REPORT AND ACCOUNTS

1st Half 2017

CAIXA ECONÓMICA MONTEPIO GERAL GROUP

Pursant to Article 9 of the CMVM Regulations No. 5/2008.

This report is the English version of the document "Relatório e Contas do 1º Semestre de 2017" published by Caixa Económica Montepio Geral in the Portuguese Securities and Market Commission (CMVM) website. Should there be any doubts or contradictions between the documents, the aforementioned Portuguese version prevails.

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MANAGEMENT REPORT

Board of the General Meeting

Chairman	Manuel Duarte Cardoso Martins
1st Secretary	Cassiano Cunha Calvão

General and Supervisory Board

Chairman	Álvaro João Duarte Pinto Correia
Members	António Fernando Menezes Rodrigues
	José António 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 of Directors

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

ASSESSMENT COMMITTEE

Chairman	Álvaro João Duarte Pinto Correia
Members	José António Arez Romão

REMUNERATION COMMITTEE

Chairman	Álvaro João Duarte Pinto Correia
Members	José António 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

Montepio

KEY INDICATORS

	Jun-16*	Dec-16	Jun-17	YoY Change
ACTIVITY AND RESULTS (EUR million)				
Total assets	21 384	21 346	20 206	(5.5%)
Loans to customers (gross)	15 336	15 041	14 890	(2.9%)
Customers' deposits	12 311	12 468	11 628	(5.5%)
Net income	(68)	(86)	13	>100%
SOLVENCY (a)				
Common Equity Tier 1 ratio	10.3%	10.4%	12.6%	2.3 p.p.
Tier 1 ratio	10.3%	10.4%	12.6%	2.3 p.p.
Total Capital ratio	10.9%	10.9%	12.9%	2.0 p.p.
Risk-weighted assets (EUR million)	13 457	12 830	12 197	(9.4%)
LIQUIDITY RATIOS				
Loans to customers (net) / Customers' deposits (b)	118.0%	111.2%	117.9%	(0.1 p.p.)
Loans to customers (net) / On-balance sheet customers' resources (c)	98.2%	96.3%	107.9%	9.7 p.p.
CREDIT RISK AND COVERAGE BY IMPAIRMENTS				
Cost of credit risk	1.1%	1.2%	0.9%	(0.2 p.p.)
Ratio of loans and interest overdue by more than 90 days	9.3%	9.1%	9.2%	(0.1 p.p.)
Non-performing loans ratio (b)	11.0%	11.5%	11.9%	0.9 p.p.
Net non-performing loans ratio (b)	3.6%	3.9%	4.3%	0.7 p.p.
Coverage of loans and interest overdue by more than 90 days	83.0%	86.0%	86.9%	3.9 p.p.
Credit at risk ratio (b)	15.6%	15.2%	15.1%	(0.5 p.p.)
Net credit at risk ratio (b)	8.5%	8.0%	7.7%	(0.8 p.p.)
Credit at risk coverage ratio	49.6%	51.6%	53.1%	3.5 p.p.
Credit at risk coverage ratio, including related real estate collateral	120.4%	120.0%	118.4%	(2.0 p.p.)
Restructured loans as a % of total loans (d)	9.5%	8.9%	8.8%	(0.7 p.p.)
Restructured loans not included in credit at risk as a % of total loans (d)	3.2%	3.2%	3.2%	0.0 p.p.
PROFITABILITY AND EFFICIENCY				
Total operating income / Average total assets (b)	1.6%	1.7%	2.4%	0.8 p.p.
Net income before income tax / Average total assets (b)	(1.3%)	(0.9%)	0.3%	1.6 p.p.
Net income before income tax / Average equity (b)	(18.8%)	(12.3%)	3.5%	22.3 p.p.
Operating costs / Total operating income (cost-to-income) (b)	110.3%	76.4%	55.2%	(55.1 p.p.)
Cost-to-Income, excluding specific impacts (e)	98.7%	88.4%	61.8%	(36.9 p.p.)
Staff costs / Total operating income (b)	75.0%	44.5%	34.1%	(40.9 p.p.)
EMPLOYEES AND DISTRIBUTION NETWORK (Number)				
Employees				
Group total (f)	3 932	3 806	3 796	(136)
CEMG	3 647	3 588	3 592	(55)
Branches				
Domestic - CEMG	332	327	325	(7)
International	30	33	35	5
Finibanco Angola (g)	21	23	25	4
BTM - Banco Terra	9	10	10	1
Rep. Offices	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) Pursuant to Banco de Portugal Instruction No. 32/2013.

(e) Excluding results from financial operations and the impacts arising from the operational redimensioning.

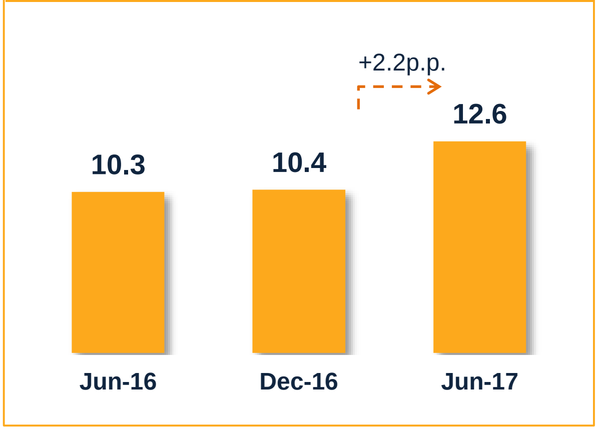
(f) Excluding transferred employees and work suspension contracts.

(g) Includes Business Centers.

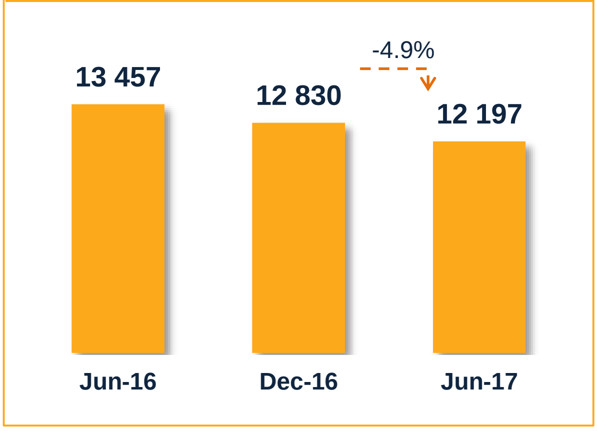
* June 2016 restated in accordance with IFRS5 guidelines with respect to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.

HIGHLIGHTS

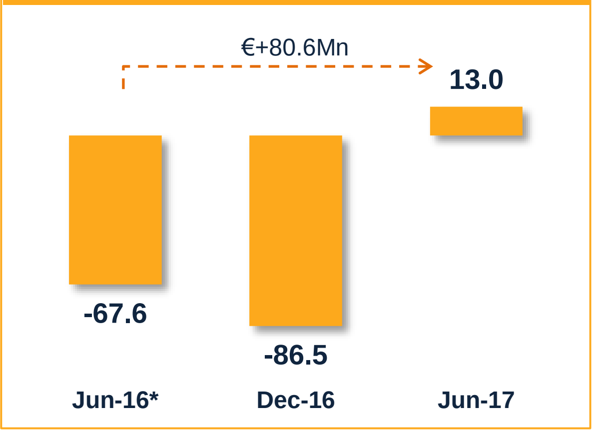
Common Equity Tier 1 ratio (%)



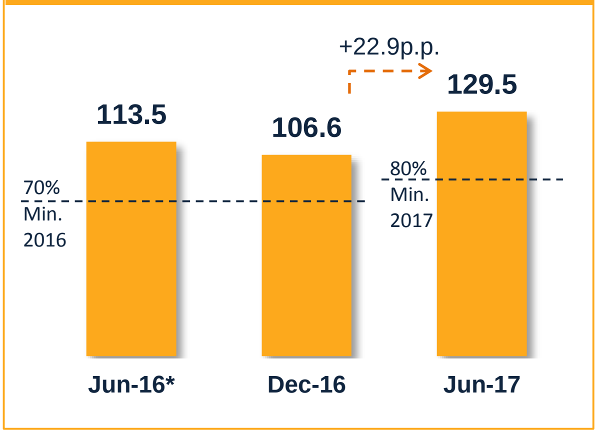
Risk weighted assets (€Mn)



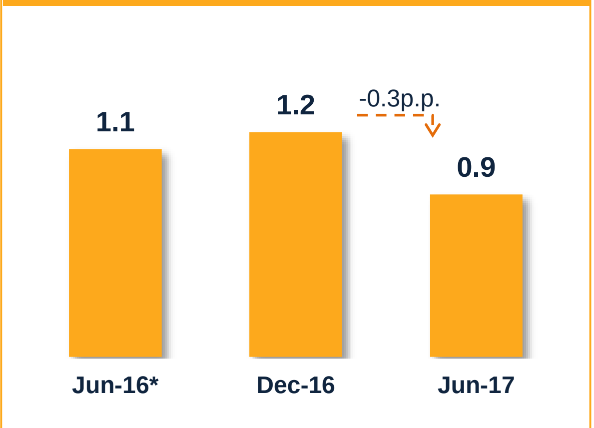
Net income (€Mn)



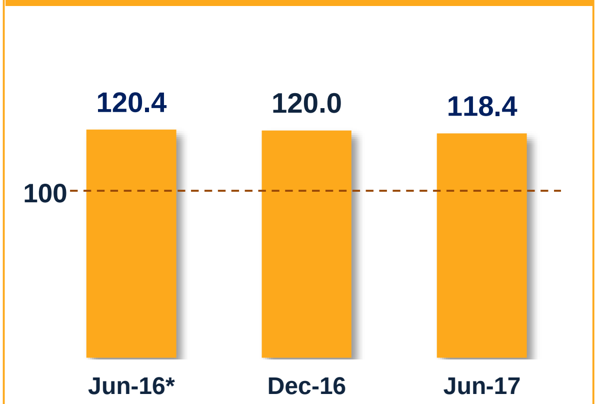
Liquidity coverage ratio (LCR) (%)



Cost of credit risk (%)



Credit at risk coverage (%)



Factoring-in related RE collateral.

*June 2016 restated in accordance with IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.

GROUP STRUCTURE

Pursuant to Decree-Law 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 14 September 2017, having resulted in the conversion of its Institutional Capital and Participation Fund into Share Capital composed of ordinary shares.

With CEMG's transformation into a public limited company in sight, Montepio Geral – Associação Mutualista (MGAM) announced the launch of a general and voluntary public offer to purchase Participation Units (PU) representative of CEMG's Participation Fund, which took place between 14 August and 8 September 2017, with the aim of assuring that, under CEMG's transformation, its Share Capital would be held, to the largest extent possible, by entities of the social economy. At the end of the period relative to the Offer, the total PU held by MGAM reached 98.28%, with these PU being suspended from trading on regulated markets on 12 September 2017.

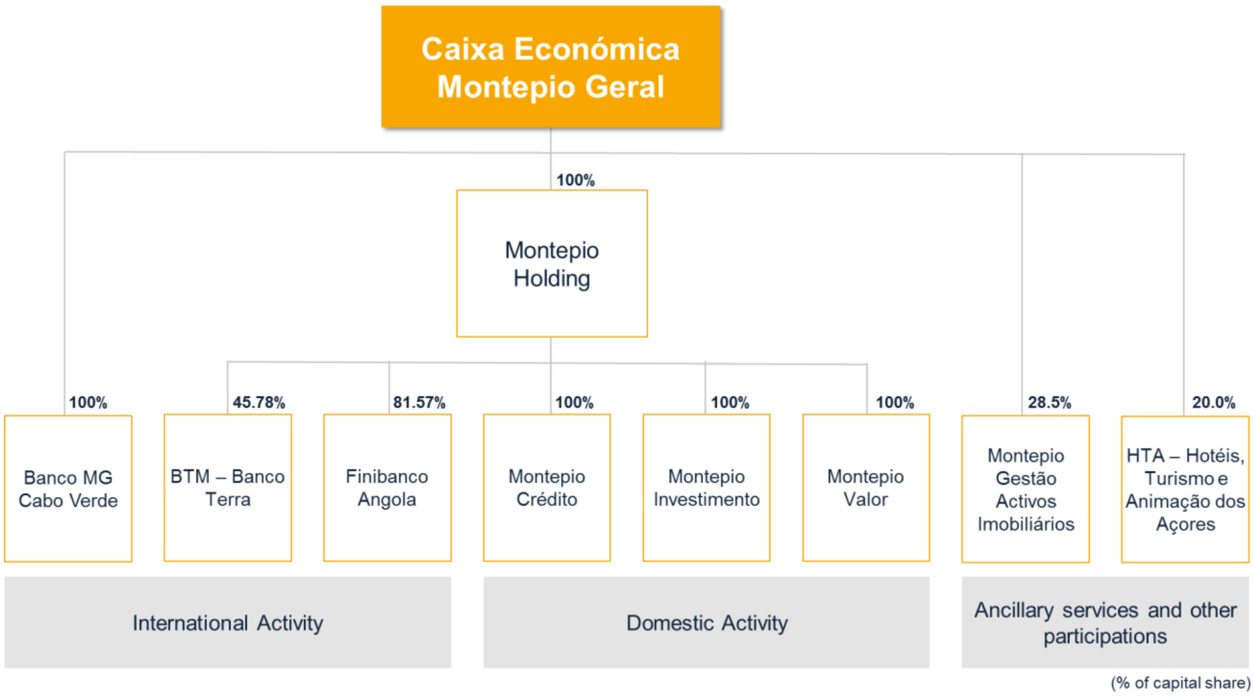
The commercial registration of CEMG's transformation into a public limited company took place on 14 September 2017 having its legal denomination changed to Caixa Económica Montepio Geral, Caixa económica bancária, S.A., Sociedade aberta, PU were excluded from trading the next day and having MGAM transmitted a permanent purchase order, over-the-counter, of the common shares representing CEMG's share capital ending on the date of publication of the Portuguese Securities and Market Commission (Comissão do Mercado de Valores Mobiliários – CMVM) decision on the application for CEMG's loss of open capital company quality. The documents disclosed under the aforesaid Offer and CEMG's transformation into a public limited company can be consulted in their full version on CMVM's website, at www.cmvm.pt.

Therefore, as at 30 June 2017 to which this Report refers, CEMG's capital was still composed by Institutional capital, 100% held by MGAM, and by the Participation Fund.

CEMG holds a number of equity stakes in entities which 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 one of the most differentiated banking and financial groups, aligned with its mutualist nature and purposes, which lend it unique features and an unmatched position in its activity sector and in Portuguese society.

As at 30 June 2017, the CEMG Group is composed of the entities presented below:

- Full consolidation: CEMG; Banco Montepio Geral Cabo Verde, Soc. Unipessoal S.A.; Montepio Holding, S.G.P.S., S.A.; BTM – Banco Terra, S.A.; Finibanco Angola, S.A.; Montepio Crédito, I.F.C., S.A.; Montepio Investimento, S.A.; and Montepio Valor, S.G.F.I., S.A.
- Consolidation by the equity method: HTA – Hotéis, Turismo e Animação dos Açores S.A.; and Montepio Gestão de Ativos Imobiliários, ACE.



CEMG is currently negotiating with a series of investors aimed re-focusing its approach to the African market, with a view to the deconsolidation of Finibanco Angola S.A. and BTM, S.A.

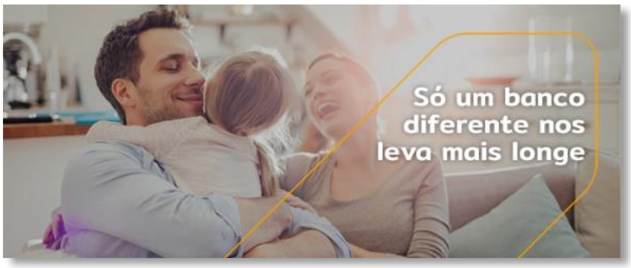
Considering the decisions that have already been taken by the Board of Directors, as well as the provisions in International Financial Reporting Standard (IFRS) 5, the activities developed by these subsidiaries have been deemed as discontinuing operations since the end of 2016.

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 financial statements having been drawn up on the same basis as for the period ended on 30 June 2016 for comparative purposes.

As at 30 June 2017, the consolidation perimeter of the CEMG Group includes the following entities, which are consolidated by the full method: Pelican Mortgages No. 1 PLC; SSAGINCENTIVE – S.S.A.G.I., S.A.; Semelhanças e Coincidências, S.A.; 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's Brand new image



A new graphic line was launched in February 2017, with a new visual discourse, a new communication device and a new photographic style. CEMG's new look & feel is transversal to all its business segments (Individuals, Companies and Social Economy), and arises from the shape of CEMG's logo, establishing a close and coherent relationship with the institution's identity. This action rose to the challenge of combining new elements while keeping the link with the past and meeting the different communication needs.

Under CEMG's orientation towards the Social Economy, we highlight the support given to the following initiatives during the first semester of 2017:

Street Football

Following a long-lasting partnership with CAIS, CEMG supports the Street Football project, an initiative that fights social exclusion. Terreiro do Paço, in Lisbon, was the place chosen for the Kick-Off of the National Street Football Tournament which this year had a new inflatable football pitch, acquired with CEMG's support that will enable holding the local tournaments.

Pirilampo Mágico Campaign

CEMG joined the *Pirilampo Mágico* 2017 Campaign of the National Federation of Social Solidarity Cooperatives (FENACERCI) by collaborating in the collection of funds, by attributing a donation to FENACERCI and in the production of 54 films of 1 minute presenting each CERCI. The results of the *Pirilampo Mágico* (Magic Glow-Worm or Firefly) 2017 Campaign, which this year wore Montepio's colours, were very positive. In total, between 4 and 19 May, CEMG helped to fly over 10 thousand Magic Fireflies and raised over 20 thousand euros for this social cause. Under the motto 'A firefly per desk', CEMG invited its employees to support this initiative and place the over thirty-year old Magic Glow-Worm on their desk. The idea was successful, with many employees having sponsored this little solidarity glow-worm.

COMMUNICATION

Customer Newsletter

CEMG uses e-mail marketing as a monthly communication channel to boost relations with its current customers. From May onwards, this started being done in an innovative manner, in a storytelling format, where the different products and services to be communicated during the month in question are incorporated in the story. The use of storytelling/content marketing enables a greater involvement in the transmission of financial contents, and thus the achievement of higher efficacy in the conveyed message.

New CEMG Website and Montepio24 App

CEMG's new website was launched in March 2017. This website is intended to be simpler, easier and close to support the customers to go further with their plans, presenting the products and services that are best adapted to their needs, as well as offering tools and providing information to support their daily management.

Additionally, and in order to assure the best experience to its customers, CEMG now provides access to the private area in a manner that is more appropriate to the customer's device.

Following up on its aims concerning renovation and digital innovation, in May 2017, Montepio launched the iOS and Android supported Montepio24 app for Individual customers. The Montepio24 app, with a simple design and intuitive interface, has improved the experience of all the customers that choose to manage their daily 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.

HUMAN RESOURCES

The total staff number decreased year-on-year by 3.5%, corresponding to 136 employees, by evolving from 3,932 as at 30 June 2016 to 3,796 as at 30 June 2017. This evolution was influenced by the operative structure resizing programme carried out in 2016, as well as by the employees assigned to other companies of the Group and with temporary work suspension contracts.

At the level of the international activity, there was an increase of 29 employees, year-on-year, derived from the development of the activities in Angola (Finibanco Angola) and Mozambique (BTM – Banco Terra) and the specific characteristics of these markets.

Distribution of employees

	Jun-16		Dec-16		Jun-17		YoY Change	
	No.	%	No.	%	No.	%	No.	%
Domestic Activity	**3 801**	**90.9**	**3 740**	**90.0**	**3 741**	**90.1**	**(60)**	**(1.6)**
Caixa Económica Montepio Geral [(1)]	3 647	87.2	3 588	86.4	3 592	86.5	(55)	(1.5)
International Activity	**381**	**9.1**	**415**	**10.0**	**410**	**9.9**	**29**	**7.6**
Banco MG Cabo Verde	3	0.1	3	0.1	2	0.0	(1)	(33.3)
Finibanco Angola	201	4.8	216	5.2	220	5.3	19	9.5
BTM - Banco Terra	177	4.2	196	4.7	188	4.5	11	6.2
Subtotal	**4 182**	**100.0**	**4 155**	**100.0**	**4 151**	**100.0**	**(31)**	**(0.7)**
Transferred employees and other [(2)]	(250)	-	(349)	-	(355)	-	(105)	(42.0)
Total	**3 932**	**-**	**3 806**	**-**	**3 796**	**-**	**(136)**	**(3.5)**

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

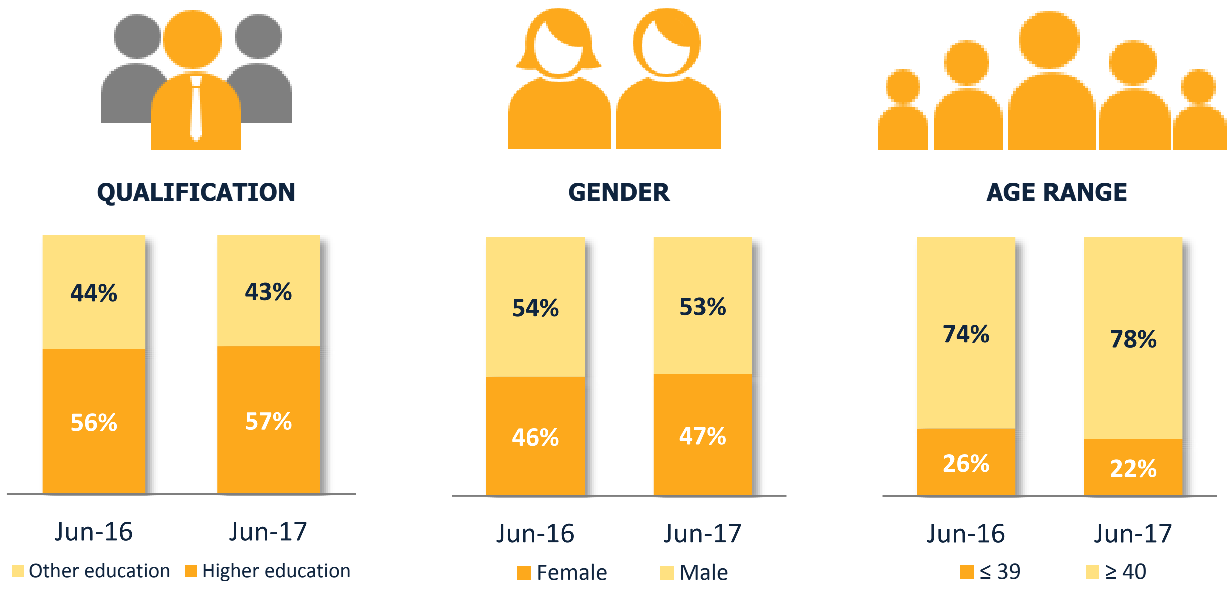
Regarding the remaining companies of the CEMG Group, there was a year-on-year reduction of two employees allocated to Montepio Investimento and six in Montepio Crédito, in a strategic perspective of the Group's focus on the core banking business, while Montepio Valor recorded an increase of two employees.

	Jun-16	Dec-16	Jun-17	YoY Change	
				No.	%
Other subsidiaries[(1)]					
Montepio Crédito	133	129	127	(6)	(4.5)
Montepio Valor	34	37	36	2	5.9
Montepio Investimento	7	5	5	(2)	(28.6)

(1) Includes assignments from CEMG employees.

Concerning the distribution by type of qualification, there was an increase of the weight of employees with higher education, which includes bachelors, licentiate, master's, post graduate and doctoral degrees, in evolving from 56% at the end of the first half of 2016 to 57% as at 30 June 2017. Greater balance was also recorded in the distribution by gender, with male employees falling to 53%. In terms of age structure, there was an increase of the percentage of employees aged over 40 years old from 74% to 78%.

DISTRIBUTION OF CEMG EMPLOYEES



In May 2017, CEMG launched the applications for its first Programme of Trainees: a group of young talents starting their career which will involve, during a twelve-month internship, various areas of the bank such as Marketing, Compliance, Human Resources, Risk, Commercial, Litigation, Financial and Information Systems. The initial application process took place between 19 May and 18 June, with the selection process also including "Assessment Days" with group dynamics and final interviews.

The objective of this action focuses on the recruitment of young people who wish to participate and contribute to building the "Banking System of the Future", showing curiosity in the analyses and depth in the inquiries, coming from different qualification and training areas. During the training period, the trainees will be accompanied by tutors that will facilitate and accelerate the process of integration in CEMG.

It should also be noted that, during the first half of 2017, a new in-house communication project was launched which is embodied in a newsletter directed at the employees, called "minuto-M". With a bimonthly periodicity, this publication refers to the main novelties of the CEMG universe, promoting easy and rapid access to the in-house information.

TRAINING OF EMPLOYEES

The Montepio Academy, launched in 2016 aimed at giving substance to CEMG's Strategic Plan related to the investment in the development and promotion of the employees' talent, carried out during the first half of 2017 a series of activities aimed at strengthening the business model by boosting the development of talent.

Training indicators

	Jun-16	Dec-16	Jun-17	YoY Change
Number of actions	440	699	532	20.9%
Hours of trainings sessions	31 794	51 769	38 417	20.8%
Number of attendees	2 630	3 250	3 234	23.0%
Number of appearances	14 235	19 282	12 434	(12.7%)
Employees covered by training	**72%**	**91%**	**90%**	18.0 p.p.

With respect to face-to-face actions, the main topics addressed were directed at the commercial network with a view to enhancing customer relations. The e-learning training was primarily aimed at meeting the legal obligations and commitments undertaken with supervisory bodies in the context of the Compliance School: the certification of the network with respect to courses on Knowledge of Euro Notes and Coins; the provision of training on topics such as MiFID – Markets in Financial Instruments Directive, Prevention of Money Laundering and Terrorist Financing, Code of Conduct and Insurance. We also highlight the courses of the Self-Development School, whose initiatives follow a universal trend which is reflected in the participants' preference for a short-term training offer, focused on practical situations.

Also of great relevance and impact was the Advanced Top Management Programme, the First Montepio Women's Meeting and the training of trainers and mentors of the Academy.

Still in the context of the continuous focus on enhancing internal productivity, the month of March kicked off with the Office 365 project, with the first productivity clinics on the product.

The first clinics were dedicated to the Top Directors and the group of trainers that will prepare the remaining groups of employees. The use of the Office 365 tools will enable CEMG's employees to improve their levels of productivity, mobility and security.

