analysed as follows:

(Thousands of Euro)	2017	2016
Cost		
Land and buildings		
For own use	204 334	204 334
Leasehold improvements in rented buildings	29 152	30 517
Equipment		
Computer equipment	90 120	87 554
Interior installations	24 950	20 262
Furniture	18 567	18 386
Security equipment	7 355	7 210
Office equipment	2 551	2 547
Motor vehicles	677	901
Other equipment	1	1
Works of art	2 870	2 870
Assets in operacional lease	323	534
Other tangible assets	1 848	1 848
Work in progress	3 403	4 507
	386 151	381 471
Accumulated depreciation		
Charge for the period	(9 065)	(10 452)
Accumulated charge in previous period	(157 084)	(148 210)
	(166 149)	(158 662)
	220 002	222 809

During the first quarter of 2016, CEMG acquired from MGAM premises for own use in the amount of Euro 199,444 thousand, as described in note 48.

The movements in Property and equipment, during 2017, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Acquisitions/ Charges	Disposals	Adjustment/ Transfers	Balance on 31 December
Cost					
Land and buildings					
For own use	204 334	-		-	204 334
Leasehold improvements in rented buildings	30 517	43	1 408		29 152
Equipment					
Computer equipment	87 554	2 566	-	-	90 120
Interior installations	20 262	288	-	4 400	24 950
Furniture	18 386	223	42	-	18 567
Security equipment	7 210	155	10	-	7 355
Office equipment	2 547	4	-	-	2 551
Motor vehicles	901	4	228	-	677
Other equipment	1	-	-	-	1
Works of art	2 870	-	-	-	2 870
Assets in operacional lease	534	-	211	-	323
Other tangible assets	1 848	-	-	-	1 848
Work in progress	4 507	3 329	33	(4 400)	3 403
	381 471	6 612	1 932	-	386 151
Accumulated depreciations					
Land and building					
For own use	4 937	3 059	-	-	7 996
Leasehold improvements in rented buildings	25 124	1 581	1 168	29	25 566
Equipament					
Computer equipment	81 703	2 716	-	-	84 419
Interior installations	17 132	1 026	-	-	18 158
Furniture	17 315	395	42	-	17 668
Security equipment	6 820	241	10	-	7 051
Office equipment	2 523	10	-	-	2 533
Motor vehicles	901	-	224	-	677
Other equipment	1	-	-	-	1
Assets in operacional lease	394	34	163	-	265
Other tangible assets	1 812	3	-	-	1 815
	158 662	9 065	1 607	29	166 149
	222 809				220 002

The movements in Property and equipment, during 2016, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Acquisitions/ Charges	Disposals	Adjustment/ Transfers	Balance on 31 December
Cost					
Land and buildings					
For own use	7 557	199 591	2 814	-	204 334
Leasehold improvements in rented buildings	40 571	32	10 610	524	30 517
Equipment					
Computer equipment	84 724	3 013	183	-	87 554
Interior installations	20 218	106	62	-	20 262
Furniture	19 273	232	1 119	-	18 386
Security equipment	7 243	85	118	-	7 210
Office equipment	2 702	2	157	-	2 547
Motor vehicles	2 246	3	1 348	-	901
Other equipment	1	-	-	-	1
Works of art	2 870	-	-	-	2 870
Assets in operacional lease	656	-	122	-	534
Other tangible assets	1 938	-	90	-	1 848
Work in progress	3 439	1 893	-	(825)	4 507
	193 438	204 957	16 623	(301)	381 471
Accumulated depreciations					
Land and building					
For own use	3 311	2 636	1 010	-	4 937
Leasehold improvements in rented buildings	32 542	2 379	9 797	-	25 124
Equipament					
Computer equipment	78 613	3 272	182	-	81 703
Interior installations	15 907	1 288	63	-	17 132
Furniture	17 945	488	1 118	-	17 315
Security equipment	6 663	273	116	-	6 820
Office equipment	2 667	15	159	-	2 523
Motor vehicles	2 235	6	1 340	-	901
Other equipment	1	-	-	-	1
Assets in operacional lease	425	69	100	-	394
Other tangible assets	1 874	26	88	-	1 812
	162 183	10 452	13 973	-	158 662
	31 255				222 809

28 Intangible assets

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Cost		
Software	104 718	93 713
Other intangible assets	-	61
Work in progress	5 653	5 853
	110 371	99 627
Accumulated amortisation		
Charge for the period	(13 726)	(12 376)
Accumulated charge in previous periods	(66 553)	(54 177)
	(80 279)	(66 553)
	30 092	33 074
Impairment for intangible assets	-	(61)
	30 092	33 013

The movements in Intangible assets, during 2017, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Acquisitions/ Charges	Disposals	Adjustment/ Transfers	Balance on 31 December
Cost					
Software	93 713	-	-	11 005	104 718
Other intangible assets	61	-	(61)	-	-
Work in progress	5 853	10 805	-	(11 005)	5 653
	99 627	10 805	(61)	-	110 371
Accumulated amortisation					
Software	(66 553)	(13 726)	-	-	(80 279)
	(66 553)	(13 726)	-	-	(80 279)
Impairment	(61)	-	61	-	-
	33 013				30 092

The movements in Intangible assets, during 2016, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Acquisitions/ Charges	Disposals	Adjustment/ Transfers	Balance on 31 December
Cost					
Software	78 045	5 538	-	10 130	93 713
Other intangible assets	88 333	-	(88 272)	-	61
Work in progress	6 361	9 879	-	(10 387)	5 853
	172 739	15 417	(88 272)	(257)	99 627
Accumulated amortisation					
Software	(54 177)	(12 376)	-	-	(66 553)
	(54 177)	(12 376)	-	-	(66 553)
Impairment	(88 333)	-	88 272	-	(61)
	30 229				33 013

As at 31 December 2016, CEMG performed the write-off of the caption Other intangible assets in the amount of Euro 88,272 thousand, which was impaired.

Impairment movements for other intangible assets are analysed as follows:

(Thousands of Euro)

	2017	2016
Balance on 1 January	61	88 333
Charge-off	(61)	(88 272)
Balance on 31 December	-	61

29 Taxes

Deferred tax assets and liabilities as at 31 December 2017 and 2016 are analysed as follows:

(Thousands of Euro)

	Asset		Liability		Net	
	2017	2016	2017	2016	2017	2016
Financial instruments	2 535	22 231	(9 442)	(11 879)	(6 907)	10 352
Provisions / impairment						
Granted credit impairment	200 567	227 430	-	-	200 567	227 430
Other risks and charges	7 394	6 345	-	-	7 394	6 345
Impairment in securities and non-financial assets	36 993	49 326	-	-	36 993	49 326
Employees benefits	42 186	45 621	-	-	42 186	45 621
Other	84	82	(54)	(53)	30	29
Tax losses carried forward	178 601	174 705	-	-	178 601	174 705
Net deferred tax asset / (liability)	468 360	525 740	(9 496)	(11 932)	458 864	513 808

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 10,793 thousand (31 December 2016: Euro 13,266 thousand) related to deferred taxes of actuarial losses recognised against reserves as a result of the change in the accounting policy. This balance, as at 31 December 2017, also includes the amount of Euro 3,229 thousand (31 December 2016: Euro 3,404 thousand) related to deferred taxes associated with the expense generate 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 in 2011 is deductible for tax purposes in equal parts, for a 10 year period starting on 1 January 2012. The expense generate 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 CEMG).

As at 31 December 2017, deferred taxes associated with Employee benefits includes the amount of Euro 13,781 thousand (31 December 2016: Euro 13,551 thousand) related with employee benefits in excess when compared with the existing limits.

As at 31 December 2017, and due to (i) tax rates effective after 1 January 2018 and ii) the expectation underlying the conversion into costs and tax-deductible profits and the estimation of tax profit or tax losses in each one of the subsequent periods, CEMG changed the rate (base rate and surcharges) used for calculating deferred taxes, from 29.5% and 21% to 30% and 21%, respectively, depending on specific cases associated with temporary differences or tax losses carried forward.

Analysis of the recoverability of deferred tax assets

Deferred tax assets related to 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 v) and in accordance with the requirements set in IAS 12, the deferred tax assets recognised in CEMG's financial statements have an underlying high expectation of recoverability. The evaluation of the recoverability of deferred tax assets is based on the latest exercise prepared on the 2018 budget, assuming a pre-tax income growth assumption between 2019 and 2024.

Thus, the recoverability of deferred tax assets, namely related to tax losses carried forward, is supported in CEMG's forecasted financial statements, prepared under the aforementioned budget, which considered the macroeconomic and competitive environment where CEMG operates as well as the strategic priorities established in the Strategic Plan for the period between 2016 and 2018.

The recovery of profitability, liquidity and capital levels recommended in the Strategic Plan is fundamentally supported by favorable impacts induced by:

(i) recovery of the core banking product: by increasing the net interest income provided by the monitoring of turnover and pricing, particularly the cost of deposits, as well as by the increase in commissions, benefiting from the impact of the price increase to be implemented;

(ii) a reduction in operating costs: this is reflected in the positive effects associated with the downsizing of the branch network and the number of employees completed in 2016, as well as the reduction in the level of investments;

(iii) reinforcing risk management: materializing the favorable effects of the improvement introduced in the credit granting, monitoring and recovery processes that have been put into practice; and

(iv) strengthening of the institutional model.

Following this assessment, and as at 31 December 2017 and 2016, CEMG recognised all deferred tax assets, thus, there are no deferred tax assets to be recognised.

In addition, a sensitivity analysis was carried out considering a scenario in which profit and loss before tax evolved at a 10% rate lower than those considered in the aforementioned projections, and no impact on deferred taxes was determined.

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

(Thousands of Euro)

Expiration date	2017	2016
2022	3 922	-
2027	51 639	50 915
2028	123 040	123 790
	178 601	174 705

Tax recognised in the income statement and reserves during 2017 and 2016 is analysed as follows:

(Thousands of Euro)

	2017		2016	
	Charged to net income/(loss)	Charged to reserves and retained earnings	Charged to net income/(loss)	Charged to reserves and retained earnings
Financial instruments	-	(17 259)	-	13 225
Provisions / impairment	(38 147)	-	108 254	-
Employees benefits	(1 070)	(2 365)	3 990	703
Other	1	-	(326)	-
Tax losses carried forward	2 527	1 369	(13 930)	12 321
Deferred taxes/ recognized as profit/ (losses)	(36 689)	(18 255)	97 988	26 249
Current taxes/ recognized as profit/ (losses)	(293)	-	317	-
	(36 982)	(18 255)	98 305	26 249

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

(Thousands of Euro)

	2017		2016	
	%	Value	%	Value
Net income/(loss) before taxes		94 642		(342 072)
Income tax based on the current nominal tax rate	(29,5)	(27 919)	(21,0)	71 835
Extraordinary contribution for the banking sector	(3,6)	(3 365)	0,8	(2 687)
Post-employment benefits and Pension Fund	0,8	801	-	-
Charge/reversal of taxable provisions/impairments	(15,5)	(14 655)	(2,9)	9 798
Autonomous taxation	(1,2)	(1 104)	0,4	(1 271)
Corrections to previous periods	0,9	811	(0,3)	950
Effect of differences in income tax for the period	5,0	4 753	(5,5)	18 861
Other	4,0	3 786	(0,2)	819
Income taxes for the period	(39,0)	(36 892)	(28,7)	98 305

The Tax Authority may review CEMG'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 the 2015 period, inclusive.

30 Other assets

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Other debtors	72 575	167 664
Sundry debtors	120 469	14 624
Other accrued income	3 248	43 908
Recoverable subsidies from Portuguese Government	4 991	5 521
Prepayments and deferred costs	515	303
	201 798	232 020
Impairment for other assets	(25 183)	(26 389)
	176 615	205 631

As at 31 December 2017 and 2016, the balance Other debtors is analysed as follows:

	(Thousands of Euro)	
	2017	2016
SilverEquation	29 909	101 012
Supplementary capital contributions	14 910	14 910
Public Entities	6 667	6 983
Other	21 089	44 759
	72 575	167 664

The balance SilverEquation includes the receivable amounts under the operation of sale of credits and property to SilverEquation in 2014. In 2017, the amount of Euro 71,103 thousand was received, with the remaining amount of Euro 29,909 thousand expected to be received in 2019.

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, which are fully provided.

As at 31 December 2017, the balance Public Entities includes an amount of Euro 6,667 thousand (31 December 2016: Euro 6,983 thousand) related to receivable amounts from public entities, mostly related with courts in the context of insolvency proceedings and lodge claims.

As at 31 December 2017, the balance Others includes the amount receivable of Euro 1,762 thousand (31 December 2016: Euro 7,569 thousand) under the operation of sale of credits carried out during the first semester of 2016, as described in notes 9 and 21.

As at 31 December 2017, the balance Sundry debtors includes the amount of Euro 106,182 thousand (31 December 2016: Euro 424 thousand), resulting from stock exchange operations which are pending settlement.

As at 31 December 2016, the balance Sundry debtors includes the earn-out (deferred cash: to be paid shortly after the 3rd year of the completion of the transaction) of Visa Inc., in the amount of Euro 704 thousand, as described in notes 7 and 23.

As at 31 December 2016, the balance Other receivables includes an amount of Euro 36,000 thousand referring to receivables related with services rendered by CEMG to Montepio Geral - Associação Mutualista.

The balance Recoverable subsidies receivable from the Portuguese Government corresponds to recoverable subsidies referring to mortgage and PME's loans, in accordance with the legal provisions applicable to low-interest loan. These amounts do not bear interest and are claimed monthly.

As at 31 December 2017 and 2016, the balance Recoverable subsidies receivable from the Portuguese Government are presented as follows:

(Thousands of Euro)

	2017	2016
Overdue subsidies unclaimed	3 224	3 262
Recoverable subsidies from the Portuguese Government unliquidate	1 631	2 206
Subsidies unclaimed	136	53
	4 991	5 521

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

(Thousands of Euro)

	2017	2016
Balance on 1 January	26 389	17 996
Charge for the period	2 558	6 335
Reversal for the period	(385)	(54)
Charge-off	(3 379)	(33)
Transfers	-	2 145
Balance on 31 December	25 183	26 389

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 400 thousand, as described in note 21 and the amount of Euro 1,745 thousand, as described in note 36.

31 Deposits from central banks

As at 31 December 2017 and 2016, 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 23.

As at 31 December 2017 and 2016, the analysis of deposits from Central Banks by maturity is as follows:

(Thousands of Euro)

	2017	2016
Up to 3 months	-	360 000
More than 6 months	1 557 840	1 947 947
	1 557 840	2 307 947

The operations are remunerated at the rates of Bank of Portugal in force at the contract date.

32 Deposits from other financial institutions

This balance is analysed as follows:

(Thousands of Euro)

	2017			2016		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from financial institutions in Portugal						
Deposits repayable on demand	19 327	-	19 327	56 724	-	56 724
Term deposits	-	7 995	7 995	-	26 521	26 521
Other resources	-	-	-	-	405	405
	19 327	7 995	27 322	56 724	26 926	83 650
Deposits from financial institutions abroad						
BEI loan	-	460 433	460 433	-	460 471	460 471
Deposits repayable on demand	33 051	-	33 051	103 990	-	103 990
Term deposits	-	200 540	200 540	-	259 875	259 875
Sales operations with repurchase agreement	-	1 275 553	1 275 553	-	1 625 776	1 625 776
CSA's	50	-	50	4 340	-	4 340
Repo Colaterals	-	13 405	13 405	-	5 917	5 917
Other deposits	843	-	843	2 906	53 805	56 711
	33 944	1 949 931	1 983 875	111 236	2 405 844	2 517 080
Adjustments arising from fair value option operations	-	-	-	3	-	3
	53 271	1 957 926	2 011 197	167 963	2 432 770	2 600 733

The balance Deposits from other financial institutions, analysed by maturity, is as follows:

(Thousands of Euro)

	2017	2016
Up to 3 months	362 167	1 075 714
3 months to 6 months	66 904	106 536
6 months to 1 year	419 480	11 419
1 year to 5 years	891 721	504 494
More than 5 years	270 925	902 567
	2 011 197	2 600 730
Adjustments arising from fair value option operations	-	3
	2 011 197	2 600 733

As part of derivative financial instruments operations with institutional counterparties, according to the signed contracts, CSA has, on 31 December 2017, the amount of Euro 50 thousand (31 December 2016: Euro 4,340 thousand) deposits from other credit institutions received as collateral for these operations.

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

The balance Deposits from other financial institutions includes issues at fair value through profit and loss according to internal valuation methodologies, considering mainly market observed data, in the amount of Euro 53,818 thousand, on 31 December 2016. So, in accordance with the hierarchy of the valuation sources, as referred in IFRS 13, these instruments are categorized in Level 2. Financial liabilities included in this balance are revaluated against results, according with the accounting policy described in note 1 c).

The fair value adjustment at 31 December 2016 amounts to Euro 3 thousand. Financial liabilities included in this balance are revaluated against results, according with the accounting policy described in note 1 c), having been recognised, at 31 December 2017, a gain of Euro 3 thousand (31 December 2016: a gain of Euro 518 thousand), related to changes in the fair value, as referred in notes 6 and 22.

The amount of the EIB loan is collateralised by Portuguese and Greek states securities in the amount of Euro 517,939 thousand (31 December 2016: Euro 638,289 thousand), recorded in the balance Financial assets held for trading, available-for-sale financial assets and Held-to-maturity investments, as described in notes 22, 23 and 24, respectively.

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

33 Deposits from customers

This balance is analysed as follows:

(Thousands of Euro)

	2017			2016		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits repayable on demand	3 361 390	277 437	3 638 827	3 252 183	137 699	3 389 882
Term deposits	-	8 380 146	8 380 146	-	8 546 819	8 546 819
Saving accounts	-	113 044	113 044	-	113 653	113 653
Other deposits	23 275	400 000	423 275	19 735	299 910	319 645
Adjustments arising from fair value option operations	33	-	33	12	-	12
	3 384 698	9 170 627	12 555 325	3 271 930	9 098 081	12 370 011

In the terms of Ordinance no. 180/94, of 15 December, the deposit guarantee fund was established to guarantee the reimbursement of funds deposited in credit institutions. The criteria to calculate the annual contributions to the referred fund are defined by Regulation 11/94 of the Bank of Portugal, of 29 December.

The caption Term deposits includes deposits at fair value through profit and loss, measured in accordance with internal evaluation techniques considering, mainly, observable market inputs, in the amount of Euro 14,789 thousand (31 December 2016: Euro 15,631 thousand). So, in accordance with the hierarchy of the valuation sources, as referred in IFRS 13, these instruments are categorized in Level 2. Financial liabilities included in this balance are revaluated against results, according with the accounting policy described in note 1 c), having been recognised a loss, at 31 December 2017, in the amount of Euro 21 thousand (31 December 2016: Euro 4 thousand) related to fair-value variations associated to CEMG credit risk, as referred in notes 6 and 22.

The balance Deposits from customers, analysed by maturity, is as follows:

(Thousands of Euro)

	2017	2016
Deposits repayable on demand	3 638 827	3 389 882
Term deposits and saving accounts		
Up to 3 months	803 303	709 607
3 months to 6 months	3 485 233	3 380 913
6 months to 1 year	2 231 157	1 765 112
1 year to 5 years	1 922 017	2 752 929
More than 5 years	51 480	51 911
	12 132 017	12 050 354
Other deposits		
Up to 3 months	423 275	319 645
Adjustments arising from fair value option operations	33	12
	12 555 325	12 370 011

During 2017, deposits from clients were remunerated at the average rate of 0.68% (31 December 2016: 1.03%).

34 Debt securities issued

The balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Euro Medium Term Notes (EMTN)	-	39 913
Bonds	375 300	1 040 533
Covered bonds	746 238	265 028
Securitizations	268 461	538 155
	1 389 999	1 883 629

The fair value of the debt securities issued is presented in note 46.

The balance Debt securities issued includes issues at fair value through profit or loss, in the amount of Euro 7,094 thousand (31 December 2016: Euro 67,237 thousand), measured in accordance with internal valuation techniques and considering, mainly, observable market data. According with the hierarchy of the evaluation sources, as referred in IFRS 13, these instruments are classified in Level 2. Financial liabilities are revalued against the income statement, as referred in the accounting policy presented in note 1 c). As at 31 December 2017, a loss in the amount of Euro 523 thousand (31 December 2016: a loss of Euro 1,716 thousand) was recognised regarding the fair value variations associated to credit risk of CEMG, as described in notes 6 and 22.

As at 31 December 2017 and 2016, the analysis of Debt securities issued outstanding by maturity is as follows:

(Thousands of Euro)

	2017	2016
Due within 6 months	174 237	434 392
6 months to 1 year	80 578	160 347
1 year to 5 years	868 525	750 687
Over 5 years	268 461	538 155
	1 391 801	1 883 581
Ajustments arising from hedging operations	(1 802)	48
	1 389 999	1 883 629

Under the Issuance of covered bonds program, with a maximum amount of Euro 5,000,000 thousand, CEMG issued a total of Euro 2,300,000 thousand at nominal value.

As at 31 December 2017, the main characteristics of these issues are as follows:

Description	Nominal value	Book value	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody´s/Fitch/Dbrs)
Covered bonds - 5S	500 000	500 132	December 2015	December 2020	Quarterly	Euribor 3M + 0.80%	A3/A+/A
Covered bonds - 6S	300 000	300 204	November 2016	November 2023	Quarterly	Euribor 3M + 0.80%	A3/A+/A
Covered bonds - 8S	500 000	500 103	December 2016	December 2026	Quarterly	Euribor 3M + 0.90%	A3/A+/A
Covered bonds - 9S	250 000	250 148	May 2017	May 2024	Quarterly	Euribor 3M + 0.85%	A3/A+/A
Covered bonds - 10S	750 000	746 238	October 2017	October 2022	Annual	Fixed at 0.875%	A3/A+/A
	2 300 000	2 296 825					

As at 31 December 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 - 4S	500 000	500 053	May 2013	May 2017	Monthly	Euribor 1M + 0.75%	A3/A/A
Covered bonds - 5S	500 000	500 148	December 2015	December 2020	Quarterly	Euribor 3M + 0.80%	A3/A/A
Covered bonds - 6S	300 000	300 211	November 2016	November 2023	Quarterly	Euribor 3M + 0.80%	A3/A/A
Covered bonds - 7S	500 000	500 090	December 2016	December 2022	Quarterly	Euribor 3M + 0.75%	A3/A/A
Covered bonds - 8S	500 000	500 122	December 2016	December 2026	Quarterly	Euribor 3M + 0.90%	A3/A/A
	2 300 000	2 300 624					

The covered bonds are guaranteed by a cover pool assets, comprised of mortgage loans which are segregated as an autonomous asset in CEMG's accounts, thus providing a statutory special creditor privilege to the holders of these securities over any other creditor.

The legal and regulatory framework of these obligations is set out in Decree-Law no. 59/2006, Regulations no. 5/2006, of 20 March, no. 6/2006, of 11 October, no. 7/2006, of 11 October, and no. 8/2006, of 11 October, of Bank of Portugal and Instruction no.13/2006, of 15 November, of Bank of Portugal.

As at 31 December 2017, the amount of credits that collateralise these issues amounted to Euro 2,726,854 thousand (31 December 2016: EUR 2,725,631 thousand), according with note 21.

The movements in Debt securities issued during the year 2017 is analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Issues	Repayments	Net Purchases	Other movements [(a)]	Balance on 31 December
Euro Medium Term Notes (EMTN)	39 913	-	(39 750)	-	(163)	-
Bonds	1 040 533	-	(265 185)	(384 350)	(15 698)	375 300
Covered bonds	265 028	750 000	(265 000)	-	(3 790)	746 238
Securitizations	538 155	-	(269 694)	-	-	268 461
	1 883 629	750 000	(839 629)	(384 350)	(19 651)	1 389 999

(a) They include the movement of accrued interest on the balance sheet, corrections for operations at the fair value option and exchange variation.

The movements in debt securities issued in the year ended 31 December 2016 is analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Issues	Repayments	Net Purchases	Other movements [(a)]	Balance on 31 December
Euro Medium Term Notes (EMTN)	61 138	-	-	(23 000)	1 775	39 913
Bonds	1 340 138	-	(114 898)	(175 112)	(9 595)	1 040 533
Covered bonds	520 113	1 300 000	(1 000 000)	(620 000)	64 915	265 028
Securitizations	334 340	-	(12 099)	216 198	(284)	538 155
	2 255 729	1 300 000	(1 126 997)	(601 914)	56 811	1 883 629

(a) Include the issuance of Euro 65,000 thousand, the movement of accrued interest on the balance sheet, corrections for operations at the fair value option and exchange variation.

As at 31 December 2017, CEMG performed the reimbursement of Euro 839,629 thousand (31 December 2016: 1,126,997 thousand).

In 2017, under the Covered Bond Programm, CEMG issued an amount of Euro 750.000 thousand at 5 years and an interest rate of 0.875% and reimbursed an amount of Euro 265.000 thousand.

In accordance with the account policy described in note 1 c), debt issued repurchased by CEMG is withdrawn 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 2017, CEMG recognised a gain of Euro 1,423 thousand (31 December 2016: gain of Euro 701 thousand).

As at 31 December 2017, the balance Debt securities issued includes the following issues:

(Thousands of Euro)

Issue	Issue date	Maturity date	Interest rate	Book value
OBRIGAÇÕES CAIXA-MG TAXA FIXA SETEMBRO 2010-2020	09-09-2010	09-09-2020	Fixed annual rate of 4%	100
OBRIGAÇÕES CAIXA-CRPC-2012-2020-1.SERIE	30-03-2012	31-03-2020	Fixed annual rate of 5.25% (4th year: 6% and 5th year: 6.75%; 6th 7th and 8th coupon Max[6.25% and Min (IPC+2%;9.15%)]	3 300
OBRIGAÇÕES CAIXA-MONTEPIO CAPITAL CERTO 2012-2020-2ªSERIE	31-05-2012	01-06-2020	Fixed annual rate of 8.2583% (4th year: 9.7083%; 5th year: 10.7250%; 6th year: 7.4750%; 7th year: 8.3% and 8th year: 11.1583%)	600
OBRIGAÇÕES CAIXA-MG CAPITAL CERTO 2013/2018-1.SERIE	31-01-2013	01-02-2018	Fixed annual rate of 5,00% (3rd year rate: 5.15%; 4th year rate: 5.25%; 5th year rate: 5.50%)	44 000
OBRIGAÇÕES CAIXA-MONTEPIO PARTIC-USD-FEV/13	13-02-2013	13-02-2018	Fixed rate of 3.90%	225
OBRIGAÇÕES CAIXA-MG CAPITAL CERTO 2013/2018-2.SERIE	28-02-2013	01-03-2018	Fixed annual rate of 4.85% (3rd year and 4th year rate: 5.00%; 5th year rate: 5.40%)	33 300
OBRIGAÇÕES CAIXA-MG CAPITAL CERTO 2013/2021-1.SERIE	28-02-2013	01-03-2021	Fixed annual rate: 5.15% (3rd year rate: 5.30%; 4rd year rate: 5.30%; 5th year rate: 5.90%; 6th coupon Max[5.95%; Min (IPC+2%;8.25%)];7th coupon Max[6.15%; Min (IPC+2%;8.50%)]; 8th coupon Max[6.45%; Min (IPC+2%;8.50%)])	2 148
OBRIGACOES CAIXA-MONTEPIO PARTICULAR MAR/13-05032018	05-03-2013	05-03-2018	Fixed annual rate of 4.25% (3rd year rate: 4.50%; 4th year rate: 4.70%; 5th year rate: 4.90%)	250
OBRIGAÇÕES CAIXA-MG CAPITAL CERTO 2013/2018-3.SERIE	28-03-2013	29-03-2018	Fixed annual rate of 4.40% (3rd year rate: 4.75%; 4th year rate: 4.90%; 5th year rate: 5.65%)	23 500
OBRIGAÇÕES CAIXA-MONTEPIO POUPANÇA FAMILIAR 2013-2018-1.SE	30-04-2013	01-05-2018	Fixed annual rate of 4.40% (3rd year rate: 4.75%; 4th year rate: 4.90%; 5th year rate: 6.70%)	1 550
OBRIGAÇÕES CAIXA-MG CAPITAL CERTO 2013/2018-4.SERIE	30-04-2013	01-05-2018	Fixed annual rate of 4.40% (3rd year rate: 4.75%; 4th year rate: 4.90%; 5th year rate: 6.70%)	31 200
OBRIGS CAIXA-MG CAPITAL CERTO 2013/2018-6.SERIE	28-06-2013	29-06-2018	Fixed annual rate of 4.4% (3rd year rate: 4.6%, 4th year rate: 4.75% and 5th year rate: 4.9%)	30 100
OBRIGS CAIXA-MG CAPITAL CERTO 2013/2021-2.SERIE	28-06-2013	29-06-2021	Fixed annual rate of 4.9% (3rd year rate: 5.1%, 4th year rate: 5.1%, 5th year rate: 5.65% and from the 6th to the 8th year rate: Max(5.95%;Min(IPC+2%;8.15%))	812
OBRIGS CAIXA-MG CAPITAL CERTO 2013/2018-10.SERIE	31-10-2013	01-11-2018	Fixed annual rate of 3.75% (3rd year: 4%, 4th year rate: 4.1% and 5th year rate: 4.4%)	30 950
CEMG CAP CERTO 2013/2018 11 SERIE	29-11-2013	30-11-2018	Fixed annual rate of 3.65% (3rd year rate: 3.7%, 4th year rate: 3.75% and 5th year rate: 4%)	27 000
MONTEPIO CAP CERTO 2013/2018 12ª SERIE	30-12-2013	31-12-2018	Fixed annual rate of 3.65% (3rd year rate: 3.7%, 4th year rate: 3.75% and 5th year rate: 4%)	20 600
MONTEPIO CAPITAL CERTO 2014/2019 1S	31-01-2014	01-02-2019	Fixed annual rate of 3.4% (3rd year rate: 3.45%, 4th year rate: 3.5%, 5th year rate: 3.75%)	27 400
MONTEPIO CAPITAL CERTO 2014/2019 2S	28-02-2014	01-03-2019	Fixed annual rate of 3.4% (3rd year rate: 3.45%, 4th year rate: 3.5%, 5th year rate: 3.75%)	33 050
CEMG CAP CERTO 2014/2019 3 SERIE	28-03-2014	29-03-2019	Fixed annual rate of 3.4% (3rd year rate: 3.45%, 4th year rate: 3.5%, 5th year rate: 3.75%)	33 400
CEMG CAP CERTO 2014/2019 9S	30-09-2014	01-10-2019	Fixed annual rate of 2.75% (3rd year rate: 3.00%, 4th year rate: 3.10%, 5th year rate: 3.35%)	17 900
MONTEPIO CAP CERTO 2014/2029 12S	02-01-2015	31-12-2019	Fixed annual rate of 2.90% (2nd to 4th year rate: 2.95%, 5th year rate: 3.25%)	2 250
OBRIGAÇÕES HIPOTECÁRIAS - 10S	17-11-2017	17-11-2022	Fixed annual rate of 0.875%	750 000
PELICAN MORTGAGES n.º 3	30-03-2007	15-09-2054	Euribor 3M + 0,13%	90 178
PELICAN SME n.º 2	05-03-2015	25-02-2043	Euribor 3M + 0,30%	178 283
			Debt securities issued	1 382 096
			Amounts corrected by hedge operations	(1 802)
			Accruals, expenses and deferred income	9 705
				1 389 999

As at 31 December 2017, bonds issued bear postponed interest at an effective interest rate ranging between 0.00% and 7.48% (31 December 2016: 0.38% and 13.61%).

35 Hedging derivatives

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Liability		
Interest rate swap	1 663	-

CEMG contracted an interest rate swap to hedge its interest rate risks. The accounting method depends on the nature of the hedged risk, namely if CEMG is exposed to fair value changes, cash flows changes or probable forecast transactions.

CEMG performs periodical effectiveness tests of the hedging relationships.

The analysis of the hedging derivatives portfolio by maturity date, as at 31 December 2017 is as follows:

(Thousands of Euro)

	2017							
	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	-	-	750 000	750 000	-	-	1 663	1 663
	-	-	750 000	750 000	-	-	1 663	1 663

As at 31 December 2017, the fair value hedge operations can be analysed as follows:

(Thousands of Euro)

	2017						
Derivative	Hedged item	Hedged risk	Notional	Fair value (1)	Changes in the fair value of the derivative in the period	Hedge item fair value (2)	Changes in the fair value of the hedge item in the period (2)
Interest rate swaps	Financial assets available for sale	Interest rate	750 000	(1 663)	(1 663)	2 373	2 373
			750 000	(1 663)	(1 663)	2 373	2 373

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

36 Provisions

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Provisions for guarantees and commitments	16 147	13 851
Provisions for other risks and charges	10 060	7 142
	26 207	20 993

The movements in provisions for guarantees and commitments assumed in 2017 and 2016 are analysed as follows:

(Thousands of Euro)

	2017	2016
Balance on 1 January	13 851	-
Charge for the period	16 558	11 456
Write-back for the period	(14 262)	(19 942)
Transfers	-	22 337
Balance on 31 December	16 147	13 851

The balance Transfers refers to the impairment associated with off-balance sheet credit exposure which, in 2016, are registered in the balance Provisions for guarantees and commitments, as described in note 21.

The movements in provisions for liabilities and charges are analysed as follows:

(Thousands of Euro)

	2017	2016
Balance on 1 January	7 142	15 509
Charge for the period	5 709	1 885
Write-back for the period	(1 573)	(255)
Charge-off	(1 218)	(8 252)
Transfers	-	(1 745)
Balance on 31 December	10 060	7 142

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

The balance Transfers was performed against note 30.

37 Other subordinated debt

As at 31 December 2017, the main characteristics of Other subordinated debt, are analysed as follows:

(Thousands of Euro)

Description Issue	Issue date	Maturity date	Issue amount	Interest rate	Book value
CEMG/08 1st series	Feb 2008	Feb 2018	150 000	Euribor 6 months+1.5%	111 321
CEMG/08 2nd series	Jul 2008	Jul 2018	150 000	Euribor 6 months+1.5%	113 169
CEMG/08 3rd series	Jun 2008	Jun 2018	28 000	Euribor 12 months+1.5%	4 200
FNB 08/18 1st/2nd series	Dec 2008	Dec 2018	10 363	Euribor 6 months+1.75% (i)	8 326
					237 016

As at 31 December 2016, the main characteristics of Other subordinated debt, are analysed as follows:

(Thousands of Euro)

Description Issue	Issue date	Maturity date	Issue amount	Interest rate	Book value
CEMG/08 1st series	Feb 2008	Feb 2018	150 000	Euribor 6 months+1.5%	111 348
CEMG/08 2nd series	Jul 2008	Jul 2018	150 000	Euribor 6 months+1.5%	113 216
CEMG/08 3rd series	Jun 2008	Jun 2018	28 000	Euribor 12 months+1.5%	4 202
FNB 08/18 1st/2nd series	Dec 2008	Dec 2018	10 363	Euribor 6 months+1.75% (i)	8 328
					237 094

(i) - Remuneration paid on a half-yearly basis.

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

As at 31 December 2017 and 2016, the movement under Other subordinated liabilities was as follows:

(Thousands of Euro)

	2017				
	Balance on 1 January	Reimbursements	Net purchases	Other movements [(a)]	Balance on 31 December
CEMG/08 1st series	111 348	-	-	(27)	111 321
CEMG/08 2nd series	113 216	-	-	(47)	113 169
CEMG/08 3rd series	4 202	-	-	(2)	4 200
FNB 08/18 1st/2nd series	8 328	-	-	(2)	8 326
	237 094	-	-	(78)	237 016

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

(Thousands of Euro)

	2016				
	Balance on 1 January	Reimbursements	Net purchases	Other movements [(a)]	Balance on 31 December
CEMG/06	26 148	(26 100)	-	(48)	-
CEMG/08 1st series	121 232	-	(9 740)	(144)	111 348
CEMG/08 2nd series	120 894	-	(7 507)	(171)	113 216
CEMG/08 3rd series	18 177	-	(13 808)	(167)	4 202
FNB 08/18 1st/2nd series	10 373	-	(2 042)	(3)	8 328
FNB Grandes empresas 07/16_ 1st series	6 532	(6 450)	-	(82)	-
FNB Grandes empresas 07/16 2nd/3rd series	30 330	(30 250)	-	(80)	-
	333 686	(62 800)	(33 097)	(695)	237 094

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

As at 31 December 2017, the subordinated debt bears postponed interest every six and 12 months and its effective interest rate range is set between 1.23% and 1.48% (31 December 2016: 1.31% and 1.53%).

Other subordinated debt portfolio at fair value, is presented in note 46.

38 Other liabilities

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Creditors		
Suppliers	5 692	4 633
Other creditors	1 124	17 567
Administrative Public Sector	10 419	11 692
Charges with staff expenses	21 852	26 460
Other expenses	16 244	14 716
Deferred income	492	770
National and foreign operations to be settled	200 666	105 637
Other sundry liabilities	27 570	22 504
	284 059	203 979

As at 31 December 2017, the balance Charges with staff expenses includes the amount of Euro 19,084 thousand (31 December 2016: Euro 18,942 thousand), related to holidays and holiday subsidies. Additionally, as at 31 December 2017, this balance also includes the amount of 113 thousand (31 December 2016: Euro 6,911 thousands) related with the seniority award and the amount of Euro 458 thousand related with the final career award.

As at 31 December 2017, the balance National and foreign operations to be settled includes the amount of Euro 86,859 thousand (31 December 2016: Euro 3,046 thousand), resulting from stock exchange operations which are pending settlement.

As at 31 December 2017, the balance Other sundry liabilities includes the amount of Euro 9,425 thousand (31 December 2016: Euro 15,142 thousand), related with the net liabilities recognised in the balance sheet, which present the difference between the costs with pensions, health benefits and death subsidy and the assets, as referred in note 47.

39 Share capital

CEMG's institutional capital, which is fully paid, amounts to Euro 2,420,000 thousand (31 December 2016: Euro 1,770,000 thousand), fully belonging to MGAM.

As at 14 September 2017, CEMG was transformed into a public limited company with CEMG's Participation Fund, in the amount of Euro 400,000 thousand, becoming extinct, by conversion into share capital and its participation units were converted into common shares, as described in note 40.

At 30 June 2017, the Group performed a capital increase subscribed by Montepio Geral - Associação Mutualista, in accordance with the statutory resolutions of MGAM General Meeting, 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 realization of institutional capital in the amount of Euro 250,000 thousand, as described in note 56.

At 18 March 2016, the Group performed a capital increase subscribed by MGAM, in accordance with the statutory resolutions of MGAM General Meeting, the General and Supervisory Council and the Executive 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.

40 Participation fund

As at 14 September 2017, the deed of the bylaws was executed, transforming CEMG into a public limited company. As a result of this transformation, CEMG's Participation Fund became extinct by conversion into share capital, and therefore its participation units were also converted into common shares, as described in note 39.

As at 31 December 2016, CEMG'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 CEMG, 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 CEMG, theses securities do not grant the right to attend the Shareholders General 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 CEMG.

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:

	2017		2016	
	Number of Investment Fund Units held	**Percentage**	**Number of Investment Fund Units held**	**Percentage**
Related parties				
Montepio Geral Associação Mutualista	-	-	284 113 190	71.03%
Montepio Investimento, S.A.	-	-	80 918	0.02%
	-	-	284 194 108	71.05%

41 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 cancelled from equity and the difference between the purchase value and its book value is recognised in equity.

During 2013, CEMG repurchased perpetual subordinated instruments in the amount of Euro 6,727 thousand and Euro 1,950 thousand in March 2016. After this operation, the balance Other equity instruments amounts to Euro 6,323 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 compliance with the Regulatory equity requirements regulation.

During 2017, CEMG proceeded to the interest payment for this emission in the amount of Euro 318 thousand (31 December 2016: Euro 372 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 (Tier 1) 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.