DISTRIBUTION AND RELATION NETWORK

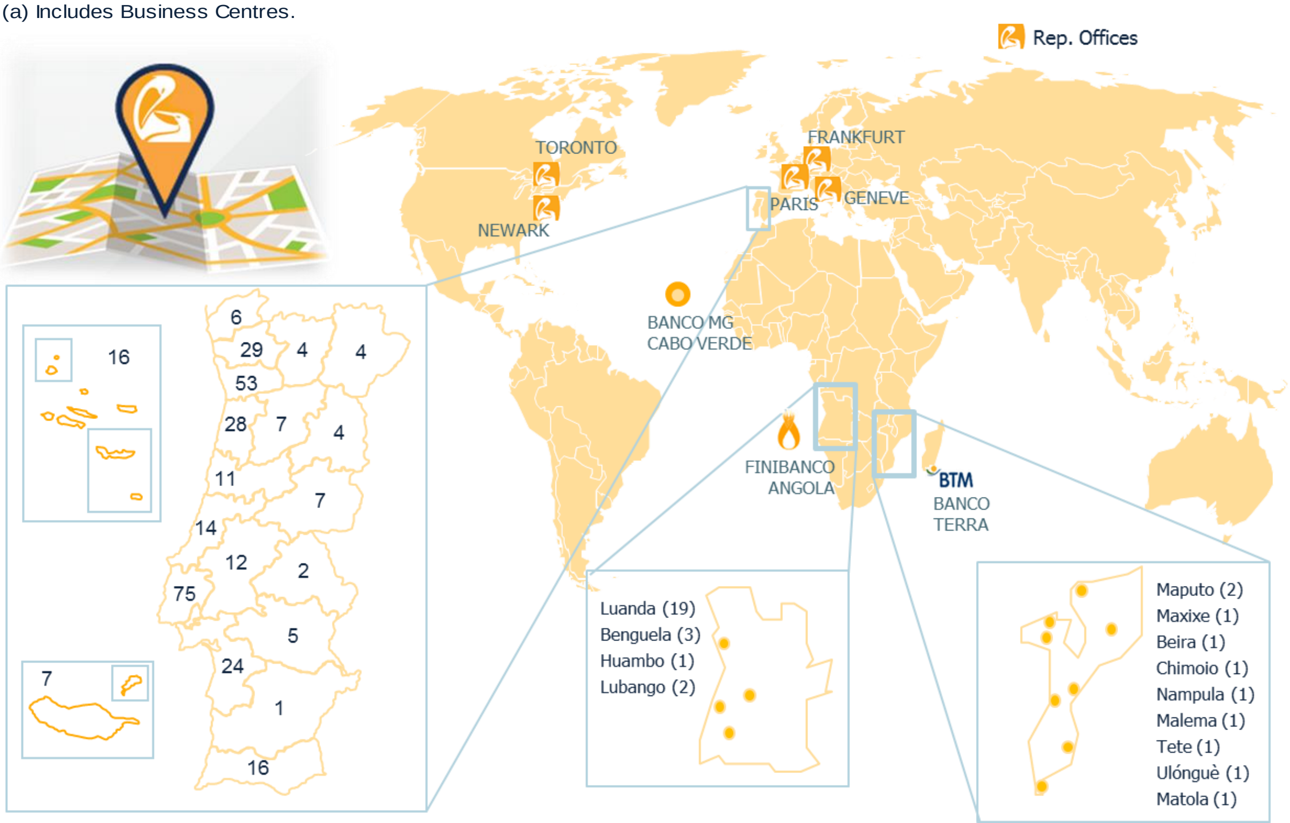
BRANCHES

At the end of the first half of 2017, CEMG had a network of 325 branches in Portugal compared to 332 as at 30 June 2016. This decrease is due to the optimisation of the physical distribution network delineated in the Strategic Plan 2016-2018 and started in late 2015 (number of branches in December 2015: 421), which resulted from a commercial streamlining based on the potential of each geographic area, determined based on geolocation criteria aimed at assuring suitable levels of proximity to CEMG's 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 25 (including 6 business centres), added to 10 BTM branches in Mozambique. From 1 June 2017 onwards, CEMG shifted to having 5 Rep. offices by changing the market follow-up model in the United Kingdom, with an office in London 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 Rep. Offices

	Jun-16	Dec-16	Jun-17
Domestic network	332	327	325
International network	30	33	35
Finibanco Angola [(a)]	21	23	25
BTM - Banco Terra	9	10	10
Rep. Offices	6	6	5

(a) Includes Business Centres.



CUSTOMER MANAGERS

The personalised service and development of close customer relations which characterises CEMG is assured by the network of customer managers, which amounted to 506 managers, of which 203 are dedicated to the Individuals segment and 303 to Company customers.

In the Company segment, continuing to boost the effort of specialisation of the service, CEMG has provided 184 Small Business managers, 75 managers of Small and Medium-Sized Enterprises, 9 Large Company managers and 35 Institutional and Social Economy managers.

Founded on a solid understanding of the Social Economy sector, combined with experience underpinned by knowledgeable and committed teams of various sizes which define and identify the particularities of the organisations of this sector, the defined strategy is accomplished based on relations of proximity, being side by side with the customers in designing the best solutions, in strengthening the partnerships with a considerable variety of stakeholders of the greatest importance to the sector, and in the creation of products and services that are more appropriate to those whose mission is working with people and for people.

CEMG's investment in close relations with social sector the institutions is reflected in the existence of a specific division for the sector. The Social Economy and Public Sector Commercial Division (DCESSP) with its dedicated team enables, due to its experience, knowledge and dedication, strengthening service quality and meeting customer needs. The team of customer managers incorporated in DCESSP is composed of 25 managers dedicated to Social Economy and Public Sector customers and 5 managers dedicated to microcredit and entrepreneurship.

It should also be noted that, regarding the Individuals network, in a strategic perspective of commercial reorganisation, the network of Top Premium managers was discontinued during the second half of 2016.

Number of Managers per Customer segment

	Jun-16	Dec-16	Jun-17	YoY Change	
				Value	%
Companies	**287**	**299**	**303**	**16**	**5.6**
Institutional and Social Economy [(a)]	30	31	35	5	16.7
Large companies	9	9	9	0	0.0
Small and medium-sized enterprises	77	73	75	(2)	(2.6)
Small businesses	171	186	184	13	7.6
Individuals	**187**	**204**	**203**	**16**	**8.6**
Top Premium	7	-	-	(7)	-
Premium	180	204	203	23	12.8
Total	**474**	**503**	**506**	**32**	**6.8**

(a) Includes microcredit managers.

Note: Excludes preventive credit monitoring managers.

COMPLEMENTARY CHANNELS

At the end of the first semester of 2017, CEMG had a total number of 1,036 automated teller machines (ATM), of which 403 are installed in branches and 633 are available at external locations.

The number of machines at the end of the first semester of 2017 corresponded to a net reduction of 47 units, when compared to the number at the same period of 2016 (1,083), influenced by the closure of branches during the previous year, which led to the removal of the respective equipment.

However, it is important to highlight that, due to the installation of ATMs 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 in the first six months of 2017 of 180 machines to a total of 11,985, CEMG's market share increased by 0.09 p.p. to stand at 8.64%.

Concerning the internal network Chave24, the total number of machines accompanied the readjustment of the branch network, recording a total of 346 installed machines, of which 285 are ATM, 9 are Selfcheques and 52 are Bank Book updating machines.

CEMG's Network of Automated Teller Machine (ATM) grew by 3.97% during the first half of 2017, maintaining the trend of growth observed in the previous year and keeping abreast of the growth occurred in the national market (+3.94%), which enabled CEMG to keep its market share of 7.02%, as at 30 June 2017.

During the first half of 2017, CEMG's card business recorded a 0.81% increase in the amount of cards, while the market recorded an increase of 1.01%. There was an increase of 7.91% in terms of transactions in relation to the first semester of 2016, compared to market growth of 7.63%.

Regarding remote channels, CEMG's Customer helpline, Phone24, conquered the Bronze Trophy for Best Helpline of the Banking Sector. The award was attributed by the Portuguese Association of Contact Centres (APCC) during the 13th edition of the APCC International Conference which was held on 16 May 2017, and reflects CEMG's commitment to the excellence of service provided to its customers.

The main goal of the APCC BEST AWARDS Trophies is to distinguish the most outstanding organisations in the implementation and adoption of best organisational practices in the activity of Contact Centres in Portugal – both in terms of strategic, operational and technological management and in terms of human capital, and in contributing to the recognition and valuation of the sector in general.

EXTERNAL DISTRIBUTION NETWORK

During the first half of 2017, CEMG maintained the growth of the activity of the external distribution network, sustained by the partnerships established with commercial and assurfinance promoters. The contribution of this distribution network has been underpinned and levered in particular by saving products in terms of financial intermediation. In the context of the activity of this channel, these partners have shown a high capacity to attract and retain resources.

The strategy of this distribution network is in line with CEMG's commercial objectives, boosting a higher increment in the business, by tightening tripartite relations between the External Partners, CEMG and the Customer.

MACROECONOMIC ENVIRONMENT

World economy

According to the forecasts of the International Monetary Fund (IMF) published in July, the world economy shown should grow by 3.5% in 2017 and 3.6% in 2018, after growing 3.2% in 2016, with these figures still being below the pre-crisis averages. Although the global forecasts remain unchanged since April, the projections for the Euro Zone relative to 2017 were revised upwards by 0.2 p.p. to 1.9%, and those relative to 2018 by 0.1 p.p. to 1.7%, with the IMF stressing the fact that political risk has diminished in Europe. However, regarding the downward revisions two countries stand out: USA and United Kingdom. For the USA, the projection for Gross Domestic Product (GDP) was revised downward from 2.3% to 2.1% in 2017, and from 2.5% to 2.1% in 2018, where these new figures for 2017 reflect, according to the IMF, in part, the weak growth in the first quarter. On the other hand, the main cause that led to the cut in the forecasts for the following year reside in the assumption that the budgetary policy will be less expansionary than previously assumed, in view of the uncertainty as to the timing and nature of the reforms in this context of North American policy. Concerning the United Kingdom, the downward revision for 2017 (from +2.0% to +1.7%) is above all due to the activity below that expected in the first half of this year and the fact that the impact of Brexit is still unclear. Nevertheless, the IMF leaves a warning: while the short-term risks for growth are in general balanced, those of the medium term continue potentially able to negatively influence world GDP.

Euro Zone

Demonstrating some lingering fragility in its recovery, the economy of the Euro Zone recorded a GDP growth of 1.8% in 2016, after having risen by 2.0% in 2015 and 1.2% in 2014, and after two years of contraction (-0.3% in 2013), which were primarily the result of the budget consolidation policies implemented by a significant number of Member States, following the sovereign debt crisis in the region. In 2017, the economy continued to grow, with GDP having progressed in chain by 0.5% and 0.6% in the first and second quarters, respectively. It should be noted that GDP only surpassed the pre-recession levels of 2008/09 in the third quarter of 2015, but ended the first half of this year already 3.8% above the previous maximum, reached in the first quarter of 2008. The unemployment rate maintained the downward trend progressively shown since mid-2013, closing the first half of 2017 at 9.1% (9.6% in December 2016), standing, since the end of 2016, closer to the minimum figures of the series (7.3% between October 2007 and March 2008) than to the maximum (being 3.0 p.p. below) recorded in March and April 2013. Despite having actually touched the target of the European Central Bank (ECB) of 2.0% during the first half of 2017, the inflation rate closed the semester at 1.3%, even so, above the 1.1% with which it had closed 2016. Core inflation also increased slightly, surpassing the 0.9% observed at the end of 2016 to 1.1% in June 2017, remaining below the general index and even further below the target (+2.0%).

Portugal

After three years of recession, the Portuguese economy returned to growth in 2014 (+0.9%) and grew by 1.6% in 2015. During 2016, this recovery continued showing modest sequential growth in the first half of the year (+0.2% in the first and second quarters), but growing at stronger rates during the second semester, accelerating in the third quarter to a growth level of 0.9% and closing the year with a 0.7% growth in the fourth quarter. In total, 2016 showed a deceleration of annual average growth to 1.4%. During the first half of 2017, the economy continued to grow, showing strong sequential growth of 1.0% in the first quarter, with growth maintained in the second quarter, but in natural deceleration after three quarters of intense growth, with GDP presenting growth of 0.3%. For the entire year of 2017, expectations point to an acceleration of growth to 2.5%, above the 1.8% featured in the Stability Programme of 2017/21 (+1.5% in the State Budget for 2017) and forecast of the European Commission (11 May). It should be noted that both of the last two forecasts were made without knowledge of the strong sequential increase of GDP during the first quarter of this year (+1.0%). These expectations are also higher than the 2.1% recently forecast by the OECD (7 June), but are in line with the 2.5% which also began to be projected by Banco de Portugal (21 June) and by the IMF (30 June). The construction sector was one of the hardest hit during the crisis, with its Gross Value Added (GVA) having returned to growth (albeit marginal) in 2015 (+0.04%), after having contracted by 8.4% in 2014, with the sector witnessing its first annual growth since 2007. However, the sector ended 2016 showing strong sequential growth of 6.7%, having returned to record considerable growth in the first quarter of this year (+4.8%), which was partially corrected in the second quarter (-2.8%), but should show a robust increase for the year as a whole. In terms of consolidation of public finance, after the budget deficit of 2.0% of GDP reached in 2016, in strong decrease in relation to the 4.4% of 2015, the Government forecasts (Strategic Programme 2017/21) a new reduction of the budget deficit to 1.5%. The European Commission (11 May) had forecast a deficit of 1.8% of GDP, but the Government's predicted deficit also became the scenario of the OECD (7 June) and IMF (on 30 June). The unemployment maintained its downward trend, having fallen from 10.5% to 10.1% in the first quarter, after having stabilised in the fourth quarter of 2016, and decreased once again in the second quarter to 8.8%, falling to a minimum level not seen since the fourth quarter of 2008. In annual average terms, after having declined from 12.4% in 2015 to 11.1% in 2016, continuing the trend of reduction from the historic maximum peak reached in early 2013 (17.5%). The outlook currently points to a renewed fall in the unemployment rate in 2017 to 9.2%, below the 9.4% forecast by Banco de Portugal (BdP) (21 June), moving even further away from the figure forecast by the Government (9.9% in the Strategic Programme 2017/21, a value that has been revised in view of the 10.3% in the State Budget for 2017) and by the IMF (9.7% in its forecasts of 30 June). Inflation (measured by the year-on-year variation of the Harmonised Index of Consumer Prices - IHPC) closed the semester at 1.0%, only slightly above the 0.9% with it had closed 2016, but having recorded higher values during the first five months of the year (+1.7% average). In annual average terms, it is expected that over the following years inflation should continue the acceleration observed in 2015 (to +0.5%) and 2016 (to +0.6%), with the outlook pointing to an annual average inflation of 1.5% in 2017, representing the third consecutive year of growth of prices.

Angola

In Angola, the economy has been severely affected, at a first stage by the sharp fall and, more recently, by the continued slump in the average price of the barrel of oil, despite the agreement signed in late 2016 to reduce production by OPEC members and other producing countries, extended at the end of May, for enforcement until March 2018. The economic scenario in 2017 should continue to present challenges, as it is not expected that international oil prices will recover significantly by the end of the year. Thus, risks remain negative, but GDP should return to growth in 2017, with the forecast pointing to an increase of 1.8%, after the decline of 3.0% estimated for 2016. In the State Budget for 2017 (OGE 2017), the Government forecasts GDP growth of 2.1% for the year in course, underpinned by increases of 1.8% of the oil sector and 2.3% of the non-oil sector, with the latter being supported by the growth of energy (+40.2%), agriculture (+7.3%), construction (+2.3%) and manufacturing industry (+4.0%). The annual average rate of inflation (measured by the Consumer Price Index of the Province of Luanda) accelerated sharply in 2016, from 10.3% to 32.1%, with year-on-year inflation having reached a peak of 41.95% in December 2016, a peak figure since June 2004. In 2017, prices decelerated once again, with year-on-year inflation having decreased in the first six months of the year, after 23 months of acceleration, to stand at 31.9% in June, representing the lowest figure recorded since June 2016 (+31.8%), with annual average inflation being expected to fall to 29.5% in 2017 (Government: +15.8% in the State Budget for 2017).

Mozambique

The GDP of Mozambique started 2017 with year-on-year growth of 2.9% in the first quarter, having accelerated in view of the 1.1% of the fourth quarter of 2016, and in the second semester continued the acceleration observed in the previous quarter by advancing 3.0%. The outlook points to this trend being maintained in the following quarters. In annual average term, GDP grew by 3.8% in 2016, corresponding to the lowest rate since 2000 (+1.7%) and a strong deceleration in comparison to the 6.6% of 2015, after already having slowed down in relation to the growth of 7.4% recorded in 2014. Inflation (measured by the Consumer Price Index of Maputo) fell from 24.6% in December 2016 to 18.0% in June, representing the third consecutive slowdown of prices (-0.69 p.p. in May). This downward trend is primarily explained by the appreciation of the metical in relation to the currencies of its main trading partners, combined with the increased offer of agricultural products produced locally. Annual average inflation is forecast at 16.3% in 2017 (the Government forecast +15.5% in the State Budget for 2017), in slight deceleration in relation to the 19.3% recorded in 2016. Although the metical, during the first half of 2017, continued the trend of appreciation started in November 2016, there may be an average depreciation during the year in relation to the dollar, in view of the high differential of inflation between Mozambique and the USA.

Cape Verde

In Cape Verde, the GDP growth rate attenuated following the international crisis, with an annual average growth of only 1.8% having been observed between 2010 and 2016, well below the 7.4% recorded between 1993 and 2008, with the GDP growth rate in 2016 standing at 3.8%. In the first quarter, GDP recorded year-on-year growth of 3.6%, slowing down in relation to the 3.9% of the fourth quarter of 2016. For the entire year of 2017, Banco de Cabo Verde (BCV) forecast, in its Finance Stability Report (20 June), a GDP growth rate close to the lower threshold of the 3.0% to 4.0% range. BCV forecasts an increase of disposable household income, improved by the low price level and by the more favourable conditions of access to bank credit via the stronger dynamics in credit to the private sector. BCV thus points to credit to the economy rising by 3.2% (3.3% in the first quarter, in relation to the same period of 2016), after having recorded, in 2016, the highest growth of the last five years (+4.8%). BCV's forecasts for GDP growth in 2017 are less optimistic than those of the IMF (+4.0%), the Government (+5.5%) and CEMG (+4.1%). In June, inflation, measured by year-on-year growth of the Consumer Price Index, increased from 0.3% to 1.7%. Considering that average year-on-year inflation in the first half was close to 0.5% and that in June it accelerated sharply, the inflation for 2017 should be around 0.8%, and should continue to accelerate in 2018 (+1.7%).

Financial markets

The first half of 2017 was marked by a generally positive evolution of market sentiment, essentially substantiated by the positive indications on the level of economic growth of the main economies. The positive developments of the earnings season of companies of the USA relative to the first quarter of 2017 and the fact that Chinese shares have been supported by the future inclusion of securities listed in the country's financial stock exchanges in the MSCI World Index, were additional positive factors supporting the market, whose sentiment recorded improvements in relation to the end of 2016, as the indicators disclosed, namely for the United Kingdom, China, Japan and the Euro Zone, continued to reveal a level of resilience higher than that foreseen by the market.

Undermining the market sentiment in the first half of 2017 were, essentially: *i)* the fears that the rises in the price of shares in some market were being excessive; *ii)* the GDP growth below that expected in the United Kingdom during the first quarter (only +0.2%); *iii)* the uncertainty in relation to Brexit; *iv)* the decline of the oil price with impact on the companies of the sector and on the oil exporting economies; *v)* the political instability in Brazil; *vi)* the fears that the current North American Administration will be unable to implement its economic policy; *vii)* the permanence of high geopolitical risk derived from the tension between the USA and Russia and between the USA and North Korea; *viii)* the fact that various Arab countries have ended their alliances with Qatar; and *ix)* the occurrence of various terrorist attacks rather dispersed all over the world. Furthermore, it should be mentioned that reference debt yields continue to be pressured downwards by the strong maintenance of worldwide geopolitical risk, which favours investment in risk-free assets.

The widespread positive evolution of the market sentiment was reflected in rises per semester in the main share indices, such as the MSCI Global Index which advanced by 10.3%, with one outstanding main exception being the fall (-13.1%) of the RTSI Index (Russia), with some indices attaining record levels during the first half of 2017. The American indices showed a very positive performance, with rises of 14.1% in the Nasdaq, 8.2% in the S&P 500 and 8.0% in the Dow Jones, and closing the first semester of 2017 close to historical maximum levels. In Europe, the increases were more moderate, with the British FTSE 100 advancing by 2.4% and the Eurostoxx 50 rising by 4.6%. The Portuguese PSI-20 appreciated by 10.1%. In Asia, the Nikkei 225 (Japan) advanced by 4.8%, with rises also having observed in the Indian Sensex 30 (+16.1%), in the Hang Seng of Hong Kong (+17.1%) and in the Chinese Shanghai Composite (+2.9%). In Latin America, the performance was also positive, with the Brazilian index Ibovespa rising by 4.4%, notwithstanding having been penalised, at the end of the quarter, by the political instability in Brazil, and the Mexican Mexbol advancing by 9.2%.

The spreads of the public debt of the peripheral countries in relation to the bund, except for Italy in the 10 year maturity and Ireland in the 2 year maturity, decreased in the first half of 2017, although with significant differences of intensity of the movements, both in the long term (10 years; minimum of -10 b.p. in Spain and maximum of -194 b.p. in Greece) and in the short term (2 years; minimum of -10 b.p. in Portugal and maximum of -260 b.p. in Greece). In the first quarter of 2017, Portugal's spread had reached maximum levels since December 2013, in spite of the widespread flow of favourable news about Portugal at that time. GDP growth in 2016 (+1,4%) and the decrease of the unemployment rate (to 11,1%) surpassed expectations, suggesting a better outlook for the attainment of the budget targets, which were also surpassed, with a deficit of 2.0% of GDP having been observed. This flow of good news relative to 2016, as well as the positive economic data disclosed, by this time relative to 2017, which progressively improved the outlook on growth and compliance with the budget targets for the year in course, contributed to the favourable evolution of the spread of Portuguese debt at 10 years (-100 b.p.) for the semester as a whole.

At its meeting held on 8 June 2017, the ECB decided to continue its expansionary monetary policy by maintaining: *i)* the interest rate applicable to the main refinancing operations, the refi rate, at 0.00%; *ii)* the interest rate applicable to the permanent liquidity assignment facility at 0.25%; and *iii)* the interest rate of the permanent deposit facility at -0.40%. In all cases these rates were already at historical minimum levels, since March 2016, after having confirmed in its meeting of 8 December 2016 that it would continue to make acquisitions under the Quantitative Easing (QE) programme at the monthly rate of 80 billion euros until the end of March and 60 billion euros from April until the end of December 2017 or even later, if necessary and until a sustained adjustment occurred in the inflation trend towards its medium term objective (below, but close to 2%).

The 10 years Portuguese debt yields closed at 4.297% on 16 March, a peak figure since March 2014, reflecting a generally widespread upward movement of yields in Europe, at that time derived from the uncertainty of the elections in Holland. In the meantime, the yields deflated, closing the end of the first semester at 2.879%, close to the minimums recorded since August 2016.

The rates of the dollar (Libor) increased for all time periods and those of the euro (Euribor) renewed historical low points and presented negative values throughout the entire semester for 3, 6 and 12 months, with this downward movement of rates continuing to reflect the ECB's expansionary monetary policy. The Euribor closed the first half of 2017 at -0.331% (3 months), -0.271% (6 months) and -0.156% (12 months).

STRATEGY AND BUSINESS AREAS

STRATEGY

During the first six months of 2017, CEMG maintained its market positioning focused on the business of households and small and medium-sized enterprises (SMEs), along with the Social Economy. Continuing to strengthen its positioning, based on tradition, solidarity and soundness, built over 173 years of history, in the first half of 2017 CEMG pursued its commitment to develop and implement the actions defined for each of the strategic pillars considered in the Strategic Plan for the three-year period 2016-2018.

CEMG's Strategic Plan for the three-year period 2016-2018 is aimed at assuring sustainability, supported by the adjustment of the business model and market approach, and the strengthening of capital and liquidity levels. The Plan's defined priorities for action are the reinforcement of the value proposition and the efficiency of the platform, the strengthening of risk management, human capital management, capital management and the institutional positioning.

The Portuguese banking sector, in the first half of 2017, continued to face a particularly challenging environment, namely due to the moderate macroeconomic recovery, the maintenance of reference interbank interest rates at historically low levels, reflecting the accommodative monetary policy and the progressively more demanding regulatory framework, particularly at a prudential level.

Throughout the first half of 2017, the objectives and action measures were progressively aligned taking into account the macroeconomic context foreseen for the next few years, which, based on the outlook on the medium-term evolution, is expected to continue to determine additional levels of stringency and effort, implying that the recovery of profitability should inevitably involve the appropriate control of credit risk and extra efforts towards cost rationalisation.

During the follow-up, monitoring and assessment of the degree of compliance with the defined objectives and targets, CEMG was proud of the results achieved in terms of the main performance indicators observed in the first half of 2017, namely of core total operating income. This was underpinned by the performance of net interest income and net fees and commissions, by the reduction of operating costs influenced by the optimisation of the physical distribution network, by the credit recovery and consequent fall of the cost of credit risk, by the reduction of the balance sheet exposure to real estate risk following the reduction of the weight of real estate in the assets, by the reinforcement of the liquidity and solvency levels due to the improvement of the CET1 ratio and the reduction of risk-weighted assets, which confirm the commitment to the objectives defined in the Strategic Plan underway and the dedicated effort in the accomplishment of the foreseen actions.

In response to the circumstantial challenges, the Strategic Guidelines delineated for the three-year period 2016-2018 are based on seven main pillars: the recovery of core total operating income, improved efficiency, liquidity enhancement, strengthening of risk management, adequacy of capital to the Group's needs, talent management and the consolidation of the corporate model.

For the three-year period 2016-2018, the accomplishment of the strategy and the respective implementation of the strategic objectives rely 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;
- Increase of the contribution of bank commissions 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 RE integrated management;
- Preservation of a composition of profitable and liquid assets;
- Increase Customers' deposits;
- 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 assessment system;
- Launch of a training plan;
- Fair allocation of costs and benefits between CEMG and MGAM;
- Development and consolidation of the governance model.

Furthermore, other initiatives and action plans are also being developed with a view to achieving the measures established for the year in course. This has been reflected in the evolution of the business and earnings and, in this way, has contributed to the trend of recovery of recurrent profitability.

In this regard, in a scenario of operating risk mitigation and reduction of the exposure to Africa, where CEMG holds 81.6% of Finibanco Angola and 45.8% of BTM – Banco Terra in Mozambique, CEMG is developing actions aimed at finding solutions that will enable the deconsolidation of these holdings.

On 30 June 2017, CEMG increased its institutional capital by 250 million euros, fully paid-up by MGAM, reaching a total of 2,020 million euros, contributing to the reinforcement of solvency levels.

Also on 30 June 2017, a Memorandum of Understanding was signed between MGAM and Santa Casa da Misericórdia de Lisboa (SCML) for the purpose of establishing a strategic partnership between both entities in the context of the national development of the social economy. The signed memorandum includes the possibility of SCML holding a stake in CEMG, opening the way for the holding of CEMG equity by other social economy institutions, with the common objective of contributing, while safeguarding the interests and duties of each equity holder, to CEMG becoming a reference financial institution of the social economy in the national banking system.

Following the general and voluntary public offer to purchase Participation Units representative of CEMG's Participation Fund by MGAM, which took place in the second semester of 2017, aimed at assuring that, after CEMG's transformation into a public limited company, its share capital would be held, to the largest extent possible, by entities of the social economy, MGAM also declared that, with respect to CEMG's activity, it wished that after the aforesaid offer CEMG should continue its activity and strategy, maintaining the main long term guidelines defined for the three-year period 2016-2018, presented above. The implementation of the envisaged Strategic Plan seeks to assure the already announced dedication to improving the well-being of families, to the financial needs of Portuguese small and medium-sized enterprises and to supporting the national social economy.

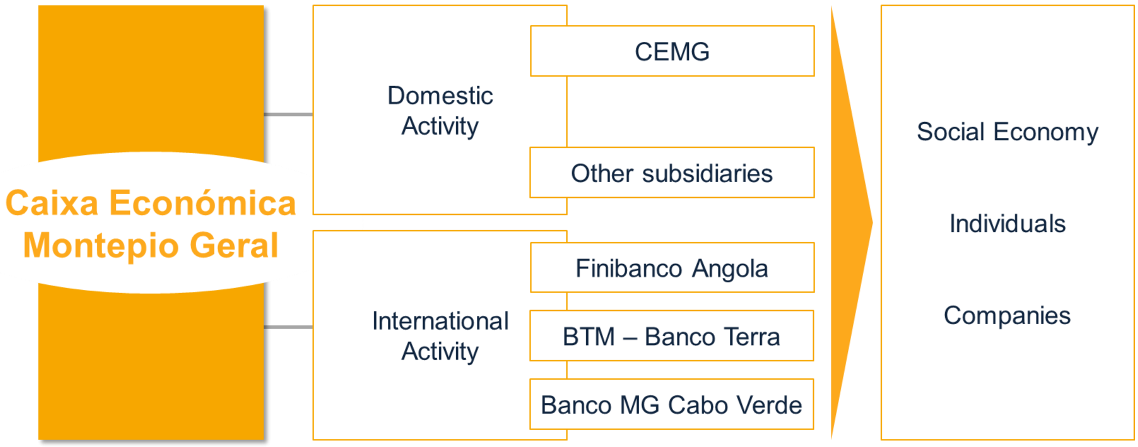
Therefore, the priority continues to lie with objectives related to the commercial activity, control of credit risk, improved operational efficiency and the divestment of non-core assets, namely by reducing the exposure to real estate risk.

Despite the persistent challenges of improving the profitability of the business and asset quality, and ensuring capital adequacy in view of the regulatory requirements, the results achieved in the first half of 2017 confirm CEMG's commitment to the objectives defined in the Strategic Plan outlined for the three-year period 2016-2018 and reinforce the importance of accomplishing the established actions through the involvement of the entire structure of CEMG.

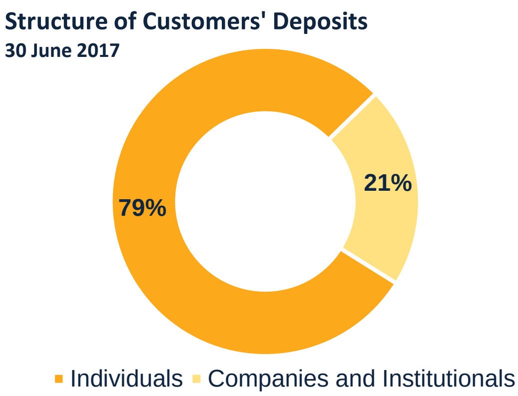
BUSINESS AREAS

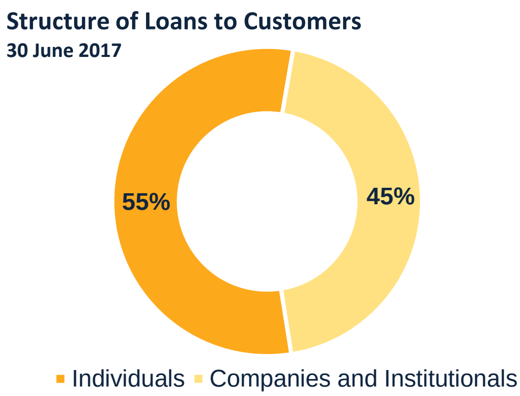
The CEMG Group is characterised as being one of the main Portuguese financial groups in retail banking, with their core business being based on the domestic market, while also developing some activities abroad.

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 taking deposits and granting loans. As at 30 June 2017, CEMG customers' deposits stood at 11.6 billion euros, with individual customers accounting for 79% of this amount, and loans to customers reaching 14.9 billion euros, of which 55% were individuals and 45% company customers.





DOMESTIC ACTIVITY

INDIVIDUALS

The strategy defined for the Individuals segment has focused on stimulating family saving, in particular through the taking and retention of funds, by offering term deposits with different features and maturity periods.

New deposits were launched during the first half of 2017, with special focus on the attraction of fresh capital (Montepio Super Depósito 2017) and the capture and retention of customer loyalty (Montepio Poupança Direta e Depósito a Prazo Dá Mais). Special note should be made to the deposit Montepio Super Poupança with a maturity of 3 years, a growing interest rate and six-monthly payment of interest, the Montepio 4D Deposit with a maturity of 3 years, which encourages customer loyalty, and the Montepio Poupança Ativa deposit which promotes the constitution of savings through a plan of monthly sums deposited.

In line with previous years, the offer of Retirement Saving Plans (PPR) was maintained in the first half of 2017, through the provision of products of Futuro – Sociedade Gestora de Fundos de Pensões, S.A., with campaigns having been carried out aimed at encouraging saving in a perspective of investment for retirement, through free or periodic deposits. In this regard, special note should be made to the PPR Garantia de Futuro, distinguished for the second consecutive year as the Best PPR Fund within its category (with ISRR 3), attributed by the APFIPP (Portuguese Association of Investment Funds, Pensions and Assets) in partnership with Jornal de Negócios, under the "Best Funds 2017" awards.

Regarding the offer of financial products, in 2017, CEMG continued to promote the offer of Real Estate Investment Funds managed by Montepio Gestão de Ativos, Sociedade Gestora de Fundos de Investimento, S.A., and two Real Estate Investment Funds, Valor Prime and VIP, managed by two other Holding Companies. In 2017, the Montepio Ações Europa Securities Fund was distinguished as the Best Fund in the category of "Best Fund of European Shares" in the context of the "Best Funds 2017" awards, attributed by the APFIPP (Portuguese Association of Investment Funds, Pensions and Assets) in partnership with Jornal de Negócios.

Montepio Global Solutions (Soluções Globais Montepio) continue to offer 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.

Consistent with the strategic guidelines and business objectives set for 2017, which primarily aim at contributing to increase the heading of intermediation resources through the attraction/retention of deposits, 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 Super Poupança Bué - Aquashow campaign. This action, with above the line exposures and which took place during the month dedicated to Children enable strengthening the brand's positioning as a Savings Bank and Partner of Families.

With regard to Personal Loans, as this is one of the core products of the Strategic Plan of Caixa Económica Montepio Geral for the three-year period 2016-2018, a campaign was developed based on a creative concept coherent with CEMG's new discourse and image which, aimed at an identification with the product's target and accompanying market trends, supported a change of the product's name to "Personal Loans", in order to capitalise on the visits of users attracted by the practical sense of conducting an online simulation using a dynamic and more intuitive simulator. The first objective was boosted through Radio and Display Advertising communication and the second through the capture of Always On leads, with a search campaign on the Google Display Network.

Aimed at ensuring that the Mortgage Loan offer continues to be competitive and adjusted to the current dynamics in the real estate sector, the strategy started in 2016 was followed during the first half of 2017, with the redesign of the differentiating special conditions concerning price and offer, directed at different customer needs, namely for acquisition, construction, refurbishment and transfer from Other Credit Institutions, which includes Urban Rehabilitation and Real Estate Properties held in portfolio. In addition to the offer, the internal process also continued to be improved with a view to providing a suitable service level to the customer and showing its differentiation in the market.

At the same time, under the strategy to reinforce CEMG's positioning as a specialist in Mortgage Loans, a communication campaign was developed using below and above the line means, aimed at placing CEMG on the top of the mind of the consumers, as a Bank to consult during the process of buying a house. At a creative level, the image for the product was updated, which now portrays current daily life, with specific communication items having been produced aimed at supporting business affairs, namely leaflets, digital flyers and display posters. At an above the line level, the specific channels (Site, Net24 and Chave24) for digital campaigns were used.

In the card area, note should be made to the conclusion of the protocol between CEMG and AAC (Academic Association of Coimbra), where CEMG will be the entity marketing the AAC Member Card, which is simultaneously a Debit Card. This protocol will enable stimulating CEMG's offer of products and services among the universe of students and former students of the AAC, with Student Loans being especially important, as well as the Debit and Prepaid Cards, all with a specific image allusive to the AAC. In order to communicate the launch of the AAC Member Card, CEMG was present in this student city at an activation action with the Tuna Académica de Coimbra (University Choir) promoting a game among the students, challenging them to win tickets to the Ribbon Burning Ceremony of Coimbra University. On that same day, the Montepio Space was inaugurated inside the AAC building.

Also during the first half of 2017, an action was developed to boost the Montepio Prepaid card with an above the line campaign. Under the slogan "Ready to Take. Ready to Load", a simple, functional and original package was created to place the card. The package is accompanied by thematic bands according to the topic under which the card application is classified: Studies (return to classes, post-graduations and masters), Special Moments (birthday, Saint Valentine's, Brothers and Sisters Day), Vacations and Christmas.

In the Bancassurance area, CEMG, in partnership with the Montepio Group's insurance companies, continuing the strategy of bringing in value and endowing the offer with buoyancy and innovation, launched two new insurance products, the Cartão Seguro +Visão (Insurance +Vision Card), health insurance that assures access to ophthalmology medical care providers (eye specialists), and the Seguro Acidentes Proteção Extra (Extra Protection Accident Insurance), a new personal accident insurance product directed at customers that pay attention to their well-being, covering new extra-professional activities included in their routines.

In addition to the actions aimed at improving the products and offering, in a more efficient way, the services and processes that are most appropriate to customer needs and expectations, promotional campaigns were also carried to support business, namely the Auto Flex 10% Refund Campaign, which is innovative in terms of benefits and awards good drivers.

COMPANIES

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

Linha Capitalizar (Capitalise Line)

To this end, CEMG subscribed the Capitalise Line, a credit line integrated in the Programa Capitalizar (Capitalise Programme), which seeks to support long term investments, create more advantageous funding conditions for micro and small enterprises, boost the offer of funding 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.

Linha InnovFin (InnovFin Line)

Following the Protocol signed at the end of 2016 with the European Investment Fund (EIF), CEMG was able to provide a financing line of the total value of 20 million euros to Portuguese companies with potential for innovation. The agreement benefits from the support of the European Fund for Strategic Investments, a central piece of the Investment Plan for Europe.

Under this agreement, CEMG will be able to grant attractive loans to small and medium-sized enterprises over the next two years. The backing of the European Investment Fund is granted under InnovFin, supported by Horizon 2020, the framework programme of the European Union for Research and Innovation.

CEMG allied itself to the IAPMEI once again in the renewal of the Fincresce Programme, so as to continue distinguishing companies which, due to their performance qualities, are positioned as drivers of the national economy in different activity sectors, through the attribution of SME Leader and Excellence Status.

In order to accomplish the growth of business in the Corporate segment in line with the objectives set in CEMG's Strategic Plan for 2016-2018, during the first half of 2017, new skills were developed to differentiate and place the Customer in the centre of our action, creating value for the companies and for the bank to growth in a profitable and sustainable manner focused on the Customer and with commercial banks as anchors, through an integrating and participative plan of actions of all the bank's areas driven by quantitative and qualitative results.

In the action plan concerning Large Companies and Institutional Customers, there were three major axes of action clearly aimed at and committed to creating an effective and victorious system around the Customer, enabling CEMG to capture more value and serve the Customer better. This plan includes the new commercial stimulation programme named TRIANGULUM launched in the first half of 2017, with the objective of creating a win-win commercial system where the attitude focused on the customer is the pivotal point, aimed at levering, enhancing the value and boosting the talent of the teams both at a functional and leadership level, as well as in terms of recognition and self-development.

Innovation of the Offer

The approach involves focusing of the needs of specific clusters as priority axes of communication in corporate business in 2017.

In this context, the aim is to assure the positioning for companies and the action plan (Marketing Mix of products/services/channels/pricing and communication), identifying value propositions, materialising new forms of interaction and meeting the needs of companies, fostering innovation, the launch and promotion of new products.

In this regard, it is important to mention the following events which CEMG joined:

- ✓ 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), which was supported by CEMG, as well as Lisbon Zoo, aimed at presenting the Industry 4.0 strategy launched by the Portuguese Government.
- ✓ The editorial project, Link to Leaders, which received the support and collaboration of CEMG, constituted a distinct opportunity to single out our brand relationship with SMEs.
- ✓ The First Congress of Beira Baixa, organised by AEBB (Business Association of Beira Baixa). This first edition of this initiative sought to give a voice to the Region of Beira Baixa, launching a prospective debate on the future of the region, and reflecting on the new challenges and opportunities, under the motto "Unite to Develop the Region".

SOCIAL ECONOMY

The Social Economy sector, as one of the central vectors of CEMG's action, is given an extremely important position in the Strategic Plan for 2016-2018, in line with the trajectory defined in previous years. This commitment allows CEMG to assure the follow-up of a growing number of institutions of social nature, not only meeting their needs, operationalising their entrepreneurship projects, building bridges for mutual understanding and shared actions, but also weaving a web of relations aimed at the growth and strengthening of the Social Economy and its agents.

The definition of the Social Economy as a customer segment under CEMG's scope of action has enabled a structured approach to Social Economy organisations. Here, the objectives are to adjust the solutions to the customers' needs and mitigate the risk of the operations, with this approach allowing for a better response to the customer by the end of the process.

Support to Entrepreneurship and Microcredit

CEMG is proud of its social responsibility and the values of solidarity that inspire its activity, in defending the association of the financial component to the solidarity component and in assuring that entrepreneurial agents receive a follow-up that fosters strong and fruitful proximity and cooperation. At CEMG, the microcredit business has progressively grown and differentiated itself in a pronounced manner.

The support to the development of Social Entrepreneurship was underpinned by various financing lines, namely Microcredit, based on several partnerships established with entities strongly concerned with employment promotion, such as Lisbon City Council, through the Lisboa Empreende programme; NERSANT - Business Association of the Region of Santarém, with the mission of promoting the economic development of the region; AESintra - Business Association of Sintra whose mission is to study and defend interests relative to Trade, Industry and Services, so as to promote and conduct everything and anything that might and should contribute to their technical, economic and/or social progress; Red Oeiras + whose mission is to promote the economic development of the municipality; and, lastly, AERLIS - Business Association of the Region of Lisbon whose axes of action are training, promotion of integrated regional development, internationalisation of supported projects and entrepreneurs, among others.

During the year of 2017, CEMG maintained strong dynamics in the implementation of the Programme to Support Entrepreneurship and Own Employment Creation, with an agreement having been established with Instituto de Emprego e Formação Profissional, IP (IEFP, IP) and the Mutual Guarantee Companies, embodied in the Microinvest and Invest+ credit lines.

Support to Microcredit and Entrepreneurship in 1st Half 2017

	KPI	Outcome
Deepening of the investment in Microcredit and support to Social Entrepreneurship	Supported projects (#)	24
	Amount granted	359 049€
	Jobs created (#)	30

Montepio Microcredit innovates based on partnerships with organisations of national, district or local scope that are distinguished by their experience in the field of social entrepreneurship and the sharing of risk.

In this context, special note should be made of the Montepio Microcredit solution which has two truly unique factors that make all the difference: the existence of specialised managers and the accompaniment of entrepreneurs right from the embryonic phase of the business idea. Thus, 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.

Social Entrepreneurship

The current wave of entrepreneurship, evident all over the world, has been conveyed with a growing proliferation of ideas and projects, where Montepio has actively participated in dynamics of developing highly innovative technology-based ideas, projects and businesses.

In this regard, CEMG has joined, as the main sponsor, the largest entrepreneurship competition at a national level and the second largest of the world, through a partnership that has extended over three years, Montepio Acredita Portugal. This competition is already in its 7th edition, promoted by Acredita Portugal, and aims to support promising ideas, projects and businesses of any citizen, regardless of age and educational 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, the winner of the Social Entrepreneurship category was Optibest – providing a visual service to deprived people. The runners up included the UpFrame programme, a pre-acceleration powered by Startup Lisboa, and the national and international voluntary programme named "To Where".

Another one of the projects which Montepio joined with the intention of supporting and disclosing good ideas and especially 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 entrepreneurs of impact. Montepio presents itself as a potential Social Investor of these projects with an important role in society.

CEMG has focused on participating and supporting the dynamics of development of an ecosystem of social entrepreneurship and innovation.

One of these focal points is the Montepio Social Tech Programme, designed and developed by Montepio and LIS (Laboratório de Inovação Social), targeted at young social entrepreneurs that wish to implement social innovation projects where technology is a key tool to resolve social challenges.

This transversal and intensive programme is divided into three stages: training, incubation and a demo day with investors. With Montepio Social Tech, Montepio aims to introduce entrepreneurs with ideas that address social challenges in different areas such as Employment, Education, Health, Justice, Social Inclusion and Environment, among others.

Montepio's partners in this programme, in addition to LIS, include IES, Impact Generator, Universidade Católica Portuguesa, Santa Casa da Misericórdia de Lisboa, Universidade do Porto, Calouste Gulbenkian Foundation, Deloitte and Microsoft.

The Start-up Portugal Programme is an initiative of the Portuguese Government aimed at recognising the importance of entrepreneurship in economic matters and the creation of higher quality and qualified employment. The Start-up Portugal Programme was designed for a four years period, structured around three areas of action – the ecosystem, funding and internationalisation – and incorporates measures aimed at fostering start-ups, incubators and Portuguese investors in external markets, as well as attracting more start-ups, incubators, accelerators, customers and foreign investors to Portugal.

CEMG's participation in the sphere of entrepreneurship has been strengthened, year after year, both as a first line entity, as illustrated by its partnership with IAPMEI and Lisbon City Council (CML) in Start-up Lisbon, and in other projects of incubation of ideas and projects, as well as via the conclusion of agreements to provide collaboration and support to the community, namely associations.

Banking for the Social Economy

CEMG performs its role as a strategic partner in supporting the social economy on a daily basis, not only in its dialogue with the structures representing the sector but also in hearing the different stakeholders. The following facts that occurred in the first half of 2017 and which reflect CEMG's vision to promote a more efficient and sustainable Social Economy through an offer designed to meet real needs are examples of the materialisation of this role:

- ✓ FENACERCI (National Federation of Social Solidarity Cooperatives) – renovation of a commercial agreement that offers access to bank products and services (liquidity management and funding) to a large group of organisations affiliated to this representative structure, at competitive costs as well as personal and mortgage loans.
- ✓ Social Sector Information Technology Solutions – partnership with F3M – Information Systems, leveraged on strengthening the financing offer and conditions, which provides information technology and software solutions for the social sector, aimed at modernising and enhancing the efficiency of the management of Social Economy organisations.
- ✓ Social Sector Motor Vehicle Leasing – partnership with Renault, centred on the funding of selected vehicles under beneficial conditions that enable Social Economy organisations to modernise their motor vehicle fleet, also incorporating discounts in compulsory motor vehicle insurance, through Lusitania.

The partnership strategy developed by CEMG for the Social Economy also includes the fundamental axis of stimulation and promotion of the Social Economy, highlighting its importance in the national and regional context of Portuguese society. In this field, CEMG has maintained its participation and sponsorship of events aimed at the Social Economy, and which seek to be forums of debate and reflection on the challenges faced by the sector, focused on the search for solutions to overcome these challenges, in particular:

- ✓ The support to the campaign celebrating 30 years of the "Pirilampo Mágico".

- ✓ Street Football Project" – developed by the CAIS Association, a project which in 2017 celebrates its 14th edition, supported by FIFA's Football For Hope Programme, the Portuguese Institute of Youth and Sports / National Sports Programme for All, the Luso Foundation and CEMG.

- ✓ XIV Insular Congress of the Misericórdias, which took place during the month of June at Praia da Vitória, Ilha Terceira in Azores, dedicated to the theme "Misericórdia(s) & Modernity". This was clearly an occasion for meeting and sharing experiences, confirming in the present day the mission of doing good of these ancient and secular institutions.

- ✓ CNIS Solidarity Festivity, which was held during the month of June in Funchal, Madeira. During the event, CEMG was present with a stand, fostering this moment as an opportunity to disclose its exclusive products and services for social organisations.

- ✓ Conference on "Ethics in Organisations – Compliance and Competitivity" – CEMG promoted, together with the APEE (Portuguese Association of Business Ethics), in January of this year, a session to debate topics linked to business ethics and the management of organisations.

OTHER SUBSIDIARIES

Montepio Investimento, S.A.

Throughout the first half of 2017, Montepio Investimento, S.A., a subsidiary 100% controlled by CEMG, continued to assure its specialised intervention aimed at meeting corporate needs in the areas of “Financial Advice” and “Corporate Finance”.

As at 30 June 2017, Total Net assets of Montepio Investimento, S.A. stood at 279.9 million euros, showing an increase of 3.1 million euros in relation to the value recorded at the end of 2016.

The heading of Financial assets available for sale recorded a decrease of 3.7 million euros, compared to 31 December 2016, having reaching 144.6 million euros as at 30 June 2017. Net loans to customers amounted to 51.3 million euros at the end of June 2017, having fallen by 6.7% (-3.6 million euros) in relation to the value recorded as at 31 December 2016, reflecting the amortisation of the portfolios of movable and immovable property leasing.

The main sources of asset funding continue to be based on Resources from central banks, Resources from other credit institutions and Equity. As at 30 June 2017, resources from the European System of Central Banks amounted to 15 million euros, in line with the value recorded at the end of 2016, which were backed by the portfolio of financial assets available for sale. As at 30 June 2017, the Resources from other credit institutions stood at 75.2 million euros and the Equity of Montepio Investimento reached 187.1 million euros, having increased by 1.4% in relation to the value recorded at the end of 2016.

Net income for the first six months of 2017 was positive by 2.2 million euros, compared to the negative Net income of 9.5 million euros recorded for the same period of 2016, showing the impact of the commissioning gains, the Results from financial operations and the lower level of Impairment and provisions.

In the first half of 2017, the Total operating income of Montepio Investimento, S.A. stood at 3.5 million euros, compared to the negative value of 5.5 million euros recorded for the same period of 2016, reflecting the increase of earnings from commissioning of 96.9 million euros and results from financial operations of 6.9 million euros.

Operating costs stood at 653 thousand euros in the first six months of 2017, having fallen by 343 thousand euros in relation to the value stated in the same period of 2016, where the reduction of General and administrative expenses of 305 thousand euros was particularly relevant.

In the first half of 2017, Impairment and provisions reached a total amount of restitutions of 611 thousand euros, of which 791 thousand euros relative to the loan portfolio and the restitution of 552 thousand euros related to other assets were especially relevant. Regarding the impairment of other financial assets, the cost reached 732 thousand euros.

The key indicators on the activity and results of Montepio Investimento are presented below:

Activity and Results (EUR million)

	Jun-16	Dec-16	Jun-17	YoY Change
Total assets	287.1	276.8	279.9	(2.5%)
Loans to customers (net)	62.1	54.9	51.3	(17.5%)
Financial assets available for sale	151.9	148.3	144.6	(4.8%)
Resources from other credit institutions	75.2	75.2	75.2	0.0%
Equity	187.7	184.6	187.1	(0.3%)
Total operating income	(5.5)	(2.2)	3.5	>100%
Operating costs	1.0	1.9	0.7	(34.4%)
Net income	(9.5)	(12.9)	2.2	>100%

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

Montepio Crédito is the Group's subsidiary which assures the offer of specialised credit in the motor vehicle, home and equipment branches.

Montepio Crédito has been repositioning itself within the CEMG Group, joining the core business of motor vehicle financing, the development of specialised financing in professional areas, through relations with business partners, suppliers of light and heavy vehicles and industrial equipment, and through the launch of a Funding and Support line to combat social exclusion.

According to (provisional) data published by ACAP (Portuguese Automobile Trade Association), 145,897 new light vehicles were sold in Portugal during the first half of 2017, which representing a positive year-on-year increase of 7.9%.

As at 30 June 2017, the Total assets of Montepio Crédito, S.A. stood at 529.1 million euros, showing growth of 19.8 million euros (3.9%) in relation to the value recorded at the end of 2016. Net loans to customers amounted to 383.4 million euros at the end of June 2017, having increased by 5.7% in relation to the 362.8 million euros recognised as at 31 December 2016.

Net income for the first half of 2017 reached 967 thousand euros, compared to the value of 1.5 million euros recorded in the same period of 2016.

During the first six months of 2017, Total operating income reached 7.1 million euros, compared to the value of 7.5 million euros recorded in the first half of 2016. This evolution was negatively influenced by the performance of Net interest income which fell by 403 thousand euros and Other operating income which decreased by 217 thousand euros.

Operating costs stood at 5.3 million euros in the first six months of 2017, corresponding to an increase of 2.9%, influenced by the increased General and administrative expenses.

In the first half of 2017, the total amount of provisions reached 737 thousand euros, of which 690 thousand euros were related to loans to customers, compared to 189 thousand euros recorded for the same period of 2016 and to 331 thousand euros by end-2016.

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

Activity and Results (EUR million)

	Jun-16	Dec-16	Jun-17	YoY Change
Total assets	491.1	509.2	529.1	7.7%
Loans to customers (net)	353.3	362.8	383.4	8.5%
Resources from other credit institutions	306.7	312.1	337.9	10.2%
Equity	34.0	37.3	41.4	21.8%
Total operating income	7.5	17.1	7.1	(5.7%)
Operating costs	5.1	10.6	5.3	2.9%
Net income	1.5	4.3	1.0	(33.6%)

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. in Mozambique.

Finibanco Angola, S.A., 81.57% held by CEMG, is a universal bank that supports small and medium-sized companies, individuals and Angolan foreign trade which seeks to substantiate its competitive advantage on the quality of its service with a view to achieving high customer satisfaction indices. Under this strategy, it seeks to finance and promote people and micro-enterprises with viable business initiatives and conditions of sustainability that would otherwise not have access to credit. In its support to Angolan foreign trade, CEMG favours transactions between Portugal and Angola, seeking to establish a bridge between Portuguese and Angolan entrepreneurs.

The distribution network totalled 25 branches and business centres at the end of the first half of 2017, whose expansion has been financed by equity capital.

BTM, S.A., controlled by CEMG through a 45.78% stake in its share capital, is a commercial bank whose objective is to offer financial solutions in the retail and business areas, having been created for the purpose of contributing to poverty reduction in Mozambique.

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

At the end of the first half of 2017, the distribution network of BTM – Banco Terra, S.A. totalled 10 branches, distributed over the provinces of Maputo, Matola, Maxixe, Beira, Tete, Nampula, Chimoio and Malema.

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 international dimension of Banco MG Cabo Verde, S.A. is sustained by the geographic dispersion of its Customers, spread over various countries, in various continents.

The key indicators on the activity and results of the CEMG Group's international business are presented below:

Activity and Results (EUR million)

	Jun-16*	Dec-16*	Jun-17*	YoY Change
Total assets	811.6	741.1	685.2	(15.6%)
Loans to customers (net)	240.6	182.7	172.0	(28.5%)
Customers' deposits	646.9	581.6	518.4	(19.9%)
Total operating income	26.5	48.3	25.2	(5.0%)
Operating costs	11.9	24.6	12.5	5.3%
Cost to Income	44.7%	50.8%	49.6%	4.9 p.p.
Net income	5.8	10.6	7.3	25.3%

* For comparative purposes the financial statements of Finibanco Angola and BTM - Banco Terra, relative to Jun-16, Dec-16 and Jun-17, w ere restated using the same exchange rate: AOA/EUR 185.393; MZN/EUR 68.959.

The total Assets of international activity of the CEMG Group's international business as at 30 June 2017 corresponded to 685.2 million euros, compared to 741.1 million euros at the end of December 2016.

Loans to customers of the international business amounted to 172.0 million euros as at 30 June 2017, while Deposits of customers attracted by the subsidiaries comprising the international activity of the CEMG Group reached the total of 518.4 million euros.

The commercial performance of the international activity of the CEMG Group has been influenced by the recent evolution of the different economies, in particular the Angolan whose economic activity has been severely affected by the fall in the price of the barrel of oil.

Total operating income of the international activity amounted to 25.2 million euros in the first half of 2017, while Operating costs reached 12.5 million euros. As a result of these developments, the Cost-to-Income ratio of the international activity stood at 49.6% in the first semester of 2017.

During the first half of 2017, the contribution of the international activity to consolidated net income increased by 25.3%, amounting to 7.3 million euros (5.8 million euros in first semester of 2016), with positive net income in Angola (7.4 million euros) and negative in Cape Verde (-71.4 thousand euros) and Mozambique (-35.3 thousand euros).

FINANCIAL ANALYSIS

CEMG is currently negotiating with a series of investors with a view to re-focusing its approach to the African market, which consists of the divestment of the current financial stakes held in Finibanco Angola S.A. and BTM – Banco Terra, S.A., both within the scope of the "ARISE" project and under other alternatives that are being developed.

Considering the decisions that have already been taken by the Executive Board of Directors, as well as the provisions in IFRS 5, the activities developed by these subsidiaries have been deemed as discontinuing operations with reference to 2016.

In the income statement, the earnings of these subsidiaries were stated under the income heading "Income from discontinuing operations" and, in the balance sheet under the headings "Non-current assets held for sale – Discontinuing operations" and "Non-current liabilities held for sale – Discontinuing operations".
For comparative purposes, these headings of the income statement and balance sheet were prepared and analysed on the same basis for the 1st half of 2016.

EARNINGS

Net income for the first half of 2017 was positive by 13.0 million euros, corresponding to an improvement of 80.6 million euros by evolving from the negative value of 67.6 million euros recorded in the first semester of 2016. This positive performance was influenced by the increase of the Core total operating income, as a result of the increased values of Net interest income and Net fees and commissions, the increased Results from financial operations and the lower Operating costs and endowments for Impairment and provisions.

SYNTHETIC INCOME STATEMENT

(EUR million)

	Jun-16*	Jun-17	Change	
			Amount	%
Net interest income	**111.7**	**143.3**	**31.6**	**28.3**
Commercial net interest income	*123.1*	*143.5*	*20.4*	*16.6*
Net fees and commissions	46.2	55.2	9.0	19.5
Core total operating income	**157.9**	**198.5**	**40.6**	**25.7**
Income from equity instruments	2.7	7.7	5.0	>100
Results from financial operations	12.8	26.6	13.8	>100
Other operating income	(6.8)	15.8	22.6	>100
Total operating income	**166.6**	**248.6**	**82.0**	**49.3**
Staff Costs	124.9	84.7	(40.2)	(32.2)
General and administrative expenses	46.6	40.0	(6.6)	(14.1)
Amortization and depreciation	12.3	12.5	0.2	1.5
Operating costs	**183.8**	**137.2**	**(46.6)**	**(25.4)**
Comparable operating costs (a)	**151.8**	**137.2**	**(14.6)**	**(9.6)**
Net operating income before provisions and impairments	**(17.2)**	**111.4**	**128.6**	**>100**
Net provisions and impairments	118.8	89.1	(29.7)	(24.9)
Share of profit of associates under the equity method	0.0	(0.1)	(0.1)	(<100)
Net income before income tax	**(136.0)**	**22.1**	**158.1**	**>100**
Income tax	69.3	(13.1)	(82.4)	(<100)
Net income after income tax from continuing operations	**(66.7)**	**9.0**	**75.7**	**>100**
Income from discontinuing operations	0.2	5.4	5.2	>100
Non-controlling interests	1.1	1.3	0.2	21.0
Net Income	**(67.6)**	**13.0**	**80.6**	**>100**

*June 2016 restated pursuant to IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.