As at 31 December 2017 and 2016, these obligations are considered as a positive element of the CEMG's Core Capital (Tier 2), as required by Regulation 575/2013 of the European Union.

42 General and Special Reserves

According to what is disposed in the art.º 97º of Legal Framework of Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras – RGICSF), approved by the Decree-Law n. 298/92, of December 31st and replaced by the Decree-Law n. 201/2002, CEMG should reinforce annualy the legal reserve with, at least, 10% of annual net profits, until to the limit equal to the value of share capital or to the sum of the reserves and retained earnings, if higher. This reserve can not, normally, be distributed.

The variation of the general and special reserves balances is analysed in note 43.

43 Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

(Thousands of Euro)

	2017	2016
Fair value reserves		
Fair value reserves		
Available-for-sale financial assets	32 737	(15 131)
Loans and advances to customers	2 146	2 476
	34 883	(12 655)
Taxes		
Available-for-sale financial assets	(6 274)	11 082
Loans and advances to customers	(633)	(730)
	(6 907)	10 352
Fair value reserve net of taxes	27 976	(2 303)
Reserves and retained earnings:		
General reserve	186 000	186 000
Special reserve	68 273	68 273
Deferred tax reserve	54 530	55 526
Other reserves and retained earnings	(1 091 751)	(850 190)
	(782 948)	(540 391)

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

The balance Loans and advances 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 available-for-sale financial assets, during 2017, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Reavaluation	Acquisition	Sales	Impairment recognized in the period	Balance on 31 December
Fixed income securities						
Bonds issued by public Portuguese entities	(59 774)	-	456	59 774	-	456
Bonds issued by public foreign entities	(7 254)	1 030	(3 824)	5 941	-	(4 107)
Bonds issued by other entities						
Portuguese	(126)	661	75	109	-	719
Foreign	6 652	(27.437)	184	(6 655)	27 641	385
	(60 502)	(25.746)	(3 109)	59 169	27 641	(2 547)
Variable income securities						
Shares in companies						
Portuguese	8 189	2 298	-	-	-	10 487
Foreign	14 722	(12.005)	29	(168)	29	2 607
Mutual Funds	22 460	11 640	(1)	(2 343)	(9 566)	22 190
	45 371	1 933	28	(2 511)	(9 537)	35 284
	(15 131)	(23 813)	(3 081)	56 658	18 104	32 737

The movements in the fair value reserve on available-for-sale financial assets, during 2016, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Reavaluation	Acquisition	Sales	Impairment recognized in the period	Balance on 31 December
Fixed income securities						
Bonds issued by public Portuguese entities	(17 192)	(23 502)	(13 951)	(5 129)	-	(59 774)
Bonds issued by public foreign entities	7 828	(12 799)	(1 930)	(7 696)	7 343	(7 254)
Bonds issued by other entities						
Portuguese	(811)	(10 096)	(6)	(721)	11 508	(126)
Foreign	(9 837)	48 342	498	(12 659)	(19 692)	6 652
	(20 012)	1 945	(15 389)	(26 205)	(841)	(60 502)
Variable income securities						
Shares in companies						
Portuguese	7 888	(1 764)	-	301	1 764	8 189
Foreign	3 698	18 505	322	(9 840)	2 037	14 722
Mutual Funds	14 307	73 929	584	2 560	(68 920)	22 460
	25 893	90 670	906	(6 979)	(65 119)	45 371
	5 881	92 615	(14 483)	(33 184)	(65 960)	(15 131)

The fair value reserves on available-for-sale financial assets, are detailed as follows:

(Thousands of Euro)

	2017	2016
Amortised cost of available-for-sale financial assets	2 742 378	3 094 291
Accumulated impairment recognised	(172 324)	(190 428)
Amortised cost of available-for-sale financial assets, net of impairment	2 570 054	2 903 863
Market value of available-for-sale financial assets	2 602 791	2 888 732
Net/ unrealised gains/(losses) recognised in the fair value reserve	32 737	(15 131)

44 Dividends distribution

During 2017 and 2016, CEMG did not distributed profits.

45 Obligations and other commitments

These balances are analysed as follows:

(Thousands of Euro)

	2017	2016
Guarantees granted	463 770	442 010
Commitments to third parties	1 429 131	1 339 783
Assets transferred in securitizations	-	48 553
Securities and other items held for safekeeping on behalf of customers	8 266 489	6 710 382
	10 159 390	8 540 728

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

(Thousands of Euro)

	2017	2016
Guarantees granted		
Guarantees	443 108	414 608
Open documentary credits	20 662	27 402
	463 770	442 010
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit lines	762 361	561 996
Potential obligation with the Investors' Indemnity System	1 499	1 592
Annual contribution to the Guarantee Deposits Fund	22 768	22 768
Revocable commitments		
Revocable credit lines	642 503	753 427
	1 429 131	1 339 783

Bank guarantees granted are financial operations that do not translate necessarily into mobilisation of cash flows by CEMG.

Documentary credits correspond to irrevocable commitments with the CEMG's clients, 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 cancellable without the express agreement of all parties involved.

Revocable and irrevocable commitments represent contractual agreements to extend credit to the CEMG's customers (for example unused credit facilities). 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 commitments, the analysis of these operations follows the same basic principles of any commercial operation, namely the solvency of the underlying client and business, and considering that CEMG requires these operations to be adequately covered by collaterals when needed. Considering that is expected that the majority of these commitments expire without having being used, the indicated amounts do not represent necessarily future cash flow needs.

As at 31 December 2017 and 2016, the balance Annual contribution to the obligations of Guarantee Deposits Fund is related with the irrevocable commitment assumed by CEMG and required by law, to deliver the unrealised amounts of annual contributions required by that Fund.

As at 31 December 2017 and 2016, under the Deposit Guarantee Fund, CEMG granted as pledge treasury bonds (OT 4.8% 15/06/2020), recorded as available-for-sale financial assets, with a nominal value of Euro 23,500 thousand (31 December 2016: Euro 25,000 thousand), as described in note 23.

As at 31 December 2017 and 2016, the balance Potential obligation with the Investors' Indemnity System refers to the irrevocable obligation that CEMG assumed, under the applicable law, to deliver to that system, in case needed, the required amount to pay its share of the indemnities due 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 b). 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 credit recoveries or collaterals.

46 Fair value

Fair value is based on market prices, whenever these are available. If market prices are not available, as it happens regarding many products sold to clients, fair value is estimated through internal models based on cash-flow discounting techniques. Cash flows for the different instruments sold are calculated according to its financial characteristics and the discount rates used include both the interest rate curve and the current conditions of the pricing policy of CEMG.

Therefore, the fair value obtained is influenced by the parameters used in the evaluation model that, necessarily have some degree of judgement and reflect exclusively the value attributed to different financial instruments. However, it does not consider prospective factors, like the future business evolution. Under these conditions, the values presented cannot be understood as an estimate of the economic value of CEMG.

The main methods and assumptions used in estimating the fair value for the financial assets and liabilities are presented as follows:

- *Cash and deposits at central banks, Loans and advances to credit institutions*

  Considering the short maturity of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

- *Other loans and advances to credit institutions, Deposits from Central Banks, Deposits from other financial institutions and Assets with repurchase agreements*

  The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates.
  For Deposits from Central Banks it was considered that the book value is a reasonable estimate of its fair value, given the nature of operations and the associated term. The rate of return of funding with the European Central Bank is of 0.0% for the operations negotiated at December 2017.

  Regarding loans and advances not measured at fair value, the discount rate used reflects the current conditions applied by CEMG on identical instruments for each of the different residual maturities. The discount rate includes the market rates for the residual maturity dates (rates from monetary market or from interest rate swap market, at the end of the period). For 31 December 2017, the average discount rate was 0.36% (31 December 2016: 0.73%) for Repos and 0.30% (31 December 2016: 0.17%) for the remaining resources.

  For Loans and advances to the other credit instituions investments a discount rate reflecting the conditions in use by CEMG for the most significant residual term options was applied. Considering the short maturity of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

- *Financial assets held for trading (except derivatives), Financial liabilities held for trading (except derivatives), Available-for-sale financial assets and other Financial Assets at the fair value through profit and loss*

  These financial instruments are accounted at fair value. Fair value is based on market prices (*Bid-price*), whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

  Interest rates are determined based on information disseminated by the suppliers of financial contents - *Reuters and Bloomberg* - more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar sources but regarding interbank money market. The interest rate curve obtained is also calibrated against the values of short-term interest rate forwards. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are also used in the projection of the non-deterministic cash flows, such as indexes.

When optionality is involved, the standard models (Black-Scholes, Black, Ho and others) considering the volatility surfaces applicable are used. Whenever there are no references in the market of sufficient quality or that the available models do not fully apply to meet the characteristics of the financial instrument, it is applied specific quotations supplied by an external entity, typically a counterparty of the business.

- *Financial assets held to maturity*

These financial instruments are accounted at amortised cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the respective market conditions and terms.

- *Hedging and trading derivatives*

All derivatives are recorded at fair value.

In case of those who are quoted in organised markets their market price is used. As for derivatives traded "over the counter", the numerical methods based on techniques of discounted cash flow and options valuation models, considering market variables namely the market interest rates applicable to the instruments concerned, and where necessary, their volatility, shall apply.

Interest rates are determined based on information disseminated by the suppliers of financial contents - *Reuters and Bloomberg* - more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar sources but regarding interbank money market. The interest rate curve obtained is also calibrated against the values of short-term interest rate forwards. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are also used in the projection of the non-deterministic cash flows, such as indexes.

- *Loans and advances to clients without defined maturity date and Deposits from clients repayable on demand*

Considering the short maturity of this type of financial instruments, the conditions of this portfolio are similar to those in force at the reporting date. Therefore, the amount in the balance sheet is a reasonable estimate of its fair value.

- *Loans and advances to customers with defined maturity date*

The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates. For loans in default, the net impairment value of these operations is a reasonable estimate of its fair value, considering the economic valuation performed in the calculation of this impairment for individually significant customers. The discount rate used reflects the current conditions applied by the Group in similar instruments for each of the homogeneous classes of this type of instrument and with similar maturity. The discount rate includes the market rates for the residual maturity dates (rates from the monetary market or from the interest rate swap market, at the end of the year) and the spread used at the reporting date, which was calculated from the average of production for 2017. The average discount rate was 3.06% for mortgage loans (31 December 2016: 2.70%), 6.38% for individual credit (31 December 2016: 5.55%) and 3.71% for the remaining loans (31 December 2016: 4.15%), assuming the projection of variable rates according to the evolution of the forward rates implicit in the interest rate curves. The calculations also include the credit risk spread.

- *Deposits from customers*

  The fair value of these financial instruments is calculated by discounting the expected principal and interest future cash flows, considering that payments occur in the contractually defined dates. The discount rate used reflects the current conditions applied by CEMG in identical instruments with a similar maturity. The discount rate includes the market rates of the residual maturity dates (rates of monetary market or the interest rate swap market, at the end of the year) and the spread of CEMG at the reporting date, which was calculated from the average production of the fourth quarter of 2017. The average discount rate at 31 December 2017 was of 0.84% (31 December 2016: 1.01%).

- *Debt securities issued and Subordinated debt*

  For these financial instruments, fair value was calculated for the components that are not yet reflected on the balance sheet. For the fixed interest rate instruments for which CEMG applies a hedge-accounting policy, the fair value regarding the interest rate risk is already accounted for.

  In fair value calculation, the other risk components were also considered, apart from the interest rate risk. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted by associated factors, predominantly the credit risk and trading margin, the latter only in the case of issues placed for non-institutional customers of CEMG.

  As original reference, CEMG applies the curves resulting from the interest rate swaps markets for each specific currency. The credit risk (credit spread) is represented by an excess from the curve of interest rate swaps established specifically for each term and class of instruments based on the market prices on equivalent instruments.

  In case of issues of covered bonds, the fair value is determined based on quotations disseminated by financial content provider *Bloomberg*.

  In respect of subordinated issues the discount rate was of 3.99% (31 December 2016: 9.09%). The average discount rate calculated for senior issues placed on the retail market was 0.72% (31 December 2016: 0.79%).

Issues placed in the institutional market were revalued at the market value available on 31 December 2017.

As at 31 December 2017, the following table presents the values of the interest rate adopted in the calculation of the interest rate curve of the major currencies, including Euro, United States Dollar, Sterling Pound, Swiss Franc and Japanese Yen used to determine the fair value of financial assets and liabilities of CEMG:

	Currencies				
	Euro	**United States Dollar**	**Sterling Pound**	**Swiss Franc**	**Japanese Yen**
1 day	-0,4500%	1,5050%	0,5000%	-0,8450%	-0,1700%
7 days	-0,3780%	1,4804%	0,5000%	-0,7950%	-0,0338%
1 month	-0,3680%	1,6500%	0,5050%	-0,7500%	-0,2600%
2 months	-0,3400%	1,6900%	0,5100%	-0,7500%	-0,2200%
3 months	-0,3290%	1,7600%	0,5100%	-0,7500%	-0,2200%
6 months	-0,2710%	1,9100%	0,5500%	-0,7200%	-0,2000%
9 months	-0,2170%	2,0200%	0,6600%	-0,6800%	-0,1500%
1 year	-0,1860%	2,1800%	0,7400%	-0,6200%	-0,1500%
2 years	-0,1500%	2,0770%	0,7860%	-0,4820%	0,0175%
3 years	0,0110%	2,1680%	0,8870%	-0,3540%	0,0350%
5 years	0,3130%	2,2560%	1,0370%	-0,1390%	0,0900%
7 years	0,5610%	2,3210%	1,1460%	0,0380%	0,1625%
10 years	0,8800%	2,4050%	1,2770%	0,2710%	0,2975%
15 years	1,2440%	2,4960%	1,4100%	0,5380%	0,5250%
20 years	1,4188%	2,5313%	1,4100%	0,5380%	0,5250%
30 years	1,5013%	2,5388%	1,4100%	0,5380%	0,5250%

As at 31 December 2016, the following table presents the values of the interest rate adopted in the calculation of the interest rate curve of the major currencies, including Euro, United States Dollar, Sterling Pound, Swiss Franc and Japanese Yen used to determine the fair value of financial assets and liabilities of CEMG:

	Currencies				
	Euro	United States Dollar	Sterling Pound	Swiss Franc	Japanese Yen
1 day	-0,3730%	0,7700%	0,2750%	-0,8350%	-0,0854%
7 days	-0,3730%	0,7233%	0,2750%	-0,8350%	-0,0854%
1 month	-0,3680%	0,7750%	0,2900%	-0,8250%	-0,4000%
2 months	-0,3380%	0,8500%	0,3700%	-0,7950%	-0,4900%
3 months	-0,3190%	1,0500%	0,3600%	-0,8000%	-0,3000%
6 months	-0,2210%	1,2500%	0,4500%	-0,6950%	-0,2500%
9 months	-0,1390%	1,4500%	0,6800%	-0,6250%	-0,2500%
1 year	-0,0820%	1,4750%	0,8000%	-0,6500%	-0,2500%
2 years	-0,1600%	1,4780%	0,6110%	-0,6000%	-0,0050%
3 years	-0,1000%	1,6820%	0,6910%	-0,5270%	0,0025%
5 years	0,0750%	2,0050%	0,8780%	-0,3210%	0,0450%
7 years	0,3150%	2,1970%	1,0470%	-0,0980%	0,0975%
10 years	0,6600%	2,3790%	1,2440%	0,1530%	0,1975%
15 years	1,0300%	2,5090%	1,4260%	0,4260%	0,4150%
20 years	1,1750%	2,5380%	1,4260%	0,4260%	0,4150%
30 years	1,2350%	2,5650%	1,4260%	0,4260%	0,4150%

Exchange rates and volatility

We present below the exchange rates (European Central bank) at the balance sheet date and the implied volatilities (at the money) for the main currencies used on the derivatives valuation:

			Volatility (%)				
Exchange rates	**2017**	**2016**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1,1993	1,0541	6,500	7,375	7,350	7,425	7,550
EUR/GBP	0,8872	0,8562	6,475	7,550	7,713	7,850	8,087
EUR/CHF	1,1702	1,0739	5,912	6,500	6,425	6,475	6,450
EUR/JPY	135,01	123,40	6,950	8,425	8,650	8,900	8,990

Concerning the exchange rates, CEMG uses in its valuation models the spot rate observed in the market at the time of the valuation.

The fair value of the financial assets and liabilities of CEMG, at 31 December 2017 and 2016, is presented as follows:

(Thousands of Euro)

	2017				
	At fair value through profit or loss	At fair value through reserves	Amortised cost	Book value	Fair value
Financial assets					
Cash and deposits at central banks	-	-	1 733 626	1 733 626	1 733 626
Loans and advances to credit institutions repayable on demand	-	-	59 472	59 472	59 472
Loans and advances to credit institutions	-	-	558 711	558 711	557 781
Loans and advances to customers	24 633	-	12 724 084	12 748 717	12 670 411
Financial assets held for trading	184 076	-	-	184 076	184 076
Available-for-sale financial assets	-	2 602 791	-	2 602 791	2 602 791
	208 709	2 602 791	15 075 893	17 887 393	17 808 157
Financial liabilities					
Deposits from central banks	-	-	1 557 840	1 557 840	1 557 840
Deposits from other credit institutions	-	-	2 011 197	2 011 197	2 011 026
Deposits from customers	14 789	-	12 540 536	12 555 325	12 550 871
Debt securities issued	7 094	-	1 382 905	1 389 999	1 395 540
Financial liabilities held for trading	16 171	-	-	16 171	16 171
Hedge derivatives	1 663	-	-	1 663	1 663
Other subordinated debt	-	-	237 016	237 016	234 860
	39 717	-	17 729 494	17 769 211	17 767 971

(Thousands of Euro)

	2016				
	At fair value through profit or loss	At fair value through reserves	Amortised cost	Book value	Fair value
Financial assets					
Cash and deposits at central banks	-	-	381 288	381 288	381 288
Loans and advances to credit institutions repayable on demand	-	-	71 039	71 039	71 039
Loans and advances to credit institutions	-	-	729 040	729 040	729 040
Loans and advances to customers	40 713	-	13 758 998	13 799 711	13 676 719
Financial assets held for trading	78 161	-	-	78 161	78 161
Available-for-sale financial assets	-	2 888 732	-	2 888 732	2 888 732
Held-to-maturity investments	-	-	1 126 125	1 126 125	1 087 911
	118 874	2 888 732	16 066 490	19 074 096	18 912 890
Financial liabilities					
Deposits from central banks	-	-	2 307 947	2 307 947	2 307 947
Deposits from other credit institutions	53 818	-	2 546 915	2 600 733	2 612 416
Deposits from customers	15 631	-	12 354 380	12 370 011	12 340 583
Debt securities issued	67 237	-	1 816 392	1 883 629	1 921 967
Financial liabilities held for trading	26 148	-	-	26 148	26 148
Other subordinated debt	-	-	237 094	237 094	214 296
	162 834	-	19 262 728	19 425 562	19 423 357

The following table summarises, by valuation levels, the fair value of CEMG's financial assets and liabilities, as at 31 December 2017:

(Thousands of Euro)

	2017				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair Value
Financial assets					
Cash and deposits at central banks	1 733 626	-	-	-	1 733 626
Loans and advances to credit institutions repayable on demand	59 472	-	-	-	59 472
Loans and advances to credit institutions	-	-	557 781	-	557 781
Loans and advances to customers	-	24 633	12 645 778	-	12 670 411
Financial assets held for trading	38 194	24 553	121 329	-	184 076
Available-for-sale financial assets	1 598 859	10 272	988 438	5 222	2 602 791
	3 430 151	59 458	14 313 326	5 222	17 808 157
Financial liabilities					
Deposits from central banks	1 557 840	-	-	-	1 557 840
Deposits from other credit institutions	-	-	2 011 026	-	2 011 026
Deposits from customers	-	14 789	12 536 082	-	12 550 871
Debt securities issued	-	7 094	1 388 446	-	1 395 540
Financial liabilities held for trading	901	15 270	-	-	16 171
Hedge derivatives	-	1 663	-	-	1 663
Other subordinated debt	-	-	234 860	-	234 860
	1 558 741	38 816	16 170 414	-	17 767 971

The following table summarises, by valuation levels, the fair value of CEMG's financial assets and liabilities, as at 31 December 2016:

(Thousands of Euro)

	2016				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair Value
Financial assets					
Cash and deposits at central banks	381 288	-	-	-	381 288
Loans and advances to credit institutions repayable on demand	71 039	-	-	-	71 039
Loans and advances to credit institutions	-	-	729 040	-	729 040
Loans and advances to customers	-	40 713	13 636 006	-	13 676 719
Financial assets held for trading	44 939	33 222	-	-	78 161
Available-for-sale financial assets	1 772 547	15 339	1 095 624	5 222	2 888 732
Held-to-maturity investments	1 087 911	-	-	-	1 087 911
	3 357 724	89 274	15 460 670	5 222	18 912 890
Financial liabilities					
Deposits from central banks	2 307 947	-	-	-	2 307 947
Deposits from other credit institutions	-	53 818	2 558 598	-	2 612 416
Deposits from customers	-	15 631	12 324 952	-	12 340 583
Debt securities issued	-	67 237	1 854 730	-	1 921 967
Financial liabilities held for trading	1 458	24 690	-	-	26 148
Other subordinated debt	-	-	214 296	-	214 296
	2 309 405	161 376	16 952 576	-	19 423 357

CEMG uses the following hierarchy for fair value with 3 levels in the evaluation of financial instruments (assets and liabilities), which reflects the level of judgment, the observability of the data used and the importance of the parameters used in determining the fair value measurement of the instrument, as referred in IRFS 13:

- Level 1: Fair value is determined based on unadjusted quoted prices, captured in transactions in active markets involving identical instruments to the ones being valued. If there is more than one active market for the same financial instrument, the relevant price is what prevails in the main market of the instrument, or most advantageous market for which there is access;
- Level 2: Fair value is determined based on evaluation techniques supported by observable inputs in active markets, being direct data (prices, rates, spreads, etc.) or indirect data (derivatives), and evaluation assumptions similar to what an unrelated party would use in estimating the fair value of that financial instrument; and
- Level 3: Fair value is determined based on unobservable inputs in active markets, using techniques and assumptions that market participants would use do evaluate the same instruments, including assumptions about the inherent risks, the evaluation technique used and inputs used and review processes to test the accuracy of the values obtained.

CEMG considers an active market where transactions of particular financial instruments occur with frequency and business volumes sufficient for providing information over prices continuously. The following minimum conditions should verify:

- Existence of frequent daily prices trading in the last year;
- The above quotations are exchanged regularly;
- There are executable quotes from more than one entity.

A parameter used in a valuation technique is considered observable in the market, if the following conditions are met:

- If its value is determined in an active market;
- Or, if there is an OTC market and it is reasonable to assume that the conditions of an active market are met, with the exception of the condition of trading volumes; and
- Or, the parameter value can be obtained by the inverse calculation of prices of financial instruments or derivatives where the remaining parameters required for initial assessment are observable in a liquid market or an OTC market that comply with the preceding paragraphs.

47 Employee benefits

CEMG assumed the responsibility to pay to their employees seniority and disability retirement pensions and others benefits, in accordance with the accounting policy described in note 1 u). In addition, and in accordance with the same policy, CEMG calculates on an annual basis, as of 31 December of each year, pension liabilities and other benefits. Therefore, the amounts presented in this note only reflect current service cost.

The general pension plan for CEMG employees refers to liabilities for retirement benefits provided for in the Collective Labour Agreement for the banking sector and is a complementary plan of the public social security scheme.

Under the Collective Labour Agreement ("ACT") for the banking sector, the employees hired after 1 January 1995 contribute with 5% of their monthly remuneration to the Pension Fund.

The existing pension plan corresponds to a defined benefit plan, since it defines the criteria for determining the amount of pension that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and retribution.

The benefits provided by this pension plan are as follows:

- Reform by presumed disability (old age);

- Reform by disability;

- Survivor's pension.

All social benefits are granted to beneficiaries, according to the terms, conditions and values included in the pension plan, as employees of CEMG at their retirement date, as well as those who have belonged to their effective board and on retirement meet all the requirements defined in the pension plan.

The pension provided by the fund corresponds to the employee level in reform and seniority, according to the salary scale applicable. In the case of employees entitled to a pension under the General Pension Fund or the National Pensions Centre, the latter will be reduced to the pension guaranteed by this plan.

In case of death of an active employee or a pensioner, the pension plan guarantees a survivor's pension of 40% of the remuneration to which the employee would be entitled if achieved the situation of retirement or the pension he would receive, respectively.

CEMG's former employees, when placed in the old-age pension or disability status, are entitled to payment by the fund of a pension calculated in the previous terms, in proportion to the time of service provided to CEMG.

Additionally, the pension plan guarantees the costs of Serviço de Assistência Médico-Social (SAMS) and the death grant under the ACT.

CEMG has no other mechanisms to ensure the coverage of liabilities assumed towards old-age pensions, disability, survivors, health benefits and death benefits of its employees.

In December 2016, CEMG issued a new Collective Labor Agreement (ACT), introducing a number of changes in the employment benefits, such as the change in the retirement age, in line with the general Social Security system, and the attribution of an end-of-career premium which replaced the extinguished seniority award.

In addition to the change in the benefit plan, there are also a number of special temporary provisions which impact on the calculation of the current liabilities value, in particular the freezing of salary increases for 2016 and 2017 and the freeze on automatic career promotions. As a result of the amendment to the ACT, contributions to SAMS were made based on a fixed cost per employee, and were no longer indexed to salaries.

The main actuarial assumptions used in calculating the current value of liabilities are as follows:

	2017	2016
Financial assumptions		
Wage growth rate	1,00%	0% 2017;1,0% 2018+
Pension growth rate	0,50%	0% 2017;0,5% 2018+
Projected rate of return of plan assets	2,10%	2,00%
Discount rate	2,10%	2,00%
Revaluation Rate		
Salaries growth rate - Social Security	1,50%	2,00%
Monetary correction rate	1,00%	1,00%
Demographic assumptions and valuation methods		
Mortality table		
Men	TV 88/90	TV 88/90
Women	TV 88/90 -3 years	TV 88/90
Actuarial method	UCP	UCP

The assumptions used in calculating the present value of liabilities, in accordance with the requirements of IAS 19. The determination of the discount rate took into consideration: (i) the evolution of the main indices regarding high quality corporate brands and (ii) duration of the responsibilities.

As at 31 December 2017, the duration of liabilities amounts to 20.80 years (31 December 2016: 20.70 years).

The number of persons covered by the pension plan is as follows:

	2017	2016
Actives	3 389	3 437
Retirees and survivors	1 246	1 230
	4 635	4 667

Based on the accounting policy described in note 1 u), post-employment benefits, other benefits and respective coverage levels are presented as follows:

(Thousands of Euro)

	2017	2016
Net assets/(Liabilities) recognised in the balance sheet		
Projected benefit obligations with pension benefits		
Pensioners	(272 275)	(265 870)
Employees	(402 650)	(384 125)
	(674 925)	(649 995)
Projected benefit obligations with healthcare benefits		
Pensioners	(20 304)	(20 484)
Employees	(34 167)	(30 322)
	(54 471)	(50 806)
Projected benefit obligations with death subsidy		
Pensioners	(1 590)	(1 602)
Employees	(1 569)	(1 469)
	(3 159)	(3 071)
Total Liabilities	(732 555)	(703 872)
Coverages		
Pension Fund value	723 130	688 730
Net assets/(liabilities) in the balance sheet (see note 39)	(9 425)	(15 142)
Accumulated actuarial losses recognised in other comprehensive income	179 003	181 527

The changes in the defined benefit obligation can be analysed as follows:

(Thousands of Euro)

	2017				2016			
	Pension benefits	Healthcare benefits	Death Subsidy	Total	Pension benefits	Healthcare benefits	Death Subsidy	Total
Responsabilities in the beginning of the period	649 995	50 806	3 071	703 872	602 857	54 923	1 590	659 370
Current service cost	(1 834)	1 811	55	32	2 527	1 625	41	4 193
Interest cost	13 000	1 016	61	14 077	16 579	1 510	44	18 133
Actuarial gains and losses								
- Changes in the assumptions	27 646	-	-	27 646	55 866	(6 230)	657	50 293
- Not related to changes assumptions	4 104	716	(5)	4 815	(2 248)	2 125	770	647
Change of the retirement age	-	-	-	-	(37 551)	(1 777)	(16)	(39 344)
Pensions paid by the fund	(16 615)	-	-	(16 615)	(13 635)	(1 370)	(15)	(15 020)
Pensions paid by CEMG	(4 781)	-	-	(4 781)	-	-	-	-
Early retirement, mutually agreed terminations and others	1 155	122	(23)	1 254	23 304	-	-	23 304
Participant contributions	2 255	-	-	2 255	2 296	-	-	2 296
Responsabilities in the end of the period	674 925	54 471	3 159	732 555	649 995	50 806	3 071	703 872

As mentioned, CEMG amended the ACT, and changed the retirement age. This represents a cut in employees benefits, in accordance with IAS 19, and its impact was recorded against the income statement.

The evolution of the pension fund's value in the year ended 31 December 2017 is analysed as follows:

(Thousands of Euro)

	2017	2016
Balance of the funds in the beginning of the period	688 730	643 861
Expected return on plan assets	13 775	17 706
Actuarial gains/(losses)	34 985	(10 113)
CEMG contributions	-	50 000
Participant contributions	2 255	2 296
Pensions paid by the fund	(16 615)	(15 020)
Balance of the funds at the end of the period	723 130	688 730

The pension funds are managed by "Futuro – Sociedade Gestora de Fundos de Pensões, S.A.", in which CEMG participates in 97.2% as at 31 December 2017 (31 December 2016: 97.3%).

CEMG contribution balance relates to contributions made in cash by CEMG in 2016.

As at 31 December 2017 and 2016, the assets of the pension fund, divided between quoted and non-quoted, can be analysed as follows:

(Thousands of Euro)

	2017			2016		
	Assets of the Fund	Quoted	Non-quoted	Assets of the Fund	Quoted	Non-quoted
Variable income security						
Shares	71 962	71 962	-	50 431	50 431	-
Shares investment fund	105 735	-	105 735	99 787	94 939	4 848
Equity shares	-	-	-	1 227	1 227	-
Bonds	492 818	445 747	47 071	428 027	418 554	9 473
Real estate	6 507	-	6 507	7 480	-	7 480
Real estate investment funds	24 551	469	24 082	25 774	5 890	19 884
Venture capital funds	10 496	-	10 496	4 869	-	4 869
Hedge funds - Uncorrelated Investments	13	-	13	-	-	-
Investment in banks and others	11 048	-	11 048	71 135	-	71 135
	723 130	518 178	204 952	688 730	571 041	117 689

The assets of the pension fund used by CEMG or representative of securities issued by other CEMG entities are analysed as follows:

(Thousands of Euro

	2017	2016
Investments in banks and other	11 048	71 135
Real Estate	6 507	7 480
Bonds	2 201	43
Others	-	1 228
	19 756	79 886

The changes in the accumulated actuarial gains and losses are analysed as follows:

(Thousands of Euro)

	2017	2016
Actuarial gains and losses in the beginning of the period	181 527	120 474
Actuarial (Gains) and losses in the period		
- Changes in the assumptions	27 646	50 293
- Experience adjustments	(30 170)	10 760
Actuarial gains and losses recognised in other comprehensive income	179 003	181 527

The actuarial gains and losses include, among others: (i) the negative amount of Euro 14,041 thousand resulting from the revaluation of salaries for the purpose of determining the Social Security's pension, (ii) the positive amount of Euro 11,691 thousand resulting from the change in the discount rate and (iii) the negative amount of Euro 25,296 thousand from the effect resulting from the change in the mortality table for women.

The costs with pensions, health-care benefits and death subsidies are analysed as follows:

(Thousands of Euro)

	2017	2016
Current service cost	32	4 193
Net interest costs/(Income) in the liabilities coverage balance	302	427
Costs with early retirement and mutually agreed terminations	1 254	23 304
Change of the retirement age	-	(39 344)
Costs for the period	1 588	(11 420)

As at 31 December 2017 and 2016, the evolution of net assets/ (liabilities) in the balance sheet is analysed as follows:

(Thousands of Euro)

	2017	2016
In the beginning of the period	(15 142)	(15 509)
CEMG's contribution	-	50 000
Current service cost	(32)	(4 193)
Net interest costs/(income) in the liabilities coverage balance	(302)	(427)
Change of the retirement age	-	39 344
Actuarial (gains) / losses related to the liability	(32 461)	(50 940)
Financial (gains) / losses related to the pension fund	34 985	(10 113)
Pensions paid by CEMG	4 781	-
Early retirement, mutually agreed terminations and others	(1 254)	(23 304)
In the end of the period	(9 425)	(15 142)

The actuarial assumptions have a significant impact in the pension liabilities and other benefits. Considering, this impact, CEMG proceeded to a sensitivity analysis to a positive and negative change of 25 basis points in the value of pension liabilities, whose impact is analysed as follows:

(Thousands of Euro)

	2017		2016	
	Liabilities			
	Increase	Decrease	Increase	Decrease
Discount rate (0.25% change)	(40 481)	40 207	(35 485)	35 632
Wage growth rate (0.25% change)	25 664	(22 875)	22 497	(20 272)
Pension growth rate (0.25% change)	25 326	(23 238)	22 200	(20 594)
SAMS contribution (0.25% change)	3 586	(3 432)	3 143	(3 041)
Future death (1 year change)	(20 720)	20 066	(18 162)	17 784

As a result of the ACT's change, as at 31 December 2017, the cost associated with the final career award amounted to Euro 458 thousand, which replaced the extinguished seniority premium.

As at 31 December 2016, liabilities with the seniority premium amounted to Euro 6,911 thousand.

The cost associated with the seniority award, for 2016, amounted to Euro 1,612 thousand. Following the revision of the ACT applicable to CEMG, there was a profit of Euro 7,422 thousand in the year 2016, related to the extinction of this benefit.

As at 31 December 2017, the SAMS cost associated to the defined contribution plan amount to Euro 543 thousand.

48 Transactions with related parties

As defined in IAS 24, are considered related parties of CEMG the companies detailed in note 55, the Pension Fund, the members of the Executive Board of Directors and the key management elements. In addition to the members of the Executive Board of Directors and key management elements, are also considered related parties their family and entities controlled by them or those whose management have significant influence.

According to Portuguese law, in particular under articles 85 and 109 of the General Law for Credit Institutions and Financial Companies ("RGICSF"), are also considered related parties the members of the General and Supervisory Board and holders of institutional equity of CEMG, which holds 100% of the voting rights, as well as individuals related to these categories and entities controlled by them or whose management have significant influence.

CEMG's first-line directors are considered in Other key management personnel.

On this basis, the list of related parties considered by CEMG is presented as follows:

Shareholder
Montepio Geral Associação Mutualista

Board of Directors (after 20 March 2018)
Carlos Manuel Tavares da Silva (Presidente)
Luís Eduardo Henriques Guimarães (Vogal não executivo)
Amadeu Ferreira de Paiva (Vogal não executivo)
Manuel Ferreira Teixeira (Vogal não executivo)
Vítor Manuel do Carmo Martins (Vogal não executivo)
Rui Pedro Brás de Matos Heitor (Vogal não executivo)
Nuno Cardoso Correia da Mota Pinto (Vogal executivo)
José Carlos Sequeira Mateus (Vogal executivo)
Pedro Miguel Nunes Ventaneira (Vogal executivo)
Carlos Miguel Lopez Leiria Pinto (Vogal executivo)
Helena Catarina Gomes Soares de Moura Costa Pina (Vogal executivo)

Audit Committee (after 20 March 2018)
Luís Eduardo Henriques Guimarães (Presidente)
Amadeu Ferreira de Paiva (Vogal)
Manuel Ferreira Teixeira (Vogal)
Vítor Manuel do Carmo Martins (Vogal)

Executive Board of Directors (until 20 March 2018)
José Manuel Félix Morgado (Presidente)
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

General and Supervisory Board (until 20 March 2018)
Álvaro João Duarte Pinto Correia (Presidente)
António Fernando Menezes Rodrigues
José António de Arez Romão
Vitor Manuel do Carmo Martins
Francisco José Fonseca da Silva
Acácio Jaime Liberato Mota Piloto
Luís Eduardo Henriques Guimarães
Rui Pedro Bras Matos Heitor
Eugénio Óscar Garcia Rosa

Other Related Parties
Board od Directors
Alberto Carlos Nogueira Fernandes da Silva
Amândio Manuel Carrilho Coelho
Ana Lúcia Louro Palhares
António Francisco de Araújo Pontes
António Manuel Jesus Gouveia
António Manuel Sezões de Almeida Porto
António Paulo da Silva Gonçalves Raimundo
António Tomás Correia
Artur Luís Martins
Bernard Johannes Christiaanse
Carlos Vicente Morais Beato
Eduardo José da Silva Farinha
Fernando Dias Nogueira
Fernando Ribeiro Mendes
Fernão Vasco de Almeida Bezerra Fernandes Thomaz
Francisco António Laranjeira Souto
Francisco José Gonçalves Simões
Isabel Maria Loureiro Alves Brito
João Andrade Lopes
João Carlos Carvalho das Neves

Other Related Parties
Board od Directors
João Filipe Milhinhos Roque
João Francisco Mendes Almeida Gouveia
Joaquim Manuel Marques Cardoso
Johannes Hendricus de Roo
Jorge Manuel Santos Oliveira
Jorge Rafael Torres Gutierrez de Lima
José António Fonseca Gonçalves
José de Almeida Serra
José Joaquim Fragoso
José Luís Esparteiro da Silva Leitão
Luís Filipe dos Santos Costa
Luís Miguel Marques Ferreira Cardoso
Manuel Aranda da Silva
Manuel de Pinho Baptista
Margarida Maria Pinto Rodrigues D'Archambeau Duarte
Maria Lúcia Ramos Bica
Maria Manuela Traquina Rodrigues
Maria Rosa Almas Rodrigues
Mário José Brandão Ferreira
Mário José Matos Valadas
Miguel Alexandre Teixeira Coelho
Norberto da Cunha Junqueira Fernandes Félix Pilar
Nuno da Silva Figueiredo
Nuno Henrique Serra Mendes
Paulo José Martins Jorge da Silva
Pedro António Castro Nunes Coelho
Pedro Jorge Gouveia Alves
Pedro Miguel Moura Líbano Monteiro
Ricardo Canhoto de Carvalho
Tereza de Jesus Teixeira Barbosa Amado
Virgílio Manuel Boavista Lima
Vitor Guilherme de Matos Filipe

Other Key Management Personnel
Alexandra Manuela Quirino Pereira Silva
Alexandra Melo Ponciano
Ana Maria Guerreiro Almeida
António Fernando Figueiredo Lopes
António José Miranda Lopes Coutinho
Fernando Emanuel Mendes Teixeira
Fernando Jorge Lopes Centeno Amaro
Fernando Manuel Silva Costa Alexandre
Gabriel Fernando Sá Torres
Jaquelina Maria Almeida Rodrigues Miguens
João Eduardo Dias Fernandes
Joaquim António Canhoto Gonçalves Silva
Luís Miguel Oliveira Melo Correia
Luísa Maria Xavier Machado
Maria Carmo Martins Ventura Calvão
Maria Fernanda Infante Melo Costa Correia
Maria Margarida Carrusca Pontes Rosário Ribeiro Andrade
Nuno Augusto Pereira Coelho
Patricia Ester Carvalho Esteves Fernandes
Paulo Jorge Andrade Rodrigues
Pedro Jorge Ponte Araújo
Pedro Maria Corte Real Alarcão Júdice
Pedro Miguel Rodrigues Crespo
Pedro Nuno Coelho Pires
Rosária Fátima Miranda de Abreu
Rui Sérgio Carvalho Santos Calheiros Gama
Vasco Francisco Coelho Almeida
Vitor Fernando Santos Cunha

Other related parties

Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.
Banco Terra, S.A.
Bem Comum, Sociedade de Capital de Risco, S.A.
Bolsimo - Gestão de Activos, S.A.
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto
Clínica CUF Belém, S.A.
Clínica de Serviços Médicos Computorizados de Belém, S.A.
Empresa Gestora de Imóveis da Rua do Prior, S.A
Finibanco Angola, S.A.
Fundação Montepio Geral
Fundo de Pensões - Montepio Geral
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.
Germont – Empreendimentos Imobiliários, S.A.
HTA – Hotéis, Turismo e Animação dos Açores, S.A.
Leacock - Prestação de Serviços, Lda
Lusitania Vida, Companhia de Seguros, S.A.
Lusitania, Companhia de Seguros, S.A.
Moçambique Companhia de Seguros, S.A.R.L.
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional
Montepio Crédito - Instituição Financeira de Crédito, S.A.
Montepio Gestão de Activos - S.G.F.I., S.A.
Montepio Gestão de Activos Imobiliários, A.C.E.
Montepio Holding, S.G.P.S., S.A.
Montepio Imóveis – Sociedade Imobiliária, S.A.
Montepio Investimento, S.A.
Montepio Seguros, S.G.P.S., S.A.
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.
N Seguros, S.A.
Naviser - Transportes Marítimos Internacionais, S.A.
Nebra Energias Renovables, S.L.
Nova Câmbio - Instituição de Pagamento, S.A.
Polaris - Fundo de Investimento Imobiliário Fechado
Portugal Estates Fund - Fundo de Investimento Imobiliário Fechado
Residências Montepio, Serviços de Saúde, S.A.
SAGIES - Segurança e Higiene no Trabalho, S.A.
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.
Sociedade Portuguesa de Administrações, S.A.
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis S.A.
Valor *Prime* - Fundo de Investimento Imobiliário Aberto

As at 31 December 2017, assets held by CEMG regarding related parties, represented or not by securities, included in the balances Deposits in credit institutions repayable on demand, Other Loans and advances to credit institutions, Loans and advances to customers (Gross), Impairment of Loans and advances to customers, Available-for-sale financial assets, Impairment of available-for-sale financial assets, Other Assets and Guarantees and commitments provided to third parties, are presented as follows:

(Thousands of Euro)

	2017								
Companies	Deposits in credit institutions repayable on demand	Other loans and advances to credit institutions	Loans and advances to customers	Impairment of loans and advances to customers	Available for sale financial assets	Impairment of available for sale financial assets	Other assets	Guarantees and commitments provided to third parties	Total
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	-	2 174	-	-	-	-	-	-	2 174
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	-	3	-	-	-	-	-	3
Board of Directors of other related parties	-	-	1 108	-	-	-	-	-	1 108
Executive Board of Directors	-	-	134	-	-	-	-	-	134
Board of Directors	-	-	141	-	-	-	-	-	141
General and Supervisory Board	-	-	2 323	24	-	-	-	282	2 581
Other Key Management Personnel	-	-	3 042	-	-	-	-	8	3 050
Finibanco Angola, S.A.	9 371	3 759	-	-	-	-	99	961	14 190
Valor Prime - Fundo de Investimento Imobiliário Aberto	-	-	35 012	-	-	-	99		35 111
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	-	-	2	-	-	-	-	-	2
Germont – Empreendimentos Imobiliários, S.A.	-	-	11 330	207	-	-	-	731	11 854
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	-	-	3 500	3 500
Lusitania Vida, Companhia de Seguros, S.A.	-	-	1	-	-	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	-	-	1	-	3 207	1 807	-	-	1 401
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	229 113	-	-	-	-	857	163 220	393 190
Montepio Geral Associação Mutualista	-	-	62	23	-	-	945	72	1 056
Montepio Holding, S.G.P.S., S.A.	-	-	131 441	-	-	-	69	-	131 510
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	-	10 240	69	-	-	-	-	10 171
Montepio Investimento, S.A.	-	35 072	-	-	-	-	679	181	35 932
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	-	-	-	-	-	271	-	271
Nova Câmbio - Instituição de Pagamento, S.A.	-	-	501	7	-	-	-	1 559	2 053
PEF - Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	-	200	200
Polaris-Fundo de Investimento Imobiliário Fechado	-	-	6 203	-	-	-	-	-	6 203
Residências Montepio, Serviços de Saúde, S.A.	-	-	551	5	-	-	-	-	546
	9 371	270 118	202 095	335	3 207	1 807	3 019	170 714	656 382

For members of the current Governing Bodies, which were previously members, it was considered that, for reporting purposes, the engagement with CEMG should be included in the current Governing Bodies.