(a) Excludes the impacts arising from the operational redimensioning

In terms of the earnings from the commercial activity, which results from the sum of net interest income and net fees and commissions minus operating costs on a comparable basis, there was an increase of 44.1 million euros, which reflects an increase of net income from 17.5 million euros recorded in the first half of 2016 to 61.5 million euros stated in the first semester of 2017. This improvement reflects the 16.6% growth of the commercial Net of net interest income, 19.5% growth of Net fees and commissions, and the 9.6% reduction of Operating costs on a comparable basis.

TOTAL OPERATING INCOME

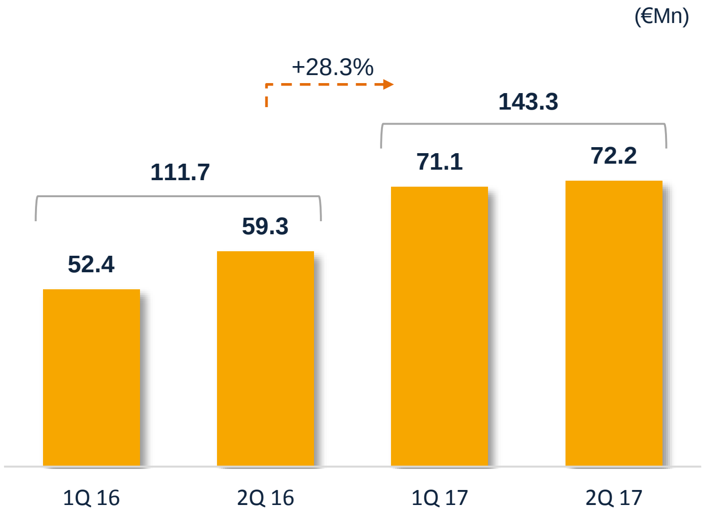
Core total operating income improved by 25.7%, having risen by 40.6 million euros, in evolving from 157.9 million euros in the first semester of 2016 to 198.5 million euros in the first half of 2017. This performance was determined by the favourable evolution of Net interest income, which recorded a year-on-year growth of 28.3%, and by the 19.5% increase of Net fees and commissions.

The evolution of Total operating income from 166.6 million euros in the first half of 2016 to 248.6 million euros in the first semester of 2017 also incorporates the positive contribution of the Income from equity instruments, the Results from financial operations and Other operating income.

Net interest income

During the first half of 2017, Net interest income, in a prolonged context of historically low interest rates, showed a year-on-year growth of 28.3%, reaching 143.3 million euros, benefiting from the reduction of the cost of customer deposits, the lower costs related to the issued debt and the policy on repricing the loan portfolio.

Net interest income



*For comparative purposes, the 2016 quarters were restated pursuant to IFRS 5 guidelines related to the accounts of Finibanco Angola and BTM - Banco Terra.

The Net interest income of the first half of 2017 benefited from the positive price effect of 30.8 million euros recorded in terms of Customer deposits, showing the impacts of the average rate having evolved from 1.23% in the first semester of 2016 to 0.72% in the first half of 2017, and from the continued and permanent management of the price applied to new deposits, as well as from the repricing of the existing deposits upon their maturity.

Senior debt also contributed positively to the evolution of Net interest income observed between the first semesters of 2016 and 2017, in particular through the volume effect, of 6.2 million euros, due to the reduction of the average balance from 2.179 million euros in the first semester of 2016 to 1,677 million euros in the first half of 2017.

BREAKDOWN OF NET INTEREST INCOME

(EUR million)

	Jun-16*			Jun-17		
	Avg. amount	Avg. rate (%)	Interest	Avg. amount	Avg. rate (%)	Interest
Assets						
Cash and deposits	339	0.00	0.0	207	0.12	0.1
Loans and advances to OCI	158	2.35	1.9	473	0.95	2.3
Loans to customers	15 469	2.54	197.6	14 973	2.48	186.5
Securities portfolio	2 848	1.71	24.5	2 829	2.14	30.4
Other (includes derivatives)	-	-	37.0	-	-	34.9
subtotal	18 814	2.76	261.0	18 482	2.74	254.2
Liabilities						
Resources from Central banks	2 923	0.05	0.8	2 574	0.01	0.2
Resources from OCI	1 638	0.73	6.0	2 311	0.40	4.6
Customers' deposits	12 031	1.23	74.5	11 839	0.72	43.1
Senior debt	2 179	2.47	27.0	1 677	2.62	22.1
Subordinated debt	294	1.58	2.3	251	1.27	1.6
Other (includes derivatives)	-	-	38.6	-	-	39.4
subtotal	19 064	1.56	149.3	18 652	1.18	110.9
Net interest income		**1.18**	**111.7**		**1.54**	**143.3**

*June 2016 restated pursuant to IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.

In the first half of 2017, the average balance of Loans to customers decreased in relation to the value of the first semester of 2016 as a result of the deleveraging process in progress, namely in non-performing loans and sectors of activity that are considered non-core, in particular the construction sector. The average interest rate, reflecting the effect of repricing the operations in a context where the main indexers were situated on negative ground during the first six months of 2017, stood at 2.48% in the first semester of 2017, which compares with an average interest rate of 2.54% for the same period of 2016, reflected in a negative price effect of 4.9 million euros.

In the first semester of 2017, the Portfolio of securities recorded an average balance that was slightly lower than that recorded in the same period of 2016, and at the same time the average interest rate showed a favourable evolution in shifting from 1.71% to 2.14% in the same period. Therefore, the impact observed in the Net interest income determined by the Securities portfolio was negative by 0.2 million euros via the volume effect, and positive by 6.1 million euros via the price effect.

The combination of the effects described above resulted in an increase of 36 b.p. in the rate of net interest income which shifted from 1.18% in the first semester of 2016, to 1.54% in the first half of 2017.

DETAILED EVOLUTION OF NET INTEREST INCOME BETWEEN 1ST HALF 2016* AND OF 2017

(EUR million)

	Volume effect	Price effect	Residual effect	Total
Assets				
Cash and deposits	0.0	0.2	(0.1)	0.1
Loans and advances to OCI	3.7	(1.1)	(2.2)	0.4
Loans to customers	(6.3)	(4.9)	0.2	(11.1)
Securities portfolio	(0.2)	6.1	0.0	5.9
Other (includes derivatives)	0.0	0.0	(2.1)	(2.1)
subtotal	(2.8)	0.2	(4.3)	(6.9)
Liabilities				
Resources from central banks	(0.1)	(0.6)	0.1	(0.6)
Resources from OCI	2.5	(2.8)	(1.1)	(1.4)
Customers' deposits	(1.2)	(30.8)	0.5	(31.5)
Senior debt	(6.2)	1.7	(0.4)	(4.9)
Subordinated debt	(0.3)	(0.5)	0.1	(0.7)
Other (includes derivatives)	0.0	0.0	0.7	0.7
subtotal	(5.4)	(33.0)	(0.1)	(38.5)
Change in net interest income	**2.6**	**33.2**	**(4.2)**	**31.6**

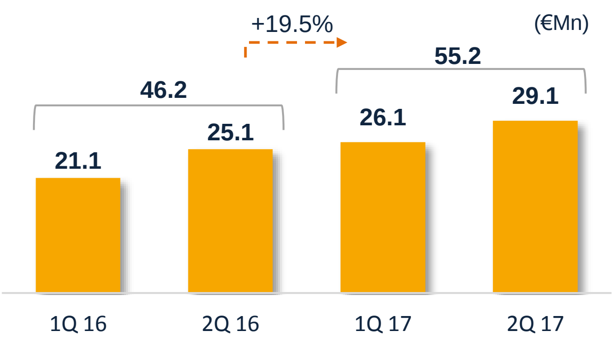
*June 2016 restated pursuant to IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.

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 portfolio of assets available for sale. The value recorded in the first half of 2017 reached 7.7 million euros, comparing favourably to the amount of 2.7 million euros recorded in the first semester of 2016, in incorporating dividends received related to investments stated in the portfolio of financial assets available for sale.

Net fees and commissions

Net fees and commissions



*For comparative purposes, the 2016 quarters were restated pursuant to IFRS 5 guidelines related to the accounts of Finibanco Angola and BTM - Banco Terra.

Net fees and commissions, related to services rendered to customers, reached 55.2 million euros in the first half of 2017, corresponding to growth of 19.5% in relation to the value of 46.2 million euros recorded in the first semester of 2016.

The favourable evolution of Net fees and commissions in the first six months of 2017 benefited from the combined effect of the measures that were implemented during this period and in 2016, aimed at adjusting the price of the services provided to customers to the value proposition offered by CEMG.

In this context, the increase referred to above incorporates the effects of the price revisions made to the bank services provided, namely those involving fees and commissions related to management, administration and custody of assets, situations of exemption, cards, maintenance of accounts and annuities, as well as the income associated to the increased cross-selling.

Results from financial operations

The Results from financial operations amounted to 26.6 million euros in the first half of 2017, compared to the value of 12.8 million euros stated in the first semester of 2016. This improvement was especially influenced by the capital gains achieved from the divestment of sovereign debt securities, as well as by the inversion of the losses related to assets and liabilities stated at fair value through profit or loss of 29.1 million euros recorded in the first semester of 2016 to a gain of 4.0 million euros stated in the first half of 2017.

RESULTS FROM FINANCIAL OPERATIONS

(EUR million)

	Jun-16*	Jun-17	Change	
			Amount	%
Results from financial assets and liabilities at fair value through profit or loss	(29.1)	4.0	33.1	>100
Results from financial assets available-for-sale	40.2	21.5	(18.7)	(46.4)
Results from currency revaluation	1.7	1.1	(0.6)	(34.6)
Results from financial operations	**12.8**	**26.6**	**13.8**	**>100**

*June 2016 restated pursuant to IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.

Other results

The heading of Other results incorporates the Results from divestment of other assets and Other operating income, which include, among others, the income obtained from services rendered, from the reimbursement of expenses and from the assignment of employees, as well as the costs related to credit recovery services and costs related to issues.

During the first half of 2017, the Results from the sale of other financial assets stood at 19.2 million euros, corresponding to an improvement in relation to the value of 12.2 million euros recorded in the first semester of 2016.

For the first half of 2017, Other operating income stood at -3.4 million euros, compared to the -19.0 million euros recorded in the same period of 2016, essentially derived from the lower losses related to the revaluation of investment properties and to servicing and credit recovery expenses which, together, represented a cost of 10.3 million euros in the first half of 2017, a value compared to the cost of 49.2 million euros recorded in the same period of 2016.

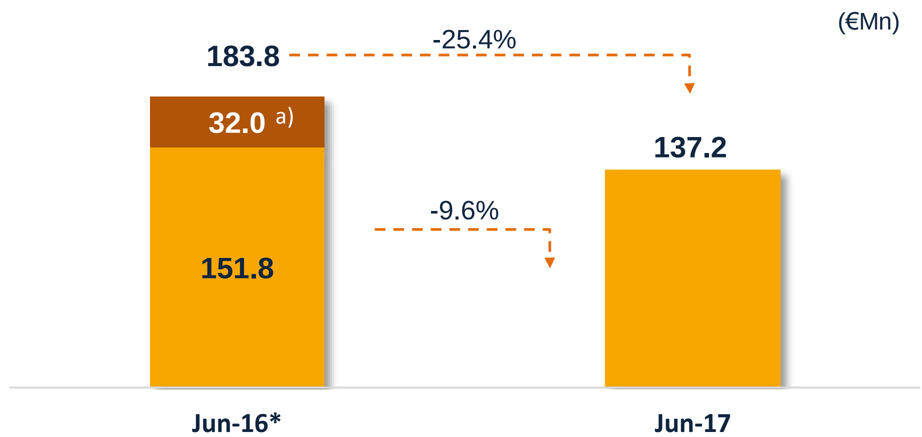
OPERATING COSTS

Operating costs, in the first half of 2017, amounted to 137.2 million euros, representing a year-on-year reduction of 9.6% in relation to the value of Operating costs of 151.8 million euros, excluding the impacts of the process of redimensioning the operating structure.

The improvement of the levels of efficiency defined in the Strategic Plan for 2016-2018, already observed in 2016, continued in the first half of 2017 through the year-on-year decrease, in comparable terms, of 8.9% in Staff costs and 14.1% in General administrative expenses. These decreases were influenced by the reduction of 7 branches and of 31 employees of the CEMG Group, which rises to 136 in excluding situations of assignment and with temporary work suspension contracts, in relation to 30 June 2016.

In the first half of 2017, the Cost-to-Income efficiency ratio*,* excluding the Results of financial operations and the effects derived from the operating structure resizing, reached 61.8%, compared to 98.7% recorded in the first semester of 2016.

Operating costs



*June 2016 restated pursuant to IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.
a) Impact arising from the operating structure redimensioning.

OPERATING COSTS

(EUR million)

	Jun-16*	Jun-17	Change Amount	Change %
Staff Costs (a)	92.9	84.7	(8.2)	(8.9)
General and administrative expenses	46.6	40.0	(6.6)	(14.1)
Amortization and depreciation	12.3	12.5	0.2	1.5
Comparable operating costs (a)	**151.8**	**137.2**	**(14.6)**	**(9.6)**
Operating expenses with structure resizing program	32.0	-	-	-
Operating costs	**183.8**	**137.2**	**(46.6)**	**(25.4)**
Efficiency ratios				
Cost-to-Income (Operating expenses / Total operating income) (b)	110.3%	55.2%		
Cost-to-Income, excluding specific impacts (c)	98.7%	61.8%		

(a) Excludes the impacts arising from the operational redimensioning
(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
*June 2016 restated pursuant to IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.

Staff costs, in the first half of 2017, amounted to 84.7 million euros, representing a reduction of 8.9% in relation to the value recorded in the first semester of 2016 of 92.9 million euros, which excludes the impact associated to the process of redimensioning the operating structure of 32.0 million euros.

General administrative expenses reached 40.0 million euros in the first half of 2017, showing a decrease of 14.1% in relation to the amount recorded in the same semester of 2016, reflecting the favourable impact induced by the negotiation of contracts with suppliers and the cost containment measures that were implemented. The reduction of General administrative expenses occurred at the level of various headings, in particular due to the savings recorded in rents, marketing and advertising, communications and IT costs.

IMPAIRMENT AND PROVISIONS

The endowments for Impairment and provisions, in the first half of 2017, amounted to 89.1 million euros, compared to 118.8 million euros recorded in the same semester of 2016. This decrease of 29.7 million euros was influenced by the reduction of endowments for credit impairment of 22.2 million euros, which shifted from 85.8 million euros in the first semester of 2016 to 63.5 million euros in the first semester of 2017. This evolution was reflected in terms of the cost of risk which reached 0.9% in the first six months of 2017, compared to 1.1% in the same period of 2016 and 1.2% for the year of 2016, thus showing a 30 b.p. reduction of the cost of risk since the beginning of 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.

During the first half of 2017, there was also a year-on-year reduction of 33.1 million euros in the endowments for impairment of other financial assets which stood at 4.9 million euros, compared to the value of 38.0 million euros recorded in the first semester of 2016.

IMPAIRMENT AND PROVISIONS

(EUR million)

	Jun-16*	Jun-17	Change	
			Amount	%
Loan impairments	85.8	63.5	(22.2)	(25.9)
Other financial assets impairments	38.0	4.9	(33.1)	(87.1)
Other assets impairments	6.8	10.2	3.4	49.7
Other provisions	(11.8)	10.5	22.3	>100
Total of impairment and provisions	**118.8**	**89.1**	**(29.7)**	**(24.9)**

*June 2016 restated pursuant to IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.

In relation to the Impairment of other assets, the value stated in the first semester of 2017 stood at 10.2 million euros, showing an increase of 3.4% in relation to the value of the same period of 2016, while Other provisions recorded an endowment of 10.5 million euros, compared to a reversal of 11.8 million euros recorded in the first semester of 2016.

TAX

The current and deferred taxes for the first half of 2017 amounted to -13.1 million euros compared to 69.3 million euros stated in the same period of 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, in some particular circumstances, 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 incorporate the net income for the period 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 5.4 million euros in the first half of 2017.

For comparative purposes, the income statement of the first semester of 2016 was prepared on the same basis, recording the value of 0.2 million euros relative to this heading.

NON-CONTROLING INTERESTS

The Non-controlling interests recorded in the first semester of 2017 and 2016, which amounted to 1.3 million euros and 1.1 million euros, respectively, correspond to the portion of capital held by third parties in the subsidiaries Finibanco Angola, S.A. and BTM – Banco Terra, S.A.

BALANCE SHEET

The strategic objective of deleveraging CEMG's balance sheet continued during the first half of 2017, on the one hand, by the reduction of non-performing loans, loans granted to activity sectors considered non-core and the reduction of exposure to real estate risk through an integrated management of the real estate properties held for sale, and, on the other hand, by the improvement of liquidity levels through the capture and retention of customer deposit and the use of less costly funding sources.

SYNTHETIC BALANCE SHEET

(EUR million)

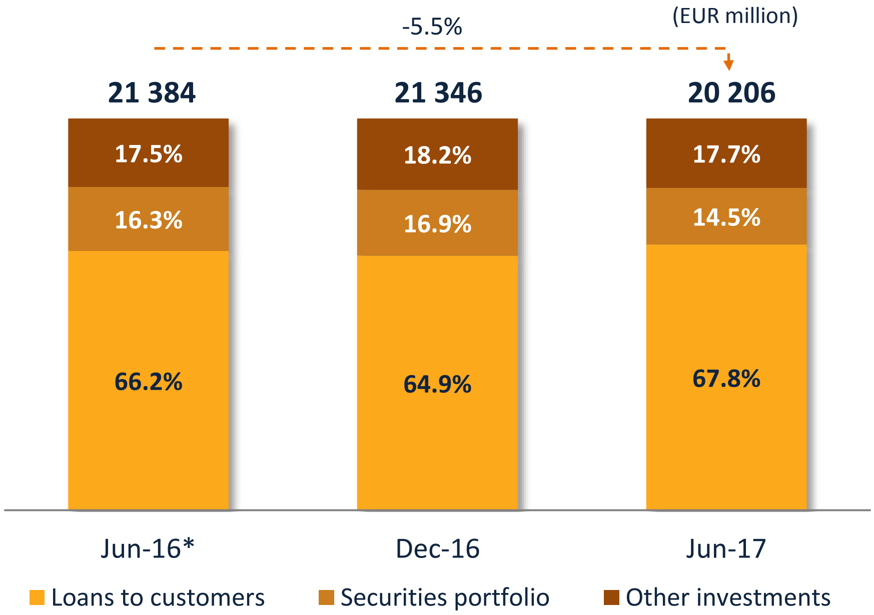
	Jun-16*	Dec-16	Jun-17	YoY Change	
				Amount	%
Cash and deposits at central banks and OCI	711	1 010	852	141	19.8
Loans to customers	14 152	13 861	13 698	(454)	(3.2)
Securities portfolio	3 489	3 604	2 930	(559)	(16.0)
Non current assets held for sale and investment properties	1 366	1 368	1 297	(69)	(5.1)
Non current assets held for sale - Discontinuing operations	524	470	446	(78)	(14.9)
Current and deferred tax assets	478	534	497	19	3.8
Other	664	499	486	(178)	(26.8)
Total assets	**21 384**	**21 346**	**20 206**	**(1 178)**	**(5.5)**
Deposits from central banks and OCI	4 395	4 599	4 880	485	11.0
Customers' resources	12 311	12 468	11 628	(683)	(5.5)
Issued debt	2 349	2 171	1 314	(1 035)	(44.0)
Non current liabilities held for sale - Discontinuing operations	397	354	320	(77)	(19.4)
Other	367	297	291	(76)	(20.6)
Total liabilities	**19 819**	**19 889**	**18 433**	**(1 386)**	**(7.0)**
Institutional capital and Participation fund	2 170	2 170	2 420	250	11.5
Net income	(68)	(86)	13	81	>100
Reservers, retained earnings and other	(537)	(627)	(660)	(123)	(22.9)
Total equity	**1 565**	**1 457**	**1 773**	**208**	**13.3**
Total equity and liabilities	**21 384**	**21 346**	**20 206**	**(1 178)**	**(5.5)**

*June 2016 restated pursuant to IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.

ASSETS

Total assets stood at 20,206 million euros as at 30 June 2017, compared to 21,384 million euros recorded in the same period of 2016 and to 21,346 million euros as at 31 December 2016. This evolution of Total assets reflects the persistent low demand for credit transversal to the whole sector, on the one hand, and the active policy on management of the securities portfolio, on the other hand.

TOTAL ASSETS STRUCTURE



*June 2016 restated pursuant to IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, 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 amounts recorded under Cash and deposits at central banks and Other loans and advances to credit institutions.

At the end of the first half of 2017, the liquidity deposited at central banks and other credit institutions stood at 852 million euros, compared to the 711 million euros recorded for the same period of 2016, reflecting a positive change of 19.8%.

LOANS TO CUSTOMERS

As at 30 June 2017, Loans to customers (gross) amounted to 14,890 million euros, corresponding to a decrease of 2.9% in relation to the value stated as at 30 June 2016, continuing, on the one hand, to reflect a highly demanding policy on risk management in loan concession and repricing adjusted to risk, and on the other hand, the persistently low demand for loans by economic agents.

During the first six months of 2017, CEMG continued to fine-tune the process for approval and concession of loans with a view to reducing the cost of credit risk and, in this way, contribute to the accomplishment of the objectives defined in the Strategic Plan.

The loans portfolio in the first half of 2017 continued to show a higher level of repayment of mortgage loans in relation to new operations raised, resulting in a year-on-year decrease of 4.2%, as well as a reduction in the corporate segment of 1.3%, influenced by the 6.4% decrease of loans to construction.

LOANS TO CUSTOMERS

(EUR million)

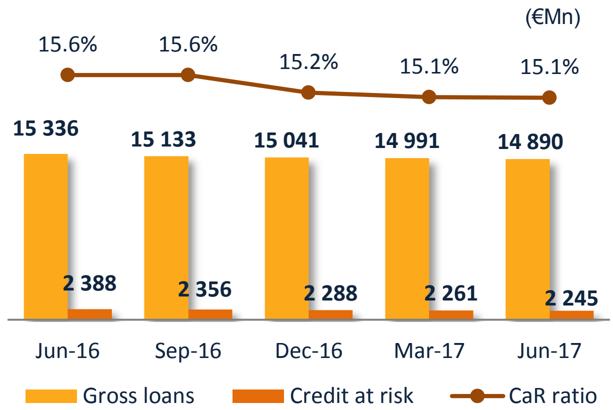
	Jun-16*	Dec-16	Jun-17	YoY Change	
				Amount	%
Individuals	**8 581**	**8 390**	**8 222**	**(359)**	**(4.2)**
Housing	7 306	7 164	7 000	(306)	(4.2)
Consumption and other purposes	1 275	1 226	1 222	(53)	(4.1)
Companies	**6 755**	**6 651**	**6 668**	**(87)**	**(1.3)**
Construction	477	449	446	(31)	(6.4)
Other purposes	6 278	6 202	6 222	(56)	(0.9)
Gross loans	**15 336**	**15 041**	**14 890**	**(446)**	**(2.9)**
Loan impairments	**1 184**	**1 180**	**1 192**	**8**	**0.6**
Net loans	**14 152**	**13 861**	**13 698**	**(454)**	**(3.2)**

*June 2016 restated pursuant to IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.

In 2016 and during the first half of 2017, CEMG started a series of initiatives aimed at reducing the exposure in non-performing loans and in activity sectors identified as non-core, with loans to construction having fallen by 6.4% between the end of the first semester of 2016 and of 2017.

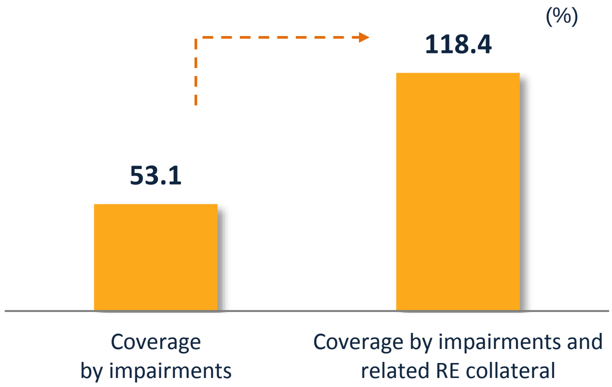
As a result of this initiative, the balance of credit at risk recorded successive quarterly decreases, with the ratio of credit at risk standing at 15.1% as at 30 June 2017, compared to 15.6% at the end of the first semester of 2016. Compared to the end of 2016, during the first six months of 2017, the ratio of credit at risk fell from 15.2% to 15.1%. The coverage of credit at risk by impairments and related real estate collateral reached 118.4% as at 30 June 2017, compared to 120.0% at the end of 2016, while the coverage of impairments stood at 53.1%, evolving favourably in relation to the coverage of 51.6% recorded as at 31 December 2016.

Evolution of Gross loans and credit at risk



Jun-16 and Sep-16 values were restated pursuant to IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.

CaR coverage as at 30 June 2017



SECURITIES PORTFOLIO

Pursuing the accomplishment of the Strategic Plan for 2016-2018 and the rebalancing of the asset structure, during the first six months of 2017, CEMG continued to identify and implement measures aimed at improving the liquidity levels and active management of the securities portfolio. In this regard, and pursuant to the provisions established in the accounting standard IAS 39, CEMG reclassified Portuguese public debt bonds from the portfolio of Financial assets held to maturity, in the amount of 800 million euros, to the portfolio of Financial assets available for sale, whose market value on the date of the transfer was 841 million euros. Additionally, during the first half of 2017, public debt securities of the value of 609 million euros were divested.

As at 30 June 2017, the securities portfolio amounted to 2,930 million euros, compared to 3.489 million euros as at 30 June 2016 and 3,604 million euros at the end of 2016.

SECURITIES PORTFOLIO

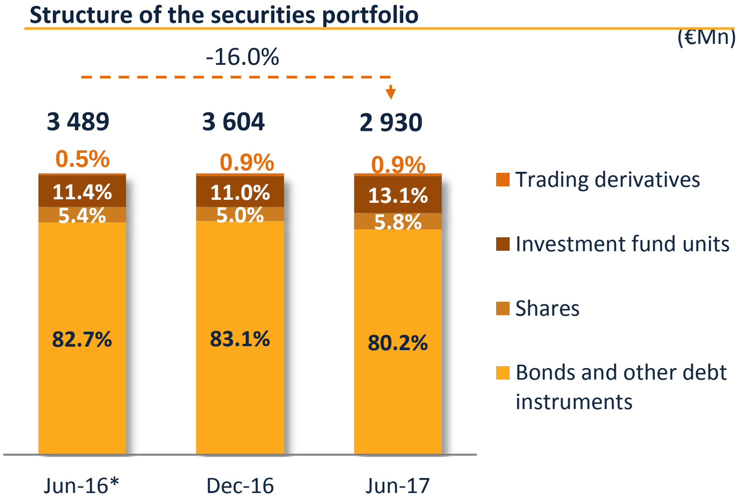
(EUR million)

	Jun-16*	Dec-16	Jun-17	YoY Change	
				Amount	%
Financial assets held for trading	34	78	87	53	>100
Financial assets available-for-sale	2 329	2 400	2 843	514	22.0
Held to maturity investments	1 126	1 126	-	(1 126)	-
Total securities portfolio	**3 489**	**3 604**	**2 930**	**(559)**	**(16.0)**

*June 2016 restated pursuant to IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.

The securities portfolio, analysed by type of instrument, showed a year-on-year decrease of 536 million euros in bonds and other debt instruments, which includes national public debt, having shifted from 2,885 million euros at the end of the first semester of 2016 to 2,349 million euros as at 30 June 2017, explaining 96% of the reduction recorded in terms of the total portfolio.

Structure of the securities portfolio



*June 2016 restated pursuant to IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.

SECURITIES PORTFOLIO BY INSTRUMENT

(EUR million)

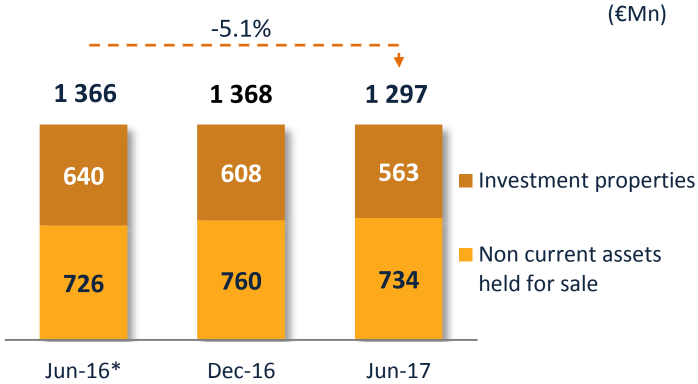
	Jun-16*	Dec-16	Jun-17	YoY Change	
				Amount	%
Bonds and other debt instruments	2 885	2 996	2 349	(536)	(18.6)
Shares	190	177	169	(21)	(11.2)
Investment fund units	398	398	384	(14)	(3.4)
Trading derivatives	16	33	28	12	68.9
Total securities portfolio	**3 489**	**3 604**	**2 930**	**(559)**	**(16.0)**

*June 2016 restated pursuant to IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.