As at 31 December 2016, assets held by CEMG regarding related parties, represented or not by securities, included in the balances Deposits in credit institutions repayable on demand, Other Loans and advances to credit institutions, Loans and advances to customers (Gross), Impairment of Loans and advances to customers, Available-for-sale financial assets, Impairment of available-for-sale financial assets, Other Assets and Guarantees and commitments provided to third parties, are presented as follows:

(Thousands of Euro)

	2016									
Companies	Deposits in credit institutions repayable on demand	Other loans and advances to credit institutions	Loans and advances to customers	Impairment of loans and advances to customers	Available for sale financial assets	Impairment of available for sale financial assets	Available for trading financial assets	Other assets	Guarantees and commitments provided to third parties	Total
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	-	1 702	-	-	-	-	-	10	-	1 712
Bolsimo - Gestão de Activos, S.A.	-	-	1	-	-	-	-	-	-	1
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	-	13	-	-	-	-	-	-	13
Board of Directors of other related parties	-	-	1 181	-	-	-	-	-	-	1 181
Executive Board of Directors	-	-	145	-	-	-	-	-	-	145
General and Supervisory Board	-	-	859	5	-	-	-	-	-	854
Other Key Management Personnel	-	-	3 489	-	-	-	-	-	-	3 489
Finibanco Angola, S.A.	10 343	22 842	-	-	-	-	-	46	4 357	37 588
Germont – Empreendimentos Imobiliários, S.A.	-	-	16 323	50	-	-	-	-	2 731	19 004
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	2 449	35	-	-	-	-	1 050	3 464
Lusitania Vida, Companhia de Seguros, S.A.	-	-	1	-	-	-	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	-	-	-	9	2 500	1 807	-	-	1 500	2 184
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	103 053	209 080	-	1 846	-	99	557	79 089	393 724
Montepio Geral Associação Mutualista	-	-	11	1	-	-	-	36 834	177	37 021
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	-	-	-	-	-	-	-
Montepio Holding, S.G.P.S., S.A.	-	-	152 905	-	-	-	-	69	-	152 974
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	-	13 452	288	-	-	-	-	-	13 164
Montepio Investimento, S.A.	-	75 166	-	-	-	-	-	383	181	75 730
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	-	-	-	-	-	-	114	-	114
Nova Câmbio - Instituição de Pagamento, S.A.	-	-	1	2	-	-	-	-	1 000	999
PEF - Fundo de Investimento Imobiliário Fechado	-	-	110	-	-	-	-	-	90	200
Polaris-Fundo de Investimento Imobiliário Fechado	-	-	6 002	-	-	-	-	2	-	6 004
Residências Montepio, Serviços de Saúde, S.A.	-	-	312	138	-	-	-	-	-	174
Valor *Prime* - Fundo de Investimento Imobiliário Aberto	-	-	35 016	-	-	-	-	109	5 000	40 125
	10 343	202 763	441 350	528	4 346	1 807	99	38 124	95 175	789 865

As at 31 December 2017, CEMG's liabilities with related parties, included in the balances Participation Fund, Deposits from other financial institutions, Deposits from customers, Liabilities represented by securities and Other subordinated debt and Other liabilities, are analysed as follows:

(Thousands of Euro)

	2017				
Companies	**Deposits from other financial institutions**	**Deposits from customers**	**Liabilities represented by securities and Other subordinated debt**	**Other liabilities**	**Total**
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	193 074	-	-	-	193 074
Banco Terra, S.A.	978	-	-	-	978
Bolsimo - Gestão de Activos, S.A.	-	850	-	-	850
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto	-	23 639	-	-	23 639
Clínica CUF Belém, S.A.	-	29	-	-	29
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	8	-	-	8
Board of Directors other related parties	-	2 962	125	-	3 087
Executive Board of Directors	-	947	-	-	947
Board of Directors	-	914	55	-	969
General and Supervisory Board	-	524	-	-	524
Other Key Management Personnel	-	1 541	20	-	1 561
Empresa Gestora de Imóveis da Rua do Prior S.A	-	5	-	-	5
Finibanco Angola, S.A.	15 589	40	-	-	15 629
Fundação Montepio Geral	-	882	-	-	882
Fundo de Pensões - Montepio Geral	-	13 671	2 250	-	15 921
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	4 063	-	-	4 063
Germont – Empreendimentos Imobiliários, S.A.	-	612	-	-	612
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	44	-	-	44
Lusitania Vida, Companhia de Seguros, S.A.	-	10 819	21 250	-	32 069
Lusitania, Companhia de Seguros, S.A.	-	3 386	13 000	-	16 386
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	39 248	-	-	39 248
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	42 931	-	-	42 931
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	35 488	-	-	35 488
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	3 637	-	236	3 873
Montepio Geral Associação Mutualista	-	217 230	386 344	-	603 574
Montepio Gestão de Activos - Soc Gestora Fundos de Investimento, S.A.	-	2 451	-	-	2 451
Montepio Gestão de Activos Imobiliários, ACE	-	2 182	-	-	2 182
Montepio Holding, S.G.P.S., S.A.	-	12 562	875	-	13 437
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	3 030	-	-	3 030
Montepio Investimento, S.A.	13 216	-	-	259	13 475
Montepio Seguros, S.G.P.S., S.A.	-	479	-	-	479
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	4 615	-	-	4 615
N Seguros, S.A.	-	442	-	-	442
Nova Câmbio - Instituição de Pagamento, S.A.	-	472	-	-	472
PEF - Fundo de Investimento Imobiliário Fechado	-	297	-	-	297
Polaris-Fundo de Investimento Imobiliário Fechado	-	3	-	-	3
Residências Montepio, Serviços de Saúde, S.A.	-	224	-	-	224
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	77	-	-	77
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	2 674	-	-	2 674
Sociedade Portuguesa de Administrações, S.A.	-	243	-	-	243
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.	-	8 716	-	-	8 716
Valor *Prime* - Fundo de Investimento Imobiliário Aberto	-	8 089	-	67	8 156
	222 857	450 026	423 919	562	1 097 364

For members of the current Governing Bodies, which were previously members, it was considered that, for reporting purposes, the engagement with CEMG should be included in the current Governing Bodies.

As at 31 December 2016, CEMG's liabilities with related parties, included in the balances Participation Fund, Deposits from other financial institutions, Deposits from customers, Liabilities represented by securities and Other subordinated debt and Other liabilities, are analysed as follows:

(Thousands of Euro)

	2016					
Companies	Participation Fund	Deposits from other financial institutions	Deposits from customers	Liabilities represented by securities and Other subordinated debt	Other liabilities	Total
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	-	233 764	-	-	-	233 764
Banco Terra, S.A.	-	1 479	-	-	-	1 479
Bolsimo - Gestão de Activos, S.A.	-	-	5 883	-	-	5 883
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto	-	-	14 180	-	-	14 180
Clínica CUF Belém, S.A.	-	-	13	-	-	13
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	-	9	-	-	9
Board of Directors of other related parties	69	-	3 034	130	-	3 233
Executive Board of Directors	45	-	1 528	-	-	1 573
General and Supervisory Board	55	-	1 906	-	-	1 961
Other Key Management Personnel	36		1 299	20	-	1 355
Empresa Gestora de Imóveis da Rua do Prior S.A	-	-	5	-	-	5
Finibanco Angola, S.A.	-	46 900	-	-	-	46 900
Finibanco Vida – Companhia de Seguros de Vida, S.A.	-	-	2 227	1 000	-	3 227
Fundação Montepio Geral	-	-	982	-	-	982
Fundo de Pensões - Montepio Geral	2 998	-	74 578	50	-	77 626
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	-	1 574	-	-	1 574
Germont – Empreendimentos Imobiliários, S.A.	-	-	62	-	-	62
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	73	-	-	73
Lusitania Vida, Companhia de Seguros, S.A.	-	-	15 399	21 250	-	36 649
Lusitania, Companhia de Seguros, S.A.	499	-	13 394	13 000	-	26 893
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	-	29 091	-	-	29 091
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	-	29 365	-	-	29 365
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	-	16 567	-	-	16 567
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	-	1 560	-	305	1 865
Montepio Geral Associação Mutualista	284 113	-	253 604	994 714	-	1 532 431
Montepio Gestão de Activos - Soc Gestora Fundos de Investimento, S.A.	-	-	1 290	-	-	1 290
Montepio Gestão de Activos Imobiliários, ACE	-	-	2 168	-	-	2 168
Montepio Holding, S.G.P.S., S.A.	-	-	24 580	874	-	25 454
Montepio Imóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	-	-	-	-	-	-
Montepio Investimento, S.A.	81	46 789	-	-	259	47 129
Montepio Seguros, S.G.P.S., S.A.	-	-	159	-	-	159
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	-	4 783	-	-	4 783
N Seguros, S.A.	220	-	1 073	-	-	1 293
Nova Câmbio - Instituição de Pagamento, S.A.	302	-	462	-	-	764
PEF - Fundo de Investimento Imobiliário Fechado	-	-	7	-	-	7
Polaris-Fundo de Investimento Imobiliário Fechado	-	-	20	-	-	20
Residências Montepio, Serviços de Saúde, S.A.	-	-	87	-	-	87
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	-	81	-	-	81
Semelhanças e Coincidências, S.A.	-	-	15	-	-	15
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	-	2 092	-	-	2 092
Sociedade Portuguesa de Administrações, S.A.	-	-	146	-	-	146
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.	-	-	2 471	-	-	2 471
Valor *Prime* - Fundo de Investimento Imobiliário Aberto	-	-	2 068	-	17	2 085
	288 418	328 932	507 835	1 031 038	581	2 156 804

As at 31 December 2017, CEMG's income and expenses with related parties, included in the balances Interest and similar income, Interest and similar expense, Net commission and other income, Other operating income and General Administrative expenses are analysed as follows:

(Thousands of Euro)

	2016				
Companies	Interest and similar income	Interest and similar expenses	Net commission and other income	Other operating income	Genenral and administrative expenses
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	12	3 687	-	305	-
Bolsimo - Gestão de Ativos, S.A.	-	-	1	-	-
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	140	1	-	-
Board of Directors of other related parties	3	16	2	-	-
Executive Board of Directors	-	9	1	-	-
Board of Directors	4	8	-	-	-
General and Supervisory Board	6	3	1	-	-
Other key Management Personnel	10	12	2	1	-
Finibanco Angola, S.A.	-	23	-	304	-
Valor Prime - Fundo de Investimento Imobiliário Aberto	1 037	13	207	1	946
Fundo de Pensões - Montepio Geral	-	73	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	36	5	-	-
Germont – Empreendimentos Imobiliários, S.A.	379	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	21	-	1	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	158	5 159	-	-
Lusitania, Companhia de Seguros, S.A.	6	93	3 066	9	-
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	88	203	1	-
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	100	179	1	-
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	54	219	1	-
Montepio Crédito - Instituição Financeira de Crédito, S.A.	3 747	-	123	99	679
Montepio Geral Associação Mutualista	5	37 291	2 509	16 041	2 093
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	-	17	3	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	2 535	3 304
Montepio Holding, S.G.P.S., S.A.	4 076	13	11	-	696
Montepio Imóveis – Sociedade Imobiliária, S.A.	443	1	-	-	-
Montepio Investimento, S.A.	481	189	21	746	-
Montepio Seguros, S.G.P.S., S.A.	-	-	19	-	-
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	21	326	849	-
N Seguros, S.A.	-	1	22	-	-
Nova Câmbios - Instituição de Pagamento, S.A.	9	-	43	1	-
PEF - Fundo de Investimento Imobiliário Fechado	3	-	12	1	-
Polaris-Fundo de Investimento Imobiliário Fechado	185	-	3	-	-
Residências Montepio, Serviços de Saúde, S.A.	29	-	33	14	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	21	-	-	-
	10 456	42 067	12 172	20 909	7 718

For members of the current Governing Bodies, which were previously members, it was considered that, for reporting purposes, the engagement with CEMG should be included in the current Governing Bodies.

The balance Other administrative expenses includes the amount of Euro 3,304 thousand (31 December 2016: Euro 3,141 thousand) related to services rendered by Montepio Gestão de Activos Imobiliários, A.C.E.

As at 31 December 2016, CEMG's income and expenses with related parties, included in the balances Interest and similar income, Interest and similar expense, Net commission and other income, Other operating income and General Administrative expenses are analysed as follows:

(Thousands of Euro)

	2016				
Companies	Interest and similar income	Interest and similar expenses	Net commission and other income	Other operating income	Genenral and administrative expenses
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	18	7 113	1	274	-
Bolsimo - Gestão de Ativos, S.A.	-	-	1	-	-
Clínica de Serviços Médicos Computorizados de Belém, S.A.	1	-	-	-	-
Board of Directors of other related parties	2	27	2	1	-
Executive Board of Directors	-	10	1	-	-
General and Supervisory Board	9	20	1	-	-
Other key Management Personnel	12	10	2	-	-
Finibanco Angola, S.A.	-	86	-	280	-
Finibanco Vida – Companhia de Seguros de Vida, S.A.	-	62	46	-	-
Fundo de Pensões - Montepio Geral	-	41	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	19	5	-	-
Germont – Empreendimentos Imobiliários, S.A.	378	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	195	-	1	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	385	7 798	-	-
Lusitania, Companhia de Seguros, S.A.	11	198	4 910	6	-
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	43	178	-	-
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	41	161	-	-
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	12	198	-	-
Montepio Crédito - Instituição Financeira de Crédito, S.A.	7 150	-	5	2 864	-
Montepio Geral Associação Mutualista	-	55 578	1 455	15 785	5 555
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	-	4	5	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	2 864	-
Montepio Holding, S.G.P.S., S.A.	2 341	287	-	-	1 283
Montepio Imóveis – Sociedade Imobiliária, S.A.	175	-	1	-	-
Montepio Investimento, S.A.	591	44	21	443	-
Montepio Recuperação de Crédito, ACE	-	-	-	3 488	3 413
Montepio Seguros, S.G.P.S., S.A.	-	-	37	-	-
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	12	812	832	-
N Seguros, S.A.	-	7	10	-	-
Nova Câmbio - Instituição de Pagamento, S.A.	41	-	35	-	-
PEF - Fundo de Investimento Imobiliário Fechado	6	-	12	-	-
Polaris-Fundo de Investimento Imobiliário Fechado	184	-	3	-	-
Residências Montepio, Serviços de Saúde, S.A.	22	-	30	24	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	15	-	-	-
Valor *Prime* - Fundo de Investimento Imobiliário Aberto	1 067	2	187	-	814
	12 203	64 016	15 918	26 861	11 065

Salaries and other costs with the Executive Board of Directors, with the General and Supervisory Board and with Other key management personnel are detailed in note 11.

Related parties relevant transactions

During 2016, the following relevant transactions were carried out with other related parties:

- Acquisition of properties for Montepio Geral - Associação Mutualista's own use, for the total amount of Euro 199,444 thousand, as described in note 27;
- Acquisition of subordinated and perpetual debt securities, in the total amount of Euro 45,191 thousand to Montepio Geral - Associação Mutualista; and
- Acquisition of 2,868,092 Units of *ValorPrime* Fund, amounting to Euro 24,738 thousand to Montepio Geral - Associação Mutualista.

During 2017 and 2016, there were no transactions with the pension's fund of CEMG.

49 Securitization transactions

As at 31 December 2017, there are seven securitization transactions, six of which originated in CEMG and one in Montepio Investimento, S.A., currently integrated into CEMG, following the success of General and Voluntary Public Offering on the equity representative shares of Montepio Holding, S.G.P.S., S.A. (previously named Finibanco Holding, S.G.P.S., S.A.) and transmission of almost all assets and liabilities (business acquisitions) for CEMG, as mentioned in the accounting policy described in note 1 a).

The following paragraphs present some additional details of these securitization transactions.

As at 30 March, 2007, CEMG had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 3. The referred agreement consists in a mortgage credit transfer for a period of 47 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 762,375 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0165% of the referred nominal value.

As at 20 May, 2008, CEMG had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 4. The referred agreement consists in a mortgage credit transfer for a period of 48 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,028,600 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.083% of the referred nominal value.

As at 9 December 2008, Montepio Investimento S.A. (to the date, Finibanco S.A.) had settled a mortgage credit portfolio to Tagus – Sociedade de Titularização de Créditos, S.A. in the amount of Euro 236,500 thousand (Aqua Mortage No. 1). The total period of this operation is 55 years, with a revolving period of 2 years. In 2011, Montepio Investimento sold this security to CEMG.

As at 25 March 2009, CEMG had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 5. The referred agreement consists in a mortgage credit transfer for a period of 52 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,027,500 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0564% of the referred nominal value.

As at 5 March 2012, CEMG had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage No. 6. The referred agreement consists in a mortgage credit transfer for a period of 51 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,107,000 thousand. The transfer price by which the loans were transferred was their nominal value, including the initial selling costs which represented 0.1083% of the Asset Backed Notes.

As at 7 May 2014, Caixa Económica Montepio Geral and Montepio Crédito celebrated with Tagus - Sociedade de Titularização, SA, a contract for the sale of consumer loans within a securitization of credits (Pelican Finance No. 1). The total period of the operation is 14 years, with an initial revolving period of 18 months, amended in November 2015 to 42 months and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 308,700 thousand. The sale was made at their nominal value, including the initial selling costs which represented 0.1871% of Asset Backed Notes.

As at 5 March 2015, CEMG signed with Sagres - Sociedade de Titularização de Créditos, S.A a securitisation contract for small and medium size companies, Pelican SME No. 2. The total period of operation is 28 years with revolving period of 24 months and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,124,300 thousand. The sale was made at their nominal value with the cost of the initial sales process represented 0.0889% of Asset Backed Notes.

The entity that guarantees the debt service (servicer) of this operations is CEMG assuming the collection of credits sold and assigned amounts received by deposits, to Sociedades Gestoras de Fundos de Titularização de Créditos (Pelican Mortgages No. 1) and to Sociedades de Titularização de Créditos (Pelican Mortgages No. 3, Pelican Mortgages No. 4, Pelican Mortgages No. 5, Pelican Mortgages No. 6, Aqua Mortgages No. 1 and Pelican SME No. 2).

As at 31 December 2017, the securitization operations executed by CEMG are presented as follows:

(Thousands of Euro)

				Credit		Liabilities		
Issue	**Settlement date**	**Currency**	**Asset transferred**	**Initial amount**	**Current amount**	**Initial nominal value**	**Current nominal value**	**Third party amount ***
Pelican Mortgages No. 3	March 2007	Euro	Mortgage credit	762 375	222 997	762 375	227 114	90 178
Pelican Mortgages No. 4	May 2008	Euro	Mortgage credit	1 028 600	615 516	1 028 600	642 411	-
Aqua Mortgage No. 1	December 2008	Euro	Mortgage credit	236 500	120 699	236 500	115 566	-
Pelican Mortgages No. 5	March 2009	Euro	Mortgage credit	1 027 500	613 297	1 027 500	636 245	-
Pelican Mortgages No. 6	February 2012	Euro	Mortgage credit	1 107 000	812 326	1 107 000	863 990	-
Pelican Finance No. 1	May 2014	Euro	Consumer credit	185 300	170 320	185 300	179 682	-
Pelican SME No. 2	March 2015	Euro	Small companies	1 124 300	759 583	1 124 300	817 141	178 283
				5 471 575	3 314 738	5 471 575	3 482 149	268 461

* Includes nominal value, accrued interest and other adjustments

In December 2017, CEMG settled Pelican Mortgages No.1 through the exercise of the existing call option.

Additionally, the detail of securitized loans not derecognised by securitization operation and nature of the contracts at 31 December 2017 is presented as follows:

(Thousands of Euro)

	Not derecognised securitisation transactions							
	Pelican Mortgage n.º 3	***Pelican Mortgage n.º 4***	***Aqua Mortgage n.º 1***	***Pelican Mortgage n.º 5***	***Pelican Mortgage n.º 6***	***Pelican Finance n.º 1***	***Pelican SME n.º 2***	**Total**
Domestic credit								
Corporate								
Loans and advances	-	-	-	-	-	-	589 601	589 601
Pledged current account	-	-	-	-	-	-	65 442	65 442
Other credits	-	-	-	-	-	-	32 422	32 422
Private								
Mortgage	221 813	612 642	116 676	610 494	801 579	-	-	2 363 204
Consumer and other credits	-	-	-	-	-	168 180	55 149	223 329
	221 813	612 642	116 676	610 494	801 579	168 180	742 614	3 273 998
Credit and overdue interest								
Less than 90 days	53	1 153	670	815	3 210	228	1 046	7 175
More than 90 days	1 131	1 721	3 353	1 988	7 537	1 912	15 923	33 565
	1 184	2 874	4 023	2 803	10 747	2 140	16 969	40 740
	222 997	615 516	120 699	613 297	812 326	170 320	759 583	3 314 738

As at 31 December 2016, the securitization operations executed by CEMG are presented as follows:

(Thousands of Euro)

Issue	Settlement date	Currency	Asset transferred	Credit Initial amount	Credit Current amount	Liabilities Initial amount	Liabilities Current amount
Pelican Mortgages No. 1	December 2002	Euro	Mortgage credit	653 250	48 553	653 250	-
Pelican Mortgages No. 3	March 2007	Euro	Mortgage credit	762 375	250 542	762 375	121 955
Pelican Mortgages No. 4	May 2008	Euro	Mortgage credit	1 028 600	669 799	1 028 600	-
Aqua Mortgage No. 1	December 2008	Euro	Mortgage credit	236 500	133 455	236 500	-
Pelican Mortgages No. 5	March 2009	Euro	Mortgage credit	1 027 500	668 633	1 027 500	-
Pelican Mortgages No. 6	February 2012	Euro	Mortgage credit	1 107 000	873 879	1 107 000	-
Pelican Finance No. 1	May 2014	Euro	Consumer credit	185 300	174 107	185 300	-
Pelican SME No. 2	March 2015	Euro	Small companies	1 124 300	1 026 425	1 124 300	416 200
				6 124 825	3 845 393	6 124 825	538 155

In December 2016, CEMG settled Pelican Mortgages no. 2, through the exercise of the existing Call Option.

Additionally, the detail of securitized loans not derecognised by securitization operation and nature of the contracts at 31 December 2016 is presented as follows:

(Thousands of Euro)

	Not derecognised securitisation transactions							
	Pelican Mortgage n.º 3	*Pelican Mortgage n.º 4*	*Aqua Mortgage n.º 1*	*Pelican Mortgage n.º 5*	*Pelican Mortgage n.º 6*	*Pelican Finance n.º 1*	*Pelican SME n.º 2*	Total
Domestic credit								
Corporate								
Loans and advances	-	-	-	-	-	-	735 889	735 889
Pledged current account	-	-	-	-	-	-	139 310	139 310
Other credits	-	-	-	-	-	-	62 466	62 466
Private								
Mortgage	249 498	666 603	129 452	665 858	864 865	-	-	2 576 276
Consumer and other credits	-	-	-	-	-	172 675	73 863	246 538
	249 498	666 603	129 452	665 858	864 865	172 675	1 011 528	3 760 479
Credit and overdue interest								
Less than 90 days	155	697	553	630	1 745	217	680	4 677
More than 90 days	889	2 499	3 450	2 145	7 269	1 215	14 217	31 684
	1 044	3 196	4 003	2 775	9 014	1 432	14 897	36 361
	250 542	669 799	133 455	668 633	873 879	174 107	1 026 425	3 796 840

As at 31 December 2017, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bond issued	Issue amount euros	Current amount euros	CEMG's interest retention (nominal value) euros	Maturity date	Rating (initial)				Rating (current)			
						Fitch	Moodys	S&P	DBRS	Fitch	Moodys	S&P	DBRS
Pelican Mortgages No 3	Class A	717 375 000	210 543 589	120 365 825	2054	AAA	Aaa	AAA	n.a.	BBB-	A3	BBB-	n.a.
	Class B	14 250 000	5 435 937	5 435 937	2054	AA-	Aa2	AA-	n.a.	BBB-	Ba1	B-	n.a.
	Class C	12 000 000	4 577 631	4 577 631	2054	A	A3	A	n.a.	BB	B2	B-	n.a.
	Class D	6 375 000	2 431 867	2 431 867	2054	BBB	Baa3	BBB	n.a.	B	Caa1	B-	n.a.
	Class E	8 250 000	-	-	2054	BBB-	n.a.	BBB-	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	4 125 000	4 125 000	4 125 000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 4	Class A	832 000 000	484 091 607	484 091 607	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	A (h)
	Class B	55 500 000	42 853 602	42 853 602	2056	AA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	46 328 218	46 328 218	2056	A-	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	25 000 000	19 303 424	19 303 424	2056	BBB	n.a.	n.a.	n.a.	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	21 233 767	21 233 767	2056	BB	n.a.	n.a.	n.a.	B	n.a.	n.a.	n.a.
	Class F	28 600 000	28 600 000	28 600 000	2056	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 5	Class A	750 000 000	423 213 189	423 213 189	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	148 224 982	148 224 982	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	20 903 523	20 903 523	2061	B	n.a.	n.a.	n.a.	BBB-	n.a.	n.a.	n.a.
	Class D	27 500 000	20 903 523	20 903 523	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	4 500 000	-	-	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	23 000 000	23 000 000	23 000 000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 6	Class A	750 000 000	508 789 579	508 789 579	2063	A	n.a.	A-	AA	A+	n.a.	A	AA (h)
	Class B	250 000 000	250 000 000	250 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	1 800 000	-	-	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class D	65 000 000	65 000 000	65 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	40 200 000	40 200 000	40 200 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua Mortgage No 1	Class A	203 176 000	85 732 409	85 732 409	2063	n.a.	n.a.	AAA	n.a.	n.a.	n.a.	A+	AA (h)
	Class B	29 824 000	26 333 982	26 333 982	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	3 500 000	3 500 000	3 500 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Finance No 1	Class A	116 182 334	116 182 334	116 182 334	2028	A	n.a.	n.a.	A	A	n.a.	n.a.	A
	Class B	54 700 000	54 700 000	54 700 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	8 800 000	8 800 000	8 800 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican SME No 2	Class A	545 900 000	233 840 775	55 558 072	2043	A+	n.a.	n.a.	A (lo)	A+	n.a.	n.a.	AA
	Class B	76 400 000	76 400 000	76 400 000	2043	A	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	87 300 000	87 300 000	87 300 000	2043	BBB	n.a.	n.a.	n.a.	BBB+	n.a.	n.a.	n.a.
	Class D	398 500 000	398 500 000	398 500 000	2043	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	16 200 000	21 100 000	21 100 000	2043	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

As at 31 December 2016, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bond issued	Issue amount Euros	Current amount Euros	CEMG's interest retention (nominal value) Euros	Maturity date	Rating (initial) Fitch	Rating (initial) Moodys	Rating (initial) S&P	Rating (initial) DBRS	Rating (current) Fitch	Rating (current) Moodys	Rating (current) S&P	Rating (current) DBRS
Pelican Mortgages No 1	Class A	611 000 000	5 327 017	2 184 600	2037	AAA	Aaa	n.a.	n.a.	A+	A1	n.a.	n.a.
	Class B	16 250 000	16 250 000	-	2037	AAA	A2	n.a.	n.a.	A+	A1	n.a.	n.a.
	Class C	22 750 000	22 750 000	5 750 000	2037	BBB+	Baa2	n.a.	n.a.	A+	A1	n.a.	n.a.
	Class D	3 250 000	3 250 000	3 250 000	2037	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 3	Class A	717 375 000	236 777 846	114 821 933	2054	AAA	Aaa	AAA	n.a.	BBB-	A3	BB+	n.a.
	Class B	14 250 000	6 113 269	6 113 250	2054	AA-	Aa2	AA-	n.a.	BBB-	Ba2	B-	n.a.
	Class C	12 000 000	5 148 016	5 148 000	2054	A	A3	A	n.a.	BB	B2	B-	n.a.
	Class D	6 375 000	2 734 883	2 734 875	2054	BBB	Baa3	BBB	n.a.	B	Caa1	B-	n.a.
	Class E	8 250 000	-	-	2054	BBB-	n.a.	BBB-	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	4 125 000	4 125 000	4 125 000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 4	Class A	832 000 000	527 322 161	527 322 161	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	A (h)
	Class B	55 500 000	46 680 533	46 680 533	2056	AA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	50 465 441	50 465 441	2056	A-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class D	25 000 000	21 027 267	21 027 267	2056	BBB	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class E	27 500 000	23 129 994	23 129 994	2056	BB	n.a.	n.a.	n.a.	B	n.a.	n.a.	n.a.
	Class F	28 600 000	28 600 000	28 600 000	2056	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 5	Class A	750 000 000	461 406 237	461 406 237	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	161 601 606	161 601 606	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	22 789 970	22 789 970	2061	B	n.a.	n.a.	n.a.	BBB-	n.a.	n.a.	n.a.
	Class D	27 500 000	22 789 970	22 789 970	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	4 500 000	-	-	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	23 000 000	23 000 000	23 000 000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 6	Class A	750 000 000	570 574 444	570 574 444	2063	A	n.a.	A-	AA	A+	n.a.	A-	AA (h)
	Class B	250 000 000	250 000 000	250 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	1 800 000	-	-	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class D	65 000 000	65 000 000	65 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	40 200 000	40 200 000	40 200 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua Mortgage No 1	Class A	203 176 000	96 484 665	96 484 665	2063	n.a.	n.a.	AAA	n.a.	n.a.	n.a.	A+	AA (h)
	Class B	29 824 000	28 980 484	28 980 484	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	3 500 000	3 500 000	3 500 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Finance No 1	Class A	121 800 000	121 800 000	121 800 000	2028	A	n.a.	n.a.	A	A	n.a.	n.a.	A
	Class B	54 700 000	54 700 000	54 700 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	8 800 000	8 800 000	8 800 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican SME No 2	Class A	545 900 000	545 900 000	129 700 000	2043	A+	n.a.	n.a.	A (lo)	A+	n.a.	n.a.	A (l)
	Class B	76 400 000	76 400 000	76 400 000	2043	A	n.a.	n.a.	n.a.	A	n.a.	n.a.	n.a.
	Class C	87 300 000	87 300 000	87 300 000	2043	BBB	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	398 500 000	398 500 000	398 500 000	2043	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	16 200 000	21 100 000	21 100 000	2043	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

50 Risk management

Objectives of the Risk Management Policy

CEMG is exposed to a number of risks, including credit, concentration, market, interest rate, currency, liquidity, real estate, operational and pension fund risks. Aditionally, the Group is subject to other risks of non-financial nature, namely the operational risk, reputation risk, strategy risk and business risk. Depending on the nature and relevance of the risk, plans, programs or actions are designed, supported by information systems and procedures providing a high degree of reliability regarding risk management measures that have been established in due course. All risks identified as material are subject to regular monitoring and mitigation actions in order to reduce potential losses to CEMG.

The monitoring of these risks is centralised in the Risk Department, which informs the Executive Board of its development and proposes action measures when necessary.

The Executive Board of Directors seeks to ensure sufficient capital to meet regulatory requirements to cover potential losses, with an optimized balance sheet structure that maintains a stable funding capacity and strong liquidity, allowing them to face stress situations and ensuring the continuity of its operations and the protection of its depositors and holders of non-subordinated debt.

Particularly, CEMG has clear objectives, determined in its strategic plan, for capital ratios, ratio of transformation of deposits into credit and liquidity and financing ratios, in addition to a feasible and sustainable business model aligned with risk appetite.

Risk appetite is based on certain principles - namely consistency, sustainability and profitability - and is defined in terms of the strategic plan and the intended market positioning. CEMG analyzes the risks it faces in its activities and identifies those that are materially relevant. For these, objectives are set according to the desired level of return and strategy, tolerance levels, that is, ranges of risk variation that can lead to discussions and decisions about corrective measures, and limits that are exceeded can lead to immediate corrective measures.

The main concern of the Executive Board of Directors in determining risk appetite consists of its compliance with other organizational components (business strategy and global vectors of risk strategy). In addition, the Executive Board of Directors seeks to ensure that risk appetite is well understood across the entire organization, especially the business units responsible for decision making, which may affect risk exposure and its monitoring.

CEMG's risk management policy is designed to ensure adequate relationship at all times between its own funds and the business it carries on, and also to evaluate the risk/return profile by business line. Thus, monitoring and control of the main types of financial risk – credit, market, liquidity real estate and operational – to which CEMG's business is subject are of particular importance.

CEMG's overall risk management is the responsibility of the Executive Board of Directors, which defines the tolerance levels and maximum risk limits, for each specific risk considered materially relevant, in accordance with the defined strategic objectives and business plans. This policy is reviewed regularly.

Control and efficient risk management have played a key role in CEMG's balanced and sustained development. In addition, it contributes to the optimization of the profitability / risk binomial of the various lines of business, they also ensure the maintenance of a conservative risk profile in solvency and liquidity.

Risk management has maintained the following main objectives:

- Identification, measurement and control of the different types of risk assumed;
- Continuous contribution to the improvement of tools to support operation decisions and the development of internal techniques for performance evaluation and optimization of the capital base; and

- Follow-up of CEMG's international activities and strategies, participating in the design of organizational solutions and in the assumed risk monitoring and reporting.

Credit risk

Credit risk is associated with the uncertainty of expected returns due to the inability of both the lessee (and his guarantor, if any), or the issuer of a security or counterparty to comply with its obligations.

The credit risk management process is based on the existence of a solid process of credit analysis and decision, prepared on a set of tools supporting the credit decision process. The quantification of credit risk is also supported in the model for calculating impairment losses.

The fundamental principle of credit risk analysis is independence towards business decisions. In this analysis instruments are used and rules defined according to the materiality of the exposures, familiarity with the types of risk involved (e.g. the modeling capacity of such risks) and the liquidity of the instruments.

Credit risk models play a significant role in credit decision process. Indeed, the decision process concerning the credit portfolio depends on a group of policies based on scoring models developed to individual and business clients and the rating for the corporate sector.

Regarding the analysis methodologies, within the credit risk, the credit risk techniques and models are based on econometric modeling, based on the institution's experience in granting various types of credit facilities and, where possible, recovery.

Credit decisions are dependent upon risk ratings and compliance with various rules governing financial capacity and applicants' behavior. In order to support commercial strategies reactive scoring models are also used, namely in the main individual credit portfolios, such as mortgage and individual loans, distinguishing between customers and non-customers (or new customers).

In corporate credit, internal rating models are used to medium and large companies, distinguishing the construction sector and the third sector from the remaining business sectors, whereas for customers "Empresários em nome individual" (ENI's) and small companies the scoring model business is applied.

Regardless of the typology of the applicable model, any proposal, contract or credit customer is classified into a single risk scale class, in ascending order of Probability of Default, and this scale composed of 19 classes, of which the first 15 correspond to performing risk classes, classes 16 to 18 to credit incidents and 19th to non-compliance.

The pricing of the active operations reflects the expected loss, as well as the capital borrowed cost and equity and the administrative costs. In quantifying the expected loss, the marginal probabilities of default for the term of the operation, associated with the internal risk classes and the loss severity, quantified through market estimates, are considered, taking into account the types of credit and of collaterals. Pricing also reflects the business relationship with customers.

It is possible to exceed the response of scoring systems, internal ratings and internal price lists, only by higher decision levels, in accordance with principles of delegation of responsibilities set out. Rejection situations are defined in order to minimize the risk of adverse selection, however there is always a risk class for rejection.

Intervention limits are also defined for the different decisions, by amount of operation and global customer exposure, type of operation / collateral and assigned risk class. In this context, the principle that higher hierarchical positions have to approve operations with lower adjusted ROE risk or higher exposures is highlighted. These limits are approved by the Executive Board of Directors, and the highest decision scale corresponds to the Executive Board of Directors. At intermediate stages, it is compulsory to intervene in a collegial system of at least two players, one belonging to the commercial network and the other to the Department of Credit Analysis (independent body of the commercial structure).