NON CURRENT ASSETS HELD FOR SALE AND INVESTMENT PROPERTIES

The total sum of the headings of Non-current assets held for sale and Investment properties showed a year-on-year decrease of 5.1% in evolving from 1,366 million euros as at 30 June 2016 to 1,297 million euros at the end of the first half of 2017, in line with the strategic orientation of integrated management of real estate properties and the consequent reduction of exposure to this activity sector.

Reduction of the risk to the RE sector



*June 2016 restated pursuant to IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.

The heading of Non-current assets held for sale essentially reflects the amount associated to real estate properties given in lieu of repayment, which decreased by 3.4% since the end of 2016. This heading evolved from 760 million euros as at 31 December 2016 to 734 million euros at the end of the first half of 2017 (+1.1% year-on-year), reflecting the effect of the settlement of various operation that had been non-performing and the good performance of the sales of real estate properties in the retail market.

Investment properties, a heading which records the real estate properties held by the real estate investment funds of the CEMG Group, decreased by 7.5% since 31 December 2016, in evolving from 608 million euros to 563 million euros at the end of the first six months of 2017 (-12.1% year-on-year), pursuing the strategic objective of reducing the exposure to real estate risk.

NON CURRENT ASSETS HELD FOR SALE – DISCONTINUING OPERATIONS

As at 30 June 2017, the heading of Non-current assets held for sale - discontinuing operations amounted to 446 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 60 of the Notes to the consolidated financial statements.

CURRENT AND DEFERRED TAX ASSETS

At the end of the first half of 2017, the aggregate Deferred and current tax assets amounted to 497 million euros, compared to 478 million euros as at 30 June 2016, reflecting a 3.8% growth.

Pursuant to the respective accounting policy, deferred tax assets are calculated based on the interest rates that are expected to be in force on the date of the reversal of the temporary differences, which correspond to the rates approved or substantially approved on the reporting date.

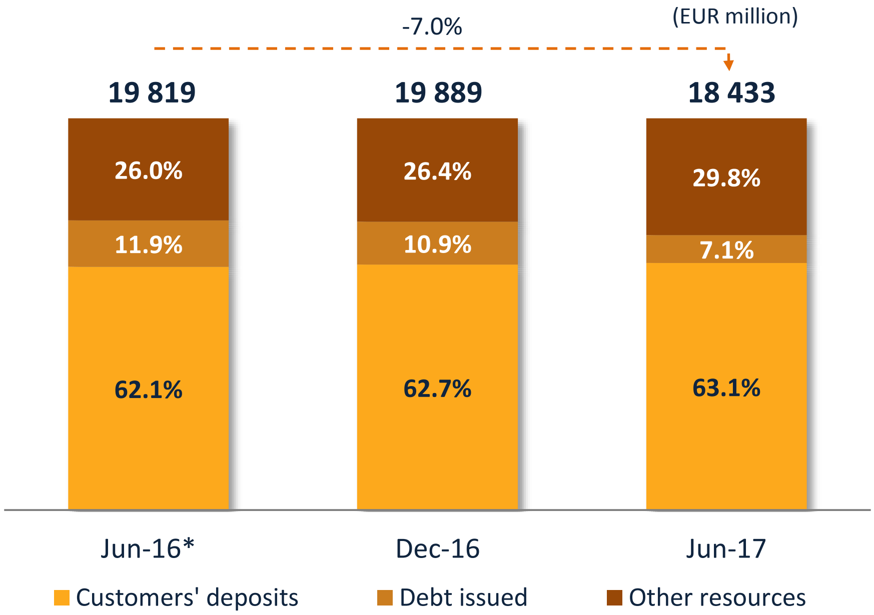
OTHER

The aggregate Other, presented in the Assets of the synthetic balance sheet, reached 486 million euros at the end of the first half of 2017, compared to 664 million euros recorded as at 30 June 2016 and 499 million euros at the end of 2016, and incorporates the headings of Other tangible assets, Intangible assets, Investments in associates and Other assets. The 2.5% decrease recorded in this heading in the first six months of 2017 was primarily determined by the reductions of 2.7 million euros and 7.0 million euros in the headings of Other tangible assets and Other assets, respectively.

LIABILITIES

Total Liabilities stood at 18,433 million euros as at 30 June 2017, compared to 19,819 million euros recorded in the same period of 2016 and 19,889 million euros as at 31 December 2016. At the end of the first half of 2017, the relative weight of Issued debt in the external funding sources declined to 7.1%, while the weight of Other resources rose to 29.8% as a result of the diversification of the funding sources, namely through repos, with Customers' deposits remaining as the main source of funding standing reaching 63.1%.

LIABILITIES' STRUCTURE



*June 2016 restated pursuant to IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.

DEPOSITS FROM CENTRAL BANKS AND OCI

As at 30 June 2017, the funding obtained from central banks and other credit institutions amounted to 4,880 million euros, compared to 4,395 million euros recorded at the end of the first half of 2016 and 4,599 million euros as at 31 December 2016.

This heading includes funds raised from the ECB, which reached 2,700 million euros at the end of the first six months of 2017 (2,871 million euros as at 30 June 2016 and 2,323 million euros at the end of 2016), and the funding obtained from other credit institutions, in particular through repos which recorded a year-on-year growth of 655 million euros, having decreased by 97 million euros since the end of 2016.

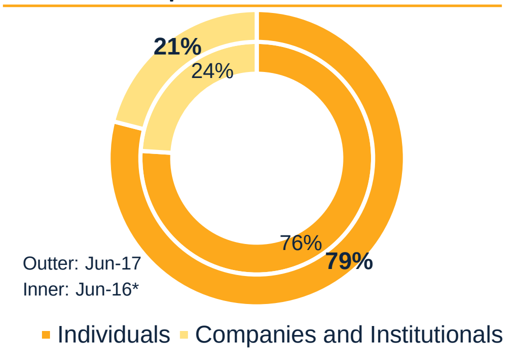
CUSTOMERS' RESOURCES

During the first half of 2017, CEMG developed a series of initiatives related to the attraction and retention of customer resources, making an opportune management of the timing, for the purpose of increasing and diversifying the funding sources.

Total customers' resources reached 13,200 million euros as at 30 June 2017, of which 12,491 million euros correspond to balance sheet funds, with 93.1% referring to customers' deposits.

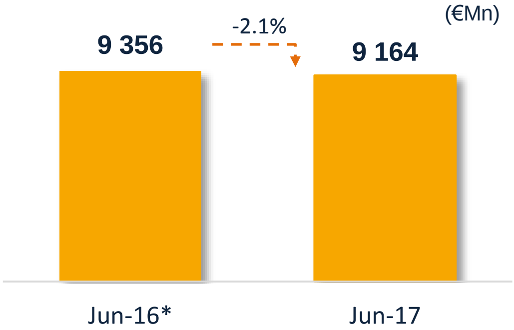
As at 30 June 2017, Customers' deposits stood at 11,628 million euros, of which 79% correspond to Individual customer deposits that decreased by 2.1% in relation to the value of 30 June 2016.

Customers' deposits structure



*June 2016 restated pursuant to IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.

Deposits from Individuals



*June 2016 restated pursuant to IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.

CUSTOMERS' RESOURCES

(EUR million)

	Jun-16*	Dec-16	Jun-17	YoY Change	
				Amount	%
Deposits from Individuals	9 356	9 397	9 164	(192)	(2.1)
Deposits from Companies and Institutionals	2 955	3 071	2 464	(491)	(16.6)
Total Deposits	**12 311**	**12 468**	**11 628**	**(683)**	**(5.5)**
Sight Deposits	3 089	3 302	3 238	149	4.8
Term Deposits	9 222	9 166	8 390	(832)	(9.0)
Securities placed with Customers	1 309	1 327	863	(446)	(34.1)
Total On-Balance sheet resources	**13 620**	**13 795**	**12 491**	**(1 129)**	**(8.3)**
Off-Balance sheet resources	753	723	709	(44)	(5.8)
Total Customers' resources	**14 373**	**14 518**	**13 200**	**(1 173)**	**(8.2)**

*June 2016 restated pursuant to IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.

At the end of the first half of 2017, the heading of Securities placed with customers stood at 863 million euros, compared to 1,309 million euros in the same period of 2016, as a result of the maturity of securitised debt and its replacement by less costly market operations, in a perspective of management of funding needs.

Off-balance sheet resources reached 709 million euros as at 30 June 2017, compared to 753 million euros at the end of the first half of 2016, primarily due to the year-on-year decrease in terms of treasury funds, real estate investment funds and capitalisation insurance.

ISSUED DEBT

The aggregate heading of Issued debt incorporates the amounts recorded in the balance sheet relative to Debt securities issued and Other subordinated debt.

As at 30 June 2017, the Issued debt amounted to 1,314 million euros, having decreased by 44% in relation to the 2.349 million euros stated as at 30 June 2016 and by 39.5% when compared to the value of 2,171 million euros recorded at the end of 2016. The decrease in relation to 31 December 2016 primarily reflects the 44.7% reduction observed in the heading of Debt securities issued derived from the active management of funding sources.

NON CURRENT LIABILITIES HELD FOR SALE – DISCONTINUING OPERATIONS

As at 30 June 2017, the heading of Non-current liabilities held for sale - discontinuing operations amounted to 320 million euros, corresponding 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 60 of the Notes to the consolidated financial statements.

OTHER

The aggregate Other, presented in the Liabilities of the synthetic balance sheet, reached 291 million euros at the end of the first half of 2017, compared to 367 million euros recorded as at 30 June 2016 and 297 million euros at the end of 2016, and incorporates the headings of Financial liabilities held for trading, Provisions, Current tax liabilities and Other liabilities. The year-on-year variation of -20.6% was essentially determined by the decrease of 61 million euros of Financial liabilities held for trading, following the reduction of derivative financial instruments, and of 20 million euros of Other liabilities.

EQUITY

Equity stood at 1,773 million euros as at 30 June 2017, compared to 1,457 million euros recorded at the end of 2016 and 1,565 million euros at the end of the first half of 2016. The favourable evolution observed in the first semester of 2017 benefited, on the one hand, from the organic generation of capital through the positive net income of 13 million euros recorded in the first six months of 2017 and, on the other hand, from the 250 million euros increase of institutional capital carried out by Montepio Geral – Associação Mutualista.

LIQUIDITY

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

At the same time, the management of CEMG's balance sheet, in particular funds raised from the European Central Bank (ECB), enabled strengthening the pool of eligible assets for collateral in funding operations in relation to that recorded at the end of 2016. The liquidity coverage ratio (LCR), benefiting from the above-mentioned effects stood at 129.5% as at 30 June 2017, 49.5 p.p. above the minimum requirement of 80% applicable in 2017.

The evolution of Customers' deposits, on the one hand, and Loans to customers, on the other hand, led to a ratio of transformation of resources into loans of 107.9% as at 30 June 2017 and 117.9% if we consider loans and deposits.

LIQUIDITY RATIOS

(%)

	Jun-16*	Dec-16	Jun-17	YoY Change
Loans to customers (net) / Customers' deposits [(a)]	118.0	111.2	117.9	(0.1 p.p.)
Loans to customers (net) / Total on-balance sheet customers' resources [(b)]	98.2	96.3	107.9	9.7 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.

*June 2016 restated pursuant to IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.

The use of ECB resources by CEMG at the end of the second quarter of 2017 decreased by 125 million euros from the previous quarter and increased by 378 million euros compared to the figure at the end of the year 2016. As at 30 June 2017, the use of the pool of collateral in Eurosystem operations stood at 2,700 million euros observed at the end of the first semester of 2017, compared to 2,825 million euros recorded at the end of the first quarter of 2017 and 2,323 million euros recorded as at 31 December 2016. The total amount of the pool of eligible assets also decreased in relation to the end of 2016, by 166 million euros, due to CEMG's policy on the management of its investment portfolio, which favoured a reduction of the stock of assets through their divestment. The use of Eurosystem monetary policy operations falls under the perspective of support to the economy, with a view to optimising the long-term funding, namely through participation in the last series of TLTRO-II, in the context of the Quantitative Easing programme carried out by the European Central Bank during this first half of the year.

Therefore, in terms of available collateral for obtaining liquidity, the value of the eligible assets shifted from 3,538 million euros at the end of 2016 to 3,702 million as at 30 June 2017. The pool of collateral of the new-MIC (collaterised interbank market), at the end of the first semester of 2017 included the deposit of 276 million euros of highly liquid securities, compared to 13 million euros of available assets as at 31 December 2016.

POOL OF ELIGIBLE ASSETS FOR REFINANCING OPERATIONS WITH THE ECB

(EUR million)

	Jun-16*	Dec-16	Jun-17	YoY Change	
				Amount	%
Pool of eligible assets [(a)]	3 868	3 538	3 702	(166)	(4.3)
Use of the pool	2 871	2 323	2 700	(171)	(5.9)
Pool of available assets	**997**	**1 215**	**1 002**	**5**	**0.5**

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

The Repo operations presented a reduction of 346 million euros between the end of 2016 and the end of the first half of 2017, having shifted from 1,925 million euros as at 31 December 2016 to 1,579 million euros as at 30 June 2017. This reduction was due to the increased liquidity of CEMG, as a result of the process of sale of assets that were in repo, releasing the haircut value on the one hand and accomplishing financial gains on the other hand.

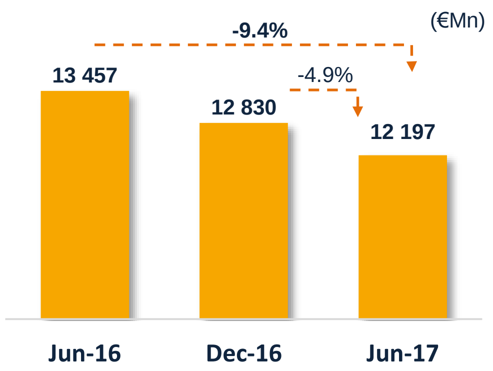
In the interbank money market, CEMG recorded liquidity assignments in the amount of 30 million euros at an average rate of 0.04% at the end of the first half of 2017. In the collaterised interbank market of euros (MIC), CEMG presented a neutral position, without any amount taken or granted.

CAPITAL

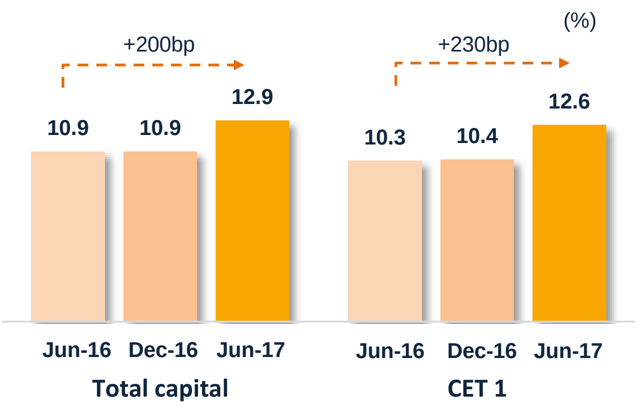
The Institutional Capital and the Participation Fund of CEMG amounted to 2,420 million euros at the end of the first half of 2017, benefiting from the increase of Institutional Capital of 250 million euros, carried out by Montepio Geral – Associação Mutualista in June 2017.

Therefore, the reinforcement of Own funds by 13.4% observed in the first six months of 2017, combined with the 633 million euros reduction of Risk-weighted assets (-4.9%), derived from the management of an efficient allocation of risk in the loan portfolio and in the debt securities portfolio was reflected in an improvement of the capital ratios. Hence, in relation to the end of 2016, the Common Equity Tier 1 (CET1) and Total Capital ratios increased from 10.4% to 12.6% and from 10.9% to 12.9%, respectively.

Risk-weighted assets



Capital ratios



CAPITAL AND CAPITAL REQUIREMENTS

(EUR million)

	Jun-16	Dec-16	Jun-17	YoY Change		YtD Change	
				Amount	%	Amount	%
Total Capital	**1 472**	**1 392**	**1 578**	**106**	**7.2**	**186**	**13.4**
Elegible instruments to CET I	2 143	2 163	2 420	277	12.9	257	11.9
Reserves and Net Income	(634)	(743)	(678)	(44)	(6.9)	65	8.7
Regulatory deductions	128	89	202	74	58.2	113	>100
Common Equity Tier I Capital	**1 381**	**1 331**	**1 540**	**159**	**11.5**	**209**	**15.7**
Tier I Capital	**1 381**	**1 331**	**1 540**	**159**	**11.5**	**209**	**15.7**
Tier II capital	100	74	49	(51)	(50.3)	(25)	(33.4)
Other deductions	9	13	11	2	17.9	(2)	(18.1)
Minimum own funds requirements	**1 077**	**1 026**	**976**	**(101)**	**(9.4)**	**(50)**	**(4.9)**
Risk-weighted assets and equivalents	**13 457**	**12 830**	**12 197**	**(1 260)**	**(9.4)**	**(633)**	**(4.9)**
CRD IV Prudential Ratios - Phasing-in							
Common Equity Tier I	10.3%	10.4%	12.6%	230 bp		220 bp	
Tier I	10.3%	10.4%	12.6%	230 bp		220 bp	
Total Capital	10.9%	10.9%	12.9%	200 bp		200 bp	
CRD IV Prudential Ratios - Fully Implemented							
Common Equity Tier I	8.3%	7.6%	11.2%	290 bp		360 bp	
Tier I	8.3%	7.6%	11.2%	290 bp		360 bp	
Total Capital	9.1%	8.2%	11.6%	250 bp		340 bp	
Leverage ratio - Phasing-in	6.4%	6.1%	7.5%	110 bp		140 bp	
Leverage ratio - Fully Implemented	5.2%	4.5%	6.7%	150 bp		220 bp	

Calculations as per our interpretation to date.

The increase of own funds recorded in the first half of 2017 was influenced, on the one hand, by the increased Institutional capital of 250 million euros, referred to above, and, on the other hand, by the recording of the positive Net income of 13.0 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 concession and in the granting of loans with good risk and associated guarantees.

As at 30 June 2017, the estimated positive impact of the adoption of the Special Regime for Deferred Tax Assets, which was approved at the Extraordinary General Meeting held on 6 July 2016, reaches approximately 50 b.p., elevating the Common Equity Tier 1 ratio to 13.1% and the total capital ratio to 13.4%.

During the first half of 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 for the activity of each entity/business line;
- Development of the impairment model to be adopted with the transition to the accounting standard IFRS 9, foreseen for 1 January 2018, including participation in the impact study promoted by Banco de Portugal;
- Review and deepening of the internal regulations on management of material risks, namely for market, exchange rate, operational and business continuity risks;
- Review of the specific internal reporting on regular monitoring of market, exchange rate and liquidity risks and solvency levels.

RISK MANAGEMENT GOVERNANCE

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 top-level principles and rules that should be followed in risk management.

In terms of internal supervision, the General and Supervisory Board, whose members are elected at CEMG's General Meeting, which also appoints the Chairman, appoints the Financial Affairs 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 independent activity of the external auditors.

Three Committees have also been constituted to support the General and Supervisory Board:

- The Remuneration Committee: 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 decide 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 Fit & Proper Committee: composed of three independent members with competence to perform the duties in question, elected at the General Meeting, which also appoints the Chairman. The Assessment 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: composed of three members of the General and Supervisory Board elected for this position 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 Executive Board Directors have been constituted, as structures dependent on the Executive Board of Directors, which are forums of debate and support to decision-making, through the formulation of proposals and recommendations to the Executive Board of Directors, in the areas of their scope of intervention:

- The Asset and Liability Committee (ALCO) is responsible for the follow-up of the management of Capital, Balance Sheet and Income Statement. Its duties include, in particular, the issue of proposals or recommendations to the Executive Board of Directors with a view to updating CEMG's risk profile, the establishment of limits for risk-taking, 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.
- The scope of the Internal Control Committee entails supporting and advising the Executive Board of Directors on matters relative to the internal control system, in order to assure their adequacy and efficacy and compliance with the applicable provisions, as well as to promote its continuous improvement and alignment with the best practices in this domain. Its duties especially include the formulation of proposals or recommendations to the Executive Board of Directors, with a view to optimising the internal control system, improving operational risks levels and implementing corrective measures or improvements pursuant to the defined time schedule.
- The Risk Committee monitors the evolution of exposure to the different types of risks, and analyses policies, methodologies, models and limits of quantification of significant risks for CEMG's business. This body also analyses the adequacy of the models for governance, processes and procedures, methods and systems for identification, quantification and reporting of risk. In all these areas, proposals are formulated or recommendations issued to the Executive Board of Directors, aimed at fostering the improvement of risk management processes.
- The 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.
- The Pension Fund Monitoring Committee is responsible for monitoring the management of the Pension Fund, issuing opinions on any proposals to alter the management policy in force at any particular time. In addition, CEMG is included in the Investment Committees of Futuro, the body that takes management decisions on the Montepio Pension Fund.
- The Real Estate Risk Committee monitors the management of real estate risk, formulating proposals or issuing recommendations to the Executive Board of Directors, with a view to fostering an optimised management of real estate risk in line with the defined objectives.
- The Credit Recovery Committee monitors, in terms of efficiency and efficacy, the performance of the process of credit recovery, with proposals being formulated or recommendations issued for approval of the Executive Board of Directors with a view to strengthening the performance of this process.

The mission of the Risk Department is to support the Executive Board of Directors 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 Department assures the analysis and management of risks, providing advice to the Executive Board of Directors, namely through proposed of rules and management models for the different risks, and the preparation of management reports to substantiate the decisions taken and participation in the Supporting Committees of the Executive 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 constitutes an integral part of the process of monitoring the internal control system and, as a third line of defence, it assesses all of CEMG's processes and organic units, including the risk management function and the compliance function, and the entities that are incorporated in the CEMG Group. The internal audit function is of permanent nature and provides, in an independent and objective manner, assessment and consulting services aimed at enhancing value and improving the operability 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 main responsibilities of the internal audit function include the preparation and updating of the Internal Audit Plan; the promotion and conduct of audits in accordance with the Internal Audit Plan and other requests made on a case by case basis by the Executive Board of Directors and supervisory entities; the promotion of periodic monitoring of the implementation of corrective measures and verification of their effective implementation; the reporting to the Executive Board of Directors and General and Supervisory Board of the audit actions carried out; the preparation and submission of activity reports to the Executive Board of Directors and General and Supervisory Board periodically; and provision of secretarial duties of the Internal Control Committee.

In pursuing the objectives of the Internal Control System (performance, information and compliance objectives), the following initiatives were carried out during the first half of 2017:

a) 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 (DAI).
b) 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, where this continue throughout the second half of 2017.

The main responsibility of the compliance function ("compliance control"), as an integral part of the internal control system, is the management of compliance risk, which 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, regulations, code of conduct and good practices.

Compliance risk is mitigated by promoting a culture of compliance, of respect for all the applicable rules and regulations among the Group's entities and employees. The compliance function is responsible for defining the respective procedures and mechanisms to control compliance and their monitoring through independent, permanent and effective intervention.

The executed activities are scrutinised to identify and appraise aspects that might contribute to compliance risk, especially in institutional processes, procedures associated to products and services, duties of disclosure of information to customers and, in general, providing specialised support on matters of control and compliance.

The compliance function is entrusted with preparing and submitting a report to the Management and Supervisory Bodies, at least once a year, identifying any non-compliance and the corresponding recommendations, aimed at correcting the identified breaches and flaws.

During the first half of 2017, its activities included, in particular, initiatives taken to pursue the process of continuous improvement associated to the provisions stipulated in Banco de Portugal Notice 5/2008 ("Principles and minimum requirements of the Internal Control System") and the "Guidelines of the European Banking Authority on the Internal Governance of Institutions (GL44)", promotion of efficient methods to detect and analyse operations with respect to the prevention of money laundering and financing of terrorism in constant alignment with the provisions of Banco de Portugal Notice 5/2013. Its main activities also entailed the developments carried out to meet the new regulatory challenges on: Mortgage Loans, Payment Systems (PSD II), Markets and Financial Instruments (MIFIII), Data Protection and Prevention of Money Laundering and Financing of Terrorism.

The objective of the compliance function, whose exercise is attributed to the Compliance Department, is to reinforce and accomplish the strategic guidelines with respect to the improvement of the management and internal control system.

CREDIT RISK

During the first half of 2017, work continued on review of the credit risk management models and polices, accompanying the review of the regulatory framework and guidelines issued by the national and European supervisors and regulators.

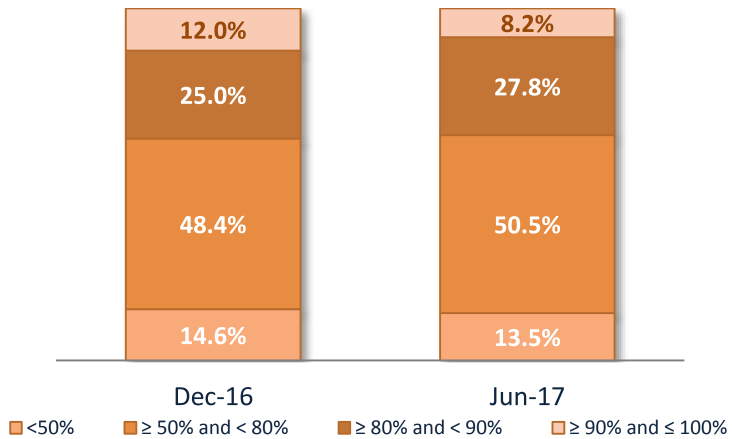
The decision-making process for loan operations is based on a series of policies using scoring models for the portfolios of individual and business customers and rating models for the corporate segment. The models, developed based on internal historical data, enable obtaining an assessment which is reflected in the attribution of a risk category to the customer/operation, aggregated in a single risk scale, representing the respective probability of default. These models are subject to validation by a team that is independent from the area responsible for their construction and are regularly updated.

The combination of this rating with the assessment of risk mitigators, in the form of personal or asset-backed 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), following the principle that the highest hierarchical levels are competent to approve operations with lower risk adjusted ROE.

In addition to the rating and scoring models, the decision-making process for loan operations is also based on rejection rules. Credit rejection is determined by the occurrence of credit events in the financial system, breach of credit rules (for example, borrowing capacity in the case of credit to individuals) and whenever the pricing associated to a particular operation represents a risk of adverse selection.

For the mortgage loans that were granted during the first six months of 2017, the levels of Loan-to-Value (LTV – value of the loan divided by the value of the guarantee) remained conservative, with the average LTV, excluding financing of real estate properties owned by CEMG, of 71.20% (69.9% in 2016), an evolution in line with the widespread general improvement of the real estate market's indicators.

DISTRIBUTION OF THE MORTGAGE LOAN PORTFOLIO BY LTV LEVEL



During the first half of 2017, the trend of recurrent quarterly decreases of the amount of credit at risk was maintained, contributing to the reduction of this ratio to 15.1% as at 30 June 2017, compared to 15.6% in the first half of 2016 and 15.2% as at 31 December 2016. The reduction observed in terms of gross loans, which is transversal to the whole banking sector, did not allow the reduction of the credit risk ratio to be more significant, representing an upward impact on the ratio of 0.15 p.p., in contrast to the downward contribution of the amount of credit at risk of -0.29 p.p.

LOAN QUALITY INDICATORS

(EUR million)

	Jun-16*	Dec-16	Jun-17	YoY Change	
				Value	%
Gross loans to Customers	15 336	15 041	14 890	(446)	(2.9)
Loans and Interest Overdue by more than 90 days	1 427	1 372	1 371	(56)	(4.0)
Loans impairment	1 184	1 180	1 192	8	0.6
Ratios (%)					
Loans and Interest Overdue by more than 90 days	9.3	9.1	9.2	(0.1 p.p.)	
Non-performing loans (a)	11.0	11.5	11.9	0.9 p.p.	
Net non-performing loans (a)	3.6	3.9	4.3	0.7 p.p.	
Credit at risk (a)	15.6	15.2	15.1	(0.5 p.p.)	
Net credit at risk (a)	8.5	8.0	7.7	(0.8 p.p.)	
Restructured loans (b)	9.5	8.9	8.8	(0.7 p.p.)	
Restructured loans not included in Credit at risk (b)	3.2	3.2	3.2	0.0 p.p.	
Coverage by impairments (%)					
Loans and Interest Overdue by more than 90 days	83.0	86.0	86.9	3.9 p.p.	
Credit at risk	49.6	51.6	53.1	3.5 p.p.	
Credit at risk factoring in associated real estate collateral	120.4	120.0	118.4	(2.0 p.p.)	

(a) Pursuant to Banco de Portugal Instruction No.º 16/2004, in its current version.
(b) Pursuant to Banco de Portugal Instruction No.º 32/2013.
*June 2016 restated pursuant to IFRS5 guidelines related to the accounts of Finibanco Angola and BTM subsidiaries, for comparative purposes.

The total amount of impairments for credit risk reached 1,192 million euros at the end of the first half of 2017, giving rise to a ratio of coverage of loans and interest overdue by more than 90 days of 86.9%. Furthermore, the coverage of credit at risk by impairments stood at 53.1%, while the coverage ratio considering total loan impairments and the associated real estate collateral reached 118.4%.

CONCENTRATION RISK

In order to minimise concentration risk, CEMG seeks to diversify, as far as possible, its areas of activity and income sources, as well as its exposures and funding sources.

Concentration risk is managed centrally, with regular monitoring of concentration indices by the Risk Department. In particular, the concentration level of the largest depositors and funding sources are monitored on the side of the liabilities, while the individual, sectoral and geographic concentration levels are monitored for the loan portfolio.

Maximum limits of exposure are established per customer/group of interrelated customers, as well as limits for the concentration of the largest depositors. The overrunning 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 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.

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 trading book (which exclude hedges and fair value options), 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 compulsory.

CEMG's investment policy has aimed to reduce its exposure to national public debt securities and Italian public debt. This investment policy has led to variations in terms of the rating structure, namely in the BB+ and BBB buckets. The weight of bonds classified as investment grade in the total bond portfolio in June 2017 had increased by 1 p.p. (from 13.1% to 14.1%) in relation to December 2016, where we highlight the reduction occurred in non-investment grade bonds of Portuguese public debt.

STRUCTURE OF THE BOARD PORTFOLIO BY RATING CLASSES

(Excluding covered bonds and securitizations)

(EUR million)

Rating	Dec-16		Jun-17		Change	
	Amount	%	Amount	%	Amount	%
AAA	8	0.3	0	0.0	(8)	-
AA+	2	0.1	0	0.0	(2)	-
AA	1	0.0	2	0.1	1	41.6
AA-	1	0.0	1	0.0	0	(2.4)
A+	5	0.1	1	0.0	(4)	(78.1)
A	4	0.1	2	0.1	(2)	(55.0)
A-	5	0.2	3	0.1	(2)	(44.6)
BBB+	179	5.7	182	7.3	3	1.7
BBB	177	5.6	152	6.1	(25)	(14.2)
BBB-	24	0.8	9	0.4	(15)	(62.1)
BB+	2 498	79.5	1 905	76.2	(593)	(23.7)
BB	0	0.0	0	0.0	0	-
BB-	0	0.0	0	0.0	0	-
B+	3	0.1	0	0.0	(3)	-
B	145	4.6	149	6.0	4	2.8
B-	0	0.0	0	0.0	0	-
CCC+	0	0.0	0	0.0	0	-
CCC	12	0.4	14	0.6	2	13.2
CCC-	0	0.0	0	0.0	0	-
CC	1	0.0	3	0.1	2	>100
D	35	1.1	38	1.5	3	8.2
NR	41	1.3	40	1.6	(1)	(3.3)
Total	**3 142**	**100.0**	**2 501**	**100.0**	**(641)**	**(20.4)**

The total of 2,501 million euros includes the value of 152 million euros corresponding to the securities portfolio of Finibanco Angola (149 million euros, with B rating) and Banco Terra (3 million euros, CC rating), which are recorded in the accounts as 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 June 2017 is presented below:

VaR INDICATORS [1]

	Dec-16		Jun-17	
	Available for sale	Trading	Available for sale	Trading
Market VaR	0.24%	1.17%	0.47%	0.47%
Interest rate risk	0.29%	0.36%	0.25%	0.25%
Foreign exchange risk	0.04%	0.29%	0.08%	0.09%
Pricing risk	0.26%	1.17%	0.46%	0.39%
Spread risk (CDS)				
Diversification effect	(0.35%)	(0.66%)	(0.32%)	(0.27%)
Loans VaR [2]	**0.93%**	**0.63%**	**1.04%**	**2.73%**
Total VaR	**1.17%**	**1.80%**	**1.51%**	**3.19%**

(1) - 10-day time horizon and significance level of 99% as a % of total assets. Includes the portfolios of CEMG and Montepio Investimento.

(2) - Includes positions held to maturity and excludes the Finibanco Angola and BTM-BAnco Terra positions.

In addition to monitoring the VaR indicators, analyses are conducted of scenarios for the trading book to supplement the analysis of the other risk indicators. In June 2017, the following results were obtained from the analysis of scenarios:

STRESS TEST OF THE TRADING PORTFOLIO

(EUR million)

Scenario	Jun-17
Rise of 100 bp in interest rate	(5.3)
25% drop of the equity market	(1.5)
Credit spreads increase of 100 bp (bonds)	(1.5)

EXCHANGE RATE RISK

Concerning the exchange rate risk of the banking portfolio, in general, the different resources attracted are invested in different currencies through assets in the respective money market for maturity periods that are not higher than those of the resources. Therefore, the existing foreign exchange gaps essentially derive from possible mismatches between the maturity periods of the investments and resources.

Also for 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, even if temporary, requires the approval of the Executive Board of Directors or the implementation of measures to cover this cover.

INTEREST RATE RISK IN THE BANKING PORTFOLIO

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

Interest rate risk is appraised in accordance with the impacts on net interest income, net worth 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).

Based on the financial features of each contract, the respective expected cash flow projection is made, 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 book, by repricing brackets:

INTEREST RATE REPRICING GAPS

(EUR million)

	Residual maturities of repricing				
	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years
Assets	8.4	3.3	0.7	1.1	2.1
Off-Balance sheet	7.7	0.1	0.0	0.1	0.0
Total assets	**16.1**	**3.4**	**0.7**	**1.2**	**2.1**
Liabilities	4.9	1.5	3.2	7.9	0.3
Off-Balance sheet	7.6	0.1	0.0	0.1	0.0
Total liabilities	**12.5**	**1.6**	**3.2**	**8.0**	**0.3**
GAP (Assets - Liabilities) in Jun-17	**3.6**	**1.8**	**(2.5)**	**(6.8)**	**1.8**
GAP (Assets - Liabilities) in Dec-16	**3.6**	**1.3**	**(1.3)**	**(7.3)**	**2.2**

In view of the interest rate gaps observed as at 30 June 2017, an instantaneous and parallel positive shift of the interest rates by 100 basis points would lead to a reduction of net gains in the expected economic value of the banking portfolio of approximately -10,731 thousand euros (31 December 2016: -30,531 thousand 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 term. Liquidity risk is monitored daily, with various reports being prepared for control and monitoring purposes and to support decision-taking.

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

(EUR million)

Position on reference date + forecast amounts	Maturity periods				
	On sight and up to 1 week	1 week to 1 month	1 to 3 months	3 to 6 months	6 to 12 months
Accumulated mismatches	1 566	1 697	1 658	1 493	1 142

As at 30 June 2017, customer resources continued to be the main source of funding, accounting for 63.1% of total funding sources:

Liabilities	%
Resources from central banks	14.7
Resources from other credit institutions	11.8
Recources from Customers	63.1
Debt securities issued	5.8
Other liabilities	4.7
Total	**100.0**

The liquidity coverage ratio (LCR) reached 129.5%, corresponding to 49.5 p.p. above the minimum requirement in force since 1 January 2017, which was established at 80%. Special note should also be made of the maintenance of a balanced commercial account with the loan-to-deposit ratio, considering loans and resources of customers on the balance sheet, standing at 107.9%, compared to 96.3% as at 31 December 2016.

Liquidity management constraints in 2017

The Monetary Policy of Central Banks should constitute the strongest constraint to the performance of the financial markets in general, in particular the performance of interest rates. As the interest rates of the euro are expected to remain low, the expectation of a less accommodative Monetary Policy on the part of the European Central Bank might make the rates rise above the minimum levels, constraining liquidity. The attenuation of the doubts around policy issues that marked the first half of the year, should lead to a movement out of investment in risk-free assets and towards assets with a higher return, such as peripheral public debt. Thus, an alleviation of the non-conventional Monetary Policy measures is expected for the second half of 2017, through the announcement of the reduction of the Quantitative Easing programme, with implementation throughout the year of 2018.

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.

Real estate 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 the first half of 2017, CEMG's exposure to real estate risk, in the components described above, fell by approximately 65 million euros, in shifting from 1,575 million euros at the end of 2016 to 1,510 million euros as at 30 June 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.

During the first half of 2017, the negative actuarial deviation of the Pension Fund remained unchanged in relation to December 2016, standing at 190 million euros.

OPERATING RISK

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 1st HALF 2017

	Frequency	Severity
Retail banking	51.2%	87.8%
Payment and settlement	48.8%	12.2%

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 actual internal alterations, 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 mitigating the exposure to risk, 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 (Executive Board of Directors, Business Areas and internal control functions);
- Assure the adequacy of the internal capital to in relation to 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; and
- Foreseen 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 investigating 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 Executive Board of Directors.

At a first stage, this entails identification of the material risks which the CEMG Group's activity is subject, 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 ICAAP exercise for 2017 demonstrated that, in light of the forecasts, the CEMG Group continues 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 gives 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 confirming the adequacy of internal capital levels to the tested adverse scenarios.

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, repayment of deposits, margins of assessment of eligible assets applied by the European Central Bank (ECB), ratings (of 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).

IFRS 9 - STRATEGY AND IMPLEMENTATION

IFRS 9 – financial instruments comes into force for periods beginning on or after 1 January 2018. IFRS 9 establishes new rules for financial instruments accounting replacing IAS 39 with a particular focus on the changes resulting from the introduction of the expected loss concept for the purposes of the impairment model. Being a standard based on principles, the implementation process is more challenging, requiring the involvement of key stakeholders, in order to understand the impacts and changes in the governance processes and business strategy that it may entail.

The CEMG has been working on this process focusing its attention essentially on the identification of changes in matters relating to the amendment of the impairment model as a result of the introduction of the concept of expected loss and in the analysis of the possible impacts on the classification and measurement of financial assets.

Additionally, it has sought to develop the governance structure necessary to meet the challenges of the standard, involving relevant changes in matters relating to the business strategy of the institution, in addition to the accounting, risk and control aspects.

In this context the Executive Board is responsible for key decision-making concerning requirements set by IFRS 9 and for monitoring the status of the analysis process and implementation of this new standard.

The requirements set by IFRS 9 are retrospectively applied through the adjustment of the opening balance sheet as at the date of its initial application.

Main phases and milestones of the project

The IFRS 9 implementation process is aimed at the adoption of this standard from 1 January 2018. The main phases of this project are analysed as follows:

- Training and preliminary analysis: (i) preliminary diagnosis to determine the main impacts; (ii) workshops with various areas related to the key concepts of the standard and key changes in the processes; (iii) training of employees.
- Operational, accounting and disclosure analysis: (i) analysis of the differences between IAS 39 and IFRS 9; (ii) identification of changes to processes, systems and controls.
- Conversion plan: detailed plan of conversion, including the component associated with IT development.
- Implementation: (i) modification and testing processes; (ii) parallel run; (iii) regulations and procedures.

Taking into account the current status of the process and situations already identified, the relevant information related to the main changes in the different areas is as follows:

Classification of financial instruments

IFRS 9 presents relevant changes in how financial instruments are classified. The new model for the classification of financial assets is based more on principles and requires to take into consideration not only the business model but also the characteristics of the contractual cash flows of those assets (SPPI criteria). Financial assets are subsequently measured at amortised cost, at the fair value with changes in other comprehensive income or at fair value with changes in profit and loss, depending on the business model applied and its specific features.

CEMG does not expect significant changes to the classification method and measurement of financial assets with the exception of some credit operations, namely those in non performing situation, which taking into account their features, do not comply with the SPPI criteria. The assessment already made to these operations points in the sense that they do not have a relevant dimension in the financial statements of CEMG.

With regard to the evaluation of the business models, the Group conducted an analysis of historical sales of current portfolios whose results allow the Group to keep the business models. Accordingly, and considering the current strategy, business models will be maintained.

Impairment of financial assets

The impairment model of IFRS 9 is applicable to all financial assets valued at amortized cost, to debt instruments valued at fair value through other comprehensive income, and to contingent risks and commitments not valued at fair value.

In the context of the introduction of IFRS 9, CEMG is working on the implementation of a new methodology for the calculation of impairment losses as well as in the implementation of the necessary changes to IT related current systems and processes. The work is focused on process design and on the adjustment of parameters so that they can be used to estimate the expected loan loss amounts, define criteria details of allocation to the *stages* and include expectations with regard to future macroeconomic perspectives in order to estimate levels of impairment losses.

The implementation of the new standard requires the application of more complex credit risk models which requires a significantly broader set of sources of information compared to the models currently applied.

The probability of default (PD), loss given default (LGD) and exposure at default (EAD) are used as major components to measure expected credit losses. According to IFRS 9, the impairment losses of credit risk is affected by various characteristics, in particular the expected capital in default and the associated repayment profile, as well as the expected life of the financial asset. To calculate the expected credit loss for the lifetime of the contract, CEMG derives the corresponding PDs lifetime of migration matrices that reflect the economic forecasts. To classify a financial asset in stage 3, it must be identified one or more events that pose an adverse impact on estimated future cash flows.

Methodology for estimating impairment

The financial instruments subject to impairment will be divided into three stages in light of its credit risk level, as follows:

- Stage 1: no significant increase of credit risk since its initial recognition.
- Stage 2: financial instruments with a significant increase of credit risk since the initial recognition but the loss has not yet materialized.
- Stage 3: financial instruments for which there is objective evidence of impairment as a result of events that resulted in losses.

Credit risk assessment and quantification of expected losses should take into consideration all the information considered relevant, in particular existing information relating to past events, current conditions, forecasts about future economic conditions and the time value of money.

Hedge accounting

IFRS 9 introduces a new model that aims at aligning the accounting with the economic hedge accounting, which will enable the CEMG to have a larger number of instruments covered, risks covered and hedging instruments (derivatives and non-derivative). The new requirements align hedge accounting with risk management and give a more objective approach to the hedge accounting by simplifying the current model. The new standard requires a greater scrutiny of its effects on the financial statements and on the risk management strategy of CEMG.

CEMG expects to keep the hedge accounting model described in IAS 39.

PARTICIPATION FUND

On 25 November 2013, CEMG launched the first Public Subscription Offer of 200,000,000 Participation Units, with a nominal value of 1 euro, representative of its Participation Fund, with this event having opened its capital to public investment.

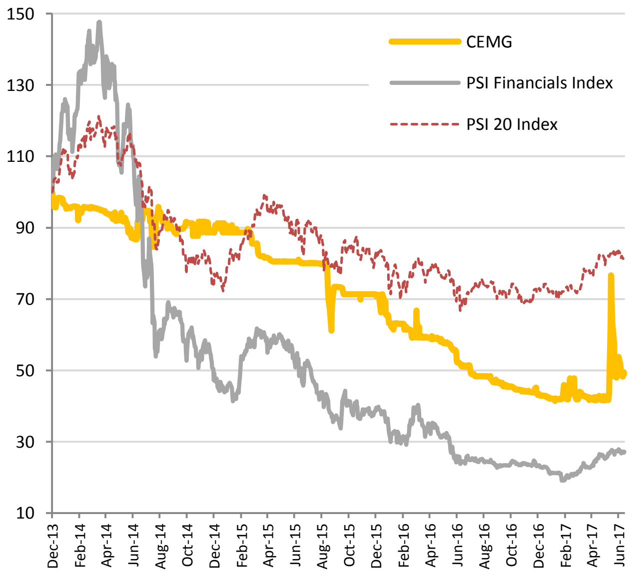
On 17 December 2013, the Participation Units were listed for trading on the stock exchange (NYSE Euronext Lisbon) after the Regulated Market Special Session (ISIN PTCMHUIM0015).

On 26 June 2015, the second issue of CEMG's Participation Fund was paid-up and registered, by private subscription of Montepio Geral - Associação Mutualista of the total number of 200,000,000 Participation Units, with a nominal value of 1 euro. Therefore, as at 31 December 2015, CEMG's Participation Fund was represented by 400,000,000 Participation Units.

With the issue of its Participation Fund, CEMG was deemed equivalent, for all purposes established in the Securities Code (CVM) and associated regulations, to an issuer of shares listed for trading on a regulated market, implying that the Participation Fund has been included in the "General PSI" and "Sectoral PSI (Financial)" stock exchange indices since late 2013.

On 21 March 2016, these Participation Units were included in the Portuguese reference stock exchange index, as a result of the annual review of the PSI20 index.

PRICE EVOLUTION (Base 100, 17.Dec.2013)



Source: Bloomberg

KEY INDICATORS

	Unit	Jun-16	Dec-16	Jun-17
Adjusted prices				
Maximum price	eur	0.700	0.700	0.752
Minimum price	eur	0.501	0.420	0.406
Average price of the year	eur	0.584	0.501	0.461
Closing price	eur	0.506	0.421	0.482
Liquidity				
Turnover	eur	12 119 435	27 488 160	7 576 771
Average daily turnover	eur	96 186	107 376	59 660
Volume	unit	20 759 651	54 900 157	16 441 589
Average daily volume	unit	164 759	214 454	129 461

Source: Euronext Lisbon

During the first days of the second half, on 4 July 2017, Montepio Geral - Associação Mutualista issued a preliminary announcement of the launch of a general and voluntary public offer to purchase participation units representative of the Participation Fund of Caixa Económica Montepio Geral (the Offer). The offering price was €1 (one euro) per participation unit, payable in cash, thus assuring an equitable treatment to the holders of the Participation Units, giving them the possibility to divest these securities at a price corresponding to their nominal value, at a time prior to the conversion of the Participation Units into CEMG shares under the process of its transformation into a public limited company (meanwhile concluded with the execution of the respective deed and commercial registration on 14 September 2017, at which time a permanent purchase order is maintained, over-the-counter, on the ordinary shares issued by the conversion of the units).

As a result of the transformation into a public limited company, the CEMG Participation Fund was extinguished by conversion into share capital, whereby the units of the same were converted into common shares (book-entry and registered shares).

RATING

At the end of the first half of 2017, CEMG's rating remained at the same level as at 31 December 2016, as shown 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	Negative
DBRS	A	BB	R-4	Stable

(1) Conditional Pass-through Covered Bond Programme

On 16 March 2017, the financial rating agency Fitch ratings affirmed the Long-Term and Short-Term rating at 'B' and the Outlook at 'Stable'. Following the revision of the outlook of the Portuguese Republic from 'Stable' to 'Positive', the issues Pelican Mortgages No.1 Plc, Class A notes (ISIN: XS0159861078), Pelican Mortgages No.1 Plc, Class B notes (ISIN: XS0159861409), Pelican Mortgages No.1 Plc, Class C notes (ISIN: XS0159861409), Pelican Mortgages No.4 Plc, Class A notes (ISIN: XS0365137990) and Pelican Mortgages No.5 Plc, Class A notes (ISIN: XS0419743033) also had their outlook revised upwards, shifting to 'Positive'.

On 23 June, Moody's maintained the long-term rating at 'B3' and the Outlook at 'Negative'. It should be noted that during the second half of 2017, in a press release dated 10 July, the agency Moody's stressed the positive impact of the share capital increase of 250,000,000 euros, made by Montepio Geral - Associação Mutualista on 30 June, as well as the future transformation of CEMG into a public limited company.

The agency DBRS communicated a new rating class, named Issuer Rating, attributing CEMG a rating of 'BB' with 'Stable' Outlook, in line with the current rating attributed by the agency for the Bank's long term Senior Debt. The agency maintained the Long-Term debt rating at 'BB', the Short-Term debt rating at 'R-4' and the Outlook at 'Stable'. On 22 May, the agency DBRS attributed the Mortgage Bonds – CPT – Series 9 the rating 'A', in conformity with the risk rating attributed to CEMG's Mortgage Bond Programme (CPT - Conditional Pass-through Covered Bond Programme). On 9 June 2017, DBRS revised the rating for subordinated debt to 'B (High)'. This revision resulted from the implementation of the Bank Recovery and Resolution Directive (BRRD) and from its impact on a certain type of subordinated debt, where this was an action that was transversal to the European banking sector. Also according to DBRS, this change was part of a series of rating actions which affected the subordinated debt rating of 27 European banking groups.

MAIN RISKS AND UNCERTAINTIES FOR THE 2nd HALF OF 2017

The European Commission, in its most recent forecasts for the Portuguese economy, published on 11 May, considered that the risks to its forecast continued slightly downwards, emphasising the challenges that the banking system still faces and the vulnerability of the economy to the external evolution. We consider that these identified risks persist, but that in general the risks around the forecast growth of GDP for 2017 are currently more balanced, and that the forecasts of the European Commission are now excessively pessimistic (+1.8% compared to +2.5% of Banco de Portugal and the IMF).

The upward risks are related to: i) the low price of oil: the lowest annual average price in over a decade was observed in 2016: ii) the weak euro: which, in 2016 and 2017, should be below the average of 2015 and historically low; iii) the expansionary monetary policy of the ECB: iv) the possibility of the Spanish economy continuing to grow above the estimated figure: in 2016, Spain accounted for 26.2% of the total exports of Portuguese goods (25.0% in 2015), followed by France (12.6%), Germany (11.6%) and United Kingdom (7.0%); and v) the possibility that the recovery of the labour market may continue to surpass expectations.

In turn, the domestic downward risks arise from: i) the possibility of a return to political instability due to the heterogeneity of the parliamentary majority supporting the minority Government); ii) the still low profitability of the financial system; iii) the importance of not neglecting the additional consolidation objectives of public finance required by Brussels; iv) the pressure on Portuguese debt yields derived from market fears relative to the Government's budget strategy.

The external downward risk arise from the following factors: i) the Brexit process already underway: although the incorporation of this event in the forecasts has already been attempted, its inherent singularity continues to bring risks to the forecast, with Portugal being particularly vulnerable to the United Kingdom via the tourist sector; ii) uncertainties relative to American economic policy; iii) geopolitical uncertainty in the Middle East, the Far East and Eastern Europe; iv) fears in relation to Greece, albeit rather mitigated by the release of funds under the third rescue package and by the recommendation that the country should leave the Excessive Deficit Procedure, and in relation to the growth of various emerging countries such as China, Brazil and Angola.

On the other hand, the Monetary Policy of the Central Banks should constitute a strong constraint to the performance of the financial markets in general, in particular the performance of interest rates. As the interest rates of the euro are expected to remain low, the expectation of a less accommodative Monetary Policy on the part of the European Central Bank might make the rates rise above the minimum levels, constraining liquidity. The attenuation of the doubts around policy issues that marked the first half of the year, should lead to a movement out of investment in risk-free assets and towards assets with a higher return, such as peripheral public debt. Thus, an alleviation of the non-conventional Monetary Policy measures is expected for the second half of 2017, through the announcement of the reduction of the Quantitative Easing programme, with implementation throughout the year of 2018.

The current risks overshadowing the national and global economic panorama will naturally tend to be reflected in the Portuguese financial system's capacity to access funding and in CEMG's actual activity. Specifically on the Portuguese economy, there is naturally the risk of economic performance being below that expected, as well as the public deficit being higher than that expected, which could be reflected in possible downgrades of the country's rating. However, the current discourse of the agencies is in the direction of improvement of the rating and not of a downgrade after the European Council's removal of Portugal from the Excessive Deficit Procedure on 16 June, in acceptance of the European Commission's recommendation and following the confirmation of the descent of the budget deficit to 2.0% in 2016. This budgetary improvement, associated to the acceleration of the recovery rate of economic activity in the last three quarters and the improvement of the growth prospects, has made it more likely that the country's risk rating will be improved by the financial rating agencies. In this regard, it should be stressed that precisely on the 16 June Fitch Ratings upgraded the outlook on the rating of Portugal's sovereign debt from stable to positive, while maintaining the rating at BB+, giving indications of a possible upward review of the rating.

However, in addition to these risks that are specific to the Portuguese economy, there are risks associated to a possible exacerbation of the volatility of financial markets at a global level, which would naturally have repercussions in terms of the funding conditions of the so-called peripheral economies, among which Portugal is included, subsequently reflected in the liquidity situation of the Portuguese financial system. The risks and factors that could potentially create more intense volatility of the financial markets obviously include the possibility that the effects of Brexit could prove to be much more negative than what has been admitted so far. This possibility of additional uncertainty, in turn, could lead to a more enhanced response of the financial markets to any negative shocks, as habitual in periods of high uncertainty. But, in addition to the risks associated to Brexit referred to above, there are numerous other risks related to the global economy which could also affect the regular functioning of the global and national financial system. These risks could be further exacerbated by Brexit. Among these in particular is the legacy of problems still to be resolved in the European banking system (with the IMF having recently highlighted the possible rekindling of fears relative to the stability of some countries). This legacy of problems is, in itself, one of the risks faced by the world economy in 2017.

In global economic terms, in the updating of its economic forecasts in July, the IMF confirmed the forecasts it had made in April: world GDP would grow by 3.5% in 2017 and 3.6% in 2018, revealing that the anticipated recovery continues firm, although leaving a warning: the short-term risks to growth are balanced, but the medium-term risks continue to be able to negatively influence world GDP.

The short-term risk includes in particular, on the positive side, the cyclical recovery in Europe, which could be stronger and more sustained as a result of the lower political risk. On the negative side is the possibility of financial tensions, especially in China, as well as the protectionist policies and the growing geopolitical tensions. In the Euro Area, although the IMF considers the performance notable compared with the recent past, it states that in some countries of the Euro Area new concerns on financial stability could arise due to the fragility of the banking sector, which could "increase long term interest rates and deteriorate public debt dynamics". Moreover, on Mainland Europe many emerging and developing economies have received injections of capital at favourable financing rates, which entails a risk of possible reversals in the balance of payments at a later date. Tensions may also arise if the central banks of the advanced economies show a growing preference for tighter monetary policies, as some have revealed over the last few months. The IMF also stresses, on the negative side, the fact that any political uncertainty or other shocks could lead to a correction in the markets, especially in equity markets. The IMF also reiterated that other risks identified at the time of its global forecasts of April still remain: i) the political divisions within the advanced economies could hinder the efforts to resolve a series of structural challenges of the economies; ii) the refugee problem; iii) the permanence of high geopolitical risk derived from the tension between the USA and Russia and between the USA and North Korea; iv) the geopolitical tensions and terrorism, which are having a strong impact on the economic prospects of various countries, especially in the Middle East, with these risks naturally embodying cross-border dimensions.