Risk analysis also involves regular internal reporting on key types of risk for the Executive Board of Directors and the business areas involved. Within credit risk, monthly internal reports are prepared, with the main risk indicators of credit portfolios and metrics on the use of rating / scoring models. In terms of preventive monitoring, an alert system is in place for the main indicators of credit risk tightening. A weekly exposure risk report is also prepared for counterparties.

The Group's Calculation Model of Impairment losses on the Loan Portfolio has been in force since June 2006 and is subject to regular updates, governed by the general principles defined in IAS 39, as well as by the guidelines contained in the Circular Letter no. 02/2014/DSP of the Bank of Portugal, in order to align the calculation process with the best international practices.

The Group's impairment model begins by segmenting the credit portfolio customers into three distinct groups, depending on the existing signs of impairment (including internal and external information) and the size of the set of exposures of each economic group/customer:

- Individually Significant: individual Clients or Economic Groups that meet at least one of the following requirements are subject to individual analysis:

    - Exposure above Euro 1 million, with signs of impairment;

    - Exposure above Euro 2.5 million, without signs of impairment

    - Regulatory Client: clients / economic groups subject to individual analysis in the previous month and that do not meet the current exposure criteria.

Regarding the impairment collective analysis, the allocation is made taking into account the following criteria:

- Homogeneous Populations in default: Clients or Economic Groups that do not fulfill the criteria to be Individually Significant and that are classified in overdue or in default.

- Homogeneous Populations with signs of impairment: Clients or Economic Groups that do not fulfill the criteria to be Individually Significant and that present at least a sign of impairment.
- Homogeneous populations without signs of impairment: Clients or Economic Groups that do not fulfill the criteria to be Individually Significant and that do not show any sign of impairment.

Depending on the group in which the clients are classified, the operations are dealt through Individual Analysis or Collective Analysis.

For each of the active clients / credits, a set of impairment signs is verified, which includes internal and external information, which in turn, aggravate impairment values as they represent an increase in the risk of default. It should be noted that credit restructured due to financial difficulties is a sign of impairment and therefore the loan portfolio classified as restructured is included in the credits with signs of impairment.

In the group of homogeneous populations, customer exposures are subject to collective analysis. The calculation of the impairment value for customer loans belonging to homogeneous populations results from the product of the EAD exposure (deducted from risk-free financial collateral) by the following risk parameters:

- PD (probability of default): corresponds to internal default estimates, based on risk classifications associated with operations / clients, segment and respective impairment / credit status (if any). If the credit is in default or cross-default, the PD corresponds to 100%;

- LGD (default loss): corresponds to internal loss estimates, which vary depending on the segment, whether or not there is a real guarantee, Loan-to-Value (LTV) and default seniority, based on the historical experience of credits recovery that have been in default.

In the group of individually significant clients, client exposures are subject to individual analysis. This analysis focuses on the credit quality of the debtor, as well as on the expectations of recovering the credit, considering collateral and existing collateral, as well as the remaining relevant factors.

Impairment value for Individually Significant Clients is determined using the discounted cash-flows method, that is, the impairment value corresponds to the difference between the credit value and the sum of the expected cash flows for the client's various operations, updated according to the interest rates of each operation.

The following information is related to the exposure of the CEMG to the credit risk, where the most relevant item in terms of exposure is, so as in terms of the associated risk, is loans to customers. It should be noted that the portfolio of available-for-sale financial assets is essentially composed of public debt securities of the European Union.

The information contained in the tables presented excludes the balance componente of entities to the application of the IFRS 5, which correspond to the subsidiaries in Angola and Mozambique, which is recorded under the caption Non-current assets held for sale in discontinued operations.

CEMG's credit risk exposure can be analysed as follows:

(Thousands of Euro)

	2017	2016
Deposits with other credit institutions	59 472	71 039
Loans with credit institutions	558 711	729 040
Loans and advances to customers	12 748 717	13 799 711
Financial assets held for trading	174 175	70 991
Available-for-sale financial assets	1 605 618	1 798 734
Held-to-maturity investments	-	1 126 125
Other assets	174 779	203 746
Guarantees granted	447 623	428 159
Irrevocable commitments	762 361	561 996
	16 531 456	18 789 541

The analysis of the risk exposure by sector of activity, for 2017, can be analysed as follows:

(Thousands of Euro)

	2017									
Activity	Deposits in credit institutions repayable on demand	Other loans and advances to credit institutions	Loans and advances to customers		Financial assets held for trading	Availabe-for-sale financial assets		Guarantees granted and documentary credits		Irrevocable Commitments
	Book value	Book value	Gross Amount	Impairment	Book value	Gross Amount	Impairment	Gross Amount	Impairment	Book value
Agriculture	-	-	143 027	8 637	-	-	-	2 012	125	5 301
Mining	-	-	18 969	1 095	-	-	-	975	68	1 438
Food, beverage and tobacco	-	-	226 445	13 221	-	1 020	-	2 964	94	57 796
Textiles	-	-	86 223	9 500	-	-	-	1 218	2	8 688
Shoes	-	-	42 492	4 279	-	-	-	31	-	5 437
Wood and cork	-	-	34 298	4 267	-	-	-	476	39	4 624
Printing and publishing	-	-	41 464	6 479	-	907	-	426	36	3 667
Petroleum refining	-	-	501	45	-	2 489	-	-	-	-
Chemicals and rubber	-	-	86 888	5 246	-	-	-	4 681	95	18 305
Non-metallic minerals	-	-	141 906	4 743	-	-	-	1 985	140	5 440
Basis metallurgic industries and metallic products	-	-	168 997	18 137	-	-	-	10 325	99	21 695
Production of machinery	-	-	42 690	3 114	-	-	-	2 071	127	5 277
Production of transport material	-	-	43 763	1 435	-	-	-	3 109	190	3 723
Other transforming industries	-	-	45 361	4 861	-	-	-	514	3	4 481
Electricity, gas and water	-	-	152 361	2 560	-	13 219	-	2 823	70	26 513
Construction	-	-	954 336	302 961	-	-	-	109 740	6 053	74 753
Wholesale and retail	-	-	1 029 245	117 154	-	5 071	-	72 651	3 082	130 969
Tourism	-	-	493 397	19 710	-	-	-	10 628	238	18 244
Transports	-	-	378 241	62 751	-	-	-	10 580	327	17 748
Communication and information activities	-	-	88 933	6 940	-	2 864		4 954	275	21 799
Financial activities	59 472	558 711	763 877	75 582	24 553	20 411	9 307	151 813	714	193 159
Real estate activities	-	-	837 724	128 761	121 329	4 277	-	15 156	818	61 335
Services provided to companies	-	-	611 169	40 248	-	-	-	35 304	237	44 325
Public services	-	-	141 654	3 910	28 293	1 560 453	-	527	11	3 551
Other activities of collective services	-	-	435 815	28 656	-	-	-	14 203	3 134	20 349
Mortgage loans	-	-	6 731 514	132 657	-	30 014	25 800	4 017	148	445
Other	-	-	15 688	1 312	-	-	-	587	22	3 299
	59 472	558 711	13 756 978	1 008 261	174 175	1 640 725	35 107	463 770	16 147	762 361

The analysis of the risk exposure by sector of activity, for 2016, can be analysed as follows:

(Thousands of Euro)

Activity	2016										
	Deposits in credit institutions repayable on demand	Other loans and advances to credit institutions	Loans and advances to customers		Financial assets held for trading	Availabe-for-sale financial assets		Held-to-maturity investments	Guarantees granted and documentary credits		Irrevocable Commitments
	Book value	Book value	Gross Amount	Impairment	Book value	Gross Amount	Impairment	Book value	Gross Amount	Impairment	Book value
Agriculture	-	-	157 258	12 802	-	-	-	-	1 331	15	4 421
Mining	-	-	15 129	963	-	-	-	-	996	72	4 349
Food, beverage and tobacco	-	-	233 135	19 940	-	2 181	-	-	2 483	95	38 058
Textiles	-	-	86 532	10 931	-	-	-	-	934	2	6 735
Shoes	-	-	43 935	4 147	-	-	-	-	245	-	6 120
Wood and cork	-	-	37 964	5 447	-	-	-	-	522	27	4 360
Printing and publishing	-	-	106 973	7 747	-	998	-	-	377	59	3 816
Petroleum refining	-	-	328	41	-	17 925	-	-	-	-	-
Chemicals and rubber	-	-	121 307	12 323	-	-	-	-	3 219	99	13 476
Non-metallic minerals	-	-	146 178	5 171	-	-	-	-	1 974	137	5 610
Basis metallurgic industries and metallic products	-	-	176 863	18 670	-	-	-	-	6 104	109	21 299
Production of machinery	-	-	39 732	2 817	-	-	-	-	1 532	95	6 655
Production of transport material	-	-	36 014	1 349	-	-	-	-	6 725	222	2 683
Other transforming industries	-	-	53 355	6 781	-	-	-	-	481	1	4 290
Electricity, gas and water	-	-	191 994	2 739	-	22 196	-	-	4 923	254	31 218
Construction	-	-	1 113 829	337 492	-	-	-	-	116 424	5 849	44 376
Wholesale and retail	-	-	1 200 093	158 191	-	7 996	-	-	68 486	2 765	134 256
Tourism	-	-	495 477	32 726	-	-	-	-	9 458	217	15 089
Transports	-	-	389 093	52 355	-	-	-	-	12 226	434	20 509
Communication and information activities	-	-	102 543	8 675	-	40 504	27 641	-	6 317	40	13 022
Financial activities	71 039	729 040	1 085 265	64 259	56 331	31 722	9 307	-	129 536	1 342	106 551
Real estate activities	-	-	710 581	129 881	-	-	-	-	19 505	1 076	17 971
Services provided to companies	-	-	638 365	51 462	-	-	-	-	33 566	275	24 668
Public services	-	-	133 645	4 773	14 660	1 689 203	-	1 126 125	517	11	4 999
Other activities of collective services	-	-	445 809	29 694	-	-	-	-	9 126	427	23 560
Mortgage loans	-	-	7 169 989	166 935	-	48 757	25 800	-	4 327	205	503
Other	-	-	19 585	2 949	-	-	-	-	676	23	3 402
	71 039	729 040	14 950 971	1 151 260	70 991	1 861 482	62 748	1 126 125	442 010	13 851	561 996

With regard to credit risk, the financial assets portfolio predominantly maintains its position in bonds of sovereign issuers, mainly from Portuguese Republic.

In terms of credit quality, there was a raise in the average level of counterparties associated to the improvement of Portuguese public debt rating.

CEMG's total loans portfolio, including in addition to customer loans, guarantees provided in the amount of Euro 463,770 thousand (31 December 2016: Euro 442,010 thousand) and irrevocable credit amounting to Euro 762,361 thousand (31 December 2016: Euro 561,996 thousand), broken down between loans with impairment and loans without impairment, is presented as follows:

(Thousands of Euro)

	2017	2016
Total loans	14 983 109	15 954 977
Individually significant		
Gross amount	5 195 864	5 656 232
Impairment	(638 275)	(626 604)
Net value	4 557 589	5 029 628
Collective analysis		
Loans with signs of impairment		
Gross amount	1 456 431	1 883 406
Impairment	(373 726)	(526 578)
Net value	1 082 705	1 356 828
Loans with no signs of impairment	8 330 814	8 415 339
Impairment (IBNR)	(12 406)	(11 929)
Net value	13 958 702	14 789 866

As at 31 December 2017 and 2016, impairment determined according to the accounting policy described in note 1 b), is presented as follows:

(Thousands of Euro)

	2017						
	Impairment calculated on an individual basis		Impairment calculated on a portfolio basis		Total		
	Loan amount	Impairment	Loan amount	Impairment	Loan amount	Impairment	Loan net of impairment
Corporate loans	5 144 642	623 899	2 537 837	241 383	7 682 479	865 282	6 817 197
Mortgage loans	17 741	805	6 661 662	72 294	6 679 403	73 099	6 606 304
Other loans	33 481	13 571	587 746	72 455	621 227	86 026	535 201
	5 195 864	638 275	9 787 245	386 132	14 983 109	1 024 407	13 958 702

(Thousands of Euro)

	2016						
	Impairment calculated on an individual basis		Impairment calculated on a portfolio basis		Total		
	Loan amount	Impairment	Loan amount	Impairment	Loan amount	Impairment	Loan net of impairment
Corporate loans	5 576 364	612 949	2 581 766	359 427	8 158 130	972 376	7 185 754
Mortgage loans	23 398	1 381	7 070 226	94 047	7 093 624	95 428	6 998 196
Other loans	56 470	12 274	646 753	85 033	703 223	97 307	605 916
	5 656 232	626 604	10 298 745	538 507	15 954 977	1 165 111	14 789 866

The analysis of the fair value of collaterals associated to CEMG's total portfolio:

(Thousands of Euro)	2017	2016
Loans with impairment:		
Securities and other financial assets	165 407	225 069
Residential real estate - Mortgage loans	29 290	39 293
Real Estate - Construction and CRE	2 548 752	1 967 427
Other Real Estate	1 613 006	1 798 189
Other guarantees	494 691	424 533
	4 851 146	4 454 511
Parametric Analysis:		
Securities and other financial assets	17 203	24 294
Residential real estate - Mortgage loans	1 110 592	1 396 889
Real Estate - Construction and CRE	275 404	381 937
Other Real Estate	293 260	361 092
Other guarantees	26 611	7 553
	1 723 070	2 171 765
Loans without impairment:		
Securities and other financial assets	263 485	293 549
Residential real estate - Mortgage loans	12 099 298	12 096 015
Real Estate - Construction and CRE	364 851	242 739
Other Real Estate	961 873	843 136
Other guarantees	329 876	31 756
	14 019 383	13 507 195
	20 593 599	20 133 471

CEMG uses physical and financial collaterals as instruments for mitigating credit risk. The physical collaterals correspond mainly to mortgages on residential properties in the course of the mortgage and other types of mortgages on properties in other types of loans. To reflect the market value of them, these effects are reviewed regularly based on evaluations conducted by certified independent testing organizations or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are re-evaluated based on market values of their assets, when available, and certain coefficients applied depreciation to reflect its volatility. Most of the physical collaterals are revaluated at least once a year.

CEMG's total loans portfolio, by segment and respective impairment, as of 31 December 2017 and 2016, is presented as follows:

(Thousands of Euro)

	2017		2016	
Segment	Total Exposure	Total Impairment	Total Exposure	Total Impairment
Corporate	5 394 266	408 356	5 899 071	471 135
Construction and CRE	2 288 213	456 926	2 259 059	501 241
Mortgage Loans	6 679 403	73 099	7 093 624	95 428
Other	621 227	86 026	703 223	97 307
	14 983 109	1 024 407	15 954 977	1 165 111

The loans portfolio, by segment and by production year, as of 31 December 2017, is presented as follows:

(Thousands of Euro)

	Corporate			Construction and CRE			Mortgage loans			Other		
Year of production	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and previous years	1 297	77 377	16 057	1 241	228 127	101 081	57 011	1 973 676	23 398	39 797	29 504	6 904
2005	407	27 819	4 497	322	71 153	34 830	13 339	716 498	8 275	4 563	8 217	1 456
2006	530	69 557	6 167	403	104 818	41 345	16 182	886 048	13 501	6 443	23 683	4 232
2007	847	83 451	10 642	539	113 254	38 676	16 387	885 765	12 250	37 260	38 315	13 160
2008	4 714	74 888	9 556	1 016	81 652	20 108	8 558	461 162	7 167	50 613	35 072	5 777
2009	3 916	124 293	15 954	1 146	103 831	31 465	4 679	287 342	2 976	36 305	33 352	7 603
2010	3 965	197 866	28 232	1 102	80 964	24 200	4 883	330 352	2 730	17 470	32 262	11 917
2011	5 064	213 799	58 780	1 174	71 744	19 846	1 829	123 493	556	17 966	28 503	10 102
2012	5 007	216 495	35 227	1 084	57 789	17 319	1 179	80 250	707	9 870	23 657	6 969
2013	11 382	750 429	89 853	1 573	122 777	25 256	1 514	105 868	735	14 961	37 165	6 355
2014	16 322	742 759	53 421	3 832	232 086	31 886	1 822	129 600	333	22 477	66 564	6 704
2015	15 823	716 908	38 725	2 434	209 892	9 868	2 111	159 290	158	23 272	74 116	2 666
2016	15 177	904 294	22 308	3 307	327 743	35 185	2 829	235 225	188	29 391	103 056	1 653
2017	20 764	1 194 331	18 937	3 826	482 383	25 861	3 695	304 834	125	20 104	87 761	528
	105 215	5 394 266	408 356	22 999	2 288 213	456 926	136 018	6 679 403	73 099	330 492	621 227	86 026

The loans portfolio, by segment and by production year, as of 31 December 2016, is presented as follows:

(Thousands of Euro)

	Corporate			Construction and CRE			Mortgage loans			Other		
Year of production	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment	Number of operations	Amount	Impairment
2004 and previous years	1 894	106 619	23 154	1 596	267 687	117 270	60 191	2 224 424	31 069	41 261	35 282	8 342
2005	605	35 060	6 892	422	88 653	41 871	14 332	801 759	12 051	4 806	10 390	2 037
2006	816	79 387	8 799	532	122 949	40 855	17 161	975 038	16 512	6 808	28 536	4 020
2007	1 447	103 637	20 563	837	143 399	50 366	17 491	978 952	16 562	39 751	43 987	14 810
2008	5 779	106 024	26 303	1 458	113 358	30 181	9 070	508 238	8 185	53 617	42 237	8 564
2009	8 457	189 303	39 847	2 660	132 904	39 537	5 001	320 539	4 159	40 899	44 057	10 828
2010	7 541	287 787	69 336	1 646	108 321	35 288	5 189	361 691	3 493	19 424	43 647	13 894
2011	10 992	272 056	51 453	2 501	104 813	27 540	1 978	138 201	1 108	20 068	36 075	10 799
2012	7 469	297 498	47 795	1 594	84 740	23 380	1 327	92 811	971	11 407	30 643	7 292
2013	15 592	1 030 383	76 250	1 981	162 998	34 531	1 674	121 839	814	16 757	49 915	7 106
2014	20 294	1 021 920	54 876	4 097	286 690	31 952	1 964	145 871	239	25 411	91 350	6 782
2015	17 398	892 372	28 225	2 905	245 045	11 066	2 254	178 198	136	25 822	101 163	2 022
2016	23 002	1 477 025	17 642	5 196	397 502	17 404	2 932	246 063	129	30 663	145 941	811
	121 286	5 899 071	471 135	27 425	2 259 059	501 241	140 564	7 093 624	95 428	336 694	703 223	97 307

The loans gross exposure and individual and collective impairment by segment, as of 31 December 2017 and 2016, is analysed as follows:

(Thousands of Euro)

	2017									
	Corporate		Construction and CRE		Mortgage loans		Other		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation										
Individual	3 394 142	245 845	1 750 500	378 054	17 741	805	33 481	13 571	5 195 864	638 275
Consolidated	2 000 124	162 511	537 713	78 872	6 661 662	72 294	587 746	72 455	9 787 245	386 132
	5 394 266	408 356	2 288 213	456 926	6 679 403	73 099	621 227	86 026	14 983 109	1 024 407

(Thousands of Euros)

	2016									
	Corporate		Construction and CRE		Mortgage loans		Other		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation										
Individual	3 870 485	233 720	1 705 879	379 229	23 398	1 381	56 470	12 274	5 656 232	626 604
Consolidated	2 028 586	237 415	553 180	122 012	7 070 226	94 047	646 753	85 033	10 298 745	538 507
	5 899 071	471 135	2 259 059	501 241	7 093 624	95 428	703 223	97 307	15 954 977	1 165 111

The loans gross exposure and individual and collective impairment by business sector, as of 31 December 2017 and 2016, is analysed as follows:

(Thousands of Euros)

	2017											
	Construction		Industries		Trade		Real estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation												
Individual	814 895	251 569	573 602	32 544	349 462	37 050	775 845	117 214	2 630 838	185 520	5 144 642	623 897
Consolidated	268 326	51 536	572 971	45 209	781 023	77 804	125 903	11 157	789 614	55 679	2 537 837	241 385
	1 083 221	303 105	1 146 573	77 753	1 130 485	114 854	901 748	128 371	3 420 452	241 199	7 682 479	865 282

(Thousands of Euros)

	2016											
	Construction		Industries		Trade		Real estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation												
Individual	933 706	257 465	688 577	39 605	442 036	38 424	599 826	111 217	2 912 219	166 238	5 576 364	612 949
Consolidated	279 739	79 488	547 324	57 597	845 456	117 387	121 595	19 204	787 652	85 751	2 581 766	359 427
	1 213 445	336 953	1 235 901	97 202	1 287 492	155 811	721 421	130 421	3 699 871	251 989	8 158 130	972 376

The loans gross exposure and individual and collective impairment by business sector for the period of 2017 and 2016 is as follows:

(Thousands of Euros)

	2017												
	Gross carrying values of performing and non-performing							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		of which performing but past due >30 days and <= 90 days	of which performing forborne	of which non-performing				on performing exposures		on non-performing exposures		on non-performing exposures	of which forborne exposures
					of which defaulted	of which impaired	of which forborne		of which forborne		of which forborne		
Debt securities (a)	2 271 209	-	-	4 300	4 300	4 300	-	36 387	-	1 806	-	-	-
Loans and advances (b)	15 405 560	64 291	120 542	2 253 998	2 253 998	2 210 619	1 024 280	44 452	4 380	960 722	395 275	951 278	570 920
Off-balance-sheet exposures (c)	1 868 634	2 284	1 419	157 188	157 188	155 574	3 590	4 526	131	11 620	43	-	-

(a) Includes Debt instruments of the available-for-sale financial assets portfolio and commercial paper and bonds recognized in the line of credit to customers.
(b) Includes Loans to customers, Cash and cash equivalents and investments in central banks and other credit institutions and exchange operations to be regularized.
(c) Includes revocable and irrevocable credit lines, guarantees and documentary credits provided.

(Thousands of Euros)

	2016												
	Gross carrying values of performing and non performing							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
		of which performing but past due >30 days and <= 90 days	of which performing forborne	of which non-performing				on performing exposures		on non-performing exposures		on non-performing exposures	of which forborne exposures
					of which defaulted	of which impaired	of which forborne		of which forborne		of which forborne		
Debt securities (a)	3 647 070	-	-	4 300	4 300	4 300	-	65 042	-	1 075	-	-	-
Loans and advances (b)	15 070 738	66 539	175 408	2 747 927	2 747 927	2 687 500	1 147 234	47 901	4 305	1 099 990	397 510	1 258 479	769 524
Off-balance-sheet exposures (c)	1 757 433	1 518	724	234 175	234 175	228 414	21 731	3 907	3	9 944	122	-	-

(a) Includes Debt instruments of the available-for-sale financial assets portfolio and commercial paper and bonds recognized in the line of credit to customers.
(b) Includes Loans to customers, Cash and cash equivalents and investments in central banks and other credit institutions and exchange operations to be regularized.
(c) Includes revocable and irrevocable credit lines, guarantees and documentary credits provided.

The fair value of the collateral underlying the loans portfolio of the Corporate, Construction and Commercial Real Estate (CRE) and Mortgage segments, as at 31 December 2017, is presented as follows:

(Thousands of Euro)

	Corporate, Construction and CRE				**Retail - Mortgage**			
	Real Estate		**Other collateral**		**Real Estate**		**Other collateral**	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	4 159	502 866	1 034	58 305	106 169	12 961 569	340	11 351
>= 0,5 M€ and <1M€	244	168 262	29	18 105	347	214 551	1	500
>= 1 M€ and <5M€	250	529 758	17	27 517	39	62 709	-	-
>= 5 M€ and <10M€	37	266 903	4	27 453	-	-	-	-
>= 10 M€ and <20M€	29	399 339	2	26 099	-	-	-	-
>= 20 M€ and <50M€	14	396 579	2	66 000	-	-	-	-
>= 50M€	5	924 916	-	-	-	-	-	-
	4 738	3 188 623	1 088	223 479	106 555	13 238 829	341	11 851

The fair value of the collateral underlying the loans portfolio of the Corporate, Construction and Commercial Real Estate (CRE) and Mortgage segments, as at 31 December 2016, is presented as follows:

(Thousands of Euro)

	Corporate, Construction and CRE				**Retail - Mortgage**			
	Real Estate		**Other collateral**		**Real Estate**		**Other collateral**	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	5 309	625 257	1 111	61 307	109 070	13 216 699	336	11 842
>= 0,5 M€ and <1M€	292	203 781	39	25 191	350	215 782	-	-
>= 1 M€ and <5M€	303	641 714	19	31 500	40	62 216	-	-
>= 5 M€ and <10M€	32	229 208	3	19 115	-	-	-	-
>= 10 M€ and <20M€	26	369 133	1	12 609	2	37 500	-	-
>= 20 M€ and <50M€	9	246 591	-	-	-	-	-	-
>= 50M€	3	276 419	-	-	-	-	-	-
	5 974	2 592 103	1 173	149 722	109 462	13 532 197	336	11 842

The LTV (loan to value) ratio of the Corporate, Construction and CRE and Mortgage segments, as of 31 December 2017 and 2016, is presented as follows:

(Thousands of Euro)

Segments	2017 Number of real estate	2017 Total exposure	2017 Impairment	2016 Number of real estate	2016 Total exposure	2016 Impairment
Corporate						
Without real estate (*)	-	4 269 400	308 521	-	4 657 547	341 123
< 60%	2 201	374 454	20 752	2 253	381 556	34 547
>= 60% e < 80%	984	412 304	20 961	1 020	420 773	30 432
>= 80% e < 100%	1 015	264 699	28 422	1 004	339 271	26 465
>= 100%	105	73 409	29 700	284	99 924	38 567
Construction and CRE						
Without real estate (*)	-	979 050	185 546	-	1 054 288	175 937
< 60%	1 784	479 582	74 311	2 087	418 572	89 294
>= 60% e < 80%	988	315 003	47 311	931	240 158	42 602
>= 80% e < 100%	1 387	327 548	44 686	1 793	265 342	47 332
>= 100%	579	187 030	105 072	1 163	280 700	146 076
Retail - Mortgage						
Without real estate (*)	-	569 304	22 234	-	612 781	17 129
< 60%	64 940	2 582 221	6 230	63 070	2 551 382	8 669
>= 60% e < 80%	27 096	2 208 224	8 255	28 625	2 305 852	12 135
>= 80% e < 100%	12 735	1 163 967	12 708	15 251	1 403 729	20 063
>= 100%	1 784	155 687	23 672	2 516	219 881	37 432

(*) Includes operation with other associated colaterals, namely financial colaterals.

The fair value and net value of real estate receivables, by type of asset, as of 31 December 2017 and 2016 are presented as follows:

(Thousands of Euro)

Assets	2017 Number of real estate	2017 Fair value	2017 Book value
Property	**1 834**	**382 118**	**342 167**
Urban	1 598	272 687	247 579
Rural	236	109 431	94 588
Buildings in development	**695**	**99 048**	**89 486**
Commercials	86	7 267	6 527
Housing	483	90 323	81 574
Others	126	1 458	1 385
Developed buildings	**2 689**	**316 533**	**282 478**
Commercials	837	115 853	103 737
Housing	1 363	184 035	164 446
Others	489	16 645	14 295
	5 218	797 699	714 131

(Thousands of Euro)

Assets	2016 Number of real estate	Fair value	Book value
Property	**1 772**	**348 217**	**323 770**
Urban	1 533	275 890	256 383
Rural	239	72 327	67 387
Buildings in development	**839**	**122 149**	**112 309**
Commercials	92	9 093	7 613
Housing	598	111 537	103 246
Others	149	1 519	1 450
Developed buildings	**2 783**	**320 125**	**287 534**
Commercials	780	106 249	95 350
Housing	1 518	197 939	178 180
Others	485	15 937	14 004
	5 394	790 491	723 613

The time lapse since the assignment / execution of properties received, as of 31 December 2017 and 2016, is presented as follows:

(Thousands of Euro)

Elapsed time since the recovery/execution	2017 < 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Property	**69 202**	**60 119**	**162 799**	**50 047**	**342 167**
Urban	63 844	38 789	101 406	43 540	247 579
Rural	5 358	21 330	61 393	6 507	94 588
Buildings in development	**5 374**	**20 558**	**42 221**	**21 333**	**89 486**
Commercials	114	1 508	3 147	1 758	6 527
Housing	5 260	18 628	38 372	19 314	81 574
Others	-	422	702	261	1 385
Developed buildings	**45 649**	**60 504**	**126 783**	**49 542**	**282 478**
Commercials	14 023	16 331	60 135	13 248	103 737
Housing	30 444	37 567	61 561	34 874	164 446
Others	1 182	6 606	5 087	1 420	14 295
	120 225	141 181	331 803	120 922	714 131

(Thousands of Euro)

Elapsed time since the recovery/execution	2016 < 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Property	**79 445**	**52 395**	**182 311**	**9 619**	**323 770**
Urban	68 650	46 613	133 029	8 091	256 383
Rural	10 795	5 782	49 282	1 528	67 387
Buildings in development	**11 565**	**49 950**	**47 265**	**3 529**	**112 309**
Commercials	805	3 174	3 416	218	7 613
Housing	10 760	46 190	42 985	3 311	103 246
Others	-	586	864	-	1 450
Developed buildings	**56 774**	**87 551**	**133 955**	**9 254**	**287 534**
Commercials	12 112	22 570	58 041	2 627	95 350
Housing	42 655	57 120	72 514	5 891	178 180
Others	2 007	7 861	3 400	736	14 004
	147 784	189 896	363 531	22 402	723 613

Concentration Risk

In order to reduce concentration risk, CEMG seeks to diversify, as far as possible, its areas of activity and sources of income, as well as to diversify its exposures and sources of financing.

The concentration risk is analysed at the individual and sector level, seeking to reflect any shortcomings of diversification.

The concentration risk management is carried out in a centralized way, with regular monitoring of the concentration indexes by the Department of Risk. In particular, the level of concentration of the largest depositors and, with respect to the credit portfolio, the degree of regional diversification, the individual concentration level and the degree of diversification of the quality of the portfolio of companies are regularly monitored by the Department of Risk.

Maximum exposure limits are established per client / group of clients related to each other, as well as limits for the concentration of the largest depositors. The exceeding of any of the established limits, even if temporary, requires the approval of the Executive Board of Directors.

Market Risk

The concept of market risk reflects the potential loss that can be registered by a given portfolio as a result of changes in rates (interest and exchange rates) and / or prices of the different financial instruments that comprise it, considering both existing correlations between them, and respective volatilities.

The Group calculates its own portfolios "VaR", given a 10-day horizon and a 99% confidence interval, by the method of historical simulation. The types of risk considered in this methodology are the risk of interest rate, exchange rate risk, price risk, CDS risk, the options risk and specific credit risk.

CEMG's investment portfolio is mainly concentrated in bonds, and as of 31 December 2017 represented 63.5% (31 December 2016: 73.0%) of the total portfolio, maintaining its dominant position in bonds of sovereign issuers, essentially of the Portuguese Republic.

With regard to credit derivatives, CEMG held no position in these instruments at 31 December 2017 and 2016.

Regarding the credit quality of debt securities, it is important to note the improvement of the Portuguese public debt rating. Concerning the composition of the portfolio, the major changes resulted from a reduction in exposure to Portuguese sovereign debt and an increase in exposure of the Italian sovereign debt.

The distribution of the bond portfolio, recognized in the held for trading financial assets, available-for-sale financial assets and held-to-maturity investments is presented as follows:

(Thousands of Euro)

Rating	2017		2016		Change	
	Amount	%	Amount	%	Amount	%
AAA	-	-	8 080	0,4	(8 080)	(100,0)
AA+	-	-	2 131	0,1	(2 131)	(100,0)
AA	1 798	0,1	1 412	-	386	27,3
AA-	1 728	0,1	1 025	-	703	68,6
A+	1 528	0,1	3 510	0,1	(1 982)	(56,5)
A	1 033	0,1	4 443	0,1	(3 410)	(76,7)
A-	860	-	4 211	0,1	(3 351)	(79,6)
BBB+	295 102	16,8	176 754	6,0	118 348	67,0
BBB	575 362	32,8	175 884	5,9	399 478	227,1
BBB-	846 720	48,2	21 659	0,8	825 061	3.809,3
BB+	-	-	2 500 427	84,4	(2 500 427)	(100,0)
B+	-	-	2 561	0,1	(2 561)	(100,0)
B-	17 164	1,0	-	-	17 164	-
CCC	-	-	12 371	0,4	(12 371)	(100,0)
D	-	-	35 116	1,2	(35 116)	(100,0)
NR	13 945	0,8	13 044	0,4	901	6,9
Total	1 755 240	100,0	2 962 628	100,0	(1 207 388)	(40,8)

The amount of securities recognized in the held for traging financial assets amounts to Euro 149,622 thousands and the amount of securities recognized in the available-for-sale financial assets amounts to Euro 1,605,618 thousands.

Regarding trading book, the main VaR indicators are as follows:

(Thousands of Euro)

	2017	Average	Minimum	Maximum	2016
Market VaR	508	383	193	532	316
Interest rate risk	121	152	53	168	98
Exchange risk	93	80	62	113	78
Price risk	479	319	162	482	318
Diversification effect	*(185)*	*(168)*	*(84)*	*(231)*	*(178)*
Credit VaR	2 349	1 381	302	2 412	285
VaR Total	**2 857**	**1 764**	**495**	**2 944**	**601**

Bank Portfolio Interest Rate Risk

The assessment of interest rate risk caused by banking portfolio operations is performed by a sensitivity analysis to the risk, in a consolidated view for CEMG entities (including subsidiaries recognized in discontinuing operations).

Interest rate risk is measured according to the impact on net interest income, net worth and equity caused by changes in market interest rates. The main risk factors arise from the term adjustments of the interest rate reset and / or residual maturities between assets and liabilities (repricing risk), non-parallel variations in yield curve risk, the lack of a perfect correlation between different indexes with the same term of repricing (basis risk) and the options associated with instruments enabling a different performance of the players/participants depending on the level of rates contracted and practiced at the moment (option risk).

Based on the financial characteristics of each contract, it is made its projection of expected cash flows, according to the dates of rate reset and any behavioral assumptions considered.

Aggregation, for each currency analysed the expected cash flows in each of the time intervals to determine the interest rate gaps by repricing period.

The following tables present the interest rates gaps in the period of 2017 and 2016:

(Thousands of Euro)

	Within 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years
31 December 2017					
Assets	8 075 087	3 275 709	644 347	1 606 709	925 727
Off balance sheet	9 990	-	-	782 972	-
Total	8 085 077	3 275 709	644 347	2 389 681	925 727
Liabilities	4 816 938	1 876 262	2 417 660	7 814 534	274 933
Off balance sheet	758 550	9 850	9 740	14 822	-
Total	5 575 488	1 886 112	2 427 400	7 829 356	274 933
Gap (Assets - Liabilities)	2 509 589	1 389 597	(1 783 053)	(5 439 675)	650 794
31 December 2016					
Assets	8 461 356	3 405 824	692 130	1 404 490	2 352 668
Off balance sheet	7 959 536	20 500	43 820	66 148	-
Total	16 420 892	3 426 324	735 950	1 470 638	2 352 668
Liabilities	4 410 771	1 862 701	1 963 618	8 652 675	281 761
Off balance sheet	7 922 524	63 370	1 013	103 160	-
Total	12 333 295	1 926 071	1 964 630	8 755 835	281 761
Gap (Assets - Liabilities)	4 087 597	1 500 253	(1 228 680)	(7 285 197)	2 070 907

The following table presents the interest rate gaps for 31 December 2017 and 2016:

(Thousands of Euro)

	2017				2016			
	December	Average	Maximum	Minimum	December	Average	Maximum	Minimum
Interest rate Gap	(2 672 748)	(1 763 934)	(855 120)	(2 672 748)	(855 120)	(998 831)	(839 372)	(1 302 001)

Sensitivity to the balance sheet interest rate risk is calculated by the difference between the current value of the mismatch interest rate discounted at market interest rates and the discounted value of these cash flows simulating parallel shifts of the market interest rate curve.

As at 31 December 2017, based on the interest rate gaps observed, an instantaneous and parallel positive variation in the interest rates by 100 bp would cause a change in the economic value expected in the banking portfolio in Euro 18,633 thousand (31 December 2016: Euro 24,389 thousand).

The following table presents the average interests, in relation to CEMG major assets and liabilities categories for the years ended 31 December 2017 and 2016, as well as the average balances and income and expense for the period:

(Thousands of Euro)

	2017			2016		
	Average balance	Average interest rate (%)	Interests	Average balance	Average interest rate (%)	Interests
Interest assets generators						
Deposits at central banks and OCI	469 507	-	4	307 172	-	7
Loans and advances to OCI	586 921	0,40	2 385	396 790	0,68	2 747
Loans and advances to customers	14 576 598	2,37	350 302	15 116 264	2,47	378 404
Securities portfolio	2 389 738	1,44	34 828	2 974 856	1,92	58 041
Others (Includes derivatives)	-	-	16 561	-	-	75 935
	18 022 764	**2,21**	**404 080**	**18 795 082**	**2,70**	**515 134**
Interest liabilities generators						
Deposits from ECB	2 310 827	0,04	1 003	2 791 845	0,04	1 061
Deposits from OCI	2 352 664	0,73	17 381	2 141 414	0,80	17 468
Deposits from customers	11 877 000	0,68	82 010	11 897 869	1,03	124 783
Senior debt	1 394 451	2,60	36 697	2 050 805	2,51	52 087
Subordinated debt	236 620	1,27	3 051	267 707	1,44	3 909
Others (Includes derivatives)	-	-	13 864	-	-	77 364
	18 171 562	**0,84**	**154 006**	**19 149 640**	**1,42**	**276 672**
Net interest income		**1,37**	**250 074**		**1,25**	**238 462**

Currency Risk

Regarding currency risk, the procedure is the application of funds raised in various currencies through active money market and for terms not exceeding those of the resources. Thus, existing exchange rate gaps are essentially due to possible mismatches between the terms of the applications and of the resources.

As such, CEMG exchange rate exposure in consolidated terms arises, essentially, from the structural positions resulting from the conversion of the balance sheets of subsidiaries into their main currencies, namely Kwanza and North American Dollar, with regard to Finibanco Angola and Metical, in Banco Terra, Mozambique. Aditionally, CEMG holds a large exposure to Brasilian real, resulting from an asset received in the context of a credit recovery process.