CONSOLIDATED FINANCIAL STATEMENTS FOR 1st HALF 2017

Interim Consolidated Income Statement
for the six month period ended at 30 June 2017 and 2016

(Thousand of Euro)

	Jun 2017	Jun 2016
Interest and similar income	254 170	261 030
Interest and similar expense	110 863	149 330
Net interest income	143 307	111 700
Dividends from equity instruments	7 744	2 711
Fees and commissions	55 218	46 217
Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss	3 973	(29 056)
Net gains/ (losses) arising from available for sale financial assets	21 545	40 204
Net gains/ (losses) arising from foreign exchange differences	1 079	1 651
Net gains/ (losses) arising from sale of other financial assets	19 154	12 233
Other operating income	(3 464)	(19 011)
Total operating income	248 556	166 649
Staff costs	84 668	124 938
General and administrative expenses	40 065	46 599
Depreciation and amortisation	12 479	12 296
Total operating costs	137 212	183 833
Loans impairment	63 545	85 779
Other financial assets impairment	4 905	38 056
Other assets impairment	10 175	6 760
Other provisions	10 521	(11 813)
Operating profit	22 198	(135 966)
Share of profit of associates under the equity method	(90)	19
Profit before income tax	22 108	(135 947)
Tax		
Current	(3 890)	(2 593)
Deferred	(9 259)	71 874
Profit/ (losses) after tax from continuing operations	8 959	(66 666)
Profit/ (losses) after tax from discontinuing operations	5 434	150
Consolidated net profit/ (losses) after tax	14 393	(66 516)
Consolidated profit/ (loss) for the period attributable to the holders of		
Institutional Capital and Participation Fund	13 049	(67 627)
Non-controlling interests	1 344	1 111
Consolidated profit/ (loss) for the period	14 393	(66 516)

THE CERTIFIED ACCOUNTANT

THE EXECUTIVE BOARD OF DIRECTORS

Interim Consolidated Statement of financial position as at 30 June 2017 and 31 December 2016

(Thousand of Euro)

	Jun 2017	Dec 2016
Assets		
Cash and deposits at central banks	423 640	381 289
Loans and advances to credit institutions repayable on demand	58 917	69 568
Other loans and advances to credit institutions	369 163	559 091
Loans and advances to customers	13 698 265	13 861 034
Financial assets held for trading	87 032	78 168
Financial assets available for sale	2 842 491	2 399 504
Held-to-maturity investments	-	1 126 125
Investments in associated companies	3 698	4 042
Non-current assets held for sale	734 218	760 204
Non-current assets held for sale - discontinuing operations	445 805	470 416
Investment properties	562 509	607 968
Property and equipment	234 358	237 097
Intangible assets	33 206	34 921
Current tax assets	10 388	11 855
Deferred tax assets	486 292	521 716
Other assets	215 911	222 911
Total Assets	20 205 893	21 345 909
Liabilities		
Deposits from central banks	2 700 425	2 322 947
Deposits from other financial institutions	2 179 437	2 275 940
Deposits from customers	11 627 953	12 467 819
Debt securities issued	1 062 598	1 920 035
Financial liabilities held for trading	21 534	26 148
Financial liabilities held for trading - discontinuing operations	319 652	354 781
Provisions	28 572	21 820
Current tax liabilities	5 613	1 865
Other subordinated debt	251 671	251 028
Other liabilities	235 309	247 028
Total Liabilities	18 432 764	19 889 411
Equity		
Institutional capital	2 020 000	1 770 000
Participation fund	400 000	400 000
Other equity instruments	6 323	6 323
Treasury stock	(81)	(81)
Fair value reserves	44 306	(6 860)
Other reserves and retained earnings	(735 994)	(649 601)
Consolidated profit/ (loss) for the period attributable to the holders of Institutional Capital and Participation Fund	13 049	(86 484)
Total equity attributable to the holders of Institutional Capital and Participation Fund	1 747 603	1 433 297
Non-controlling interests	25 526	23 201
Total Equity	1 773 129	1 456 498
Total Liabilities and Equity	20 205 893	21 345 909

THE CERTIFIED ACCOUNTANT

THE EXECUTIVE BOARD OF DIRECTORS

FINANCIAL STATEMENTS, EXPLANATORY NOTES AND COMPLIANCE

CONSOLIDATED FINANCIAL STATEMENTS AND EXPLANATORY NOTES

Caixa Económica Montepio Geral

Interim Consolidated Income Statement
for the six-month period ended at 30 June 2017 and 2016

(Thousands of Euro)

	Notes	jun 2017	jun 2016
Interest and similar income	3	254 170	261 030
Interest and similar expense	3	110 863	149 330
Net interest income	3	143 307	111 700
Dividends from equity instruments	4	7 744	2 711
Fess and commissions	5	55 218	46 217
Net gains/ (losses arising from financial assets and liabilities at fair value through profit or loss	6	3 973	(29 056)
Net gains/ (losses) arising from available for sale financial assets	7	21 545	40 204
Net gains/ (losses) arising from foreign exchange differences	8	1 079	1 651
Net gains/ (losses) arising from sale of other financial assets	9	19 154	12 233
Other operating income	10	(3 464)	(19 011)
Total operating income		248 556	166 649
Staff costs	11	84 668	124 938
General and administrative expenses	12	40 065	46 599
Depreciation and amortisation	13	12 479	12 296
		137 212	183 833
Loans impairment	14	63 545	85 779
Other financial assets impairment	15	4 905	38 056
Other assets impairment	16	10 175	6 760
Other provisions	17	10 521	(11 813)
Operating profit		22 198	(135 966)
Share of profit of associates under the equity method	18	(90)	19
Profit before income tax		22 108	(135 947)
Tax			
Current	31	(3 890)	(2 593)
Deferred	31	(9 259)	71 874
Profit/ (losses) after tax from continuing operations		8 959	(66 666)
Profit/ (losses) after tax from discontinuing operations	60	5 434	150
Consolidated net profit/ (losses) after tax		14 393	(66 516)
Consolidated profit/ (loss) for the period attributable to the holders of			
Institutional Capital and Participation Fund		13 049	(67 627)
Non-controlling interests	47	1 344	1 111
Consolidated profit/ (loss) for the period		14 393	(66 516)

The following notes form an integral part of these Interim Consolidated Financial Statements

Caixa Económica Montepio Geral

Interim Consolidated Statement of financial position as at 30 June 2017 and 31 December 2016

(Thousands of Euro)

	Notes	Jun 2017	Dec 2016
Assets			
Cash and deposits at central banks	19	423 640	381 289
Loans and advances to credit institutions repayable on demand	20	58 917	69 568
Other loans and advances to credit institutions	21	369 163	559 091
Loans and advances to customers	22	13 698 265	13 861 034
Financial assets held for trading	23	87 032	78 168
Financial assets available for sale	24	2 842 491	2 399 504
Held-to-maturity investments	25	-	1 126 125
Investments in associated companies	26	3 698	4 042
Non-current assets held for sale	27	734 218	760 204
Non-current assets held for sale - discontinuing operations	60	445 805	470 416
Investment properties	28	562 509	607 968
Property and equipment	29	234 358	237 097
Intangible assets	30	33 206	34 921
Current tax assets	-	10 388	11 855
Deferred tax assets	31	486 292	521 716
Other assets	32	215 911	222 911
Total Assets		20 205 893	21 345 909
Liabilities			
Deposits from central banks	33	2 700 425	2 322 947
Deposits from other financial institutions	34	2 179 437	2 275 940
Deposits from customers	35	11 627 953	12 467 819
Debt securities issued	36	1 062 598	1 920 035
Financial liabilities held for trading	23	21 534	26 148
Financial liabilities held for trading - discontinuing operations	60	319 652	354 781
Provisions	37	28 572	21 820
Current tax liabilities	-	5 613	1 865
Other subordinated debt	38	251 671	251 028
Other liabilities	39	235 309	247 028
Total Liabilities		18,432,764	19,889,411
Equity			
Institutional capital	40	2 020 000	1 770 000
Participation fund	41	400 000	400 000
Other equity instruments	42	6 323	6 323
Treasury stock	43	(81)	(81)
Fair value reserves	45	44 306	(6 860)
Other reserves and retained earnings	44 and 45	(735 994)	(649 601)
Consolidated profit/ (loss) for the period attributable to the holders of Institutional Capital and Participation Fund		13 049	(86 484)
Total equity attributable to the holders of Institutional Capital and Participation Fund		1 747 603	1 433 297
Non-controlling interests	47	25 526	23 201
Total Equity		1 773 129	1 456 498
Total Liabilities and Equity		20 205 893	21 345 909

The following notes form an integral part of these Interim Consolidated Financial Statements

Caixa Económica Montepio Geral

Interim Consolidated Income Statement
for the three-month period between 1 April and 30 June 2017 and 2016

(Thousands of Euro)

	2nd quarter 2017	2nd quarter 2016
Interest and similar income	125 969	129 710
Interest and similar expense	53 731	70 420
Net interest income	72 238	59 290
Dividends from equity instruments	5 221	2 697
Fess and commissions	29 139	25 138
Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss	2 768	(12,618)
Net gains/ (losses) arising from available for sale financial assets	15 958	30 098
Net gains/ (losses) arising from foreign exchange differences	415	112
Net gains/ (losses) arising from sale of other financial assets	19 785	12 988
Other operating income	(12,131)	(26,074)
Total operating income	133 393	91 631
Staff costs	42 904	68 623
General and administrative expenses	20 723	25 367
Depreciation and amortisation	6 572	6 777
	70 199	100 767
Loans impairment	29 703	62 198
Other financial assets impairment	5 341	37 169
Other assets impairment	8 473	3 275
Other provisions	10 201	(7,300)
Operating profit	9 476	(104,478)
Share of profit of associates under the equity method	(90)	121
Profit before income tax	9 386	(104,357)
Tax		
Current	(577)	(1,676)
Deferred	(7,484)	62 230
Profit/ (losses) after tax from continuing operations	1 325	(43,803)
Profit/ (losses) after tax from discontinuing operations	1 157	(3,633)
Consolidated net profit/ (loss) after tax	2 482	(47,436)
Consolidated profit/ (loss) for the period attributable to the holders of		
Institutional Capital and Participation Fund	1 913	(47,867)
Non-controlling interests	569	431
Consolidated profit/ (loss) for the period	2 482	(47,436)

The following notes form an integral part of these Interim Consolidated Financial Statements

Caixa Económica Montepio Geral

Interim Consolidated Statement of Cash Flows
for the six-month period ended at 30 June 2017 and 2016

(Thousands of Euro)

	jun 2017	jun 2016
Cash flows arising from operating activities		
Interest income received	264 011	264 455
Commissions income received	72 202	66 013
Interest expense paid	(123,779)	(175,043)
Commissions expense paid	(17,634)	(16,779)
Payments to employees and suppliers	(136,593)	(165,606)
Recovery of loans and interests	2 562	3 890
Other payments and receivables	12 699	44 057
Income tax payment	1 325	3 926
	74 793	24 913
(Increase) / decrease in operating assets		
Loans and advances to credit institutions and customers	283 191	174 246
Other assets	7 380	(97,868)
	290 571	76 378
(Increase) / decrease in operating liabilities		
Deposits from customers	(830,202)	(264,793)
Deposits from credit institutions	(94,010)	(42,254)
Deposits from central banks	377 840	594 010
	(546,372)	286 963
	(181,008)	388 254
Cash flows arising from investing activities		
Divesture of instruments in subsidiaries and associates with loss of control	(3,133)	-
Dividends received	7 744	2 711
(Acquisition) / sale of financial assets held for trading	(7,302)	(10,907)
(Acquisition) / sale of available for sale financial assets	(384,635)	767 710
Interest received arising from available for sale financial assets	52 493	19 845
(Acquisition) / sale of held to maturity financial assets	1 119 599	(1,092,784)
(Acquisition) / sale of investments in associated companies	407	46 670
Deposits owned with the purpose of monetary control	(94,438)	23 478
(Acquisition) / sale of other fixed assets	(869)	(2,568)
Fixed assets and investment properties acquisition	(9,541)	(207,356)
Fixed assets and investment properties sale	46 899	38 183
	727 224	(415,018)
Cash flows arising from financing activities		
Own securities	-	49 852
Capital increase	250 000	270 000
Other equity instruments	(162)	(210)
Proceeds from issuance of bonds and subordinated debt	500 000	50 643
Reimbursement of bonds and subordinated debt	(1,229,964)	(405,414)
Increase / (decrease) in other sundry liabilities	(129 908)	26 954
	(610,034)	(8,175)
Exchange effects on cash and cash equivalents	1 079	9 969
Net changes in cash and cash equivalents	(62,739)	(24,970)
Cash and cash equivalents balance at the beginning of the period		
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 balance at the end of the period	218 477	421 074
Cash and cash equivalents balance at the end of the period includes:		
Cash (Note 19)	159 560	181 276
Loans and advances to credit institutions repayable on demand (note 20)	58 917	239 798
	218 477	421 074

The following notes form an integral part of these Interim Consolidated Financial Statements

Caixa Económica Montepio Geral

Interim Consolidated Statement of Changes in Equity
for the six-month period ended at 30 June 2017 and 2016

(Thousands of Euro)

	Institutional capital	Participation fund	Other equity instruments	Fair value reserves	Other reserves and retained earnings: General and special reserve	Other reserves and retained earnings: Other reserves	Total equity attributable to holders of Institutional capital and Participation fund	Non-controlling interests	Total Equity
Balance on 31 December 2015	**1 500 000**	**368 419**	**8 273**	**646**	**255 805**	**(817,666)**	**1 315 477**	**28 669**	**1 344 146**
Other comprehensive income:									
Exchange difference arising from the consolidation	-	-	-	-	-	(15,120)	(15,120)	(6,703)	(21,823)
Deferred taxes related to balance sheet changes accounted for against reserves (note 31)	-	-	-	-	-	(1,327)	(1,327)	-	(1,327)
Fair value changes (note 45)	-	-	-	32 171	-	-	32 171	-	32 171
Deferred taxes related to fair value changes (note 31)	-	-	-	(9,611)	-	-	(9,611)	-	(9,611)
Consolidated profit/ (loss) for the period	-	-	-	-	-	(67,627)	(67,627)	1 111	(66,516)
Total comprehensive income for the period	-	-	-	22 560	-	(84,074)	(61,514)	(5,592)	(67,106)
Increases in institutional capital (note 40)	270 000	-	-	-	-	-	270 000	-	270 000
Costs related to the issue of perpetual subordinated instruments (note 42)	-	-	(1,950)	-	-	(210)	(2,160)	-	(2,160)
Acquisition of participation fund	-	31 500	-	-	-	(13,198)	18 302	-	18 302
Other consolidation reserves	-	-	-	-	-	2 090	2 090	-	2 090
Balance on 30 June 2016	**1 770 000**	**399 919**	**6 323**	**23 206**	**255 805**	**(913,058)**	**1 542 195**	**23 077**	**1 565 272**
Other comprehensive income:									
Exchange difference arising from the consolidation	-	-	-	-	-	(9,122)	(9,122)	(1,279)	(10,401)
Actuarial losses in the period (note 50)	-	-	-	-	-	(60,284)	(60,284)	-	(60,284)
Deferred taxes related to balance sheet changes accounted for against reserves (note 31)	-	-	-	-	-	14 351	14 351	-	14 351
Fair value changes (note 45)	-	-	-	(52,047)	-	-	(52,047)	-	(52,047)
Deferred taxes related to fair value changes (note 31)	-	-	-	21 981	-	-	21 981	-	21 981
Consolidated profit/ (loss) for the period	-	-	-	-	-	(18,857)	(18,857)	918	(17,939)
Total comprehensive income for the period	-	-	-	(30,066)	-	(73,912)	(103,978)	(361)	(104,339)
Costs related to the issue of perpetual subordinated instruments (note 42)	-	-	-	-	-	(160)	(160)	-	(160)
Other consolidation reserves	-	-	-	-	-	(4,760)	(4,760)	485	(4,275)
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 difference arising from the consolidation	-	-	-	-	-	825	825	981	1 806
Actuarial losses in the period (note 50)	-	-	-	-	-	-	-	-	-
Deferred taxes related to balance sheet changes accounted for against reserves (note 31)	-	-	-	-	-	(642)	(642)	-	(642)
Fair value changes (note 45)	-	-	-	76 576	-	-	76 576	-	76 576
Deferred taxes related to fair value changes (note 31)	-	-	-	(25,410)	-	-	(25,410)	-	(25,410)
Consolidated profit/ (loss) for the period	-	-	-	-	-	13 049	13 049	1 344	14 393
Total comprehensive income for the period	-	-	-	51 166	-	13 232	64 398	2 325	66 723
Institutional capital increase (note 40)	250 000	-	-	-	-	-	250 000	-	250 000
Costs related to the issue of perpetual subordinated instruments (note 42)	-	-	-	-	-	(162)	(162)	-	(162)
Other consolidation reserves	-	-	-	-	-	70	70	-	70
Balance on 30 June 2017	**2 020 000**	**399 919**	**6 323**	**44 306**	**255 805**	**(978,750)**	**1 747 603**	**25 526**	**1 773 129**

The following notes form an integral part of these Interim Consolidated Financial Statements

Caixa Económica Montepio Geral

Interim Consolidated Statement of Comprehensive Income
for the six-month period ended at 30 June 2017

(Thousands of Euro)

	Notes	jun 2017				
		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	45	76 576	-	76,576	76 576	-
Taxes	31 and 45	(25 410)	-	(25,410)	(25 410)	-
Exchange differences arising from the consolidation		1,806	-	1,806	825	981
		52 972	-	52 972	51 991	981
Items that won't be reclassified into the Income Statement						
Deferred taxes	31	(642)		(642)	(642)	-
		(642)	-	(642)	(642)	-
Other comprehensive income for the period		52 330	-	52 330	51 349	981
Consolidated profit/ (loss) for the period		7 615	6 778	14,393	13 049	1 344
Total consolidated comprehensive income for the period		59 945	6 778	66 723	64 398	2 325

Caixa Económica Montepio Geral

Interim Consolidated Statement of Comprehensive Income
for the three-month period between 1 April and 30 June 2017

(Thousands of Euro)

	Notes	2nd quarter of 2017				
		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	45	68 523	-	68,523	68 523	-
Taxes	31 and 45	(23 411)	-	(23,411)	(23 411)	-
		-			-	-
Exchange differences arising from the consolidation		886	-	886	405	481
		45 998	-	45 998	45 517	481
Items that won't be reclassified into the Income Statement						
Actuarial losses in the period		(7 163)	-	(7,163)	(7 163)	-
Deferred taxes	31	(952)	-	(952)	(952)	-
		(8 115)	-	(8 115)	(8 115)	-
Other comprehensive income for the period		37 883	-	37 883	37 402	481
Consolidated profit/ (loss) for the period		756	1 726	2,482	1 913	569
Total consolidated comprehensive income for the period		38 639	1 726	40 365	39 315	1 050

The following notes form an integral part of these Interim Consolidated Financial Statements

Caixa Económica Montepio Geral

Interim Consolidated Statement of Comprehensive Income
for the six-month period ended at 30 June 2016

(Thousands of Euro)

	Notes	Continuing operations (Jun 2016)	Discontinuing operations (Jun 2016)	Total (Jun 2016)	Holders of Institutional capital and Participation fund (Jun 2016)	Non-controlling interests (Jun 2016)
Items that may be reclassified into the Income Statement						
Fair value reserves						
Available for sale financial assets	45	32 171	-	32,171	32 171	-
Taxes	31 and 45	(9 611)	-	(9,611)	(9 611)	-
Exchange differences arising from the consolidation		(21,823)	-	(21,823)	(15 120)	(6,703)
		737	-	737	7 440	(6 703)
Items that won't be reclassified into the Income Statement						
Deferred taxes	31	(1 327)	-	(1,327)	(1 327)	-
		(1 327)	-	(1 327)	(1 327)	-
Other comprehensive income for the period		(590)	-	(590)	6 113	(6 703)
Consolidated profit/ (loss) for the period		(67 777)	1 261	(66,516)	(67 627)	1 111
Total consolidated comprehensive income for the period		(68 367)	1 261	(67 106)	(61 514)	(5 592)

Caixa Económica Montepio Geral

Interim Consolidated Statement of Comprehensive Income
for the three-month period between 1 April and 30 June 2016

(Thousands of Euro)

	Notes	Continuing operations (2nd quarter of 2016)	Discontinuing operations (2nd quarter of 2016)	Total (2nd quarter of 2016)	Holders of Institutional capital and Participation fund (2nd quarter of 2016)	Non-controlling interests (2nd quarter of 2016)
Items that may be reclassified into the Income Statement						
Fair value reserves						
Available for sale financial assets	45	44 830	-	44,830	44 830	-
Taxes	31 and 45	(9 676)	-	(9,676)	(9 676)	-
Exchange differences arising from the consolidation		(2,717)	-	(2,717)	281	(2 998)
		32 437	-	32 437	35 435	(2 998)
Items that won't be reclassified into the Income Statement						
Actuarial losses in the period		-	-	-	-	-
Deferred taxes	31	(664)	-	(664)	(664)	-
		(664)	-	(664)	(664)	-
Other comprehensive income for the period		31 773	-	31 773	34 771	(2 998)
Consolidated profit/ (loss) for the period		(44 234)	(3 202)	(47,436)	(47 867)	431
Total consolidated comprehensive income for the period		(12 461)	(3 202)	(15 663)	(13 096)	(2 567)

The following notes form an integral part of these Interim Consolidated Financial Statements

1 Accounting policies

a) Basis of presentation

Caixa Económica Montepio Geral (hereinafter "CEMG") is a credit institution, with head office at Rua Áurea, 219-241, Lisbon, held by Montepio Geral – Associação Mutualista, established on 24 March, 1844, and authorized 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.

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

As at 31 March 2011, Montepio Geral Associação Mutualista (hereinafter "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 (Regime Geral das Instituições de Crédito e Sociedades Financeiras) and in the Mutual Association Code (Código das Associações Mutualistas). Following the publication of this Decree-Law, CEMG changed its classification to "Caixa Económica Bancária" (Economical Savings Bank).

In accordance with Regulation (EC) no. 1606/2002 from the European Parliament and the Counsel, of 19 July, 2002 and Regulation no. 5/2015 of Bank of Portugal, from 7 December, Group's consolidated financial statements are required to be prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU"). IFRS comprise accounting standards issued by the International Accounting Standards Board ("IASB") and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body. The interim consolidated condensed financial statements presented herein were approved by the Executive Board of Directors of CEMG on 25 July 2017. The condensed financial statements are presented in Euro rounded to the nearest thousand.

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

The consolidated condensed financial statements for the six-month period ended at 30 June 2017 have been prepared in accordance with the IFRS, as adopted by the European Union and effective at that date, considering the disclosures required by the standards defined in IAS 34. These condensed financial statements also present the income statement for the second quarter of 2017 compared with the same period of the previous year. The condensed financial statements for the six-month period ended at 30 June 2017 do not include all the information required to be disclosed in the annual financial statements.

The Group has adopted IFRS and interpretations mandatory for accounting periods beginning on or after 1 January 2017.

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

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

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

b) Basis of consolidation

The consolidated condensed financial statements now presented reflect the assets, liabilities, profits and losses of CEMG and its subsidiaries ("Group"), and the results attributable to the Group by its financial investments in associates firms, for the periods ended at 30 June 2017 and 2016 and for the period ended at 31 December 2016.

Investment in subsidiaries

Subsidiaries are entities (including investment funds and securitisation vehicles) controlled by the Group. The Group controls an entity when has exposure, or rights, to variable returns derived of its involvement with this entity, and can reclaim them with the power that have over the entity relevant activities (de facto control). The condensed financial statements of the subsidiaries are included on the consolidated condensed financial statements since the moment that the Group acquires the 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 Executive Board of Directors or equivalent governing body of the investee;
- participation in policy-making processes, including participation in decisions about dividends or other distributions;
- material transactions between the Group and the investee;
- interchange of the management team; and
- provision of essential technical information.

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

Goodwill – Differences arising from consolidation

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

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

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

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

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

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

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

Purchases and dilution of non-controlling interests

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

Loss of control

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

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

Investments in foreign subsidiaries and associates

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

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

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

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

Transactions eliminated on consolidation

Intragroup balances and any unrealized gains and losses arising from intragroup transactions, are eliminated in the preparation of the consolidated condensed financial statements. Unrealized 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 amortized 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)).

The collective impairment loss is determined considering the following factors:

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

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

In accordance with "Carta-Circular" no. 15/2009 of the Bank of Portugal, loans and advances to customers are charged-off when there are no realistic expectation, from an economic perspective, of recovering the loan amount. For collateralized 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 collateralized is effectively received. This charge-off is performed only for loans that are considered not to be recoverable and fully provided.

d) Financial instruments

(i) Classification, initial recognition and subsequent measurement

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

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

1a) Financial assets held for trading

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

The interest from debt instruments are recognised as interest margin.

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

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

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

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

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

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

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

2) Financial assets available for sale

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

3) Investments held-to-maturity

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

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

4) Loans and receivables - Loans represented by securities

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

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

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

5) Other financial liabilities

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

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

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

(ii) Impairment

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

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

(iii) Embedded derivatives

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

e) Derivatives hedge accounting

(i) Hedge accounting

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

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

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

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

(ii) Fair value hedge

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

(iii) Hedge effectiveness

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

f) Reclassifications between financial instruments categories

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

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

g) Derecognition

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

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

h) Equity instruments

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

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

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

i) Securities borrowing and repurchase agreement transactions

(i) Securities borrowing

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

(ii) Repurchase agreements

The Group performs acquisition/sale of securities under reselling/repurchase agreements of securities substantially equivalent in a future date at a predetermined price ('repos'/'reverse repos'). The securities related to reselling agreements in a future date have not been recognised on the balance sheet. The amounts paid are recognised in loans and advances to customers or loans and advances to credit institutions. The receivables are collateralized 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 formalized.

The fair value is determined based on the expected selling price estimated through periodic valuations performed by external independent experts registered in 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 unrealized losses, these should be recognised as impairment losses against results.

k) Finance lease transactions

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

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

l) Interest income and expense

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

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

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

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

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

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

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

m) Financial results (Results arising from 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.

n) Fee and commission income

Fees and commissions are recognised according to the following criteria:

- Fees and commissions which are earned as services are provided are recognised in income over the period in which the service is being provided; or

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

o) Fiduciary activities

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

p) Property and equipment

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

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

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

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

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

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

q) Investment property

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

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

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

r) Intangible assets

Software

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

s) Cash and cash equivalents

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

t) Offsetting

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

u) Foreign currency transactions

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

v) Post-employment and long-term benefits

Defined benefit plan

CEMG is responsible for the payment of old-age, disability and survival pensions, health benefits and death subsidies to its employees, in accordance with the terms and conditions of the "*Acordo Colectivo de Trabalho*". In 2016, amendments to this agreement were introduced, namely the change of 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 "*Acordo Colectivo de Trabalho*" (ACT) and subsequent amendments, the Group set up a pension fund to cover the liabilities with pensions on retirement and disability, widows' pension, health-care benefits and death subsidy.

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

The contribution rate is 26.6% in which 23.6% belongs to the employer, and 3.0% to employees, replacing *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 ACT, introducing a number of changes to 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 of a final premium career, in replacement of the old-age bonus that has been extinguished, as described in note 50.

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

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

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

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

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

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

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

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

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

Defined contribution plan

As at 30 June 2017, CEMG has a defined contribution plan for employees hired after 3 March 2009. For this contributive plan, contributions are made on a monthly basis, corresponding to 1.5% of the effective remuneration payable by the company and 1.5% payable by employees.

Bonus to employees and to the Executive Board of Directors

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

w) Income taxes

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

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

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

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

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

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

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

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

x) Segmental reporting

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

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

y) Provisions

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

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

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

The provisions are derecognised through their use for the obligations for which they were initially accounted or for the cases that the situations were no longer observed.

z) Insurance and reinsurance brokerage services

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

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

Commission received for insurance brokerage services refer to:

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

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

aa) Accounting estimates and judgments in applying accounting policies

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

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

The alternative outcomes discussed below are presented solely to assist the reader in understanding the condensed 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 1 year period is assumed to be a prolonged decrease in the fair value below the acquisition cost.

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

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

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

Impairment losses on loans and advances to customers

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

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

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

Fair value of derivatives

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

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

Entities included in the consolidation perimeter

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

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

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

Income taxes

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

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

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

Pension and other employees' benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections and others, such as discount rates, pensions and wages' growth rate 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's asset, is revised annually regardless the existence of signs of impairment.

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

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

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

Non-current assets held for sale are measured at the lower of their fair value, net of selling costs, and the book value of the existing credit at the date the charge was made. Investment properties are measured at fair value. Fair value is determined on the basis of periodic assessments made by external experts registered in CMVM. Different methodologies and assumptions would have an impact on the determination of the fair value of the assets 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 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)

	jun 2017	jun 2016
Net interest income	143 307	111 700
Net gains arising from assets and liabilities at fair value through profit and loss	3 973	(29 056)
Net gains arising from available-for-sale financial assets	21 545	40 204
	168 825	122 848

3 Net interest income

The amount of this account is comprised of:

(Thousands of Euro)

	jun 2017	jun 2016
Interest and similar income		
Interest from loans to customers	186 538	197 611
Interest from deposits and other investments	2 384	1 872
Interest from available for sale financial assets	17 626	18 257
Interest from held for trading financial assets	34 875	36 883
Interest from held-to-maturity investments	12 504	6 095
Interest from hedging derivatives	-	307
Other interest and similar income	243	5
	254 170	261 030
Interest and similar expense		
Interest from deposits of customers	43 054	74 544
Interest from loans of central banks and other financial institutions	4 758	6 801
Interest from securities issued	22 067	27 017
Interest from subordinated liabilities	1 599	2 328
Interest from held for trading financial liabilities	35 540	35 564
Interest from hedging derivatives	-	20
Other interest and similar expense	3 845	3 056
	110 863	149 330
Net interest income	143 307	111 700

The balances Interest and similar income – Interest from loans to customers and Interest and similar expenses – Other interest and similar expense include, respectively, the positive amount of Euro 10,625 thousand and the negative amount of Euro 3,321 thousand (30 June 2016: the positive amount of Euro 10,479 thousand and the negative amount of Euro 2,444 thousand), related to commissions and other gains/losses which are accounted for under the effective interest rate method, as referred in the accounting policy described in note 1 l).