The breakdown of assets and liabilities, by currency, as at 31 December 2017 and 2016 is analysed as follows:

(Thousands of Euro)

	2017							
	Euro	**United States Dollar**	**Sterling Pound**	**Canandian Dollar**	**Suisse Franc**	**Brazilian Real**	**Other foreign currencies**	**Valor total**
Assets by currency								
Cash and deposits at central banks	1 715 638	11 761	1 473	909	2 815	102	928	1 733 626
Loans and advances to credit instituitions repayable on den	46 218	11 670	394	272	416	-	502	59 472
Other loans and advances to credit institutions	547 748	10 963	-	-	-	-	-	558 711
Loans and advances to customers	12 629 477	119 045	167	-	28	-	-	12 748 717
Financial assets held-for-trading	180 662	3 006	-	193	215	-	-	184 076
Financial assets available-for-sale	2 544 708	372	-	-	-	57 614	97	2 602 791
Investments in associated companies and others	315 903	-	-	-	-	-	-	315 903
Non-current assets held-for-sale	714 133	-	-	-	-	-	-	714 133
Property and equipment	220 002	-	-	-	-	-	-	220 002
Intangible assets	30 092	-	-	-	-	-	-	30 092
Current tax assets	6 589	-	-	-	-	-	-	6 589
Deferred tax assets	458 864	-	-	-	-	-	-	458 864
Other assets	176 353	259	3	-	-	-	-	176 615
Total Assets	19 586 387	157 076	2 037	1 374	3 474	57 716	1 527	19 809 591
Liabilities by currency								
Deposits from central banks	1 557 840	-	-	-	-	-	-	1 557 840
Deposits from other financial institutions	1 948 506	33 848	3 913	24 816	18	-	96	2 011 197
Deposits from customers	12 459 824	70 006	7 516	13 096	1 871	-	3 012	12 555 325
Debt securities issued	1 389 774	225	-	-	-	-	-	1 389 999
Financial liabilities held-for-trading	15 694	477	-	-	-	-	-	16 171
Hedging derivatives	1 663	-	-	-	-	-	-	1 663
Provisions	26 207	-	-	-	-	-	-	26 207
Current tax liabilities	1 104	-	-	-	-	-	-	1 104
Other subordinated debt	237 016	-	-	-	-	-	-	237 016
Other liabilities	281 291	1 322	287	166	980	-	12	284 058
Total Liabilities	17 918 919	105 878	11 716	38 078	2 869	-	3 120	18 080 580
Exchange forward transaction		(49 974)	9 919	37 037	769	-	2 507	
Exchange gap		1 224	240	333	1 374	57 716	914	
Stress Test		(245)	(48)	(67)	(275)	(11 543)	(183)	

(Thousands of Euro)

	2016							
	Euro	**United States Dollar**	**Sterling Pound**	**Canandian Dollar**	**Suisse Franc**	**Brazilian Real**	**Other foreign currencies**	**Total amount**
Assets by currency								
Cash and deposits at central banks	372 833	4 568	1 052	556	1 689	84	506	381 288
Loans and advances to credit instituitions repayable on de	56 883	12 229	388	398	517	-	624	71 039
Other loans and advances to credit institutions	706 014	23 026	-	-	-	-	-	729 040
Loans and advances to customers	13 643 051	155 922	-	-	738	-	-	13 799 711
Financial assets held-for-trading	75 505	2 460	-	196	-	-	-	78 161
Financial assets available-for-sale	2 821 649	212	-	-	-	66 871	-	2 888 732
Held-to-maturity investments	1 126 125	-	-	-	-	-	-	1 126 125
Investments in associated companies and others	259 287	-	-	-	-	-	-	259 287
Non-current assets held-for-sale	723 742	-	-	-	-	-	-	723 742
Property and equipment	222 809	-	-	-	-	-	-	222 809
Intangible assets	33 013	-	-	-	-	-	-	33 013
Current tax assets	9 281	-	-	-	-	-	-	9 281
Deferred tax assets	513 808	-	-	-	-	-	-	513 808
Other assets	204 924	703	4	-	-	-	-	205 631
Total Assets	20 768 924	199 120	1 444	1 150	2 944	66 955	1 130	21 041 667
Liabilities by currency								
Deposits from central banks	2 307 947	-	-	-	-	-	-	2 307 947
Deposits from other financial institutions	2 510 389	56 108	3 990	30 150	19	-	77	2 600 733
Deposits from customers	12 269 275	76 167	6 413	12 510	1 534	-	4 112	12 370 011
Debt securities issued	1 883 372	257	-	-	-	-	-	1 883 629
Financial liabilities held-for-trading	25 971	177	-	-	-	-	-	26 148
Hedging derivatives	-	-	-	-	-	-	-	-
Provisions	20 993	-	-	-	-	-	-	20 993
Current tax liabilities	1 271	-	-	-	-	-	-	1 271
Other subordinated debt	237 094	-	-	-	-	-	-	237 094
Other liabilities	202 600	613	2	43	719	-	2	203 979
Total Liabilities	19 458 912	133 322	10 405	42 703	2 272	-	4 191	19 651 805
Exchange forward transaction	9 517	(63 684)	9 038	42 036	(373)	-	3 845	
Exchange gap		2 114	77	483	299	66 955	782	
Stress Test		(423)	(15)	(96)	(60)	(13 391)	(157)	

The result of the stress test performed corresponds to the estimate impact (before tax) in equity, including minority interests, due to a devaluation of 20% in exchange rate of each currency against Euro.

Liquidity Risk

Liquidity risk reflects the Group's inability to meet its obligations at due date, without incurring significant losses arising from a deterioration in financing conditions (financing risk) and / or the sale of its assets at lower values to market values (market liquidity risk).

The assessment of the liquidity risk is made using regulatory indicators defined by the supervisory authorities, as well as other internal metrics for which are defined exposure limits. This control is reinforced with weekly execution of stress tests, in order to characterize the risk profile of CEMG and ensure that the Group fulfills its obligations in a liquidity crisis scenario.

As at 31 December 2017, the recorded amount in LCR was 153.87%. (31 December 2016: 101.7%).

As at 31 December 2017, CEMG's financing was as follows:

(Thousands of Euro)

Liabilities	2017	Undetermined	Until 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 557 840	-	-	-	-	1 557 840
Financial liabilities held-for-trading	16 171	-	902	1	221	15 047
Deposits from other credit institutions	2 011 197	-	362 167	66 904	419 480	1 162 646
Deposits from customers	12 555 325	-	4 865 405	3 485 232	2 231 157	1 973 531
Debt securities issued	1 389 999	-	109 036	65 201	80 578	1 135 184
Hedge derivatives	1 663	-	-	-	-	1 663
Other subordinated debt	237 016	-	111 934	4 206	120 876	-
Other liabilities	284 059	284 059	-	-	-	-
Total Liabilities	**18 053 270**	**284 059**	**5 449 444**	**3 621 544**	**2 852 312**	**5 845 911**

As at 31 December 2016, CEMG's financing was as follows:

(Thousands of Euro)

Liabilities	2016	Undetermined	Until 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	2 307 947	-	360 000	-	-	1 947 947
Financial liabilities held-for-trading	26 148	-	2 758	35	3 839	19 517
Deposits from other credit institutions	2 600 733	-	1 075 714	106 536	11 419	1 407 064
Deposits from customers	12 370 011	-	4 419 134	3 380 913	1 765 112	2 804 852
Debt securities issued	1 883 629	-	361 075	73 317	160 347	1 288 890
Other subordinated debt	237 094	-	499	34	668	235 892
Other liabilities	203 979	203 979	-	-	-	-
Total Liabilities	**19 629 541**	**203 979**	**6 219 180**	**3 560 835**	**1 941 384**	**7 704 162**

Within the instruction No. 28/2014 of the Bank of Portugal, which focuses on the guidance of the European Banking Authority in relation to the disclosure of encumbered and unencumbered assets (EBA/GL/2014/3) and taking into consideration the recommendation by the European Systemic Risk Committee, we present the following information, as at 31 December 2017 and 2016 on the assets and collaterals:

Assets	2017			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets from the reporting institution	5 516 327	n/a	14 293 264	n/a
Equity instruments	-	-	1 007 075	1 187 263
Debt securities	1 177 559	1 173 674	1 205 079	7 791 741
Other assets	-	n/a	2 019 494	n/a

(Thousands of Euro)

Assets	2016			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets from the reporting institution	6 158 899	-	14 882 768	-
Equity instruments	-	-	1 097 168	1 271 273
Debt securities	1 893 490	1 838 568	1 725 233	3 523 377
Other assets	-	-	2 212 016	-

(Thousands of Euro)

Collateral received	2017	
	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Assets from the reporting institution	77 463	48 894
Equity instruments	-	-
Debt securities	77 463	48 894
Other collateral received	-	-
Own securities issued that are not own covered bonds or ABS	-	-

(Thousands of Euro)

Collateral received	2016	
	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Assets from the reporting institution	81 127	70 079
Equity instruments	-	-
Debt securities	81 127	70 079
Other collateral received	-	-
Own securities issued that are not own covered bonds or ABS	-	-

Encumbered assets, encumbered collateral received and associated liabilities	2017
	Carrying amount of selected financial liabilities
Associated liabilities, contingent liabilities and securities borrowed	3 653 294
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	5 565 871

(Thousands of Euro)

Encumbered assets, encumbered collateral received and associated liabilities	2016 Carrying amount of selected financial liabilities
Associated liabilities, contingent liabilities and securities borrowed	4 783 325
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	6 212 949

The encumbered assets are mostly related to collateralise financing of CEMG, in particular the ECB's, repo transactions, issuance of covered bonds and securitization programs. The types of assets used as collateral of these financing transactions, whether placed outside the Group, whether to improve the pool of collateral with the ECB, are customer's loans contracts. Repo transactions in the money market are collaterised, mainly by covered bonds and securitization programs in which CEMG is the originator, and by securities transactions.

The amounts presented previously correspond to the position as at 31 December 2017 and 2016 and reflect the high level of collateralisation of the wholesale funding of CEMG. The buffer of eligible assets for the ECB, after haircuts, less net borrowing at the ECB, as at 31 December 2017 amounts to Euro 1,018,419 thousand (31 December 2016: Euro 1,213,500 thousand).

It should be noted that the total amount of collateral available at the European Central Bank (ECB) on 31 December 2017 amounted to Euro 2,539,595 thousand (31 December 2016: Euro 3,508,001 thousand) with a utilization of Euro 1,557,840 thousand (31 December 2016: Euro 2,307,946 thousand):

	2017	2016
Total eligible collateral	**4 254 568**	**5 908 134**
Total collateral in the pool	2 539 595	3 508 001
Collateral outside the pool	1 714 973	2 400 133
Used collateral	**3 236 149**	**4 694 634**
Collateral used for ECB	1 557 840	2 307 946
Collateral commited to other financing operations	1 678 309	2 386 688
Available collateral for ECB	**981 755**	**1 200 055**
Available total collateral	**1 018 419**	**1 213 500**

Note: collateral amount considers the applied haircut

Real Estate Risk

Real estate risk results from possible negative impacts on CEMG's results or equity due to fluctuations in the market price of real estate.

The real estate risk results from exposure in real estate, whether from credit recovery processes or from real estate fund units held in securities portfolio. These exposures are monitored through scenario analyses that attempt to estimate potential impacts of changes in real estate markets in portfolios of these real estate assets and make available the information elements needed for the definition of the policy for real estate management.

As at 31 December 2017 and 2016, exposure to real estate and investments real estate fund units presented the following value:

(Thousands of Euro)

	2017	2016
Real estate received as loan guarantee	714 131	723 613
Real estate investment fund units	729 410	800 151
	1 443 541	1 523 764
Stress test	(144 354)	(152 376)

Stress test results correspond to the estimated impact in equity (before taxes) of a 10% variation in values of real estate and real estate funds.

Operational Risk

Operational risk is the potential loss resulting from failures or inadequacies in internal processes, people or systems, or potential losses resulting from external events.

CEMG Group has the approval from the Bank of Portugal for the use of the standard method for quantifying its own capital requirements for operational risk. An integrated continuing business plan is implanted, based on the identification, evaluation, monitoring, measurement, mitigation and reporting of this type of risk.

The risk department has the corporate function of operational risk management of CEMG which is supported by the existence of responsible employees in the different organic units that ensure the proper implementation of CEMG's operational risk management.

The operational risk profile assessment for new products, processes and systems and the consequent follow-up, on a regular basis, has allowed the prior identification and mitigation of operational risk situations.

Regarding risk monitoring, the main activities carried out were the collection and analysis of operational risk loss events, the analysis of Key Risk Indicators, the evaluation of the exposure to Operational Risk and the preparation of periodic reports on the profile of Operational risk of the Institution. In particular, quarterly monitoring reports of operational risk loss events and mitigation measures are prepared. An annual report is prepared annually, which includes the analysis of all operational risk management instruments.

Within the mitigation phase, Action Plans were suggested for the most significant risks, identified based on the operational risk management tools previously mentioned.

In addition, CEMG has implemented a business continuity management process, supported by a set of evaluation, design, implementation and monitoring activities, integrated into a cycle of continuous improvement.

This process is crucial as a risk mitigation tool, making the business processes more resilient and allowing to ensure the continuity of operations in the event situations that cause the interruption of the activity, considering the established Recovery Time Objective (RTO).

Pension Fund Risk

The pension fund risk results from the potential devaluation of the fund's assets portfolio or the decrease in the expected returns. In such scenarios, CEMG will have to make unplanned contributions in order to maintain the benefits defined by the Fund.

Regular monitoring and analysis of CEMG’s Pension Fund management is carried out by the Pension Fund Monitoring Committee. In addition, the Department of Risk ensures the production of monthly reports with the evolution of the Pension Fund portfolio’s market value and associated risk indicators.

Considering the provisions of the investment policy of the Montepio Geral Pension Fund relating to the exposure to various risks and different legal provisions, the control of these limits is monitored daily by means of a detailed analysis of "legal limits and investments exceeded", with a set of procedures that are performed may the limits be exceeded.

Subsequently, the Department of Risk monitors the effect of the measures adopted and their impact on the investment policy. At the same time, the levels of exposure to the legal and prudential limits that regulate the Montepio Geral Pension Fund are also monitored.

Besides verifying compliance with the investment policy and the legal and prudential limits, the management entity (Futuro) has decided to strengthen control and monitoring through a variety of risk measures and a set of internal procedures aimed at maintaining the prudent management of the risk. On this basis, a risk management model based on the technical perspective of EIOPA's "QIS Pension Funds" studies is used. The development of tolerance indicators for this model allows monitoring the variations of these indicators, in accordance with the investment policy defined for the Pension Fund.

Market risk monitoring is based on VaR calculation, with a confidence/reliability interval of 99.5% for one-year time horizon. Since VaR does not totally guarantees that risks do not exceed the probability used, Stress Tests are also carried out, with the purpose to calculate the impact of several extreme scenarios on the value of the portfolio.

The shareholder liquidity level and bond component of the Pension Fund is assessed through a liquidity test. With shares, this analysis is done based on the number of days to settle, considering the assets in the portfolio. This test consists of verifying the liquidity of the shareholder segment, assessing how many days are necessary for its settlement in the market, considering the costs associated with these transactions and the average historical volume of transactions in the various markets. In addition, in the bond segment, the cash receipts (positive cash-flows) resulting from bond coupon (interest) payments and amortisations or possible call exercises for one month are calculated. All these tests allow to assess the degree of liquidity in the short term and to monitor or act before a possible shortage of liquidity in a timely manner.

Other risks

With regard to other risks – reputation, strategy and business risk - these are also monitored by the Executive Board of Directors, and risks are controlled and corrective measures taken based on the results obtained against the objectives / limits established in the risk appetite, being the monitoring in the scope of the ALCO comitee, namely the control of deviations from the approved strategic plan and budget.

Coverage Policies and Risk Reduction

For the purpose of reducing credit risk, the risk mitigation elements associated with each operation are considered. In particular, real mortgage guarantees and financial collateral are relevant, as well as the provision of personal credit protection, namely collateral.

The enforcement of collateral depends of specific characteristics for each transaction, typically occurring in larger volume transactions or in specific products, especially in construction financing and housing acquisition, and always that the operation on risk profile is worth.

Regarding real mortgage guarantees, CEMG has defined valuation and revaluation models to be applied to properties that may constitute collateral for credit operations. The asset evaluation is carried out by independent experts, and the management of evaluations and inspection is centralised in a structuring unit of the Institution, regardless of the commercial area. In accordance with (EU) Regulation no. 575/2013 (CRR), the requirements for the validation and reassessment of the asset's value, depending on the cases, either by statistical and computerized methods or by review or revaluation of the valuation value by the expert.

For credit guarantees, the principle of substitution of the customer's risk by that of the protection provider is applied, provided that does not originate credit derivatives on the portfolio exposure.

The Group does not usually use on-balance sheet and off-balance sheet processes, nor does it generate credit derivatives on exposure in its portfolio.

Trading portfolio market risk mitigation techniques essentially consist of hedging exposures for financial products with symmetric risk to decrease the total risk of operations or the partial or total sale of exposures to reduce exposure or cancel it completely.

With regard to banking portfolio, interest rate and foreign exchange risk mitigation techniques are the negotiation of hedging transactions with derivatives and closing exposures through the sale of open exposures.

Own Funds and Capital Ratios

The own funds of CEMG are established in accordance with the applicable regulatory standards, namely Directive 2013/36/EU (CRD IV) and Regulation (EU) No. 575/2013 (CRR) adopted by the European Parliament and by the Council, and the Notice No. 6/2013 of the Bank of Portugal. The own funds include own funds of level 1 (tier 1) and own funds of level 2 (tier 2). Tier 1 includes own funds core of level 1 (common equity tier 1 – CET1) and the additional own funds of level 1with the following composition:

- Own Funds Core of Level 1 or Common Equity Tier 1 (CET1): this category includes the realized capital (with deduction of own funds), eligible reserves (including fair-value reserves), retained earnings, positive and certified retained earnings for the period or wholly if negative. The value of reserves and retained earnings is adjusted by the reversal of the results in financial liabilities at fair value through profit or loss in the part corresponding to the risk of the institution's own credit. It is deducted the balance value of the amounts related to goodwill, other intangible assets, as well as the gap, if positive, between the asset and the pension fund responsibility. The amount of the prudent valuation calculated in accordance with CRR Article 34 and 105 is also deducted. The deferred tax assets related to tax losses are also deducted. Concerning financial investments on financial sector entities and deferred tax assets by temporary differences on which depends the future profitability, the values in these accounts are deducted when, individually, overcome 10% of CET1, or posteriorly 15% of CET1 when considered as aggregated (only on the non-deducted part on the first barrier of 10% and considering only significant participations). Non-deducted values will be subject to weight of 250% for the fullness of risk-weighted assets. Regarding investments in financial institutions, the eventual deduction is proportionally realized on the respective held capital levels. As part of the implementation of this new prudential regulation (EU no. 575/2013), a transitory period will be in force that will allow to gradually acknowledge the majors impacts of this new regulation. Emphasis for the transitory plan applied to deferred tax assets and negative actuarial deviations of the Pension Fund that allows to acknowledge 20% per year, being in 2017, 80% of the eventual negative effects caused by the new standards. Fair-value reserves will also be subject to a transitory plan of 20%/year, cumulatively, being 80% in 2017.
- Own Funds of Level 1 or Tier 1 (T1): includes capital equivalent instruments, whose conditions are in accordance with Article 52 from Regulation no. 575/2013 and approved by the Bank of Portugal. Non-controlled interests relating to additional own funds minimum requirements of the institutions

for which CEMG does not hold full ownership are also eligible. The eventual detentions of capital T1 from financial institutions subjected to deduction are deducted from this capital.

- Own Funds of Level 2 or Tier 2 (T2): includes capital equivalent instruments, whose conditions are in accordance with the Article 63 from EU Regulation no. 575/2013 and approved by the Bank of Portugal. Uncontrolled interests relating to the minimum own funds requirements of the institutions for which CEMG does not hold full ownership are also eligible if exist. The eventual detentions of capital T2 from financial institutions subjected to deduction are deducted from this capital.

The Totals Own Funds or Total Capital are constituted by the sum of the three levels previous referred.

Regarding the calculation of risk-weighted assets, in addition to credit, operational and market risks requirements, a particular reference to the weighting of 250% of deferred tax assets from temporary differences that depend on future earnings and investments that are within the established limit for non-deduction to CET1. CVA requirement (Credit Valuation Adjustment) is also determined.

As previously referred, until 2018 the effects of Basel III's new regulation will gradually being introduced. This process is usually named as Phasing-in. The full assumption of the new regulation, without considering transitory plans, is named as Full Implementation. Phasing-in process is currently in force, and it is on this basis that an entity verifies that has its own funds for an amount not below its own funds, thus certifying the adequacy of its capital. This relation is reflected on the different capital ratios, namely CET1 ratio, T1 ratio and total capital ratio (formerly designated by solvability ratio, represented by the percentage of capital level correspondent to the amount of 12.5 times the own funds requirements).

For these ratios, regulatory minimums are indicated by CRD IV / CRR of 4.5% for CET1, 6% for Tier 1 and 8% for total Capital. However, on these regulatory minimums, reserves of own funds (such as Conservation Reserve, Counter-Cyclical Reserve and Reserves for Other Systemic Institutions) are applied, the value of which is defined by the Bank of Portugal. In June 2017, the Bank of Portugal defined a 0% Counter-cyclical Reserve, and the Reserve for Other Systemic Institutions was only defined for consolidated purposes. Regarding Conservation Reserve, the Bank of Portugal, in its Notice 6/2016, defines its application according to the transitory plan set out in Article 160 of CRD IV, thus the value of this reserve is 1.250% in 2017, 1.875% in 2018 and 2.5% after 01/01/2019. Pursuant to these provisions, as of 31 December 2017, the Common Equity Tier 1, Tier 1 and Total regulatory minimum ratios were 5.75%, 7.25% and 9.25%, respectively, including Own Fund Reserves, referred to above.

The summary of the calculation for CEMG's capital requirements as at 31 December 2017 and 2016 is presented as follows:

		(Thousands of Euro)
	2017	**2016**
Capital Common Equity Tier 1		
Paid-up capital	2 420 000	2 170 000
Net profit, reserves and retained earnings	(697 312)	(786 460)
Other regulatory adjustments	(373 712)	(235 693)
	1 348 976	1 147 847
Capital Tier 1	1 348 976	1 147 847
Capital Tier 2		
Subordinated loans	24 250	71 221
Regulatory adjustments	(24 250)	(45 106)
	-	26 115
Total own funds	1 348 976	1 173 962
Own funds requirements		
Credit risk	748 227	840 247
Market risk	17 718	9 522
Operational risk	46 334	49 122
Other requirements	39 397	30 282
	851 676	929 173
Prutential Ratio		
Ratio Common Equity Tier 1	12,67%	9,88%
Ratio Tier 1	12,67%	9,88%
Total Capital Ratio	12,67%	10,11%

51 Accounting standards recently issued

The recently issued accounting standards and interpretations already in force and which CEMG applied in the preparation of its financial statements are as follows:

Issued by IASB:

- On 19 January 2016, and applicable for annual periods beginning on or after 1 January 2017, amendments to IAS 12 clarifying the requirements on recognition of deferred tax assets for unrealized losses, to address diversity in practice (adopted by European Commission Regulation No. 1989/2017, of 6 November).

- On 29 January 2016, and applicable for annual periods beginning on or after 1 January 2017, amendments to IAS 7 Disclosure initiative require companies to provide information about changes in their financing liabilities in order to provide information that helps the investors to better understand changes in a company's debt (adopted by European Commission Regulation No. 1990/2017, of 6 November).

- The annual improvements cycle 2014-2016, issued by IASB on 8 December 2016, introduce amendments to IFRS 12 (clarification of the scope of the Standard), with effective date on or after 1 January 2017.

None of these amendments had an impact on CEMG's financial statements.

CEMG has decided not to early apply the following standards and / or interpretations adopted by the European Union.

Financial instruments

IFRS 9 - Financial Instruments was approved by EU in November 2016 and enters into force for periods beginning on or after 1 January 2018. IFRS 9 will replace IAS 39 - Financial Instruments: Recognition and Measurement and will establish new standards for the accounting of financial instruments, bringing forward significant changes particularly regarding impairment requirements. For this reason, it is a standard that has been subject to a detailed and complex implementation process involving all key areas with the purpose to understand the impacts and changes in processes, governance and business strategy that may imply.

Requirements presented by IFRS 9 are applied retrospectively by adjusting the opening balance sheet at the date of the initial application.

CEMG has been working on this process and has formed, under this context, a Working Group which is responsible for making key decisions regarding the requirements defined by IFRS 9 and for monitoring the status of the process of analysis and implementation of this new standard. The main departments involved in this project are DRI, DPECC and DSI.

Internal Audit and the External Auditor are also involved in the process, namely in the review and validation component. With regard to the IFRS 9 implementation process, CEMG has identified a number of risks that may arise and several mitigating factors and control actions to prevent those risks.

In July 2014, IASB issued the final version of IFRS 9 - Financial Instruments. IFRS 9 is effective for periods beginning on or after 1 January 2018 with early adoption permission, and replaces IAS 39 - Financial Instruments: Recognition and Measurement.

In October 2017, IASB issued "Anticipated Payments with Negative Compensation" (amendments to IFRS 9). Changes are effective for annual periods beginning on 1 January 2019, with early adoption permission.

CEMG will apply IFRS 9 as issued in July 2014 for the period beginning on 1 January 2018 and will adopt in advance amendments to IFRS 9 made on the same date.

According to the assessments up to date, the estimated total impact (net of taxes) of the IFRS 9 adoption in retained earnings of CEMG, as at 1 January 2018, is approximately Euro 88 million, representing:

- Euro 136 million related to impairment requirements and the impact of the adoption of the fair value concept to some credit operations; and
- Euro 48 million related to impacts on deferred tax.

The mentioned impact should be considered as a preliminary evaluation, since the transition is not yet concluded, corresponding to the best estimate of the impact of the adoption of the new accounting standard as the present date. The current impact of the IFRS 9 adoption as at 1 January 2018 may still change for the following reasons:

- CEMG is accurating the ECL calculation models, which includes revision and confirmation of the methodologies and assumptions in several geographies;
- As the present date, is not yet concluded the fiscal framework related to the transition adjustment resulting from the adoption of IFRS 9;
- Given that the international accounting standards are based on principles that incorporate some degree of subjectivity, it is expected that we will observe the reinforcement by the regulators and supervisors regarding the harmonization of implementation and the criteria adopted, in order to ensure the level playing field.

I – Classification – Financial Assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model used in the asset management as well as the characteristics of its cash flows.

IFRS 9 includes three main classification categories for financial assets: measured at amortised cost, at fair value with changes in comprehensive income (FVOCI – Fair Value through Other Comprehensive Income) and at fair value with changes in profit or loss (FVTPL - Fair Value through Profit or Loss). Consequently, the existing categories in IAS 39 of "Held to Maturity", "Loans and Receivables" and "Available-for-Sale" have been eliminated.

A financial asset is measured at amortised cost if it meets, simultaneously, the following requirements and is not recorded at FVTPL (use of the Fair Value Option):

- the financial asset is held in a business model whose main purpose is to held the asset to collect its contractual cash flows (HTC – Held to collect); and
- its contractual cash flows occur on specific dates and correspond solely to payments of principal and interest on the SPPI (Solely Payments of Principal and Interest).

A financial asset is measured at FVOCI if it meets, simultaneously, the following requirements and is not recorded at FVTPL (use of the Fair Value Option):

- the financial asset is held in a business model whose purpose is to collect its contractual cash flows and the sale of financial assets (Held to collect and Sell); and
- contractual cash flows occur on specific dates and correspond solely to payments of principal and interest on the outstanding amount (SPPI).

In the initial recognition of an equity instrument that is not held for trading, the Bank may irrevocably classify it to FVOCI. This classification is made on a case-by-case basis, investment-to-investment.

All financial assets that are not measured, according to the criteria described above, at amortised cost or FVOCI, are measured to FVTPL. In addition, at initial recognition, the Bank may irrevocably classify a financial asset, which otherwise meets the requirements to be measured at amortised cost or FVOCI, such as FVTPL, if the classification significantly eliminates the accounting mismatch that would otherwise exist (Fair Value Option).

A financial asset is classified in one of these categories on its initial recognition. Please refer to (VII) on the transition requirements related to the classification of financial assets.

In the context of IFRS 9, derivatives embedded in financial assets are not separated for classification purposes, so a hybrid instrument is valued as a whole.

Business Model Assessment

CEMG is conducting, with reference to 1 January 2018, an assessment of the business model in which the financial instrument is held, at a portfolio level, as this approach reflects the best way in which assets are managed and how the information is made available to management bodies. The information considered in this assessment includes:

- policies and goals established for the portfolio and the practical operability of these policies, including how the management strategy focuses on receiving contractual interest, keeping a certain interest rate profile, adjusting the lifetime of financial assets to the lifetime of liabilities that sponsor these assets or generating cash flows through the sale of the assets;
- how the portfolio's performance is assessed and reported to CEMG's management bodies;
- assessing the risks that affect the performance of the business model (and of the financial assets held under this business model) and how these risks are managed;
- the remuneration of business managers – e.g. to what extent the compensation depends on the fair value of assets under management or contractual cash flows received; and
- frequency, volume and periodicity of sales in previous periods, the reasons for such sales and the expectations about future sales. However, sales information should not be considered separately, but as part of an overall assessment of how CEMG sets goals for managing financial assets and how cash flows are obtained.

Financial assets held for trading and financial assets managed and valued at fair value (Fair Value Option) will be measured at FVTPL, as they are not held either for the collection of contractual cash flows (HTC) nor for the collection of cash flows and sale of financial assets (HTC and Sell).

Assess if contractual cash flows correspond solely to payments of principal and interest (SPPI)

For the purpose of this assessment, "principal" is defined as the fair value of the financial asset at initial recognition. "Interest" is defined as the compensation for the time value of money, the credit risk associated with the outstanding amount over a given period of time and for other risks and costs associated to the activity (e.g. liquidity risk and administrative costs), as well as a mark-up rate.

In the assessment of financial instruments in which contractual cash flows relate exclusively to the payments of principal and interest, CEMG considered the original contractual terms of the instrument. This assessment included the analysis of existing situations in which the contractual terms can change the periodicity and the amount of cash flows which fail to comply with the SPPI condition. In the assessment process, CEMG considered:

- contingent events that may change the periodicity and amount of cash flows;
- characteristics resulting in leverage;
- prepayment and extension of maturity terms clauses;
- provisions that may restrict CEMG's right to claim cash flows relating to specific assets (e.g. contracts with terms preventing the access to assets in default cases – "non-recourse asset"); and
- characteristics that may change time-value compensation of money – e.g. periodic resetting interest rates.

A contract with a prepayment option is consistent with the SPPI criteria if the prepayment amount represents the unpaid principal and interest amounts of the outstanding principal amount, which may include reasonable compensation for the prepayment (i.e. administrative cost or servicing fee incurred by anticipated termination of the contract).

In addition, a prepayment is consistent with the SPPI criteria if (i) the financial asset is acquired or originated with a premium or discount as to the contractual nominal value, (ii) the prepayment represents substantially the nominal amount of the contract plus accrued interests, but not yet paid (this may include reasonable compensation for prepayment); and (iii) the prepaid fair value is insignificant at initial recognition.

Impact assessment

The standard will have an impact on the classification and measurement of financial assets held on 1 January 2018, as follows:

- Assets held for trading and Derivatives held for risk management, which are classified as "Held-for-Trading" and measured at FVTPL under IAS 39, will also be measured at FVTPL under IFRS 9;
- Loans and advances to customers and investments in Financial Institutions measured at amortised cost under IAS 39 will generally be measured at amortised cost under IFRS 9;
- Investments in held-to-maturity securities, measured at amortised cost under IAS 39, will generally be measured at amortised cost under IFRS 9;
- Investments in debt securities that are classified as held for sale under IAS 39 may, under IFRS 9, be measured at amortised cost, FVOCI or FVTPL, depending on certain circumstances;
- Loans and advances to customers and investment securities that are measured at fair value (Fair Value Option) under IAS 39 will continue to be measured at FVTPL under IFRS 9;
- Most equity instruments, which are classified as held for sale under IAS 39, will be measured at FVTPL under IFRS 9. However, some of these equity instruments are held under a long-term strategic investment and should be recorded at FVOCI on 1 January 2018.

Based on the analysis performed to this date and on the strategy defined, no material changes are expected to the measurement criteria related with CEMG's financial assets.

II – Impairment – Financial Assets, Commitments and Financial Guarantees

IFRS 9 replaces the "incurred losses" model in IAS 39 with a forward-looking model of "expected credit losses (ECL)", which considers expected losses over the life of financial instruments. Therefore, in determining ECL, macroeconomic factors are considered as well as other forward looking information, whose changes impact the expected losses.

The new impairment model is applicable to the following set of Bank instruments, which are not measured at FVTPL:

- Financial assets classified as debt instruments;
- Commitments and financial guarantees issued (for which impairment was calculated in accordance with IAS 37 - Provisions, Liabilities and Contingent Assets).

In accordance with IFRS 9, impairment is not recognised for equity instruments.

Instruments subject to impairment will be divided into three stages, considering their level of credit risk, as follows:

- Stage 1: without significant increase in credit risk since its initial recognition. In such cases, impairment will reflect expected credit losses resulting from default events that may occur in the 12 months following the reporting date.
- Stage 2: instruments in which there has been a significant increase in credit risk since initial recognition, but for which there is still no objective evidence of impairment. In such cases, impairment will reflect the expected credit losses resulting from default events that may occur over the expected residual life of the instrument.
- Stage 3: instruments for which there is objective evidence of impairment, namely the existence of default as a result of events that resulted in losses. In such cases, the impairment amount will reflect the expected credit losses over the expected residual life of the instrument.

Impairment requirements of IFRS 9 are complex and require management decisions, estimates and assumptions, particularly in the following areas:

- Assessment of an increase in significant risk since the moment of initial recognition; and
- Inclusion of forward-looking information on the ECL calculation.

ECL Calculation

ECLs are weighted estimates of credit losses that will be determined as follows:

- Financial assets with no signs of impairment at the reporting date: the present value of the difference between the contractual cash flows and the cash flows that CEMG expects to receive;
- Financial assets with impairment signs at the reporting date: the difference between the gross book value and the present value of the estimated cash flows;

- Unused credit commitments: the present value of the difference between the resulting contractual cash flows if the commitment is fulfilled and the cash flows that CEMG expects to receive;
- Financial guarantees: the present value of expected repayments less the amounts that CEMG expects to recover.

IFRS 9 defines financial assets with impairments signs similar to financial assets with impairment in accordance with IAS 39.

Definition of default

Under IFRS 9, CEMG will consider its financial assets to be in default by applying the same definition that is applied for regulatory purposes.

Significant increase in credit risk

In the context of IFRS 9, in order to determine whether there has been a significant increase in credit risk (i.e. default risk) since the initial recognition of the financial instrument, CEMG will consider relevant information that is available at no cost and / or excessive effort, including both quantitative and qualitative information and an analysis based on the CEMG's history, expert judgment.

Under IFRS 9, the identification of a significant increase in credit risk should be performed by comparing:

- The remaining PD lifetime at the time of the reporting date and
- The current remaining PD lifetime, which will have been estimated at the initial moment of the exposure recognition.

CEMG will identify the occurrence of a significant increase in credit risk for an exposure by comparing the current 12 month PD and the 12 month PD estimated at the time of contract recognition as a proxy for the comparison between the amounts of the current remaining PD lifetime and the remaining PD lifetime calculated at the initial time of the contract.

As a backstop, CEMG will consider that an increase in credit risk occurs whenever a customer is more than 30 days overdue between others.

Levels of credit risk

According to the current management of CEMG's credit risk each customer, and consequently its exposures, are allocated to a risk level of the masterscale.

CEMG will use these levels of risk as a key factor in identifying the significant increase in credit risk under IFRS 9.

Inputs in ECL measurement

The main inputs used to measure ECLs on a collective basis should include the following variables:

- Probability of Default – PD;
- Loss given default – LGD; and
- Exposure at Default – EAD.

These parameters will be achieved through internal statistical models and other relevant historical data, considering existing regulatory models and tailored to reflect forward-looking information.

PDs will be estimated based on a certain historical period, and will be calculated based on statistical models. These models will be based on internal data comprising both quantitative and qualitative factors. If there is a change in the risk of the counterparty or exposure, the estimate of the associated PD will also change. PDs will be calculated considering the contractual maturity of exposures.

The risk levels will be a highly relevant input for determining PDs associated with each exposure. CEMG will collect performance and default indicators on its credit risk exposures with analysis by types of customers and products.

LGD is the extent of the loss that is expected to occur may the exposure goes into default. CEMG will estimate LGD parameters based on the historical recovery rates after counterparty defaults. LGD models will consider the associated collaterals, the counterparty typology, the default time, as well as recovery costs. In case of contracts secured by real estate, it is expected that LTV (loan-to-value) ratios be a parameter of high relevance in determining LGD.

EAD represents the expected exposure if the exposure and / or the customer enter into defaults. CEMG will obtain EAD amounts from the counterparty's current exposure and potential changes to the current allowable amount under contractual conditions, including amortisations and prepayments. For commitments and financial guarantees, the EAD amount will consider both the amount of credit used and the prospective potential amount that may be used in accordance with the agreement.

As described above, with the exception of financial assets that consider a 12-month PD once they do not present a significant increase in credit risk, CEMG will calculate the ECL amount considering the risk of default during the maximum contractual period of the contract. The maximum contractual period shall be considered as the period up to the date on which CEMG has the right to demand payment or terminate the commitment or guarantee.

Forward-Looking Information

Under IFRS 9, CEMG includes forward-looking information both in its assessment of the significant risk increase and in the measurement of ECL. CEMG will develop a future outlook of the relevant macroeconomic variables based on the assessment of internal experts and other external data. This outlook represents a forecast of what is most expected to occur and will be in line with the data used by CEMG for other purposes such as strategic planning and budgeting.

III – Classification – Financial Liabilities

IFRS 9 generally maintains the requirements in IAS 39 regarding the classification of Financial Liabilities.

However, under IAS 39 all changes in the fair value of financial liabilities recorded at FVTPL (Fair Value Option) are recognised in profit or loss, whereas under IFRS 9 these fair value changes will be presented as follows:

- the amount related to the change in the fair value attributable to changes in the credit risk of the liability will be presented in OIC; and
- the remaining amount of the change in fair value will be recorded in profit and loss.

CEMG has adopted the Fair Value Option for some of its own issues that contain embedded derivatives or associated hedging derivatives, or when this designation eliminates or significantly reduces the accounting mismatch of operations. In the IFRS 9 adoption, these changes in fair value will be recognised in OCI, and the amount recognised in OCI in each year will be variable. The accumulated amount recognised in OCI will be null if these liabilities are reimbursed at maturity date.

IV – Derecognition and changes to contracts

IFRS 9 includes the requirements in IAS 39 for derecognition of financial assets and liabilities without significant changes.

CEMG estimates an immaterial impact arising from the adoption of these new requirements.

V – Disclosures

IFRS 9 will require an extensive set of new disclosures, namely with respect to hedge accounting, credit risk and ECLs.

VI – Impact on Capital Planning

CEMG's regulator issued guidelines on the transition requirements under IFRS 9. These guidelines allow the selection between two approaches for recognizing the impact of the adoption of the standard on regulatory capital:

- Phasing-in of the total impact on an ongoing basis over a 5-year period; or
- Recognition of the total impact on the day of adoption.

CEMG decided to adopt the first approach.

In the context of the implementation of IFRS 9, the main impact on CEMG's regulatory capital results from the application of new impairment requirements.

In accordance with current regulatory requirements, and given that CEMG uses the standard approach for the purpose of calculating capital requirements, provisions for impairment losses are treated as follows:

Capital requirements are calculated in accordance with the gross exposures net of specific provisions – i.e. net exposure. The adoption of IFRS 9 is expected to increase the losses associated with individual assets, therefore net exposure and capital requirements will decrease. However, this reduction in capital requirements will be offset in capital by the one-for-one deductions from the increase in impairment losses under IFRS 9. The capital impact assessment of the IFRS9 adoption will be a reduction in CET1 of approximately 6 basis points as of 1 January 2018. If CEMG chose the alternative option, the impact would have been of 104 basis points in CET1.

VII - Transition

Changes in accounting policies resulting from the application of IFRS 9 will generally be applied retrospectively, with the exception of the following:

3) CEMG will benefit from the exception that allows non-restatement of prior period comparative information regarding classification and measurement changes (including impairment). The differences in the balance sheet amounts of financial assets and liabilities resulting from the adoption of IFRS 9 will be recognised in Reserves and Retained Earnings as of 1 January 2018.
4) The following assessment shall be made based on facts and circumstances that existed at the time of the initial application:
   - determining the business model in which de financial asset is held;
   - the designation and revocation of prior designations of certain financial assets and liabilities designated at FVTPL;
   - the designation of certain equity instruments that are not held for trading as FVOCI; and
   - for financial liabilities designated to Fair Value Option (FVTPL), to assess whether the presentation of the change effects in the credit risk of the financial liabilities in OIC would create or increase an accounting mismatch in profit or loss.

IFRS 15 – Revenue from Contracts with Customers

IASB, issued on 28 May 2014, IFRS 15 - Revenue from Contracts with Costumers. IFRS 15 was endorsed by EU Commission Regulation 1905/2016, of 22 September 2016, with an effective date of application for periods beginning on or after 1 January 2018.

An early adoption is allowed. This standard replaces IAS 11 - Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programs, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenue - Barter Transactions Involving Advertising Services.

IFRS 15 provides a model based on 5 steps of analysis in order to determine when revenue should be recognised and the amount. The model specifies that the revenue should be recognised when an entity transfers goods or services to the customer, measured by the amount that the entity expects to be entitled to receive. Depending on the fulfilment of certain criteria, revenue is recognised:

- At a time when the control of the goods or services is transferred to the customer; or
- Over the period, to the extent that represents the performance of the entity.

CEMG does not expect relevant impacts from the adoption of this standard.

IFRS 16 - Leases

IASB, issued on 13 January 2016, IFRS 16 - Leases, effective for annual periods beginning on or after 1 January 2019. It's anticipated adoption is permited if IFRS 15 is also adopted. This new standard replaces IAS 17 - Leases. IFRS 16 removes the classification of leases as either operating leases or finance leases, treating all leases as finance leases.

Short-term leases (below 12 months) and leases of low-value assets (such as personal computers) are exempt from the requirements.

CEMG does not expect significant impacts by applying this standard.

Recently Issued pronouncements that are not yet effective for CEMG

IFRS 14 – Regulatory Deferral Accounts

IASB issued on 30 January 2014 a standard that defines interim measures for those adopting IFRS for the first time and has activity with regulated tariff. The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard.

This standard is not applicable to CEMG.

IFRIC 22 – Foreign Currency Translations and Advance Consideration

It has been issued on 8 December 2016, IFRIC 22, effective for annual periods beginning on or after 1 January 2018.

This new IFRIC 22 defines that, has been an advance in foreign currency for an asset, expense or revenue, applying paragraphs 21-22 of IAS 21, the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency (or if there are multiple payments or receives, the foreign currency exist at each advance consideration date).

CEMG does not expects a significant impact form this interpretation.

IFRIC 23 – Uncertainty over Income Tax Treatment

On June 7, 2017 was issued an interpretation on how to handle, in an accounting manner, uncertainties about the tax treatment of income taxes, especially when tax legislation requires that a payment be made to the Authorities in the context of a tax dispute and the entity intends to appeal to a tax examination which resulted in a payment to a taxation authority.

The interpretation has determined that the payment can be considered as a tax asset, if it is related to income taxes, in accordance with IAS 12 applying the criterion of probability defined by the standard as to the favorable outcome in favor of the entity on the matter concerned.

In this context, the entity may use the most likely amount method or, if the resolution can dictate ranges of values, use the expected value method.

IFRIC 23 becomes effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

CEMG does not expect significant changes in the adoption of this interpretation.

Other Amendments

It was also issued by IASB:

- On 20 June 2016, and applicable for annual periods beginning on or after 1 January 2018, amendments to IFRS 2 - Classification and Measurement of Share-based Payment Transactions.
- On 8 December 2016, and applicable for annual periods beginning on or after 1 January 2018, amendments to IAS 40 - Transfers of Investment Property to clarify whether an entity should transfer property under construction or development to, or from, investment property when there is a change in the use of such property which is supported by evidence other than specifically listed in paragraph 57 of IAS 40.
- The annual improvements cycle 2014-2016, issued by IASB on 8 December 2016, introduce amendments, with effective date for annual periods beginning on or after, 1 July 2018, to the standards IFRS 1 (deletion of short-term exemption for first-time adopters) and IAS 28 (measuring an associate or joint venture at fair value) and amendments, with effective date on, or after, 1 January 2017 to IFRS 12 (clarification of the scope of the Standard).

- The annual improvements cycle 2015-2017, issued by IASB on 12 December 2017, introduce amendments, with effective date for annual periods beginning on or after, 1 January 2019, to the standards IFRS 3 (remeasure its previously held interest in a joint operation when it obtains control of the business), IFRS 11 (not remeasure its previously held interest in a joint operation when it obtains joint control of the business), IAS 12 (accounts for all income tax consequences of dividend payments in the same way), IAS 23 (treat as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale).

CEMG expects no impact from the adoption of this amendment on its financial statements.

52 Sovereign debt of European Union countries subject to bailout

As at 31 December 2017, the exposure of CEMG to sovereign debt of European Union countries subject to bailout is as follows:

(Thousands of Euro)

Issuer / portfolio	2017						
	Book value	Fair value	Fair value reserve	Impairment	Average interest rate	Average maturity (years)	Measurement level
Greece							
Available-for-sale financial assets	17 164	17 164	(1 128)	-	2,51%	20,28	1

As at 31 December 2016, the exposure of CEMG to sovereign debt of European Union countries subject to bailout is as follows:

(Thousands of Euro)

Issuer / portfolio	2016						
	Book value	Fair value	Fair value reserve	Impairment	Average interest rate	Average maturity (years)	Measurement level
Greece							
Available-for-sale financial assets	12 365	12 365	(6 148)	-	3,00	18,43	1

As at 31 December 2017, the value of the securities includes respective accrued interest in the amount of Euro 52 thousand (31 December 2016: Euro 460 thousand).

53 Transfer of assets

CEMG performed a set of transactions of sale of financial assets (namely loans and advances to customers) for specialized Funds in the recovery of loans. These funds take the responsibility for management of the companies or assets received as collateral with the objective of ensuring a pro-active management through the implementation of plans to explore/increase the value of the companies/assets.

The financial assets sold under these transactions are derecognised from the balance sheet of CEMG, since the transactions result in the transfer to the Funds of a substantial portion of the risks and benefits associated with the assets as well as the control on the assets.

The specialised funds that acquire financial assets to CEMG are closed funds, in which the holders of the participation units have no possibility to request the reimbursement of its investment throughout the useful life of the Funds.

These participation units are held by several banks, which are the sellers of the loans, in percentages that vary through the useful life of the Funds, ensuring however that, separately, none of CEMG’s holds more than 50% of the capital of the Funds.

The Funds have a specific management structure (General Partner), fully independent from CEMG’s and that is selected on the date of establishment of the Funds.

The management structure of the Funds has as main responsibilities:

- Determine the objective of the Funds; and
- Manage exclusively the Fund, determining the objectives and investment policy and the conduct in management and business of the Funds.

The management structure is remunerated through management commissions charged to the Funds.

These funds, in most transactions (in which CEMG holds minority positions) establish companies under the Portuguese law in order to acquire the loans to CEMG’s, which are financed through the issuance of senior and junior bonds.

The value of the senior bonds fully subscribed by the funds that hold the share capital of the companies match the fair value of the asset sold, determined in accordance with a negotiation based on valuations performed by both parties. These bonds are remunerated at an interest rate that reflects the risk of the company that holds the assets. The value of the junior bonds is equivalent to the difference between the fair value based on the valuation of the senior bonds and the sale value.

These junior bonds, when subscribed by CEMG, provide the right to a contingent positive value if the recovered amount for the assets transferred is above the nominal value amount of senior bonds plus it related interest.

However, considering that these junior bonds reflect a difference between the valuations of the assets sold based on the appraisals performed by independent entities and the negotiation between the parties, the junior bonds are fully provided.

Therefore, following the transactions that occurred, CEMG subscribed:

- Participation units of the Funds, for which the cash-flows that allow the recovery arise mainly from a set of assets transferred from the participant banks (where CEMG has clearly a minority interest). These securities are booked in the available-for-sale portfolio and are accounted for at fair value based on the market value, as disclosed by the Funds and audited at year end; and
- Junior bonds (with higher subordination degree) issued by the companies held by the funds and which are fully provided to reflect the best estimate of impairment of the financial assets transferred.

Within this context, not withholding control but maintaining an exposure to certain risks and rewards, CEMG, in accordance with IAS 39.21 performed an analysis of the exposure to the variability of risks and rewards in the assets transferred, before and after the transaction, having concluded that it does not hold substantially all the risks and rewards.

Considering that it does not hold control and does not exercise significant influence on the funds or companies management, CEMG performed the derecognition of the assets transferred under the scope of IAS 39.20 c (i) and the recognition of the assets received as follows:

(Thousands of Euro)

	2017			2016		
	Values associated with the transfer of assets			Values associated with the transfer of assets		
	Net assets transferred	Amount received	Accumulated result obtained with the transfer	Net assets transferred	Amount received	Accumulated result obtained with the transfer
Fundo Vega, FCR	27 857	43 124	15 267	27 857	43 124	15 267
Vallis Construction Sector Fund	23 506	26 776	3 270	23 506	26 776	3 270
Fundo de Reestruturação Empresarial, FCR	21 549	21 590	41	21 549	21 590	41
	72 912	91 490	18 578	72 912	91 490	18 578

As at 31 December 2017 and 2016, the assets received under these transactions are as follows:

(Thousands of Euro)

	2017				
	Senior Securities	Junior Securities	Total	Impairment	Net Amount
Fundo Vega, FCR	28 839	-	28 839	(2 043)	26 796
Vallis Construction Sector Fund	19 269	7 838	27 107	(27 107)	-
Fundo de Reestruturação Empresarial, FCR	12 863	-	12 863	(889)	11 974
	60 971	7 838	68 809	(30 039)	38 770

(Thousands of Euro)

	2016				
	Senior Securities	Junior Securities	Total	Impairment	Net Amount
Fundo Vega, FCR	30 318	-	30 318	-	30 318
Vallis Construction Sector Fund	19 148	7 838	26 986	(21 243)	5 743
Fundo de Reestruturação Empresarial, FCR	12 582	-	12 582	(711)	11 871
	62 048	7 838	69 886	(21 954)	47 932

As at 31 December 2017, impairment losses amounting to Euro 5,864 thousand (31 December 2016: Euro 15,090 thousand), Euro 2,043 thousand and Euro 178 thousand (31 December 2016: Euro 456 thousand) were recorded relating to the devaluation of the participation units in Vallis Construction Sector Fund, Fundo Veja, FCR and Fundo de Reestruturação Empresarial, FCR, respectively, as described in note 15.

As at 31 December 2017 and 2016, junior securities refer to investment units on the amount of Euro 7,838 thousand, as referred in note 23, which are fully provided.

Although junior bonds are fully provided, CEMG still holds an indirect exposure to financial assets transferred, under the minority investment that holds in the pool of assets transferred by all financial institutions involved, through the holding of participation units of the funds (denominated in the table as senior bonds).

54 Contingencies

Resolution Fund

Resolution measure of Banco Espírito Santo, S.A. (BES)

The Bank of Portugal applied a resolution measure to Banco Espírito Santo, SA on 3 August 2014, pursuant to the provisions of Article 145 C (1.b) of the General Regime for Credit Institutions and Financial Companies (RGICSF), in the partial transfer method of assets, liabilities, off-balance sheet assets and assets under management to a transition bank, Novo Banco, SA (Novo Banco). As part of this process, the Resolution Fund made a capital injection in Novo Banco in the amount of Euro 4,900,000 thousand, becoming the sole shareholder, and contracted loans in the amount of Euro 4,600,000 thousand, of which Euro 3,900,000 thousand were granted by the Portuguese State and Euro 700,000 thousand were granted by a group of credit institutions, of which Euro 70,000 thousand were granted by CEMG.

On 29 December 2015, the Bank of Portugal transferred to the Resolution Fund the emerging liabilities from possible negative effects of future decisions arising from the resolution process, resulting in liabilities or contingencies.

On 7 July 2016, the Resolution Fund stated that it would review and assess the proceedings to take following the disclosure of the report on the results of the independent evaluation exercise, which was carried out to estimate the level of credit recovery for each class of creditors in the possible scenario of a normal BES insolvency procedure on 3 August 2014.

Thus, under the applicable law, and where it is found that at the time of BES settlement, creditors whose credit facilities have not been transferred to Novo Banco, assume a loss higher than would have been hypothetically if BES had entered into a settlement procedure immediately prior to the application of the resolution measure, these creditors are entitled to receive the difference from the Resolution Fund. To date, there is a relevant body of legal proceedings underway against the Resolution Fund.

The Bank of Portugal announced on 20 February 2017 that it has decided to choose the potential Lone Star investor for a definitive phase of negotiations and in conditions of exclusivity aiming to complete the terms in which the sale of the Fund's share Resolution on Novo Banco, SA would come about/will be held, and on 31 March 2017, a further statement was issued stating:

"Today, the Bank of Portugal choose Lone Star to complete the sale of the Novo Banco and the Resolution Fund signed the transaction's contract documents.

Under the terms of the agreement, Lone Star will make capital injections in Novo Banco for a total amount of Euro 1,000,000 thousand, of which Euro 750,000 thousand at the time of the transaction completion and Euro 250,000 thousand within a period of up to 3 years.

Due to this capital injection, Lone Star will hold 75% of the capital stock of the Novo Banco and the Resolution Fund will maintain 25% of the capital.

The conditions agreed also include the existence of a contingent capitalization mechanism, under which the Resolution Fund, as a shareholder, commits to make capital injections in the event of certain cumulative conditions, related to: i) the performance of a delimited set of assets of Novo Banco and ii) with the development of the Bank's capitalization levels.

Possible capital injections to be made pursuant to this contingent mechanism benefit from a capital buffer resulting from the planned injection to be made under the terms of the operation and are subject to an absolute ceiling.

The agreed conditions also provide for mechanisms to safeguard the interests of the Resolution Fund, the alignment of benefits and supervision, despite the restrictions arising from the application of the State aid rules.

The completion of the sale is dependent on obtaining the usual regulatory authorizations (including the European Central Bank and the European Commission) and a liability management exercise, subject to the approval of the bondholders, which will cover non-subordinated bonds of Novo Banco and that, by offering new bonds, it will generate at least Euro 500 million of own funds eligible for the calculation of the CET1 ratio. "

On 18 October 2017, the Bank of Portugal announced the sale of the Novo Banco, stating that:

- "The Bank of Portugal and the Resolution Fund concluded today the sale of Novo Banco to Lone Star through the injection of Euro 750 million by the new shareholder, which will be followed by a new capital injection of Euro 250 million, to be completed by the end of 2017".
- "The conclusion of this operation entails a complex process of negotiations with the new shareholder, the European institutions and other national institutions, in close cooperation with the Government."
- "The completion of the operation announced on 31 March allows a very significant strengthening of the equity of Novo Banco and ceases the transition status applicable to the bank since its inception."
- "As of this date, Novo Banco will be held by Lone Star and by the Resolution Fund, with holdings of 75% and 25%, respectively, and will be provided with the necessary means to execute a plan guaranteeing that the bank will continue to play its decisive role in financing the national economy."

On March 28th 2018, the Resolution Fund issued a statement on the payment to be made to Novo Banco about the results of 2017, from which is about the activation of the contingent capitalization mechanism provided for in the contracts celebrated for Novo Banco's sale. The amount to be paid to Novo Banco in 2018 by the Resolution Fund in relation to 2017 financial statements amounts to Euro 792 million.

The conditions agreed with the sale of Novo Banco, S.A. also include a contingent capitalisation mechanism, under which the Resolution Fund undertakes to make payments to Novo Banco, S.A. if certain cumulative conditions materialise, related to: i) the performance of a delimited set of assets and ii) an increase of the Bank's capitalisation levels. In case these conditions are met, the payments are subject to a maximum limit of Euro 3,890 thousands. However, payment will only be made after the statutory clearance of accounts and after a verification procedure to be made by an independent entity, which aims to confirm that the amount to be paid by the Fund is correctly calculated.

Firstly, the Fund will use the available financial resources, resulting from contributions paid, directly or indirectly by the banking sector. These resources will be complemented by a loan to be obtained from the State, on the agreed terms in October 2017, as it was disclosed back then. The concrete amount of this loan is not yet accurate, but it is estimated to be a maximum Euro 450 millions, below the annual limit of Euro 850 millions, with budget.

The Fund has already disbursed a total of Euro 4,900 millions of financial support to the resolution measure applied to Banco Espírito Santo, S.A., corresponding to the realization of capital of the new bank in August 2014. The Fund did not made any other payment, but has already registered in it's 2017 accounts a provision of Euro 792 millions, payment due in 2018.

Resolution measure of Banif – Banco Internacional do Funchal, S.A. (Banif)

The Board of Directors of Bank of Portugal decided on 19 December 2015 to declare that Banif was "at risk or in a situation of insolvency" and to start an urgent resolution of the institution by the partial or total disposal method of its activity, which has materialized, on 20 December 2015, in the disposal of rights and obligations, representing assets, liabilities, off-balance sheet assets and assets under management of Banif to Banco Santander Totta S.A. (BST).

Most of the assets that were not disposed of were transferred to an asset management vehicle called Oitante, S.A. (Oitante), created specifically for this purpose, which has as sole shareholder the Resolution Fund, with the Oitante proceeding to the issuance of debt bonds in the amount of Euro 746,000 thousand, and a guarantee provided by the Resolution Fund and a counter-guarantee by the Portuguese State.

The transaction involved public support, of which Euro 489,000 thousand by the Resolution Fund. The Euro 489,000 thousand assumed by the Resolution Fund were financed through a mutual agreement granted by the State.

Other relevant conditions

The resolution measures applied to BES and Banif referred to above determined that, as at 31 December 2016, the Resolution Fund held the entire capital stock of Novo Banco and Oitante, at the same time as the Resolution Fund contracted a loan and assumed other liabilities and contingent liabilities, namely:

- Effects of the application of the principle that no institutions' creditor under resolution may incur greater loss than it would have assumed may that institution had entered into settlement.

- Negative effects arising from the resolution process resulting in additional liabilities or contingencies for the Novo Banco, S.A., which must be neutralized by the Resolution Fund.

- Legal proceedings against the Resolution Fund.

- Guarantee provided to the bonds issued by Oitante SA for a total amount of Euro 746,000 thousand, counter-guaranteed by the Portuguese State, for which Oitante, S.A. made an early repayment of Euro 90,000 thousand.

In order to satisfy the responsibilities of the Resolution Fund, in particular to repay the loans obtained and to meet other responsibilities that may arise, the Resolution Fund essentially has revenues from initial and periodic contributions of the participating institutions and the banking sector established by Law no. 55-A /2010. In this regard, the possibility of the Government establishing, through an ordinance, that participating institutions make special contributions is also expected, in the situations provided for in applicable legislation, particularly in the event that the Resolution Fund does not have its own resources to satisfy its obligations.

CEMG's financial statements of December 31st 2017 mirror the expectation that no new special or extraordinary contributions will be required to the institutions participating in the Resolution Fund.

According to non confidential information from the European Comission, the three support measures of the Resolution Fund and the State that compose the sale agreement of Novo Banco and that are connected to a portfolio of loans with uncertain coverage are as follows:

(iv) Lone Star has the right to claim from the Resolution Fund the financing costs, losses and provisioning of that portfolio until the maximum of Euro 3,89 thousand million, subject to several conditions, namely in terms of reduction of the capital ratio CET1;

(v) Novo Banco may issue debt until Euro 400 million, from Tier 2, that the Resolution Fund will subscribe for lack of investors, and which is deducted from the Euro 3,89 billion related to the contingent capital mechanism;

(vi) In the case the total capital ratio reaches values below those defined in the Supervisory Review and Evaluation Process ("SREP"), the Portuguese State may inject adicional capital in Novo Banco, subject to determined conditions.

In the future, in case of need to use these contributions, may have relevance to the financial statements.

Since 2013, CEMG has made mandatory contributions, as established in Decree-Law no. 24/2013, of 19 February, which establishes the method for determining the initial, periodic and special contributions to the Resolution Fund provided for in the RGICSF.

On 3 November 2015, the Bank of Portugal issued a Circular Letter under which 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 the

Article 9 of the aforementioned Decree-Law. CEMG 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 Banco Espírito Santo (BES). Therefore, the eventual collection of a special contribution appears to be unlikely".

In accordance with Decree-Law no. 24/2013, it is Bank of Portugal's responsibility to determine, by instruction, the rate to be applied in each year based on the objective incidence of periodic contributions. Bank of Portugal Instruction No. 19/2015, published on 29 December, stipulates that Portuguese banks paid contributions to the Resolution Fund in 2016, calculated at a 0.02% base rate. Instruction No. 21/2016 of the Bank of Portugal, of 26 December, sets the base rate to be effective in 2017 for the determination of periodic contributions to the Resolution Fund by 0.0291%.

As at 31 December 2017, CEMG made regular contributions to the Resolution Fund in the amount of Euro 3,473 thousand (31 December 2017: Euro 2,907 thousand) and paid the contribution to the banking sector in the amount of Euro 11,406 thousand (31 December 2016: Euro 12,793 thousand) and were recognised as expense in April and June, in accordance with IFRIC 21 - Levies.

On 28 September 2016, the Resolution Fund announced that it had agreed with the Ministry of Finance to review the loan of Euro 3,900,000 thousand originally granted by the Portuguese State to the Resolution Fund in 2014 to finance the resolution measure applied to BES. According to the Resolution Fund, the maturity extension of the loan was intended to ensure the ability of the Resolution Fund to meet its obligations through its regular revenues, regardless of the contingencies to which the Resolution Fund is exposed. On the same day, the Minister of Finance announced that increases in liabilities arising from materialization of future contingencies will determine the maturity adjustment of Portuguese State and Bank loans to the Resolution Fund in order to maintain the required contribution to the banking sector at current levels.

The announcement made by the Resolution Fund at 21 March 2017 states:

- "The conditions of the loans obtained by the Fund for the financing of the resolution measures applied to Banco Espírito Santo, SA and Banif - Banco Internacional do Funchal, SA have been changed." These loans amounted to Euro 4,953,000 thousand, of which Euro 4,253,000 thousand were granted by the Portuguese State and Euro 700,000 thousand were granted by a set of banks.
- "Those loans will due in December 2046, without loss/prejudice to the possibility of early/anticipated repayment based on the use of revenues/receipts from the Resolution Fund. The maturity will be adjusted in conditions that guarantee the ability of the Resolution Fund to fully meet its obligations based on regular revenues/income and without the need for special contributions or any other extraordinary contributions. Following the resolution measures of BES and Banif, liabilities arising from contracts obtained by the Resolution Fund with the Portuguese State and the banks, compete in *pari passu* among themselves."

- "The review of loan conditions aimed to ensure the sustainability and financial balance of the Resolution Fund."
- "The new conditions allow for full payment of the Resolution Fund's liabilities and their remuneration, without the need for special contributions or any other extraordinary contributions from the banking sector."

Following these changes to the loans contracted by the Resolution Fund, as at 31 December 2017, the amount of credit and interest owed to CEMG amounted to Euro 70,000 thousand.

In this context, considering the above-mentioned exposure, it is not possible at this date to estimate the effects on the Resolution Fund arising from the application of the principle that no creditor of the credit institution under resolution may incur greater loss than the one it would have assumed may that institution entered into settlement of liabilities or additional contingences for Novo Banco, S.A. that have to be neutralized by the Resolution Fund, legal proceedings against the Resolution Fund, including the so-called Harmed BES process; and (v) the guarantee given to the bonds issued by Oitante.

Thus, and regardless the possibility provided for in the applicable legislation for the collection of special contributions, given the recent developments regarding the renegotiation of the conditions of loans granted to the Resolution Fund by the Portuguese State and by a group of banks, CEMG included, and to the public announcements made by the Resolution Fund and by the Minister of Finance which state that this possibility will not be used. The financial statements, as of 31 December 2017, reflect CEMG's expectation that the institutions participating in the Resolution Fund will not be required to make special contributions or any other extraordinary contributions to finance the resolution measures applied to BES and Banif.

Single Resolution Fund

Under the Single European Resolution Fund ('FUR') CEMG made an initial contribution of Euro 8,452 thousand in 2015, which, under the Intergovernmental Agreement on the transfer of the mutualisation of contributions to FUR, was not transferred to FUR but used for the compliance with obligations of the Resolution Fund resulting from the application of resolution measures prior to the date of application of the Agreement. This amount will have to be re-set over an 8-year period (starting in 2016) through periodic contributions to FUR. The amount of the cash contribution as at 31 December 2017 attributable to CEMG was Euro 9,645 thousand (31 December 2016: Euro 10,022 thousand). CEMG also opted for the settlement of Euro 3,475 thousand in the form of irrevocable payment commitment, in accordance with note 10.

55 Subsidiary and associated companies of Caixa Económica Montepio Geral

As at 31 December 2017, the subsidiary companies of CEMG, are as follows:

Subsidiary Company	Head Office	Share Capital	Currency	Activity	Group		Bank
					% of control	% of effective part.	% of direct part.
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	Praia	992 000 000	escudo cabo verdiano	Banca	100,00%	100,00%	100,00%
Montepio Holding, S.G.P.S., S.A.	Porto	175 000 000	euro	Gestão de participações sociais	100,00%	100,00%	100,00%

As at 31 December 2017, the associated companies of CEMG, held directly or indirectly, are as follows:

(Euro)

Subsidiary company	Head Office	Share Capital	Activity	% held
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	São Miguel Island	10 000 000	Tourism	20,00%
Montepio Gestão de Activos Imobiliários, A.C.E.	Lisbon	2 449 707	Real Estates Holding Company	26,00%

In June 2016, Montepio Recuperação de crédito ACE was settled.

As at 31 December 2017, CEMG held participation units of special purpose entities and investment funds as follows:

Subsidiary company	Establishment year	Acquisition year	Head Office	% of controlling interest	Consolidation method
Valor *Prime* - Fundo de Investimento Imobiliário Aberto	1997	2012	Lisbon	65,24%	Full
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2011	2011	Lisbon	100%	Full
Montepio Arrendamento – 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

56 Relevant facts

Capital increase

As at 30 June 2017, the Group proceeded to an institutional 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 aforementioned capital increase was fulfilled by MGAM by conducting institutional capital in cash in the amount of Euro 250,000 thousand.

Legal transformation into a public limited company

Due to an asset higher than Euro 50,000.000, CEMG was automatically considered as Caixa Económica Bancária, in accordance with the provisions of Article 6 no. 1 of Decree-Law No. 190/2015 of 10 September.

Pursuant to paragraph 2 of the above legal provision, the Bank of Portugal decided to transform CEMG into a public limited company, which, through its letter dated 21 November 2016, addressed to the Executive Board of Directors of CEMG , stated as follows: "We inform you that under the terms and for the purposes of articles 111 and 114 of the Administrative Procedure Code, which the Board of Directors of the Bank of Portugal deliberated on 21 November 2016, in accordance with the competence conferred by Article 6 (2) of the Decree-Law No. 190/2015, of 10 September, the transformation of Caixa Económica Montepio Geral into a limited company, under the terms and grounds set out in the enclosed decision."

In addition, and in accordance with Article 6 (3) of Decree-Law No. 190/2015, the Portuguese Securities Market Commission was duly consulted by the Bank of Portugal.

The Executive Board of Directors of CEMG prepared an information report which set out the grounds for the transformation and presented a proposal of by-laws that submitted the approval of the Bank of Portugal, in accordance with Article 6 (4.a) of the Decree- Law No. 190/2015.

The Bank of Portugal has issued a favourable opinion on the compliance of the information report and the proposed amendment to CEMG's by-laws, authorizing, as proposed, the transformation of this bank into a public limited company, under the terms and for the purposes of Article 6 (4.b) of the Decree-Law No. 190/2015.

At the meeting held on 4 April 2017, the General Meeting of Caixa Económica Montepio Geral approved: i) the Caixa Económica Montepio Geral, caixa económica bancária, S.A. by-laws; ii) the Information Report presented by the Executive Board of Directors; iii) the transformation of Caixa Económica Montepio Geral, which was a bank with a foundational nature, into an anonymous commercial company, reaffirming the decision already taken at the General Meeting of 13 December 2016, all without prejudice to the necessary Ratification by the General Meeting of Montepio Geral - Associação Mutualista; and iv) the company resulting from the transformation will be governed by the by-laws already approved at that session.

The above mentioned resolutions adopted by the General Meeting of CEMG need to be ratified by resolution of the General Meeting of Montepio Geral - Associação Mutualista, held in extraordinary session on 9 May 2017, in accordance with Article 6 (4.g) of the Decree-Law No. 190/2015, Articles 32 and 33 of the CEMG's by-laws and Article 25 (g) of the Montepio Geral - Associação Mutualista's by-laws.

Under the terms and for the purposes of articles 175 and 176 of the Portuguese Securities Code ("*Código VM*"), Montepio Geral - Associação Mutualista, launched a general and voluntary public offering for the acquisition of participation units representing the Caixa Económica Montepio Geral Participation Fund, which form (atypical) securities for the purposes of article 1 (g) of the Portuguese Securities Code ("Offering").

As a result of this operation, Montepio Geral – Associação Mutualista held 393,102,992 participation units (98.28%) of the Caixa Económica Montepio Geral Participation Fund.

In accordance with article 248-A of the Portuguese Securities Code, CEMG informs that, by letter dated 11 September 2017, MGAM notified them of the entry into force, on 15 September 2017, of the standing purchase order of the common shares outside the regulated market, for the unit price of Euro 1.00, payable in cash, that will be issued in the meantime, replacing the institutional capital and the representative participation units of the Participation Fund, as a consequence of the transformation of CEMG into a public limited company. This standing purchase order will be in force until the release of CMVM's decision on CEMG's request for loss of status as a public company.

As at 14 September 2017, the Deed of the bylaws was executed, transforming Caixa Económica Montepio Geral into a public limited company, changing its legal name to Caixa Económica Montepio Geral, caixa económica bancária, S.A.

As a result of this transformation into public limited company, CEMG's Participation Fund, in the amount of Euro 400,000 thousand, became extinct by conversion into share capital, and therefore its participation units were also converted into common shares.

Status of public company

At the meeting held on 9 October 2017, the Extraordinary Shareholders' Meeting of Caixa Económica Montepio Geral, decided with 99.75% of votes in favor, representing 99.75% of CEMG's share capital, to approve (i) the loss of public company status under the terms and for the purposes of Article 27 (1) (b) of the Portuguese Securities Code and (ii) the request to be submitted by the Board of Directors to CMVM.

Following a request made on 10 October 2017 by Caixa Económica Montepio Geral, caixa económica bancária, SA (CEMG), the Board of Directors of the Securities Market Commission (CMVM) decided to aprove, at a meeting held on 13 October 2017, with effect upon this date, the request submitted for the loss of the public company status.

The release of CMVM's decision on CEMG's loss of status as a public company implies, pursuant to the provisions of article 29 (2) of the Portuguese Securities Code, that, within the period of one year, the admission of CEMG's shares on a regulated market is forbidden.

For the purposes of complying with the provisions of article 27 (3) of the Portuguese Securities Code, Montepio Geral - Associação Mutualista was obliged to buy the shares held by shareholders who did not approve that decision, having to this end covered its payment to Caixa Económica Montepio Geral, caixa económica bancária, S.A.. The total amount of the contribution is available for a three-month period between 16 October 2017 and 16 January 2018, for the unit price of one euro each, resulting from the summoning of the criteria set forth in article 188, applicable by virtue of article 27 (4), both of the Portuguese Securities Code. The offer remained in force until 16 November 2017.

MGAM become the holder of 2,415,256,113 (two thousand, four hundred and fifteen million, two hundred and fifty-six thousand, one hundred and thirteen) shares of CEMG, as a result of the shares already held, of the outcome of the offer under of article 490 (2) of the Portuguese Commercial Companies Code and of the purchases made from the standing purchase order, under the provisions of article 27 (3) of the Portuguese Securities Code.

Under the terms and for the purposes of article 490 (3) of the Portuguese Commercial Companies Code, Montepio Geral - Associação Mutualista, exercised its protest right to acquire the remaining 4,743,887 (four million, seven hundred and forty-three thousand eight hundred and eighty-seven) shares held by the shareholders of CEMG who did not voluntarily accept the purchase offer mentioned above, holding 2,420,000,000 (two thousand, four hundred and twenty million) shares representing the entire share capital of CEMG.

For the purpose of the events referred above, MGAM proceeded to the commercial registration and release of the protest acquisition, extinguishing on this date (17 November 2017) the standing purchase order of CEMG shares made by MGAM in compliance with the provisions of article 27 (3) of the Portuguese Securities Code.

Issuance of covered bonds

On 9 October 2017, CEMG returned to the market and placed an issuance of covered bonds, included in the program for the issuance of covered bonds registered and approved by the Central Bank of Ireland.

This issuance, in the amount of Euro 750,000 thousand, has a term of five years, an issuance price of 99.922% and an interest rate of 0.875% a year, which was translated into a spread of sixty-five basis points over the five-year mid-swap rate.

At the placement of the issuance, CEMG had the collaboration of three institutions with proven experience in the offering of this class of assets, J.P. Morgan, NatWest Markets and UniCredit.

Election of the Corporate Bodies

CEMG's General Meeting, in its extraordinary session of March 16th 2018, changed the nature of its governance model, leading CEMG governing bodies to include, namely, a Board of Directors and an Audit Committe, and elected new members of governing bodies for the 2018-2021 mandate.

In April 4th 2018, the Bank of Portugal granted the final endorsement, including its composition, of the following corporate bodies: General Meeting, Board of Directors and an Audit Committe.

The above mentioned corporate bodies came into effect on the March 21st 2018 and Dr. Carlos Manuel Tavares da Silva will exercise, under the authorized terms of the Bank of Portugal, functions of President of the Board of Directors and President of the Executive Committee.

57 Subsequent events

In addition to the information disclosed in this document, there were no significant transactions and / or relevant events to be disclosed.

STATEMENT OF COMPLIANCE OF THE FINANCIAL INFORMATION ISSUED BY THE BOARD OF DIRECTORS

This statement has been issued under the terms of paragraph c) of No. 1 of article 245 of the Portuguese Securities Code (CVM).

The Board of Directors is responsible for drawing up the management report, preparing the financial statements and ensuring that they provide a true and appropriate view of Caixa Económica Montepio Geral, caixa económica bancária, S.A. (CEMG) financial position, the result of its operations, as well as for adopting suitable accounting policies and criteria, and maintaining an appropriate internal control system that prevents and detects possible errors or irregularities.

We confirm, to the best of our knowledge and belief, that:

- All the individual and consolidated financial information in the accounting documents, with reference to December 31, 2017, was prepared in accordance with the applicable accounting standards, and gives a true and appropriate image of the assets and liabilities, financial situation and net income of CEMG and companies included in the consolidation perimeter;
- The management report provides an accurate indication of the evolution of the business, performance and position of CEMG and companies included in the consolidation perimeter, in conformity with the legal requirements.

THE BOARD OF DIRECTORS

Chairman	Carlos Manuel Tavares da Silva
Non-Executive Members	Luís Eduardo Henriques Guimarães
	Amadeu Ferreira de Paiva
	Manuel Ferreira Teixeira
	Vítor Manuel do Carmo Martins
	Rui Pedro Brás de Matos Heitor
Executive Members	Nuno Cardoso Correia da Mota Pinto
	José Carlos Sequeira Mateus
	Pedro Miguel Nunes Ventaneira
	Carlos Miguel Lopez Leiria Pinto
	Helena Catarina Gomes Soares de Moura Costa Pina

Lisbon, May 10, 2018

COMPLIANCE WITH THE RECOMMENDATIONS REGARDING INFORMATION TRANSPARENCY AND ASSET VALUATION

The Banco de Portugal, through circular letter 97/08/DSBDR of 3 December 2008 and 58/09/DSBDR of 5 August 2009, recommends the need for institutions to comply appropriately with the recommendations of the Financial Stability Forum (FSB) and the Committee of European Banking Supervisors (CEBS) relative to the transparency of information and valuation of assets, taking into account the principle of proportionality, by preparing a specific annex to the Annual Report and Accounts aimed at replying to the questionnaire attached to circular letter 46/08/DSBDR of Banco de Portugal on the subject.

This chapter serves the purpose of complying with the Bank of Portugal recommendation, using references to the detailed information presented in the various chapters of this Report and Accounts, whenever applicable.

I.	**Business Model**	**Document, Chapter and Page**
1.	Description of the business model (i.e. reasons for the development of the activities/businesses and respective contribution to the process of value creation) and, if applicable, of any changes made (for example as a result of the period of turbulence);	MR, Business Areas, page 40
2.	Description of strategies and objectives (including those specifically related to the undertaking of securitisation operations and operations with structured products);	MR, Strategy, page 38
3.	Description of the importance of the activities developed and their contribution to the business (including in quantitative terms);	MR, Business Areas, page 40 FSNO, Indicators of the balance sheet and income statement by operating segment, page 247 (NOTE 55)
4.	Description of the type of activities developed, including a description of the instruments used, their functioning and qualifying criteria that products/investments have to meet;	MR, Business Areas, page 40, Financial Analysis, page 57, Risk Management, page 81 FSNO, Financial assets and liabilities held for trading, page 174 (NOTE 23), Financial assets available for sale, page 179 (NOTE 24), Hedging derivatives, page 208 (NOTE 37), Investments held to maturity, page 186 (NOTE 25)
5.	Description of the objective and extent of the involvement of the institution (i.e. commitments and obligations assumed) relative to each activity developed;	
II.	**Risks and Risk Management**	
6.	Description of the nature and extent of risks incurred in relation to the activities developed and instruments used;	MR, Risk Management, page 81 FSNO, Risk Management, page 256 (NOTE 56)
7.	Description of risk management practices (including, in particular, under current circumstances, liquidity risk) of relevance to the activities, description of any identified weaknesses and corrective measures that have been adopted;	MR, Risk Management, page 81 FSNO, Risk Management, page 256 (NOTE 56)
III.	**Impact of the period of financial turbulence on net income**	
8.	Qualitative and quantitative description of net income, with emphasis on losses (when applicable) and impact of write-downs on net income;	MR, Financial Analysis, page 57

		Document, Chapter and Page
9.	Breakdown of write-downs/losses by type of product and instrument affected by the period of turbulence, namely, the following: commercial mortgage-backed securities (CMBS), residential mortgage-backed securities (RMBS), collateralised debt obligations (CDO) and asset-backed securities (ABS).	MR, Financial Analysis, page 57 FSNO, Earnings from assets and liabilities at fair value through profit or loss, page 153 (NOTE 6), Net gains from financial assets available for sale, page 154 (NOTE 7)
10.	Description of the reasons and factors responsible for the impact incurred;	MR, Financial Analysis, page 57, Macroeconomic Environment, page 29
11.	Comparison of i) impacts between (relevant) periods; and ii) financial statements before and after the impact of the period of turbulence;	MR, Financial Analysis, page 57 FSNO, Financial Statements, page 123
12.	Breakdown of write-downs between realised and unrealised amounts;	MR, Financial Analysis, page 57 FSNO, Financial assets and liabilities held for trading, page 174 (NOTE 23), Financial assets available for sale, page 179 (NOTE 24), Investments held to maturity, page 186 (NOTE 25)
13.	Description of the influence of the financial turbulence on the entity's share price;	Not applicable.
14.	Disclosure of maximum loss risk and description of how the institution's situation could be affected by the prolonging or worsening of the period of turbulence or by a market recovery;	MR, Risk Management, page 81 FSNO, Risk Management, page 256 (NOTE 56)
15.	Disclosure of the impact that the evolution of the spread associated to the institution's own liabilities had on net income, as well as the methods used to determine this impact;	MR, Financial Analysis, page 57 FSNO, Fair Value, page 220 (NOTE 50), Risk Management, page 256 (NOTE 56)
IV.	**Levels and types of exposure affected by the period of turbulence**	
16.	Nominal amount (or amortised cost) and fair values of outstanding exposures;	FSNO, Financial assets and liabilities held for trading, page (NOTE 23), Financial assets available for sale, page (NOTE 24), Investments held to maturity, page (NOTE 25), Risk Management, page 256 (NOTE 56)
17.	Information on mitigation of credit risk (i.e. through credit default swaps) and the respective effect on existing exposure;	MR, Risk Management, page 81 Risk Management, page 256 (NOTE 56)
18.	Detailed disclosure on exposures, with breakdown by: - Seniority level of exposure/tranches held; - Level of credit quality (e.g. ratings, vintages); - Geographic origin; - Activity sector; - Source of the exposure (issued, retained or acquired); - Product characteristics: e.g. ratings, weight/portion of associated subprime assets, discount rates, spreads, funding; - Characteristics of the underlying assets: e.g. vintages, loan-to-value ratio, information on liens, weighted average life of the underlying asset, assumptions on the evolution of situations of prepayment, and expected losses.	MR, Risk Management, page 81 FSNO, Loans and advances to customers, page 167 (NOTE 22), Financial assets and liabilities held for trading, page 174 (NOTE 23), Financial assets available for sale, page 179 (NOTE 24), Investments held to maturity, page 186 (NOTE 25), Indicators of the balance sheet and income statement by operating segment, page 247 (NOTE 55), Risk Management, page 256 (NOTE 56)
19.	Movements that have occurred in exposures between relevant reporting periods and the underlying reasons for these variations (sales, write-downs, purchases, etc.)	MR, Financial Analysis, page 57 FSNO, Financial assets and liabilities held for trading, page 174 (NOTE 23), Financial assets available for sale, page 179 (NOTE 24), Investments held to maturity, page 186 (NOTE 25)

		Document, Chapter and Page
20.	Explanation of exposure (including "vehicles" and, in this case, the respective activities) that have not been consolidated (or that have been recognised during the crisis) and the associated reasons;	The CEMG Group consolidates all the exposures in which it holds the majority of the capital or a significant influence. Additional information on Special Purpose Vehicles (SPV) can be found in FSNO, Securitisation of assets, page 243 (NOTE 54)
21.	Exposure to monoline insurers and quality of insured assets: - Nominal value (or amortised cost) of the insured exposure, as well as of the amount of acquired credit protection; - Fair values of outstanding exposures, as well as the related credit protection; - Amount of write-downs and losses, broken down into realised and unrealised amounts; - Breakdown of exposure by rating or counterpart.	Not applicable.
V.	**Accounting policies and valuation methods**	
22.	Classification of the transactions and structured products for accounting purposes and the related accounting treatment;	FSNO, Accounting policies, page 128 (NOTE 1)
23.	Consolidation of the Special Purpose Entities (SPE) and other "vehicles", and their reconciliation with structured products affected by the period of turbulence;	FSNO, Accounting policies, page 128 (NOTE 1), Securitisation of assets, page 243 (NOTE 54)
24.	Detailed disclosures on fair values of financial instruments: - Financial instruments to which fair value is applied; - Fair value hierarchy (a breakdown of all exposures at fair value by different levels of the fair value hierarchy and a breakdown between cash and derivative instruments, as well as disclosures on migrations between the different levels); - Treatment of day 1 profits (including quantitative information); - Use of the fair value option (including its conditions for use) and related amounts (with appropriate breakdowns);	FSNO, Accounting policies, page 128 (NOTE 1)
25.	Disclosures on the modelling techniques used for the valuation of financial instruments, including information about: - Modelling techniques and the instruments to which they are applied; - Valuation processes (including in particular the assumptions and inputs on which the models are based); - Types of adjustment applied to reflect model risk and other valuation uncertainties; - Sensitivity of the fair value (namely to variations in key assumptions and inputs); - Stress scenarios.	MR, Risk Management, page 81 FSNO, Risk Management, page 256 (NOTE 56)
VI.	**Other relevant aspects in disclosures**	
26.	Description of the disclosure policies and principles used in the reporting of disclosures and in financial reporting.	FSNO, Accounting policies, page 128 (NOTE 1)

Caption: MR – Management Report; FSNO – Financial Statements, Explanatory Notes and Opinions on the Accounts.

ALTERNATIVE PERFORMANCE MEASURES

On 5 October 2015, the European Securities and Markets Authority published a set of guidelines – ESMA/2015/1415 – addressing the disclosure of information by entities, other than States, whose securities are admitted to trading on a regulated market and to which is required the disclosure of information as set out by the Transparency Directive 2004/109/EC of the European Parliament and of the Council.

The aforementioned guidelines aim to promote transparency and clarify the relevance of the indicators disclosed by those entities to measure their performance – Alternative Performance Measures (APM) – contributing to improve comparability, credibility and understanding of the APM.

This chapter serves the purpose of complying with the ESMA guidelines on APM related to the 2017 financial reporting, with references to the various chapters of this Report.

Caption FSNO – Financial Statements, Explanatory Notes and Opinions on the Accounts. * 2015 restated in accordance with IFRS5 guidelines related t for comparative purposes.

BALANCE SHEET AND EXTRAPATRIMONIALS

SECURITIES PORTFOLIO (PÁG. 61, 62, 64, 65)

Definition	Sum of the items “Financial assets held for trading”, “Financial assets available for sale” and “Held to maturity investments”.
Relevance	Assess the relative weight of this item from an assets’ structure perspective.
Reference to FSNO	Page 120, 174, 179, 186
Components and calculus	

(thousand euros)

		2015*	2016	2017
(a)	Financial assets held for trading	51093	78 168	184 076
(b)	Financial assets available for sale	3 064 474	2 399 504	2 200 893
(c)	Held to maturity investments	26 181	1126 125	-
(d)	Securities portfolio (a + b + c)	3 141748	3 603 797	2 384 969
(e)	Total net assets	21145 216	21345 909	20 200 024
	% of securities portfolio (d / e)	**14.9%**	**16.9%**	**11.8%**

OTHER INVESTMENTS (PÁG. 62)

Definition	Total assets excluding "Loans to customers", "Financial assets held for trading", "Financial assets available for sale" and "Held to maturity investments".
Relevance	Assess the relative weight of this item compared to Loans to customers and Securities portfolio from an assets' structure perspective.
Reference to FSNO	Page 120, 167, 174, 179, 186
Components and calculus	

(thousand euros)

	2015*	2016	2017
(a) Total net assets	21 145 216	21 345 909	20 200 024
(b) Net loans to customers	14 357 017	13 861 034	13 029 318
(c) Financial assets held for trading	51 093	78 168	184 076
(d) Financial assets available for sale	3 064 474	2 399 504	2 200 893
(e) Held to maturity instruments	26 181	1 126 125	-
(f) Other investments (a - b - c - d - e)	3 646 451	3 881 078	4 785 737
% of Other investments (f / a)	**17.2%**	**18.2%**	**23.7%**

ISSUED DEBT (PAGE 67, 69)

Definition	Sum of the balance sheet items "Debt securities issued" and "Other subordinated debt".
Relevance	Assess the relative weight of this item from a funding structure perspective.
Reference to FSNO	Page 120, 203, 210
Components and calculus	

(thousand euros)

	2015*	2016	2017
(a) Debt securities issued	2 354 202	1 920 035	1 544 054
(b) Other subordinated debt	332 992	251 028	236 193
(c) Issued debt (a + b)	2 687 194	2 171 063	1 780 247
(d) Total liabilities	19 801 070	19 889 411	18 437 103
% of Issued debt (c / d)	**13.6%**	**10.9%**	**9.7%**

COMPLEMENTARY RESOURCES (PAGE 67)

Definition	Total liabilities excluding "Customers' resources", "Debt securities issued" and "Other subordinated debt".
Relevance	Assess the relative weight of this item compared to Customers' resources and Issued debt from a funding structure perspective.
Reference to FSNO	Page 120, 203, 210
Components and calculus	

(thousand euros)

	2015*	2016	2017
(a) Total liabilities	19 801 070	19 889 411	18 437 103
(b) Deposits from customers	12 540 112	12 467 819	12 561 040
(c) Debt securities issued	2 354 202	1 920 035	1 544 054
(d) Other subordinated debt	332 992	251 028	236 193
(e) Complementary resources (a - b - c - d)	4 573 764	5 250 529	4 095 816
% of Other resources (e / a)	**23.1%**	**26.4%**	**22.2%**

OFF-BALANCE SHEET RESOURCES (PAGE 69)

Definition	Assets under management by the Groups' subsidiaries being a constituent part of Total customers' resources.
Relevance	Contribute to the analysis of the evolution of total customers' resources.
Reference to FSNO	Page 234
Components and calculus	

(thousand euros)

		2015*	2016	2017
(a)	Securities investment fund	219 207	177 402	169 202
(b)	Real estate investment fund	333 773	294 436	292 058
(c)	Pensions fund	196 786	205 839	220 773
(d)	Bancassurance	60 178	45 415	26 913
	Off-balance sheet resources (a + b + c + d)	**809 944**	**723 092**	**708 946**

INCOME STATEMENT

COMMERCIAL NET INTEREST INCOME (PAGE 71)

Definition	Results arising from interest received on loans granted to customers and interest paid on customers' resources.
Relevance	Assess the evolution of the banking activity of financial intermediation between granting loans and deposit taking.
Reference to FSNO	Page 151
Components and calculus	

(thousand euros)

		2015*	2016	2017
(a)	Interest received from loans to customers	437 336	394 449	363 701
(b)	Interest paid on customers' deposits	212 285	131 147	84 696
	Commercial net interest income (a - b)	**225 051**	**263 302**	**279 005**

COMPARABLE OPERATING COSTS (PAGE 71, 76, 77)

Definition	Sum of staff costs, general and administrative expenses and depreciation and amortisations, deducted by the impacts with the process of re-dimensioning of the operating structure and Collective Company Agreement outcome.
Relevance	Assess the evolution of the operating costs underlying the banking activity, deducted by specific measures such as the process of re-dimensioning the operating structure and the revision of the Collective Company Agreement.
Reference to FSNO	Page 119, 158, 160, 162
Components and calculus	

(thousand euros)

		2015*	2016	2017
(a)	Staff costs	191 355	165 505	156 207
(b)	General and administrative expenses	114 939	94 024	87 005
(c)	Depreciation and amortisation	23 702	24 270	24 809
(d)	Costs related to the redimensioning of the operating structure	-	(12 096)	-
	Operating costs, excluding costs related to the redimensioning of the operating structure (a + b + c + d)	**329 996**	**295 895**	**268 021**

RESULTS FROM THE COMMERCIAL ACTIVITY (PAGE 71)	
Definition	Sum of the commercial net interest income and Net fees and commissions, subtracted by the operating costs excluding specific measures such as the process of re-dimensioning the operating structure and Collective Company Agreement revision.
Relevance	Assess the evolution of the core banking activity, excluding specific measures such as the process of re-dimensioning the operating structure and the Collective Company Agreement revision.
Reference to FSNO	Page 119, 151, 152
Components and calculus	

(thousand euros)

		2015*	2016	2017
(a)	Commercial net banking income	225 051	263 302	279 005
(b)	Net commissions	96 071	101 489	119 808
(c)	Operating costs, excluding costs related to the redimensioning of the operating structure	329 996	295 895	268 021
	Results from the commercial activity (a + b - c)	**(8 874)**	**68 896**	**130 792**

RATIOS

CTD RATIO: NET LOANS TO CUSTOMERS / ON-BALANCE SHEET CUSTOMERS' RESOURCES (PAGE 10, 11, 59, 60)	
Definition	Percentage of net loans to customers funded by the total amount of on-balance sheet resources from customers.
Relevance	Asses the leverage degree of the banking activity through the relationship between funds raised with customers and loans granted to customers.
Reference to FSNO	Page 120, 167, 202, 203
Components and calculus	

(thousand euros)

		2015*	2016	2017
(a)	Net loans to customers	14 357 017	13 861 034	13 029 318
(b)	Customers' resources	12 540 112	12 467 819	12 561 040
(c)	Debt securities issued	2 354 202	1 920 035	1 544 054
	Net loans to customers / On-balance sheet customers' resources (a / (b + c))	**96.4%**	**96.3%**	**92.4%**

Efficiency ratio: cost to income, without specific impacts (Page 10, 76, 77)

Definition	Operating efficiency ratio measured by the portion of the total operating income that is absorbed by operating costs, excluding results from financial operations, costs related to the process of redimensioning of the operating structure and the Collective Company Agreement revision, given the greater volatility of the first and the specificity of the latter.
Relevance	Assess the evolution of operating efficiency underlying the banking activity, removing the volatility effect of results from financial operations and the specific impact of costs related to the process of redimensioning of the operating structure and the Collective Company Agreement revision.
Reference to FSNO	Page 119, 153, 154, 154, 158, 160, 162
Components and calculus	

(thousand euros)

		2015*	2016	2017
(a)	Net banking income	403 587	371522	505 267
(b)	Results from financial operations (i +ii +iii)	102 659	36 987	70 737
(i)	Net gains / (losses) from finacial assets and liabilities at fair value through profit or loss	(14 161)	(18 194)	(14 807)
(ii)	Net gains / (losses) from available for sale financial assets	114 451	53 736	83 622
(iii)	Net gains / (losses) from foreign exchange differences	2 369	1445	1922
(c)	Operating costs	329 996	283 799	268 021
(d)	Costs related to the redimensioning of the operating structure and revision of the collective bargaining agreement	-	(12 096)	-
	Cost-to-Income, excluding results from financial operations and costs related to the redimensioning of the operating structure ((c - d) / (a - b))	**109.7%**	**88.4%**	**61.7%**

Cost of credit risk (Page 10, 11, 77, 88)

Definition	Ratio that measures the cost recognized in the period, recorded as loan impairments in the income statement, to cover the risk of default of loans granted to customers.
Relevance	Assess the quality of the loan portfolio given the cost borne with the risk of loan default.
Reference to FSNO	Page 162, 167
Components and calculus	

(thousand euros)

		2015*	2016	2017
(a)	Loan impairments (annualized[1])	241704	182 479	160 711
(b)	Average gross loans to customers[2]	15 912 409	15 318 362	14 738 284
	Cost of credit risk (a / b)	**1.5%**	**1.2%**	**1.1%**

1) Annualized values considering the total number of days elapsed and total days of the year. 2) Average balance for period (2015: 365 days/2016: 366 days/2017: 365 days).

Ratio of loans and interest overdue by more than 90 days (Page 10, 88)

Definition	Ratio that measures the quality evaluation of the loan portfolio.
Relevance	Measure the proportion of credit and interest overdue for more than 90 days in relation to the total loan portfolio.
Reference to FSNO	Page 167
Components and calculus	

(thousand euros)

		2015*	2016	2017
(a)	Loans and interest overdue by more than 90 days	1218 086	1371620	1146 222
(b)	Gross loans to customers	15 611385	15 040 651	14 063 139
	Ratio of loans and interest overdue by more than 90 days (a / b)	**7.8%**	**9.1%**	**8.2%**

COVERAGE OF LOANS AND INTEREST OVERDUE BY MORE THAN 90 DAYS BY IMPAIRMENT FOR BALANCE SHEET LOANS (PAGE 10, 88)

Definition	Ratio that measures the proportion of impairment for loans accumulated on the balance sheet in relation to the total amount of loans and interest overdue by more than 90 days.
Relevance	Assess the institution's ability to absorb potential losses arising from loans and interest overdue by more than 90 days.
Reference to FSNO	Page 167
Components and calculus	

(thousand euros)

		2015*	2016	2017
(a)	Impairment for balance sheet loans	1254 368	1179 617	1033 821
(b)	Loans and interest overdue by more than 90 days	1218 086	1371620	1146 222
	Coverage of loans and interest overdue by more than 90 days (a / b)	**103.0%**	**86.0%**	**90.2%**

NON-PERFORMING EXPOSURES / GROSS CUSTOMER LOANS (PAGE 10, 64, 88)

Definition	Ratio that measures the quality evaluation of the loan portfolio.
Relevance	Measure the proportion of non-performing exposures (NPE, according to EBA's definition) in relation to the total customer loan portfolio.
Reference to FSNO	Page 256
Components and calculus	

(thousand euros)

		2015*	2016	2017
(a)	Stock of Non-performing exposures	3 231646	2 805 189	2 304 759
(b)	Gross customer loans	15 611385	15 040 651	14 063 139
	Non-performing exposures / Gross customer loans (a / b)	**20.7%**	**18.7%**	**16.4%**

COVERAGE OF NON-PERFORMING EXPOSURES BY IMPAIRMENT FOR BALANCE SHEET LOANS (PAGE 10, 64, 88)

Definition	Ratio that measures the proportion of impairment for loans accumulated on the balance sheet in relation to the balance of non-performing exposures (NPE, according to the EBA definition).
Relevance	Assess the institution's capacity to absorb potential losses arising from the NPE portfolio.
Reference to FSNO	Page 256
Components and calculus	

(thousand euros)

		2015*	2016	2017
(a)	Impairment for balance sheet loans	1254 368	1179 617	1033 821
(b)	Stock of Non-performing exposures	3 231646	2 805 189	2 304 759
	Coverage of Non-performing exposures by Impairment for balance sheet loans (a / b)	**38.8%**	**42.1%**	**44.9%**

COVERAGE OF NON-PERFORMING EXPOSURES BY IMPAIRMENT FOR BALANCE SHEET LOANS AND ASSOCIATED COLLATERALS AND FINANCIAL GUARANTEES (PAGE 10, 11, 64, 88)

Definition	Ratio that measures the proportion between the sum of the impairment for loans accumulated on the balance sheet and associated collaterals and financial guarantees in relation to the balance of non-performing exposures (NPE, according to EBA's definition).
Relevance	Assess the institution's capacity to absorb the potential losses arising from the NPE portfolio.
Reference to FSNO	Page 256
Components and calculus	

(thousand euros)

		2015*	2016	2017
(a)	Impairment for balance sheet loans	1254 368	1179 617	1033 821
(b)	Associated collaterals and financial guarantees	1559 153	1282 693	970 986
(c)	Stock of Non-performing exposures	3 231646	2 805 189	2 304 759
	Coverage of Non-performing exposures by Impairment for balance sheet loans and associated collaterals and financial guarantees ((a + b) / c)	**87.1%**	**87.8%**	**87.0%**

RESTRUCTURED LOANS (FORBORNE) / GROSS CUSTOMER LOANS (PAGE 10, 64, 88)

Definition	Ratio that measures the quality evaluation of the loan portfolio.
Relevance	Measure the proportion of Restructured loans (Forborne, according to EBA's definition) in relation to the total loan portfolio.
Reference to FSNO	Page 256
Components and calculus	

(thousand euros)

		2015*	2016	2017
(a)	Stock of Restructured loans (Forborne)	1509 210	1335 661	1159 129
(b)	Gross customer loans	15 611385	15 040 651	14 063 139
	Restructured loans (Forborne) / Gross customer loans (a / b)	**9.7%**	**8.9%**	**8.2%**

ACTIVITY REPORT AND OPINION OF THE SUPERVISORY BODY

ACTIVITY REPORT OF THE SUPERVISORY BOARD

I INTRODUCTION

II SUMMARY OF THE ACTIVITIES UNDERTAKEN IN 2017

1. Issue of an opinion on the Management Report and Financial Statements 2016
2. Appraisal of the Financial Information
3. Decisions considered strategic
4. Increase of institutional capital
5. Relationship with the External Auditor and the Statutory Auditor
6. Évora Project
7. Transformation of Caixa Económica Montepio Geral into a Public Limited Company
8. Services other than audit services provided by the Statutory Auditor or by any member of the network
9. Appraisal of the Risk, Compliance and Audit functions
10. Appraisal of the Internal Control System
11. Appraisal of Prudential and Other Reports
12. Appraisal of Operations involving Credit granted to Owners of Qualified Holdings
13. Monitoring of the Activity of the Executive Board of Directors
14. Regulation for Communication of Irregularities
15. Reorganisation of the Credit Recovery Structure
16. Project of application for the adoption of the Internal Ratings Based Approach (IRB)
17. Appraisal of the Action Plan and Budget for 2018
18. 2017 financial year close

III CONCLUSION

Annex 1 – Report of the Financial Matters Committee

I - INTRODUCTION

The Supervisory Board is a supervisory body whose mission is to monitor and continually assess the activity of Caixa Económica Montepio Geral (hereinafter also referred to as Institution), without prejudice to the duties inherent to the other supervisory body, the Statutory Auditor and the Risk Committee.

The scope of activity of the Supervisory Board is defined in article 14 of the Articles of Association of Caixa Económica Montepio Geral and in its Internal Regulations, fully complying with the duties defined under the law, the articles of association and regulations applicable to this Board.

Duties

The Supervisory Board is responsible for performing, among others, the following duties:

- Playing an advisory role and continually assessing the institution, especially in relation to the definition of the strategy and general policies of the institution, of the corporate structure of the group and of the decisions that must be considered strategic due to their amount, risk or their special characteristics;
- Analysing the financial reporting documents and the minutes of the meetings of the Executive Board of Directors;
- Supervising the risk and financial reporting policies;
- Monitoring the financial performance and budget implementation;
- Ensuring that the Executive Board of Directors establishes and maintains an adequate and effective internal control, particularly in the areas of reporting of financial and operational risks, of compliance with the law, regulations and internal policies, of operational efficiency and of asset security;
- Controlling and ensuring the effectiveness of the internal audit function, of the related action plan and budgets, as well as of its reports and relations with the external auditor and with the supervisory authorities;
- Analysing and discussing the reports of the external auditors;
- Ensuring that the Executive Board of Directors adopts the necessary corrective measures for satisfactory compliance with the recommendations and warning calls from the external and internal auditors, in a timely manner;
- Analysing and monitoring the implementation of measures aimed to suppress any non-compliance with the legal rules, Articles of Association and established policies;
- Ensuring that the weaknesses identified by the supervisory authorities are corrected in a timely manner;
- Proposing the election of the Statutory Auditor and selecting the external auditor;
- Pre-approving the award of the tenders of services other than audit services under the terms defined by law 140/2015, of 7 September;
- Assessing and issuing opinions on proposals relative to the Action Plan and Budget that are presented by the Executive Board of Directors.

Current composition of the Supervisory Board and meetings held in 2017

- Álvaro João Duarte Pinto Correia, Chairman*
- António Fernando Menezes Rodrigues
- José António de Arez Romão
- Vítor Manuel do Carmo Martins
- Francisco José Fonseca da Silva
- Acácio Jaime Liberado Mota Piloto
- Luís Eduardo Henriques Guimarães
- Rui Pedro Brás de Matos Heitor
- Eugénio Óscar Garcia Rosa

* Due to health reasons, as of 10 May 2017, the Chairman, Eng. Álvaro João Duarte Pinto Correia, has been unable to participate in the meetings, having, under the statutory terms, delegated the Member Dr. José António de Arez Romão, with the exercise of the function during the period of impediment.

In compliance with the provisions in article 14 (3) of the Articles of Association of Caixa Económica Montepio Geral, the Supervisory Board held meetings on at least a monthly basis, in addition to any other required to comply with its obligations.

During 2017, the Supervisory Board held meetings twenty-six times, with the following attendance:

Members	Attendance / Total
Álvaro João Duarte Pinto Correia	11/26
António Fernando Menezes Rodrigues	24/26
José António de Arez Romão	25/26
Vítor Manuel do Carmo Martins	26/26
Francisco José Fonseca da Silva	26/26
Acácio Jaime Liberado Mota Piloto	26/26
Luís Eduardo Henriques Guimarães	24/26
Rui Pedro Brás de Matos Heitor	26/26
Eugénio Óscar Garcia Rosa	26/26

Pursuant to article 14 (5) of the Articles of Association of Caixa Económica Montepio Geral, the Chairman and the Members of the Executive Board of Directors of Caixa Económica Montepio Geral were present at meetings held with the Supervisory Board.

At these meetings, the Heads of the Audit Department, Risk Department, Compliance Department, Strategic Planning, Control and Accounting Department, the External Auditor and the Statutory Auditor participated on a regular basis, whenever convened by the Supervisory Board.

II – SUMMARY OF THE ACTIVITIES UNDERTAKEN IN 2017

In addition to the meetings mentioned in the preceding paragraphs, the Supervisory Board, throughout the year, held meetings with the main departments of the organic structure of Caixa Económica Montepio Geral, having conducted a detailed analysis of the themes related to the duties attributed to this Board, which is registered in the minutes of this Board.

The main activities developed during 2017 are indicated below.

Annex 1 includes the Report of the Financial Matters Committee.

1- Issue of an Opinion on the Management Report and Financial Statements

The Supervisory Board appraised the Management Report and Accounts relative to December 31, 2016, which include the Individual and Consolidated Financial Statements. In its work, the Supervisory Board considered the opinion issued by the Statutory Auditor and by the Financial Matters Committee on the topic indicated above and issued a favourable opinion regarding its approval by the General Meeting of Caixa Económica Montepio Geral.

At a specific work meeting to analyse the report indicated above, the Chairman of the Executive Board of Directors of Caixa Económica Montepio Geral and the Member of the same Board responsible for the financial area, were present. Prior to that work meeting, the Financial Matters Committee held a meeting with the External Auditor and the Statutory Auditor and participated in the session of the Executive Board of Directors where the results for that period were approved.

2- Appraisal of the Financial Information

In 2017, the Supervisory Board continued its regular monitoring of the financial information of Caixa Económica Montepio Geral, especially the process of preparation and disclosure of the quarterly reports, the respective financial statements and all the information made available to the supervisory entities, the market, customers and associates of Montepio Geral - Associação Mutualista.

Particular attention was paid to the relevant issues identified by the External Auditor in the presentation of the limited review of the financial information relative to the third quarter of 2017, regarding which the Supervisory Board promoted the taking of a series of measures by the Executive Board of Directors of Caixa Económica Montepio Geral, considered necessary for the contextualisation of the observed facts.

In its activity, the Supervisory Board considered the opinions issued by the Financial Matters Committee and held meetings with the External Auditor, the Statutory Auditor, the Head of the Department of Strategic Planning, Control and Accounting, the Chairman of the Executive Board of Directors of Caixa Económica Montepio Geral and with the member of this Board responsible for the financial area.

3- Decisions considered strategic

Finibanco Angola

The Supervisory Board closely monitored the investment in Finibanco Angola, S.A., having met with the Executive Board of Directors more than once to discuss this matter, and two members of the Financial Matters Committee travelled to Angola to monitor this subsidiary company.

4- Increase of institutional capital

Pursuant to article 7 (4) of the Articles of Association of Caixa Económica Montepio Geral, the Supervisory Board, after analysis of the proposal submitted by the Executive Board of Directors of Caixa Económica Montepio Geral at the working session of 29 June, issued a favourable opinion on the increase of institutional capital up to the value of 250 million euros, based on the agreement of all the Board members.

5- Relations with the External Auditor and Statutory Auditor

The External Auditor and the Statutory Auditor attended six of the twenty-six meetings held by the Supervisory Board. However, the activity undertaken by the External Auditor and by the Statutory Auditor was more closely monitored by the Financial Matters Committee, within the scope of its competencies.

In this context, the reports prepared by the External Auditor and the Statutory Auditor were analysed by the Supervisory Board.

6- Évora Project

The Board monitored the Non-Performing Loans (NPL) sale process developed by the Executive Board of Directors, having met with both the Executive Board of Directors and the Arranger of the operation, as well as with the external auditors.

The abovementioned operation received a favourable opinion, having enabled CEMG to improve the non-performance ratio of the loan portfolio, release capital relative to the loans sold and, as such, subject to derecognition, also allowing the generation of additional liquidity and having a positive impact on the bank's liquidity ratios.

The Supervisory Board also took note that this was the first securitisation of NPLs in Portugal, which was subject to a rating by the Moody's and DBRS agencies.

7- Transformation of Caixa Económica Montepio Geral into a Public Limited Company

The Supervisory Board monitored the transformation process of Caixa Económica Montepio Geral into a public limited company, which was completed, through an executed deed, on September 14. Having complied with all the legal and articles of association requirements that led to the transformation of Caixa Económica Montepio Geral into a public limited company and in compliance with, namely, the requirements laid down in Decree-Law 190/2015, of September 10 and the deliberations approved at the General Meetings of April 4 and May 9, respectively, of Caixa Económica Montepio Geral and at Montepio Geral - Associação Mutualista, the transformation of Caixa Económica Montepio Geral into a Public Limited

Company was completed, having changed its name to Caixa Económica Montepio Geral, caixa económica bancária, S.A.

8- Services other than audit services provided by the Statutory Auditor or by any member of the network

The provision of services other than audit services, and with the entry into force of Law 140/2015 of 7 September, on 1 January 2016, when they are rendered by the Statutory Auditor who conducts the legal review of the accounts, or by any member of that network, now require the prior approval of the Supervisory Board, as to the assessment of the independence of the auditor.

During 2017, eighteen services other than audit services were appraised by the Supervisory Board, requested by the organic areas of Caixa Económica Montepio Geral and other subsidiary companies, to be provided by KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A. and other associated Group companies.

In its analysis, the Supervisory Board considered that the assumptions of independence of the Statutory Auditor were complied with in all the presented operations, having issued a favourable opinion on them.

9- Appraisal of the Risk, Compliance and Audit Functions

Within the scope of its competencies and responsibilities relative to the operational procedures of Caixa Económica Montepio Geral and Group companies, the Supervisory Board took into consideration the guidelines defined in Banco de Portugal Notice number 5/2008 and the EBA Guidelines on Internal Governance (GL44), of 27 September 2011, and used, as the main source of information, the annual Activity Plans of the Compliance Function and the Audit Function, and the annual Reports of the functions indicated above prepared by the respective areas.

In addition, supplementary information and clarifications were collected through presentations made in plenary sessions by the Heads of those areas.

10- Appraisal of the Internal Control System

Following on from the work that has been undertaken since 2015, the internal control system was continuously assessed, with this theme having constituted one of the main pillars of activity of the Supervisory Board. This assessment was mainly based on the information prepared by the Internal Control function.

As foreseen in its meetings plan for 2017, the Supervisory Board carried out various actions relative to the monitoring and assessment of the operation and adequacy of the internal control systems, namely of the weaknesses identified by the Internal and External Audit, by the Compliance Department and by Banco de Portugal, and the measures taken for their resolution.

Regarding compliance with the duties of reporting to the supervisors and considering the work undertaken by the Financial Matters Committee, the Supervisory Board issued opinions on:

- The adequacy and efficacy of the Internal Control System of Caixa Económica Montepio Geral and Group companies, in compliance with the provisions in Banco de Portugal Notice number 5/2008;
- The adequacy and efficacy of the Internal Control System, specifically concerning the Prevention of Money Laundering and Financing of Terrorism, of Caixa Económica Montepio Geral, as provided for in Banco de Portugal Notice number 9/2012.

The Supervisory Board considers that the Executive Board of Directors of Caixa Económica Montepio Geral has continued to give increasing and sustained importance to the development and improvement of the internal control and risk management system of Caixa Económica Montepio Geral and companies integrated in its consolidation perimeter.

Within this context, the Executive Board of Directors took on, in May 2017, a qualified employee to perform the duties of Project Management Officer (PMO) of Internal Control.

11- Appraisal of Prudential and Other Reports

Throughout 2017, and at various meetings, the Supervisory Board analysed some of the reporting obligations to the supervisor, among which the following stand out due to their significance:

- Recovery Plan;
- Capital and Funding Plan;
- ICAAP – Internal Capital Adequacy Assessment Process.

12-Appraisal of Operations Involving Credit Granted to Owners of Qualifying Holdings

In compliance with applicable legal rules, the Supervisory Board verified the framework for credit operations undertaken within the scope defined in article 109 of the Legal Framework for Credit Institutions and Financial Companies.

13- Monitoring of the Activity of the Executive Board of Directors

During 2017, the Supervisory Board counted with the presence of the members of the Executive Board of Directors of Caixa Económica Montepio Geral, at various meetings, for the presentation and discussion of the following issues:

- Evolution of credit at risk;
- Evolution of Recovered Loans;
- Recovery Plan;
- Control of execution of Internal Control measures;
- IRB (Internal Ratings Based) Project;
- Functional Reporting of the Internal Audit Department (DAI);
- Liquidity Position and Execution of respective measures;
- Financial Statements;
- ICAAP (Internal Capital Adequacy Assessment Process) Report;

- Strategic Plan 2016-2018 - Information;
- Plan to Reduce Exposure to Real Estate Risk;
- Évora Project;
- Report on the Impairment of the Loan Portfolio;
- Level of accomplishment of the Business Plan of the Retail Network in 2017;
- Action Plan and Budget for 2018.

During the year, the Supervisory Board also followed the activity of the Executive Board of Directors by reading and examining the minutes of the meetings of this Board.

14- Regulation for Communication of Irregularities

To proceed with the integration of the measure of mitigation of the risks of conduct associated to the mis-selling of savings and investment products, included in the disclosure note of the National Council of Financial Supervisors on the Report on Risks of Conduct associated to the mis-selling of savings and investment products, alterations were introduced, namely in article 2 (c) and in article 3 (b) and (d) of the Regulation for Communication of Irregularities, which were unanimously approved.

15-Reorganisation of the Credit Recovery Structure

During 2017, the Supervisory Board paid special attention to the process of reorganisation of the Credit Recovery structure in progress at Caixa Económica Montepio Geral, conducting the regular monitoring and respective assessment of the actions that had already been completed and the actions still underway and/or to be finalised. This issue was also followed by the Financial Matters Committee, and was considered by the members of the Supervisory Board as one of the critical points for the improvement of the Institution’s results.

16- Project of Application for the adoption of the Internal Ratings Based Approach (IRB)

The Supervisory Board noted that the initial schedule for the IRB project was interrupted due to the TRIM (Targeted Review of Internal Models) process and registered the information that only after the conclusion of the study of the impact on own funds, considering the new requirements, would it be possible to reassess the schedule for submitting the application to Banco de Portugal. It would, therefore, be difficult for this process to be concluded before the end of the first half of 2017.

Considering this framework, this issue had no further developments relative to new requirements from Banco de Portugal, according to information received.

17- Appraisal of the Action Programme and Budget for 2018

The Supervisory Board appreciated the Action Plan and Budget for 2018, and the opinion issued by the Financial Matters Committee about the said programme, and issued a favourable opinion regarding its approval by the General Meeting of Caixa Económica Montepio Geral. Both of these opinions, due to their importance and relevance in the development of the operation in 2018, are noteworthy referring to.

18- 2017 financial year close

The Supervisory Board and, in particular, the Financial Matters Committee monitored the close of the financial year of 2017. Without prejudice to the opinion of this Committee which met with the External Auditor, the Statutory Auditor and the Executive Board of Directors, it was registered that the financial year of 2017 closed with a positive net income of 30.2 million euros, a liquidity coverage ratio (LCR) of 153.4%, a common equity tier 1 ratio (CET1) of 13.4% and a total capital ratio of 13.4%.

The evolution of the capital ratios reflects the reduction observed in terms of risk weighted assets (RWA), which decreased from 13,962 million euros at the end of 2015 to 11,895 million euros as at December 31, 2017, and the organic creation of capital, thus contributing to the decrease in CEMG's capital needs.

III – CONCLUSION

After completing its annual report, the Supervisory Board emphasises the good institutional cooperation and fruitful relations established with the Executive Board of Directors, the Departments belonging to the organic structure of Caixa Económica Montepio Geral, the External Auditor and the Statutory Auditor.

This Board also registers its deep appreciation for the sense of cooperation, the technical quality and the dedication to Caixa Económica Montepio Geral of all the Departments with which it worked directly, as well as the contribution of all the other departments towards the results achieved.

On a final note, it is important to emphasize the appropriateness and timeliness of all the written and oral information provided by the aforesaid entities, which is an indispensable support to the exercise of the duties and responsibilities inherent to the activity of the Supervisory Board, and which has contributed significantly to its sound operational performance as a supervisory body.

Lisbon, March 1, 2018

António Fernando Menezes Rodrigues ______________________

José António de Arez Romão ______________________

Vítor Manuel do Carmo Martins ______________________

Francisco José Fonseca da Silva ______________________

Acácio Jaime Liberado Mota Piloto ______________________

Luís Eduardo Henriques Guimarães ______________________

Rui Pedro Brás de Matos Heitor ______________________

Eugénio Óscar Garcia Rosa ______________________

ANNEX 1 - ACTIVITY REPORT OF THE FINANCIAL MATTERS COMMITTEE OF 2017

I INTRODUCTION

II SUMMARY OF THE ACTIVITIES UNDERTAKEN IN 2017

1. Appraisal of the Internal Audit Plan for 2017

2. Appraisal of the Activity Plan and Training Plan of the Compliance Function for 2017

3. Appraisal of the Management Report and Accounts for 2016

4. Monitoring of the activity of the External Auditor and Statutory Auditor

5. Appraisal of the Financial Information

6. Appraisal of the Efficacy of the Internal Control and Risk Management System (Risk, Compliance and Audit functions)

7. Loans

8. Working visit to Finibanco Angola

9. Appraisal of the Action Plan and Budget for 2018

III CONCLUSION

I – INTRODUCTION

The scope of activity of the Financial Matters Committee is defined in its internal regulation, which fully complies with the duties defined under the legal, statutory and regulatory rules applicable to the Financial Matters Committee.

The Financial Matters Committee is entrusted with performing the duties established in article 444 (2) of the Commercial Companies Code combined with the duties attributed by the Supervisory Board, being responsible for monitoring and supervising the following on a permanent basis:

a) the efficacy of the internal control, internal audit and risk management systems;

b) the accounting policies and the

c) monitoring of the activity and independence of the external auditors.

Annually:

a) Appraisal of the annual reports and accounts on an individual and consolidated basis and issuing a draft opinion for submission to the Supervisory Board;

b) Appraisal of the reports concerning Internal Control, Compliance, Internal Audit, Risk, Legal Certification of the Accounts, and issuing a draft opinion for submission to the Supervisory Board.

Composition of the Committee and attendance of the meetings of 2017

The Committee is composed of the following members:

- Luís Eduardo Henriques Guimarães, as Coordinator
- Vítor Manuel do Carmo Martins
- Eugénio Óscar Garcia Rosa

The Financial Matters Committee held 25 meetings during 2017. Participation in those meetings was as follows:

Members	Meetings	
	Ordinary	Extraordinary
Luís Guimarães	13/13	11/12
Vítor Martins	13/13	9/12
Eugénio Rosa	13/13	12/12

II – SUMMARY OF THE ACTIVITIES UNDERTAKEN IN 2017

The Financial Matters Committee, created within the Supervisory Board, carried out its activity in coordination with the Supervisory Board, the Executive Board of Directors and the different Departments of the organic structure of Caixa Económica Montepio Geral (CEMG), namely the Internal Audit Department, whose reporting of its activity is submitted simultaneously to the Executive Board of Directors and the Financial Matters Committee.

During 2017, the Financial Matters Committee held meetings with several Heads of Departments, namely the Head of the Credit Analysis Department, the Head of the Compliance Department, the Head of the Strategic Planning, Control and Accounting Department, the Head of the Risk Department and, namely, with the Head of the Audit and Inspection Department.

In addition, the Financial Matters Committee met several times with the External Auditor (KPMG) to analyse and discuss the quarterly and annual accounts and the proposals of the services other than audit services presented by this entity.

These meetings permitted assessing the material relevance of the relevant risks and enabled the timely intervention of the Supervisory Board in safeguarding the net assets of CEMG.

During the financial year of 2017, the members of the Financial Matters Committee participated in all the meetings of the Internal Control Department, following changes to the reporting of the Internal Audit Department to the two bodies that it is dependent on, and the Committee also participated, at the invitation of the Executive Board of Directors, in several meetings of the Asset and Liabilities Committee (ALCO), the Real Estate Risk Committee and the Risk Committee.

1. Appraisal of the Internal Audit Plan for 2017

The Financial Matters Committee analysed the Internal Audit Plan drawn up for 2017 and issued a favourable opinion, having made several recommendations to ensure that the ranking of the audit actions took into consideration the recommendations of the regulators.

2. Appraisal of the Activity Plan and Training Plan of the Compliance Function for 2017

The Financial Matters Committee analysed both the Activity Plan and the Training Plan of the Compliance Function, and issued a favourable opinion on them, stating that they are in line with the requirements for the regular activity of this Department.

3. Appraisal of the Management Report and Accounts for 2016

The Financial Matters Committee analysed the Management Report and Accounts relative to 2016 of Caixa Económica Montepio Geral, which includes the individual and consolidated financial statements and respective annexes, documents provided by the Executive Board of Directors.

The Financial Matters Committee met with the Chief Financial Officer (CFO), with the Head of the Strategic Planning, Control and Accounting Department and with KPMG as Statutory Auditor and External Auditor, for additional clarifications as deemed necessary and convenient, pursuant to the duties attributed to this Committee, for the issue of a draft opinion on the Management Report and Accounts of 2016.

This Financial Matters Committee considered that the financial information analysed and certified by KPMG, as the Statutory Auditor and External Auditor, was prepared in conformity with the applicable accounting rules, and gave on April 28, 2017 its favourable opinion on the Accounts of 2016, as well as the proposed appropriation of Net Income, approved unanimously, which was submitted at the meeting of the Supervisory Board.

4. Monitoring of the Activity of the External Auditor and Statutory Auditor

During 2017, the Financial Matters Committee held several working meetings with KPMG to monitor the activity developed by the External Auditor, with particular emphasis on the end of each quarter and at the close of the accounts for the financial year, having received all the information that it requested from KPMG, with special emphasis on relevant audit matters, which merited special attention. KPMG also presented a memorandum on these matters prior to the close of the accounts and the final work of the External Auditor.

In relation to the provision of services other than audit services, pursuant to Law 140/2015 of September 7, 2015, in which it is necessary for the Supervisory Board to give its approval as to the independence of the auditor, the Financial Matters Committee analysed 18 opinions on these services in the various geographies in which CEMG operates and proposed the approval of this work other than audit services, as required by law, by the Supervisory Board.

5. Appraisal of the Financial Information

The Financial Matters Committee analysed the financial statements, including the documents supporting that information, on an individual and consolidated basis, monitored compliance with the accounting policies and practices and the reliability of the financial information and, in addition, appraised the conclusions of the work carried out during the year by the External Auditor.

The Financial Matters Committee paid particular attention to the relevant topics identified by the External Auditor prior to the close of the accounts, in accordance with the new legislation in force, having held discussions with KPMG on, specifically, the principle of material relevance and consistency in the presentation of the financial statements. In this regard, the Supervisory Board was informed that it should analyse and take a position, as soon as possible, so that the necessary measures could start to be taken for the full contextualisation of the observed facts.

6. Appraisal of the Efficacy of the Internal Control and Risk Management System (Risk, Compliance and Audit functions)

The Financial Matters Committee appraised CEMG's operating procedures, according to the guidelines established in Banco de Portugal Notice number 5/2008, to analyse the efficacy of the internal control and risk management system (Risk, Compliance and Audit functions).

The main source of information of this analysis were the reports issued by the Risk, Compliance and Internal Audit areas, supplemented by the information and clarifications presented by the External Auditor.

7. Loans

The Financial Matters Committee, in compliance with the determinations of Banco de Portugal, issued prior opinions on 15 loan operations, 1 loan issue operation and 1 real estate disposal operation.

The operations of the Financial Matters Committee that were supervised received a favourable opinion, although some were subject to certain conditions.

The Financial Matters Committee met with the Heads of the Bank, whether Directors or Departments, whenever there was a need to obtain clarifications so as to be able to issue an opinion on certain operations and to clarify the methodology used in the credit concession analysis.

8. Working visit to Finibanco Angola

During October, two of the members of the Financial Matters Committee travelled to Luanda and spent a week in Finibanco Angola. A report was prepared which was submitted to Banco de Portugal.

9. Appraisal of the Action Programme and Budget of CEMG for 2018

The Financial Matters Committee issued a favourable opinion on CEMG's Action Plan and Budget for 2018, approved unanimously, which was sent to the Supervisory Board for approval.

III – CONCLUSION

Following the work carried out in 2017, the Financial Matters Committee would like to express its appreciation and gratitude to the Executive Board of Directors, to the various governing bodies, to the External Auditor and to the organic units of Caixa Económica Montepio Geral (CEMG), as well as to the supervision of Banco de Portugal, for the collaboration which enabled monitoring the Institution within the scope of its duties, in order to comply with the regulatory framework.

The Financial Matters Committee considers that the work undertaken and the opinions/recommendations issued and approved unanimously by its members, during 2017, reflect the fact that the Financial Matters Committee performed its functions diligently and independently, in a permanent quest for achieving the highest standards of performance in fulfilling its mission, specifically concerning the guidelines determined by Banco de Portugal, as supervisor. The Financial Matters Committee also considers that the information and means provided for the analysis and decision-making of this body were appropriate and sufficient.

Lisbon, February 28, 2018

Luís Eduardo Henriques Guimarães

Vitor Manuel do Carmo Martins

Eugénio Óscar Garcia Rosa

REPORT AND OPINION OF THE AUDIT COMMITTEE

Audit Committee

REPORT OF THE AUDIT COMMITTEE

1. Introduction

Caixa Económica Montepio Geral, caixa económica bancária, S.A. (CEMG) formally altered its Governance Model through the Extraordinary General Meeting of CEMG held on March 16, 2018, where the new governing bodies were elected.

The Board of Directors that approves the Accounts of 2017 initiated its duties on March 21, 2017.

The alteration in governance concerning the supervisory body corresponded to the creation of the Audit Committee in CEMG. The previous two-tier governance model, whose supervisory bodies were the Supervisory Board, which created within itself a Financial Matters Committee, evolved towards the one-tier management and supervisory model, in which the Board of Directors includes the Audit Committee, composed solely of non-executive directors.

Within the context of the initiation of duties of the new Board of Directors, it was not possible to conclude within the established deadlines the work involving the preparation of the documents presenting the accounts relative to the financial year of 2017. Therefore, in accordance with the law and in compliance with Article 248-A of the Securities Code and with subparagraph a) of Rule number 1 of CMVM Instruction number 1/2010, CEMG informed the market that, within a maximum deadline of two weeks as of April, 30, it would disclose the management report and other documents presenting the accounts.

2. Activities Developed

The Audit Committee, following the mentioned alterations in the articles of association, exercises the powers provided for by law, laid down in its Articles of Association and in its Regulations. The Audit Committee was thus able to verify the quality and reliability of the relevant information produced over the course of 2017 with reference to CEMG and CEMG's consolidation perimeter, as well as the efficacy of its internal control systems.

The supervisory work had the support of the external auditor, KPMG & Associados – Sociedade de Revisores Oficiais de Contas, S.A. (KPMG), which produced the Desktop Review of the CEMG Group, as well as the Limited Review of the interim individual and consolidated financial statements of the first half of the year.

The Audit Committee has evidence that the previous supervisory body met 26 times and the Financial Matters Committee met 25 times, with minutes of all the meetings held having been drawn up.

The Audit Committee in office has evidence that the previous supervisory body met several times with all the members of the Executive Board of Directors, as well as frequently with almost all the first-line Directors, based on the prerogative that it has to summon any director or employee, there being no evidence of lack of collaboration with regard to requests for information or clarifications.

The Audit Committee has evidence that the previous supervisory body analysed the reports on the impairment of the loan portfolio with reference to December 31, 2016 and June 30, 2017. In addition, the Audit Committee took note of the opinions issued by that body on the internal control system and on the internal control system associated to prevention of money laundering and financing of terrorism.

The Audit Committee examined, to the best of its understanding, whether the Supervisory Board complied with the legal requirements established by the Legal Regime of Audit Supervision - Law 148/2015 of September 9 and by Law 140/2015 of September 7 (Approval of the Services Provided by the External Auditors), which introduced relevant changes to the rules of independence of the Statutory Auditor (ROC) / Audit Firm (SROC).

The respective annual activity reports inform us about the activity of the Supervisory Board and of the Financial Matters Committee, which are an integral part of the Annual Report and Accounts 2017.

In the beginning of 2018, the Audit Committee analysed the conclusions of the audit work on the financial statements for 2017, on an individual and consolidated basis, conducted by the Statutory Auditor and External Auditor.

3- Acknowledgements

The Audit Committee would like to thank the other members of the Board of Directors and the CEMG Departments for all their collaboration.

Lisbon, May 11, 2018

Luís Eduardo Henriques Guimarães, Chairman

Amadeu Ferreira de Paiva, Member

Manuel Ferreira Teixeira, Member

Vitor Manuel do Carmo Martins, Member

OPINION OF THE AUDIT COMMITTEE ON THE FINANCIAL YEAR OF 2017

1. The Audit Committee, according to the regulations and under the articles of association, appraised the Management Report and Accounts with reference to the financial year ended on December 31, 2017 of Caixa Económica Montepio Geral, caixa económica bancária, S.A. (CEMG) prepared by the Board of Directors which initiated duties on March 21, 2018.
   The Audit Committee appraised the Legal Certification of Accounts and the Additional Report for the Supervisory Body, all prepared, without reservations or emphases, by KPMG & Associados - Sociedade de Revisores Oficiais de Contas, SA (KPMG) on an individual and consolidated basis.

2. The Audit Committee monitored the preparation of the Management Report and Accounts, prepared in accordance with the International Financial Reporting Standards (IFRS) for the financial year ended on December 31, 2017, namely the respective final version approved by the Board of Directors. For the preparation of the opinion, the Audit Committee met with the other members of the Board of Directors, with the Strategic Planning, Control and Accounting Department, the Risk Department, the Compliance Department, the Audit and Inspection Department and with the Statutory Auditor and External Auditor, having requested all the information and clarifications it deemed relevant for complying with the applicable legal and articles of association rules.

3. The members of the Audit Committee state that, as far as they are aware, the financial information was prepared in conformity with the applicable accounting rules, providing a true and appropriate reflection of the patrimonial and financial standing and net income of CEMG and of the companies included in its consolidation perimeter and that the Management Report appropriately reflects the business and the most relevant associated risks for CEMG.

4. The Legal Certification of Accounts and Audit Reports include areas of audit focus, consolidated and individual, the so-called "Relevant Audit Matters" which KPMG identified as being:
   (i) Impairment of the loan portfolio;
   (ii) Recoverability of deferred tax assets;
   (iii) Measurement of non-current assets held for sale and investment properties;
   (iv) Measurement of the liabilities on account of benefits to employees; and
   (v) Resolution fund.

All these topics were monitored by CEMG's Audit Committee, regarding which it maintained itself updated within the scope of the Board of Directors, by the Heads of the departments mentioned in point 2, as well as by the External Auditors.

5. In conclusion:

   The Audit Committee agrees with the content of the Legal Certification of Accounts and Audit Reports prepared by KPMG and issues a favourable opinion of the Management Report and Accounts of CEMG, which includes the financial statements, on an individual and consolidated basis, for the financial year ended on December 31, 2017, approved on May 10, 2018 by the Board of Directors, which the members of the Audit Committee are part of.

6. In view of the above, the Audit Committee is of the opinion that the General Meeting should approve:
   a) The Management Report and the rest of the individual and consolidated documents presenting the accounts, relative to the financial year ended on December 31, 2017;
   b) The proposal of the Board of Directors to transfer the positive net income, recorded in the individual balance sheet relative to the financial year of 2017, in the amount of 57,660,008.94 euros, as follows:

To the Legal Reserve	5,766,000.89 euros
To be transferred to Retained Earnings	51,894,008.05 euros

Lisbon, May 11, 2018

Luís Eduardo Henriques Guimarães, Chairman

Amadeu Ferreira de Paiva, Member

Manuel Ferreira Teixeira, Member

Vitor Manuel do Carmo Martins, Member

AUDITORS' REPORT TO THE CONSOLIDATED FINANCIAL STATEMENTS

KPMG

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STATUTORY AUDITOR'S REPORT AND AUDITORS' REPORT

(Free translation from a report issued in Portuguese language. In case of doubt the Portuguese version will always prevail.)

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of **Caixa Económica Montepio Geral, Caixa económica bancária, S.A.** (the Group), which comprise the consolidated statement of financial position as at 31 December 2017 (showing a total of 20,200,024 thousand euros and total equity attributable to the shareholder of 1,730,086 thousand euros, including a profit attributable to the shareholder of 6,437 thousand euros), and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the accompanying notes to the consolidated financial statements including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view, in all material respects, the consolidated financial position of **Caixa Económica Montepio Geral, Caixa económica bancária, S.A.** as at 31 December 2017 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and further technical and ethical standards and guidelines as issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors). Our responsibilities under those standards are further described in the 'Auditors' Responsibilities for the Audit of the Financial Statements" section below. We are independent of the entities that comprise the Group in accordance with the law and we have fulfilled other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas' code of ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment losses of loans portfolio

As at 31 December 2017, impairment losses to cover the credit risk of the loans portfolio and provisions for guarantees and commitments assumed amount to 1,033,821 thousands of euros and 16,147 thousands of euros, as referred to in notes 22 and 38, respectively.

The Risk	Our Response
The Group regularly assess the existence of objective evidence of impairment in its credit portfolio, following, as referred to in note 1.c), two methods: (i) individual assessment and (ii) collective assessment. The individual assessment is performed based on the assessment of existing impairment losses on a case-by-case perspective and considering the total exposure of a specific client. The loans for which no objective evidence of impairment has been identified are grouped together based on similar risk characteristics with the purpose of determining, impairment losses on a collective basis. Impairment losses on a collective assessment are determined considering: (i) historical experience of losses in portfolios with similar risk, (ii) knowledge of the current economic and credit conditions and its influence on historical losses, and (iii) estimated period between the loss occurrence and its identification. The process to determine whether impairment loss includes numerous estimates and judgments performed by the Group. This process takes into consideration assumptions such as, 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.	As part of our audit, we performed the following procedures, among others: ▪ Inquiries to the management about the process and identification of impairment losses; ▪ Evaluation of design and implementation of the key controls defined by the Group related to the identification and measurement of the impairment losses. Test for a sample of key controls of its effectiveness; ▪ For a sample of selected individually assessed loans, analysis of the exposures, evaluating the assumptions used to determine and measure impairment, including (i) the valuation of the collaterals if applicable and (ii) the estimate of the recovery in case of non-performing; ▪ For credits subject to collective impairment assessment, we tested, with the support of our specialists, the underlying models. Additionally, we tested the adequacy and accuracy of the significant assumptions used in the model; and, ▪ Review the disclosures made by Group, in accordance with the applicable accounting framework.

KPMG

Impairment losses of loans portfolio (continued)

The Risk	Our Response
As referred to in note 1.aa), alternative methodologies and the use of different assumptions and estimates could result in a different level of impairment losses with a consequent impact in the income statement of the Group.	

Recoverability of deferred tax assets

As at 31 December 2017, deferred tax assets amount to 466,000 thousands of euros, as referred to in note 31 to the consolidated financial statements.

The Risk	Our Response
Deferred taxes are calculated in accordance with the liability method based on the balance sheet (i) on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes and (ii) on the tax losses carried forward to be used in future periods, using the tax rates approved or substantially approved at the balance sheet date and that are expected to be applied when the temporary differences are reversed, in accordance with the accounting policy detailed in note 1.w) to the consolidated financial statements. Deferred tax assets are recognized to the extent when it is probable that future taxable profits, will be available to absorb deductible temporary differences for taxation purposes (including tax losses carried forward). This area involves a significant judgment performed by the Board of Directors of the Group. The Group assessed the recoverability of the deferred tax assets based on the profit estimates presented on the Plan and Budget for 2018, that includes the profit before taxes increase between 2019 and 2024.	As part of our audit, we performed the following procedures, among others: ▪ Analysis of design and implementation of the key controls defined by the Group associated with the determination and measurement of deferred tax assets; ▪ Involvement of our tax specialists in the analysis of the reasonableness of current tax estimate and deferred taxes; ▪ Analysis and confirmation of the nature of the main temporary differences underlying the recognition of deferred tax assets and its recoverability under the legal timeframe applicable; ▪ Analysis of the reasonableness of the projections of taxable income prepared by the Board of Directors that support the analysis of the recoverability of deferred tax assets and the underlying assumptions; ▪ Analysis of the communications with the Portuguese Tax Authorities; and, ▪ Review the disclosures made by Group, in accordance with the applicable accounting framework.

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Recoverability of deferred tax assets (continued)

The Risk	Our Response
As referred to in note 1.aa), significant interpretations and estimates are required in determining the global amount of income taxes. Different interpretations and estimates would result in a different level of current and deferred income taxes, recognised by the Group with the consequent impact on the net income and equity.	

Measurement of non-current assets held for sale and of investment properties

As at 31 December 2017, non-current assets held for sale net of impairment amount to 742,221 thousands of euros and investment properties amount to 538,625 thousands of euros, as referred to in notes 27 and 28 to the consolidated financial statements, respectively.

The Risk	Our Response
Non-current assets held for sale are classified like that when there is an intention to sell, these assets are available for immediate sale and its sale is highly probable. In accordance with the accounting policy referred to in note 1.j) to the consolidated financial statements, non-current assets held for sale are measured at the lower of their cost and fair value less costs to sell. Investment properties are measured at fair value as referred in note 1.q). The fair value is based on market value being the expected selling price estimated through periodic valuations performed by independent experts. This area involves a significant judgment performed by the Board of Directors of the Group.	As part of our audit, we performed the following procedures, among others: ▪ Analysis of design and implementation of the key controls defined by the Group associated with the non-current assets held for sale measurement process; ▪ Verification for a selected sample, of the reasonableness of the measurement to non-current assets held for sale based on the valuations performed including assumptions used by independent experts, and related impairment recognized; ▪ Verification to the investment properties held through real estate investment funds, of the auditors reports of the financial statements of the real estate investment funds with reference to 31 December 2017;

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Recoverability of deferred tax assets (continued)

The Risk	Our Response
As referred to in note 1.aa), significant interpretations and estimates are required in determining the global amount of income taxes. Different interpretations and estimates would result in a different level of current and deferred income taxes, recognised by the Group with the consequent impact on the net income and equity.	

Measurement of non-current assets held for sale and of investment properties

As at 31 December 2017, non-current assets held for sale net of impairment amount to 742,221 thousands of euros and investment properties amount to 538,625 thousands of euros, as referred to in notes 27 and 28 to the consolidated financial statements, respectively.

The Risk	Our Response
Non-current assets held for sale are classified like that when there is an intention to sell, these assets are available for immediate sale and its sale is highly probable. In accordance with the accounting policy referred to in note 1.j) to the consolidated financial statements, non-current assets held for sale are measured at the lower of their cost and fair value less costs to sell. Investment properties are measured at fair value as referred in note 1.q). The fair value is based on market value being the expected selling price estimated through periodic valuations performed by independent experts. This area involves a significant judgment performed by the Board of Directors of the Group.	As part of our audit, we performed the following procedures, among others: ▪ Analysis of design and implementation of the key controls defined by the Group associated with the non-current assets held for sale measurement process; ▪ Verification for a selected sample, of the reasonableness of the measurement to non-current assets held for sale based on the valuations performed including assumptions used by independent experts, and related impairment recognized; ▪ Verification to the investment properties held through real estate investment funds, of the auditors reports of the financial statements of the real estate investment funds with reference to 31 December 2017;

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Resolution fund

As at 31 December 2017, as referred to in note 60, the Group holds a loan granted to the Resolution Fund ("RF") in the amount of 70,000 thousands of euros.

The Risk	Our Response
In 2013 and within the scope of the changes in legislation as a result of the Decree-law nr 24/2013, the Resolution Fund was created ("RF"), which in result of the resolution measures approved on 3 August 2014 and 19 December 2015 in relation to Banco Espirito Santo, S.A. ('BES') and Banco Internacional do Funchal, S.A. ('BANIF'), respectively, become the sole shareholder of the capital of the Entities that resulted from the referred measures (Novo Banco, S.A. and Oitante, S.A.). In order to perform the capital contributions to assume other obligations and contingent liabilities, the RF contracted loans granted by the Portuguese State and by a syndicate of credit institutions (including the Group) (i) in the amount of 3,900 thousand of euros and 700 thousands of euros respectively to Novo Banco, S.A. and (ii) 489 thousand of euros to Oitante, S.A. The loans obtained within the scope of BES resolution were initially contracted with a maturity in 4 August 2016 extended to December 2017. The loan obtained within the scope of BANIF resolution was initially contracted with a maturity up to 2020. On 21 March, 2017 the renegotiation of the loans granted by the Portuguese Estate and by the bank syndicate was concluded, determining a new maturity date in December 2046 and updated conditions. The main objective of this change was to requiring that the RF would be able to meet its commitments based on the annual contributions to be performed by its participants and reducing the risk of requiring extraordinary contributions. In accordance with the new contracts RF obligations to the Portuguese State and to the bank syndicate will be treat *pari passu*.	As part of our audit, we performed the following procedures, among others: ▪ Analysis of the information received from the Group related to the business plan of the RF that supports the capability of the RF to accomplished the obligations associated with the loans obtained; ▪ Analysis of the public communications of the Resolution Fund and the Minister of Finance in relation to the changes occurred in 2017 on the RF position, namely resulting from the sale of Novo Banco; ▪ Reading of the last RF Annual Report available; ▪ Review of the accounting rules application to the contributions made to RF; and, ▪ Review the disclosures made by the Entity, in accordance with the applicable accounting framework.

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Resolution fund (continued)

The Risk	Our Response
Notwithstanding the change in the maturity of the loans to mitigate the risk of extraordinary contributions, it should be taken into consideration that the RF has limited sources of income, being those restricted to the periodic contributions from participants and the contribution to the banking sector, which are the same that are used to fulfill any other obligation that the RF may assume. Additionally, there is the possibility of the Portuguese Government determine that the participating institutions make special contributions as it is stated of the applicable regulation, namely in the case that RF does not have own funds available. The valuation of the credit granted to the RF use of some assumptions and estimates assumed by RF and by the Group management, namely the RF's ability to generate the necessary cash flows for the responsibilities assumed. To be noted that, in the end of 207, RF sold to Lone Star 75% of the equity of Novo Banco, S.A. Additionally, in the scope of this sold e as forecast on the signed contracts on 28 March 2018, RF communicated about the payment to be made to Novo Banco regarding the net losses from 2017, of which the existing contingent capitalization mechanism is activated. The amount to be paid to Novo Banco in 2018 by RF, concerning 2017 results, is 792 thousands of euros. As a result, for the purposes of the preparation of the financial statements as of 31 December 2017, it was considered that no additional extraordinary contributions will be requested to CEMG, apart from those that results from the ordinary contributions accounted for in accordance with the applicable framework (IFRIC 21).	

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Responsibilities of Management and the Supervisory Body for the Consolidated Financial Statements

Management is responsible for:

- the preparation of consolidated financial statements that give a true and fair view of the Group's financial position, financial performance and cash flows, in accordance with the International Financial Reporting Standards, as adopted by the European Union;
- the preparation of management report and the corporate governance report, in accordance with applicable legal and regulatory requirements;
- designing and maintaining an appropriate internal control system to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and,
- assessing the Group's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Group's ability to continue as going concern.

The Supervisory body is responsible for overseeing the Group's financial reporting process.

Auditor´s Responsibilities for the Audit of the Consolidated Financial Statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

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- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit, and significant audit findings including any significant deficiencies in internal control that we identify during our audit;
- determine, from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes their public disclosure; and,
- provide the supervisory body, with a statement, that we have complied with the relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the consolidated financial statements, as well as the verification of the disclosures required by numbers 4 and 5 of the article 451, of the Portuguese Companies Code and the verification that non-financial information was presented.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On management report

Pursuant to article 451, nr. 3, al. e) of the Portuguese Companies' Code, it is our, opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and, the information contained therein is consistent with the audited consolidated financial statements and, having regard to our the knowledge and assessment of the Group, we have not identified any material misstatements. As defined in the article 451, nr. 7 of the Portuguese Companies' Code, this opinion is not applicable to the non-financial statement that is included in the management report.

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On the corporate governance report

Pursuant to article 451, nr. 4, of the Portuguese Companies' Code, it is our opinion that the corporate governance report includes the information required to the Group to provide to article 245 – A of the Securities Code, and we have not identified any material misstatements on the information provided therein in compliance with paragraphs c), d) , f), h), i) and m) of that article.

On the non-financial information stated on article 508-G of the Portuguese Companies Code

Pursuant to article 451, nr. 6, of the Portuguese Companies Code, we inform that the Group included on the management report the statement of non-financial information as requested by article 508-G of the Portuguese Companies Code.

On the additional matters provided in article 10 of Regulation (EU) nr. 537/2014

Pursuant to Article nr. 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed auditors of the Group for the first time at the general meeting held on September 2002. We were appointed at the general meeting on 30 December 2015 for the current term from 2015 to 2018.
- The Board of Directors confirmed to us that it is not aware of the occurrence of any fraud or suspected material fraud in the financial statements. In the planning and execution of our audit under ISA we have maintained professional skepticism and designed audit procedures to respond to the possibility of material misstatement of financial statements due to fraud. As a result of our work, we have not identified any material misstatement of the financial statements due to fraud.
- We confirm that the audit opinion we issue is consistent with the additional report we prepared and delivered to the Group's oversight body on the 11 May 2018.
- We declare that we have not provided any prohibited services as described in article nr. 77, nr. 8 of the Ordem dos Revisores Oficiais de Contas statutes and we have remained independent of the Group in conducting the audit.

11 May 2018

SIGNED ON THE ORIGINAL

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)
represented by
Ana Cristina Soares Valente Dourado (ROC nr. 1011)

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AUDITORS' REPORT TO THE INDIVIDUAL FINANCIAL STATEMENTS

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STATUTORY AUDITOR'S REPORT AND AUDITORS' REPORT

(Free translation from a report issued in Portuguese language. In case of doubt the Portuguese version will always prevail.)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the accompanying financial statements of **Caixa Económica Montepio Geral, Caixa económica bancária, S.A.** (the Entity), which comprise the statement of financial position as at 31 December 2017 (showing a total of 19,809,591 thousand euros and total equity of 1,729,011 thousand euros, including a net profit of 57,660 thousand euros),and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the accompanying notes to the financial statements including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of **Caixa Económica Montepio Geral, Caixa económica bancária, S.A.** as at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISA) and further technical and ethical standards and guidelines issued by Ordem dos Revisores Oficiais de Contas (the Portuguese Institute of Statutory Auditors) . Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section below. We are independent of the Entity in accordance with the law and we have fulfilled our other ethical requirements in accordance with the Ordem dos Revisores Oficiais de Contas' Code of Ethics.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment losses of loans portfolio

As at 31 December 2017 impairment losses to cover the credit risk of the loans portfolio and provisions for guarantees and commitments assumed amount to 1,008,261 thousands of euros and 16,147 thousands of euros, as referred to in notes 21 and 36, respectively.

The Risk	Our Response
The Entity regularly assess the existence of objective evidence of impairment in its credit portfolio, following, as referred to in note 1.b), two methods: (i) individual assessment and (ii) collective assessment. The individual assessment is performed based on the assessment of existing impairment losses on a case-by-case perspective and considering the total exposure of a specific client. The loans for which no objective evidence of impairment has been identified are grouped together based on similar risk characteristics with the purpose of determining impairment losses on a collective basis. Impairment losses on a collective assessment are determined considering: (i) historical experience of losses in portfolios with similar risk, (ii) knowledge of the current economic and credit conditions and its influence on historical losses, and (iii) estimated period between the loss occurrence and its identification. The process to determine whether impairment loss includes numerous estimates and judgments performed by the Entity. This process takes into consideration assumptions such as, 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.	As part of our audit, we performed the following procedures, among others: ▪ Inquiries to the management about the process and identification of impairment losses; ▪ Evaluation of design and implementation of the key controls defined by the Entity related to the identification and measurement of the impairment losses. Test for a sample of key controls of its effectiveness; ▪ For a sample of selected individually assessed loans, analysis of the exposures, evaluating the assumptions used to determine and measure impairment, including (i) the valuation of the collaterals if applicable and (ii) the estimate of the recovery in case of non-performing; ▪ For credits subject to collective impairment assessment, we tested, with the support of our specialists, the underlying models. Additionally, we tested the adequacy and accuracy of the significant assumptions used in the model; and ▪ Review the disclosures made by Entity, in accordance with the applicable accounting framework.

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Impairment losses of loans portfolio (continued)

The Risk	Our Response
As referred to in note 1.z), alternative methodologies and the use of different assumptions and estimates could result in a different level of impairment losses with a consequent impact in the income statement of the Entity.	

Recoverability of deferred tax assets

As at 31 December 2017, deferred tax assets amount to 458,864 thousands of euros, as referred to in note 29 to the financial statements.

The Risk	Our Response
Deferred taxes are calculated in accordance with the liability method based on the balance sheet (i) on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes and (ii) on the tax losses carried forward to be used in future periods, using the tax rates approved or substantially approved at the balance sheet date and that are expected to be applied when the temporary differences are reversed, in accordance with the accounting policy detailed in note 1.v) to the financial statements. Deferred tax assets are recognized to the extent when it is probable that future taxable profits, will be available to absorb deductible temporary differences for taxation purposes (including tax losses carried forward). This area involves a significant judgment performed by the Board of Directors of the Group. The Group assessed the recoverability of the deferred tax assets based on the profit estimates presented on the Plan and Budget for 2018, that includes the profit before taxes increase between 2019 and 2024.	As part of our audit, we performed the following procedures, among others: ▪ Analysis of design and implementation of the key controls defined by the Entity associated with the determination and measurement of deferred tax assets; ▪ Involvement of our tax specialists in the analysis of the reasonableness of current tax estimate and deferred taxes; ▪ Analysis and confirmation of the nature of the main temporary differences underlying the recognition of deferred tax assets and its recoverability under the legal timeframe applicable; ▪ Analysis of the reasonableness of the projections of taxable income prepared by the Board of Directors that support the analysis of the recoverability of deferred tax assets and the underlying assumptions; ▪ Analysis of the communications with the Portuguese Tax Authorities; and ▪ Review the disclosures made by Entity, in accordance with the applicable accounting framework.

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Recoverability of deferred tax assets (continued)

The Risk	Our Response
As referred to in note 1.z) interpretations and estimates are required in determining the global amount of income taxes. Different interpretations and estimates would result in a different level of current and deferred income taxes, recognised by the Entity with the consequent impact on the net income and equity.	

Measurement of non-current assets held for sale and participation on real estate investment funds

As at 31 December 2017, non-current assets held for sale net of impairment amount to 714,133 thousands of euros and real estate held through participation units of real estate investment funds accounted for as available for sale financial instruments amount to 729,410 thousands of euros, as referred to in notes 26 and 23 to the financial statements, respectively.

The Risk	Our Response
Non-current assets held for sale are classified like that when there is an intention to sell, these assets are available for immediate sale and its sale is highly probable. In accordance with the accounting policy referred to in note 1.j) to the financial statements, non-current assets held for sale are measured at the lower of their cost and fair value less costs to sell. The participation units of the real estate investment funds are measured at fair value as referred in note 1.c). The fair value is based through periodic valuations performed by independent experts. This area involves a significant judgment performed by the Board of Directors of the Entity. As referred to in note 1.z), the use of alternative methodologies and different assumptions and estimates could result in different valuations and different level of impairment losses with a consequent impact in the income statement and equity of the Entity.	As part of our audit, we performed the following procedures, among others: ▪ Analysis of design and implementation of the key controls defined by the Entity associated with the non-current assets held for sale and participation units of the real estate investment funds measurement process; ▪ Verification for a selected sample, of the reasonableness of the measurement to non-current assets held for sale based on the valuations performed including assumptions used by independent experts, and related impairment recognized; ▪ Verification for the real estate investment funds, the auditors reports of the financial statements of the funds with reference to 31 December 2017; ▪ For a selected sample, confirmation of the ownership of non-current assets held for sale and participation units of real estate investment funds; and, ▪ Review the disclosures made by Entity, in accordance with the applicable accounting framework.

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Measurement of employee benefits liabilities

As at 31 December 2017, employee benefits liabilities, including pensions, health and death benefits, amount to 732,555 thousands of euros, as referred to in note 47 to the financial statements.

The Risk	Our Response
The Entity attributed benefits to its employees namely, retirement pensions, health benefits and death subsidy, in accordance with the collective labor agreement applicable to the Entity, as referred in note 1.u) to the financial statements. The present value of the liabilities related to the benefits referred above, is determined based on assumptions and estimates, including the use of actuarial projections and other factors, such as discount rate, growth rate of pensions and wages, mortality table, expected return on investments covering the liabilities, among other. As referred to in note 1.z), the use of different assumptions and estimates could significantly impact the determination of the present value of the past service liabilities recognized by the Entity.	As part of our audit, we performed the following procedures, among others: ▪ Analysis of design and implementation of the key controls defined by the Entity associated with the process of determination of the main assumptions used in the determination of past service liabilities; ▪ Analysis of the benefits plan attributed to employees and corporate bodies and respective accounting rules applied; ▪ Analysis of the reasonableness of the actuarial assumptions used in the determination of the present value of the liabilities; ▪ Read the actuarial valuation performed by the responsible actuary and discussion of the main actuarial assumptions used in the determination of the present value of past service liabilities; ▪ Reconciliation of the information analyzed with the accounting records; and, ▪ Review the disclosures made by the Entity, in accordance with the applicable accounting framework.

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Resolution fund

As at 31 December 2017, as referred to in note 60, the Entity holds a loan granted to the Resolution Fund ("RF") in the amount of 70,000 thousands of euros.

The Risk	Our Response
In 2013 and within the scope of the changes in legislation as a result of the Decree-law nr 24/2013, the Resolution Fund was created ("RF"), which in result of the resolution measures approved on 3 August 2014 and 19 December 2015 in relation to Banco Espírito Santo, S.A. ('BES') and Banco Internacional do Funchal, S.A. ('BANIF'), respectively, become the sole shareholder of the capital of the Entities that resulted from the referred measures (Novo Banco, S.A. and Oitante, S.A.). In order to perform the capital contributions to assume other obligations and contingent liabilities, the RF contracted loans granted by the Portuguese State and by a syndicate of credit institutions (including the Group) (i) in the amount of 3,900 thousand of euros and 700 thousands of euros respectively to Novo Banco, S.A. and (ii) 489 thousand of euros to Oitante, S.A. The loans obtained within the scope of BES resolution were initially contracted with a maturity in 4 August 2016 extended to December 2017. The loan obtained within the scope of BANIF resolution was initially contracted with a maturity up to 2020. On 21 March, 2017 the renegotiation of the loans granted by the Portuguese Estate and by the bank syndicate was concluded, determining a new maturity date in December 2046 and updated conditions. The main objective of this change was to requiring that the RF would be able to meet its commitments based on the annual contributions to be performed by its participants and reducing the risk of requiring extraordinary contributions. In accordance with the new contracts RF obligations to the Portuguese State and to the bank syndicate will be treat *pari passu*.	As part of our audit, we performed the following procedures, among others: ▪ Analysis of the information received from the Group related to the business plan of the RF that supports the capability of the RF to accomplished the obligations associated with the loans obtained; ▪ Analysis of the public communications of the Resolution Fund and the Minister of Finance in relation to the changes occurred in 2017 on the RF position, namely resulting from the sale of Novo Banco; ▪ Reading of the last RF Annual Report available; ▪ Review of the accounting rules application to the contributions made to RF; and, ▪ Review the disclosures made by the Entity, in accordance with the applicable accounting framework.

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Resolution fund (continued)

The Risk	Our Response
Notwithstanding the change in the maturity of the loans to mitigate the risk of extraordinary contributions, it should be taken into consideration that the RF has limited sources of income, being those restricted to the periodic contributions from participants and the contribution to the banking sector, which are the same that are used to fulfill any other obligation that the RF may assume. Additionally, there is the possibility of the Portuguese Government determine that the participating institutions make special contributions as it is stated of the applicable regulation, namely in the case that RF does not have own funds available. The valuation of the credit granted to the RF use of some assumptions and estimates assumed by RF and by the Group management, namely the RF's ability to generate the necessary cash flows for the responsibilities assumed. To be noted that, in the end of 207, RF sold to Lone Star 75% of the equity of Novo Banco, S.A. Additionally, in the scope of this sold e as forecast on the signed contracts on 28 March 2018, RF communicated about the payment to be made to Novo Banco regarding the net losses from 2017, of which the existing contingent capitalization mechanism is activated. The amount to be paid to Novo Banco in 2018 by RF, concerning 2017 results, is 792 thousands of euros. As a result, for the purposes of the preparation of the financial statements as of 31 December 2017, it was considered that no additional extraordinary contributions will be requested to CEMG, apart from those that results from the ordinary contributions accounted for in accordance with the applicable framework (IFRIC 21).	

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Responsibilities of Management and Supervisor Body for the Financial Statements

Management is responsible for:

- the preparation of financial statements that give a true and fair view of the Entity's financial position, financial performance and cash flows, in accordance with the International Financial Reporting Standards, as adopted by the European Union;
- the preparation of the management report and the corporate governance report, in accordance with applicable laws and regulations;
- designing and implementing an appropriate internal control system to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error;
- the adoption of accounting policies and principles appropriate in the circumstances; and
- assessing the Entity's ability to continue as a going concern, and disclosing, as applicable, the matters that may cast significant doubt about the Entity's ability to continue as a going concern.

The supervisory body is responsible for overseeing the Entity's financial reporting process.

Auditor´s Responsibilities for the Audit of the Financial Statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

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- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- communicate with those charged with governance, including the supervisory body, regarding, among other matters, the planned scope and timing of the audit, and significant audit findings including any significant deficiencies in internal control that we identify during our audit;
- determine from the matters communicated with those charged with governance, including the supervisory body, those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes their public disclosure; and
- provide the supervisory body with a statement that we have complied with the relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility also includes the verification that the information contained in the management report is consistent with the financial statements, as well as the verification of the disclosures required by numbers 4 and 5 of the article 451, of the Portuguese Companies Code and the verification that non-financial information was presented.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the management report

Pursuant to article 451, nr. 3, e) of the Portuguese Companies Code, it is our opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements and, the information contained therein is consistent with the audited financial statements and, having regard to our knowledge and assessment of the Entity, we have not identified any material misstatements. As defined in the article 451, nr. 7 of the Portuguese Companies Code this opinion is not applicable to the non-financial statement that is included in the management report.

On the corporate governance report

Pursuant to article 451, nr. 4, of the Portuguese Companies Code, it is our opinion that the corporate governance report includes the information required to the Entity to provide to article 245 – A of the Securities Code, and we have not identified any material misstatements in the information provided therein, in compliance with paragraphs c), d) , f), h), i) and m) of that article.

KPMG

On non-financial information stated on article 508-G of the Portuguese Companies Code

Pursuant to article 451, nr. 6, of the Portuguese Companies Code, we inform that the Group included on the management report the statement of non-financial information as requested by article 508-G of the Portuguese Companies Code.

On the additional matters provided in article 10 of Regulation (EU) nr. 537/2014

Pursuant to Article nr. 10 of the Regulation (EU) nr. 537/2014 of the European Parliament and of the Council of 16 April 2014, and in addition to the key audit matters mentioned above, we also report the following:

- We were appointed auditors of the Entity for the first time at the general meeting held on September 2002. We were appointed at the general meeting on 30 December 2015 for the current term from 2015 to 2018.
- The Executive Board of Directors confirmed to us that it is not aware of the occurrence of any fraud or suspected material fraud in the financial statements. In the planning and execution of our audit under ISA we have maintained professional skepticism and designed audit procedures to respond to the possibility of material misstatement of financial statements due to fraud. As a result of our work, we have not identified any material misstatement of the financial statements due to fraud.
- We confirm that the audit opinion we issue is consistent with the additional report we prepared and delivered to the Entity's oversight body on the 11 May 2018.
- We declare that we have not provided any prohibited services as described in article nr. 77, nr. 8 of the Ordem dos Revisores Oficiais de Contas statutes and we have remained independent of the Entity in conducting the audit.

11 May 2018

SIGNED ON THE ORIGINAL

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (nr. 189)
represented by
Ana Cristina Soares Valente Dourado (ROC nr. 1011)

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Montepio

Valores que crescem consigo.

CAIXA ECONÓMICA MONTEPIO GERAL

caixa económica bancária, S.A.

Head Office: Rua Áurea, 219-241, Lisboa
Share Capital: 2,420,000,000 Euros
Legal Person and Lisbon Commercial Registry number: 500 792 615

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