The balance Interest and similar income includes, as at 30 June 2017, the amount of Euro 31,979 thousand (30 June 2016: Euro 36,258 thousand) related to gains from customers with signs of impairment, representing 12.6% 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:

(Thousands of Euro)

	jun 2017	jun 2016
Fee and commission income		
Banking services	48 257	42 189
Transactions on behalf of third parties	13 613	10 522
Guarantees provided	2 833	3 257
Insurance brokerage services	2 800	3 760
Commitments to third parties	861	1 273
Other fee and commision income	4 490	1 909
	72 854	62 910
Fee and commission expense		
Banking services rendered by third parties	9 401	9 194
Transactions with securities	265	243
Other fee and commission expense	7 970	7 256
	17 636	16 693
Net fee and commission income	55 218	46 217

As at 30 June 2017 and 2016, the balance Insurance brokerage services are presented as follows:

(Thousands of Euro)

	jun 2017	jun 2016
Life Insurance	1 575	1 973
Non-life Insurance	1 225	1 787
	2 800	3 760

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

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

The amount of this account is comprised of:

(Thousand of Euro)

	jun 2017			jun 2016		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Securities						
Bonds and other fixed income securities						
Issued by public entities	9 307	9 146	161	4 431	4 289	142
Issued by other entities	46 532	44 582	1 950	-	-	-
Shares	7 162	6 662	500	5 209	5 962	(753)
Investment units	560	431	129	295	324	(29)
	63 561	60 821	2 740	9 935	10 575	(640)
Derivative financial instruments						
Interest rate contracts	47 065	44 207	2 858	63 363	64 859	(1,496)
Exchange rate contracts	17 556	17 803	(247)	36 852	36 779	73
Futures contracts	2 033	2 367	(334)	3 290	3 051	239
Options contracts	1 549	1 350	199	5 168	4 778	390
Commodities contracts	-	-	-	7 751	7 716	35
Credit default contracts (CDS)	-	-	-	21 787	46 629	(24,842)
	68 203	65 727	2 476	138 211	163 812	(25,601)
Other financial assets at fair value through profit or loss						
Loans to customers	44	303	(259)	413	515	(102)
	44	303	(259)	413	515	(102)
Hedging derivatives						
Interest rate contracts	-	-	-	22	35	(13)
	-	-	-	22	35	(13)
Financial liabilities at fair value through profit or loss						
Deposits from other credit institutions	3	-	3	803	1 356	(553)
Deposits from customers	19	44	(25)	24	45	(21)
Debt securities issued	275	401	(126)	931	2 471	(1,540)
Other subordinated liabilities	-	836	(836)	-	586	(586)
	297	1 281	(984)	1 758	4 458	(2,700)
	132 105	128 132	3 973	150 339	179 395	(29,056)

The balance Financial liabilities, includes fair value changes related with changes in the own credit risk (spread) of operations, in the negative amount of Euro 255 thousand (30 June 2016: Euro 3,894 thousand), as described in note 23.

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

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

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

The amount of this account is comprised of:

(Thousands of Euro)

	jun 2017			jun 2016		
	Gains	Losses	Total	Gains	Losses	Total
Fixed income securities						
Bonds						
Issued by public entities	18 836	2 750	16 086	25 871	299	25 572
Issued by other entities	3 705	207	3 498	5 288	5 153	135
Shares	352	19	333	14 914	2 130	12 784
Other variable income securities	2 407	779	1 628	2 617	904	1 713
	25 300	3 755	21 545	48 690	8 486	40 204

As at 30 June 2017, the balance Fixed income securities – Bonds – Issued by public entities includes the amount of Euro 15,833 thousand related with capital gains generated with the sale of Portuguese public debt bonds. As at 30 June 2016, this balance includes the amount of Euro 22,910 thousand, related with capital gains generated with the sale of treasury bonds of the Spanish and Italian domestic debt.

As at 30 June 2016, the balance Shares includes the amount of Euro 11,294 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 2,169 thousand regarding the received preference shares; and (iii) Euro 704 thousand regarding a deferred payment to be settled in 2019, as described in note 32.

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, 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)

	jun 2017			jun 2016		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differences	30,707	29,628	1,079	44,508	42,857	1,651

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

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

The amount of this account is comprised of:

(Thousands of Euro)

	jun 2017	jun 2016
Sale of investments in associates	-	1 490
Sale of other assets	14 860	(618)
Sale of loans to customers	2 783	13 230
Sale of non-current assets held-for-sale	1 511	(1,869)
	19 154	12 233

As at 30 June 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 which was transferred to the portfolio of financial assets available for sale and that was previously recorded in the portfolio of financial assets held to maturity, as described in note 24.

As at 30 June 2017, the balance Sale of loans and advances to customers in the amount of Euro 2,783 thousand refers to a capital gain 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 215,288 thousand, as described in note 22.

As at 30 June 2016, the balance Sale of loans and advances to customers includes the amount of Euro 13,455 thousand related to the gain generated on the sale of a portfolio of loans to customers which were in default and were booked outside the Statement of Financial Position, as described in note 22.

The balance Sale of non-current assets held for sale includes essentially the result obtained with the sale of real estate properties.

10 Other operating income

The amount of this account is comprised of:

	Jun 2017	Jun 2016
Other operating income		
Profits arising from investment properties revaluation	12 442	25 314
Services rendered	2 521	3 602
Profits arising from investment properties rentals	8 136	8 571
Profits arising from deposits on demand management	5 425	6 104
Staff transfer	6 311	14 514
Reimbursement of expenses	3 717	3 561
Repurchase of own securities	-	333
Other	9 748	7 654
	48 300	69 653
Other operating expense		
Contributions:		
Banking sector	11 875	13 226
Ex ante for the Single Resolution Fund	9 702	10 050
Resolution Fund	3 612	3 105
Deposit Guarantee Fund	13	10
Revaluation losses in investment properties	9 768	41 524
Servicing and credit recovery expenses	572	7 715
Issuance costs	2 580	1 181
Taxes	2 629	805
Donations and membership	431	405
Other	10 582	10 643
	51 764	88 664
Other net operating income	(3 464)	(19 011)

As at 30 June 2017, the balance Other operating income – Staff transfer includes the amount of Euro 5,959 thousand (30 June 2016: Euro 14,514 thousand) referring to the staff transfers from CEMG to MGAM and to entities under its control.

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

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

The balance Ex-ante Contribution to the 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 the Delegated Regulation in accordance with its articles 4, 13 and 20. Under the Single Resolution Mechanism this contribution must be transferred to the Single Resolution Fund until 30 June each year, in accordance with the Agreement for the Transfer and Mutualisation of the contributions to the Single Resolution Fund signed in Brussels on 21 May 2014 and approved by Resolution No. 129/2015 of the Assembly of the Republic, from 3 September, according to paragraph 4 of Article 67 of Regulation (EU) No. 806/2014 of the European Parliament and of the Council, from 15 July 2014 ("Regulation MUR").

Additionally, the Single Resolution Council ("SRB"), in close cooperation with Bank of Portugal, as a national resolution authority, is responsible for the calculation of these contributions on an annual basis, according to and for the purposes of paragraph 2, Article 70, of Regulation MUR. In 2016 and in the first half of 2017, CEMG decided to use irrevocable payment commitments in the proportion of 15% of the contribution amount, in accordance with paragraph 3, Article 8, of the Implementing Regulation. On this basis, CEMG, as at 30 June 2017, opted for the settlement of Euro 3,475 thousand, in the form of irrevocable payment commitments booked in the caption Loans and advances to credit institutions abroad - term deposits, as described in note 21. It should be noted that only cash collateral is accepted as collateral for irrevocable payment commitments.

The item Contribution to the Resolution Fund corresponds to the mandatory periodic contributions paid to the Fund, in accordance with Decree-Law No 24/2013. The periodic contributions are determined using a base rate, established by the Bank of Portugal through regulatory instruments, to be applied in each year and which may be adjusted to the credit institution's risk profile, over the objective base rate of those contributions. 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 core capital and supplementary 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)

	jun 2017	jun 2016
Remunerations	59.713	67.123
Mandatory social security charges	15.059	17.770
Charges with the Pension fund	1.144	23.173
Other staff costs	8.752	16.872
	84.668	124.938

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

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

This program was completed in 2016. As at 30 June 2016 it was recorded in the condensed consolidated financial statements a cost of Euro 32,022 thousand. On this basis, the caption Charges with the pensions fund includes the amount of Euro 19,285 thousand and the caption Other staff costs includes the amount of Euro 12,737 thousand related with compensations and other charges, paid in the first half of 2016.

As at 30 June 2017, the Charges with the pension fund includes the amount of Euro 1,144 thousand (30 June 2016: Euro 5,801 thousand) regarding the current service cost.

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 30 June 2017, the Executive Board of Directors and Other Key management personnel did not received any retribution of variable remuneration.

The costs with salaries and other benefits attributed to the Executive Board of Directors, General and Supervisory Board, General Meeting Board, Audit Committee and Other key management personnel, in the first half of 2017, are presented as follows:

(Thousands of Euro)

	Managing Directors	General and Supervisory Board, General Meeting Board and Audit Committe	Other key management personnel	Total
Salaries and other short-term benefits	1 500	615	2 190	4 305
Costs with health-care benefits (SAMS)	8	-	45	53
	1 508	615	2 235	4 358
Social Security charges	317	113	537	967
Pension Fund charges	15	-	130	145
Seniority bonuses	-	-	223	223
	332	113	890	1 335

The costs with salaries and other benefits attributed to the Executive Board of Directors, General and Supervisory Board, General Meeting Board, Audit Committee and Other key management personnel of the Group, in the first half of 2016, are presented as follows:

(Thousands of Euro)

	Managing Directors	General and Supervisory Board, General Meeting Board and Audit Committe	Other key management personnel	Total
Salaries and short-term benefits	1 392	502	1 919	3 813
Pension costs	16	-	140	156
Costs with health-care benefits (SAMS)	12	-	74	86
	1 420	502	2 133	4 055
Social Security charges	315	91	431	837
Pension Fund charges	14	-	115	129
Seniority bonuses	-	-	21	21
	329	91	567	987

As at 30 June 2017, the remuneration of the General and Supervisory Board amounted to Euro 570 thousand (30 June 2016: Euro 455 thousand).

As at 30 June 2017, loans granted to key management personnel amounted to Euro 3,291 thousand (30 June 2016: Euro 3,030 thousand), to the General and Supervisory Board amounted to Euro 488 thousand (30 June 2016: Euro 687 thousand) and to the Executive Board of Directors amounted to Euro 142 thousand (30 June 2016: Euro 150 thousand), as referred in note 52.

12 General and administrative expenses

The amount of this account is comprised of:

(Thousands of Euro)

	jun 2017	jun 2016
Rental costs	4 806	7 249
Specialized services		
IT services	3 735	4 461
Independent work	1 479	1 387
Other specialized services	10 617	12 442
Communication costs	2 896	3 605
Advertising costs	1 784	2 720
Maintenance and related services	3 877	3 038
Water, energy and fuel	2 256	2 428
Insurance	1 137	1 474
Transportation	1 258	1 464
Travel, hotel and representation costs	519	547
Consumables	873	766
Training costs	56	95
Other	4 772	4 923
	40 065	46 599

The Rental costs balance includes the amount of Euro 3,844 thousand (30 June 2016: Euro 6,370 thousand) related to rents paid regarding buildings used by the Group as lessee.

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)

	jun 2017	jun 2016
Up to 1 year	2,692	16
1 to 5 years	4,536	2,707
	7,228	2,723

The balance Other administrative expenses includes the amount of Euro 1,833 thousand (30 June 2016: 1,798 thousand) related to services rendered by Montepio Gestão de Activos Imobiliários, A.C.E.

13 Depreciation and amortisation

The amount of this account is comprised of:

(Thousands of Euro)

	jun 2017	jun 2016
Intangible assets		
Software	7,035	6,145
Other tangible assets		
Real estate		
For own use	2,367	1,899
Leasehold improvements	842	1,243
Equipment		
IT equipment	1,283	1,763
Interior installations	523	691
Furniture and material	204	265
Transportation	70	79
Security	126	140
Machinery and tools	6	9
Operating leases	21	40
Other tangible assets	2	22
	5,444	6,151
	12,479	12,296

14 Loans impairment

The amount of this account is comprised of:

(Thousands of Euro)

	jun 2017	jun 2016
Loans and advances to customers		
Charge for the period net of reversals	66 106	89 261
Recovery of loans and interest charged-off	(2,561)	(3,482)
	63 545	85 779

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:

	jun 2017	jun 2016
	(Thousands of Euro)	
Impairment for financial assets available-for-sale		
Charge for the period net of reversals	4 905	38 056

As at 30 June 2017, the balance Impairment for financial assets available-for-sale – Charge for the period includes the amount of Euro 5,227 thousand (30 June 2016: Euro 6,880 thousand) that corresponds to impairment losses recognised for investment units in a Fund specialised in the recovery of loans, acquired under the sale of loans and advances to customers, as described in note 57.

16 Other assets impairment

The amount of this account is comprised of:

	Jun 2017	Jun 2016
	(Thousands of Euro)	
Impairment for non-current assets held-for-sale		
Charge for the period	9 136	14 861
Write-back for the period	(955)	(8,443)
	8 181	6 418
Impairment for intangible assets		
Charge for the period	6 801	1 014
Write-back for the period	(4,807)	(672)
	1 994	342
	10 175	6 760

17 Other provisions

The amount of this account is comprised of:

	Jun 2017	Jun 2016
	(Thousands of Euro)	
Provisions for guarantees and commitments		
Charge for the period	8 374	6 798
Write-back for the period	(6,303)	(14,936)
	2 071	(8,138)
Provisions for other liabilities and charges		
Charge for the period	10 057	10 734
Write-back for the period	(1,607)	(14,409)
	8 450	(3,675)
	10 521	(11,813)

18 Share of profit under the equity method

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

(Thousands of Euro)

	Jun 2017	Jun 2016
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	(90)	19

19 Cash and deposits at central banks

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2017	Dec 2016
Cash	159,560	211,648
Deposits at central banks		
Bank of Portugal	264,080	169,641
	423,640	381,289

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

As at 30 June 2017 and during 2016, deposits from 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)

	Jun 2017	Dec 2016
Credit institutions in Portugal	7,902	7,480
Credit institutions abroad	14,652	13,147
Amounts due for collection	36,363	48,941
	58,917	69,568

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

21 Other loans and advances to credit institutions

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Loans and advances to credit institutions in Portugal		
Loans and advances to central banks	-	150 000
Term deposits	1 987	2 131
Other loans and advances	83	6 010
	2 070	158 141
Loans and advances to credit institutions abroad		
Repos	33 384	25 444
CSA's	41 031	46 312
Term deposits	19 607	21 339
Subordinated investments	-	1 612
Very short term investments	30 000	30 000
Other loans and advances	243 071	276 243
	367 093	400 950
	369 163	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.

The caption Loans and advances to credit institutions abroad - Term deposits includes the amount of Euro 3,475 thousand regarding the deposit performed as collateral under the ex-ante contribution to the Single Resolution Fund, as described in note 10.

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

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

On this basis, and within operations of derivative financial instruments with institutional counterparties, and as defined in the respective contracts, the Group holds an amount of Euro 41,031 thousand (31 December 2016: Euro 46,312 thousand) related to deposits in credit institutions given as collateral for the referred operations.

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

22 Loans and advances to customers

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Corporate		
Loans not represented by securities		
Loans	2 996 314	2 903 554
Commercial lines of credits	502 239	589 750
Finance lease	466 235	467 042
Discounted bills	75 927	89 126
Factoring	125 237	115 264
Overdrafts	3 718	9 245
Other loans	780 574	783 564
Loans represented by securities		
Commercial paper	262 433	223 424
Bonds	267 580	278 749
Retail		
Mortgage loans	6 879 821	7 045 714
Finance lease	65 444	66 232
Consumer and other loans	1 006 783	1 015 024
	13 432 305	13 586 688
Correction value of assets subject to hedge operations		
Other credits	276	625
Overdue loans and interest		
Less than 90 days	86 233	81 718
More than 90 days	1 371 040	1 371 620
	1 457 273	1 453 338
	14 889 854	15 040 651
Impairment for credit risks	(1 191 589)	(1 179 617)
	13 698 265	13 861 034

As at 30 June 2017, the balance Loans and advances to customers includes de amount of Euro 2,723,746 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 30 June 2017, the credit, guarantees and irrevocable credit lines (excluding interbank and money market transactions) that CEMG granted to the holder of institutional capital and to its subsidiaries was Euro 45,233 thousand (31 December 2016: Euro 45,625 thousand), as referred in note 52. The conclusion of businesses between CEMG and the holders of institutional capital 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 253 thousand as at 30 June 2017 (31 December 2016: Euro 528 thousand).

In the first half of 2017, CEMG carried out a sale of loans to customers that were in default and recorded off-balance sheet. The total amount of credits sold amounted to Euro 215,288 thousand and generated a gain of Euro 2,783 thousand, as described in note 9.

During the first half of 2016, CEMG carried out a sale of loans to customers that were in default and recorded off-balance sheet. The global amount of credits sold amounted to Euro 362,996 thousand, generating a gain of Euro 13,455 thousand.

As at 30 June 2017 and within the sale of credits and real estate properties performed, it is outstanding by SilverEquation the amount of Euro 33,613 thousand (31 December 2016: Euro 101,012 thousand), as described in note 32.

As at 31 December 2016, the Group performed a sale of loans and advances to customers to funds specialized 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, leasing, 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 30 June 2017, the value of loans and advances to customers (net of impairment), includes the amount of Euro 43,549 thousand (31 December 2016: 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 at 30 June 2017, the balance Loans and advances to customers includes the amount of Euro 3,726,375 thousand (31 December 2016: Euro 3,916,300 thousand) related with loans object of securitisation that, in accordance with accounting policy described in note 1 g), were not subject of derecogniton, as described in note 53.

In the balance Correction value of assets subject to hedge operations is accounted the fair value of portfolio that is hedged. The valuation is accounted for in the income statement, in accordance with note 1 e).

The analysis of Loans and advances to customers, by type of rate, as at 30 June 2017 and 31 December 2016, is presented as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Variable interest rate contract	13,308,441	13,659,978
Fixed interest rate contract	1,581,413	1,380,673
	14,889,854	15,040,651

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

(Thousands of Euro)

	Jun 2017	Dec 2016
Asset-backed loans	931 190	925 287
Other guarantee loans	320 863	327 108
Financial leases	37 101	35 002
Secured loans	4 300	4 300
Other loans	163 819	161 641
	1 457 273	1 453 338

The analysis of loans and advances to customers, by maturity and by type of credit, as at 30 June 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	232 148	731 176	9 205 429	931 190	11 099 943
Other guarantee loans	559 986	266 794	423 129	320 863	1 570 772
Financial leases	38 816	242 935	249 928	37 101	568 780
Secured loans	262 433	-	-	4 300	266 733
Loans represented by securities - Bonds	55 790	204 179	7 611	-	267 580
Other loans	576 396	186 357	189 474	163 819	1 116 046
	1 725 569	1 631 441	10 075 571	1 457 273	14 889 854

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
Secured loans	223 424	-	-	4 300	227 724
Loans represented by securities - Bonds	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 30 June 2017, is analysed as follows:

(Thousands of Euro)

	Financial leases			
	Due within 1 year	1 to 5 years	Over 5 years	Total
Outstanding rents	71 697	255 746	140 392	467 835
Outstanding interests	(13 981)	(41 265)	(27 615)	(82 861)
Residuals values	24 826	70 942	50 937	146 705
	82 542	285 423	163 714	531 679

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)
Residuals 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)

	Jun 2017	Dec 2016
Corporate		
Construction/Production	288 947	303,668
Investments	531 116	499,744
Treasury	303 313	323,421
Other loans	62 343	62,882
Retail		
Mortgage loans	120 364	117,990
Consumer credit	71 534	68,411
Other loans	79 656	77,222
	1,457,273	1,453,338

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

(Thousands of Euro)

	Jun 2017	Jun 2016
Balance on 1 january	1 179 617	1 281 738
Charge for the period net of reversals		
Continuous operations	66 106	89 261
Discontinuing operations	4 072	7 766
Impairment charged-off	(54 134)	(143 460)
Transfers	-	(22 737)
Transfers associated to discontinuing operations	(4 072)	(5 695)
Balance on 30 June	1 191 589	1 206 873

In compliance with the accounting policy described in 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)

	Jun 2017	Dec 2016
Asset-backed loans	712 321	739 566
Other guaranteed loans	331 895	307 075
Unsecured loans	147 373	132 976
	1 191 589	1 179 617

In compliance with the accounting policy described in 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 collateralized loans, when the funds arising from the execution of the respective collaterals have already been received.

This charge-off is carried out by using impairment losses when these correspond to 100% of the value of the credits considered as non-recoverable.

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

(Thousands of Euro)

	jun 2017	jun 2016
Asset-backed loans	9 545	24 452
Other guaranteed loans	31 816	68 762
Unsecured loans	12 773	50 246
	54 134	143 460

The total recovered loans and overdue interest, regarding the credit recovery with real guarantees, booked in the first half of 2017 and 2016 amounts to Euro 2,561 thousand and Euro 3,482 thousand, respectively, as described 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 1,322,939 thousand (31 December 2016: Euro 1,341,438 thousand) which have an impairment of Euro 403,209 thousand (31 December 2016: Euro 403,396 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, in 15 January 2014, namely contractual amendments (lack of capital, extension of the final date, deferral of capital, etc.) and consolidation of debts in another contract, with conditions adjusted to the customer's current situation.

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

The restructuring operations that were performed at 30 June 2017 and during 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 involves an extension of maturities or a different interest rate. The analysis of restructured loans, performed in the first half of 2017 and 2016, by type of credit, is as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Corporate		
Loans not represented by securities		
Loans	76 320	186 012
Commercial lines of credits	12 275	13 353
Financial lease	1 381	19 219
Other loans	40 682	42 776
Retail		
Mortgage loans	5 952	19 681
Consumer and other loans	2 468	7 553
	139 078	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.

Regarding restructured loans, the impairment associated to these operations amounts to Euro 13,166 thousand (31 December 2016: Euro 26,812 thousand).

23 Financial assets and liabilities held for trading

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

(Thousands of Euro)

	Jun 2017	Dec 2016
Financial assets held-for-trading		
Securities		
Shares	6 908	6 871
Bonds	52 360	37 770
Investment fund units	322	299
	59 590	44 940
Derivatives		
Derivative financial instruments with positive fair value	27 442	33 228
	87 032	78 168
Financial liabilities held-for-trading		
Securities		
Short sales	1 283	1 458
Derivatives		
Derivative financial instruments with negative fair value	20 251	24 690
	21 534	26 148

The balance Derivatives financial instruments with positive fair value includes, as at 30 June 2017, the amount of Euro 12,656 thousand (31 December 2016: Euro 15,905 thousand) referred to instruments associated to assets or liabilities at fair value through profit and loss and negotiation.

The balance Derivatives financial instruments with negative fair value includes, as at 30 June 2017, the amount of Euro 1,509 thousand (31 December 2016: Euro 1,306 thousand) referred to embedded derivatives marked according to the accounting policy described in note 1 d).

The balance Derivatives financial instruments with negative fair value, also includes as at 30 June 2017 the amount of Euro 5,083 thousand (31 December 2016: Euro 6,651 thousand) referred to instruments associated to assets or liabilities at fair value through profit or loss and negotiation, with the exception of loans and advances to customers in the amount of Euro 382 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.

During 2016, the Group completed an asset assignment (loans and real estate) in the amount of Euro 311,532 thousand. Within this business, CEMG acquired the right to return of a set of parameters of assigned assets.

As at 31 December 2016, this transaction amounted to Euro 12,000 thousand and is recorded under the caption Financial instruments with positive fair value.

As referred in IFRS 13 financial instruments are measured in accordance with the following levels of valuation, described in note 49, as follows:

(Thousands of Euro)

	Jun 2017		
	Level 1	Level 2	Total
Financial assets held-for-trading			
Securities			
Shares	6 908	-	6 908
Bonds	52 360	-	52 360
Investment units	322	-	322
	59 590	-	59 590
Derivatives			
Derivative financial instruments with positive fair value	-	27 442	27 442
	59 590	27 442	87 032
Financial liabilities held-for-trading			
Securities			
Short sales	1 283	-	1 283
Derivatives			
Derivative financial instruments with negative fair value	-	20 251	20 251
	1 283	20 251	21 534

(Thousands of Euro)

	Dec 2016		
	Level 1	Level 2	Total
Financial assets held-for-trading			
Securities			
Shares	6 871	-	6 871
Bonds	37 770	-	37 770
Investment units	299	-	299
	44 940	-	44 940
Derivatives			
Derivative 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			
Derivative financial instruments with negative fair value	-	24 690	24 690
	1 458	24 690	26 148

The balance of Derivatives financial instruments as at 30 June 2017, in comparison with the assets and liabilities associated, registered in the fair value, can be analysed as follows:

(Thousands of Euro)

		Jun 2017						
		Derivative			Related asset/liability			
Derivative	Related financial asset/liability	Notional	Fair value	Fair value changes in the period [1]	Fair value	Fair value changes in the period	Book value	Reimbursement amount at maturity date
Interest rate swap	Debt securities issued	45 108	334	(606)	(46)	962	42 710	42 655
Interest rate swap	Deposits from customers	16 100	(164)	(116)	37	25	15 718	15 718
Interest rate swap	Deposits from financial institutions	-	-	(2,576)	-	(3)	-	-
Interest rate swap	Covered bonds	5 404 833	(1,208)	1 172	-		-	-
Interest rate swap	Loans to customers	32 338	(382)	334	275	(259)	32 446	32 338
Interest rate swap	Other	4 017 073	(3,709)	514	-	-	-	-
Currency swap (Short)	-	51 499	302	(77)	-	-	-	-
Currency swap (Long)	-	51 777						
Futures (Short)	-	7 024	-	-	-	-	-	-
Futures (Long)	-	7 733	-	-	-	-	-	-
Forwards (Short)	-	3 145	(2)	(6)	-	-	-	-
Forwards (Long)	-	3 150						
Options (Short)	-	80 930	12 020	14	-	-	-	-
Options (Long)	-	408 833						
		10 129 543	7 191	(1,347)	266	725	90 874	90 711

[1] Includes the derivative gain/(losses) disclosed in note 6.

The balance of Derivatives financial instruments as at 31 December 2016, in comparison with the assets and liabilities associated, registered in the fair value, can be analysed as follows:

		Dec 2016						
		Derivative			Related asset/liability			
Derivative	Related financial asset/liability	Notional	Fair value	Fair value changes in the period [1]	Fair value	Fair value changes in the period	Book value	Reimbursement amount at maturity date
Interest rate swap	Debt securities issued	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 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 to customers	43 520	(716)	733	534	(799)	40 713	40 562
Interest rate swap	Other	4 126 321	(4,223)	642	-	-	-	-
Currency swap (Short)	-	67 540	379	(157)	-	-	-	-
Currency swap (Long)	-	67 914						-
Futures (Short)	-	10 935	-	-	-	-	-	-
Futures (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 derivative gains/(losses) disclosed in note 6.

The fair value component of financial liabilities recognised at fair value through profit or loss attributable to the Group's credit risk is negative and the respective accumulated value amounts to Euro 195 thousand at 30 June 2017 (31 December 2016: Euro 1,437 thousand), as described in notes 6 and 34.

As at 31 December 2016, the amount of the loan obtained from EIB is collateralized by Portuguese bonds at the nominal value of Euro 2,500 thousand, provided as collateral and recorded under the caption Financial assets held for trading.

24 Financial assets available for sale

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017				
	Cost (1)	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Issued by public entities					
Domestic	1 863 111	36 335	(8,344)	-	1 891 102
Foreign	319 703	1 161	(6,445)	-	314 419
Issued by other entities					
Domestic	64 506	470	(22)	(29,251)	35 703
Foreign	88 988	535	(243)	(33,522)	55 758
Variable income securities					
Shares					
Domestic	76 235	10 106	(1 625)	(1,920)	82 796
Foreign	73 947	9 536	(4 501)	(77)	78 905
Investment fund units	402 590	19 588	(1 438)	(36,932)	383 808
	2 889 080	77 731	(22,618)	(101,702)	2 842 491

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

(milhares de euros)

	Dec 2016				
	Cost (1)	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Issued by public entities					
Domestic	1 420 357	3 345	(63,285)	-	1 360 417
Foreign	348 243	1 260	(8,470)	-	341 033
Issued by other entities					
Domestic	61 430	518	(49)	(29,251)	32 648
Foreign	131 893	1 755	(782)	(34,641)	98 225
Variable income securities					
Shares					
Domestic	76 159	9 814	(1 625)	(1,920)	82 428
Foreign	72 628	14 746	(24)	(77)	87 273
Investment fund units	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 57, the balance Variable income securities – Investment fund units includes at 30 June 2017 the amount of Euro 96,707 thousand (31 December 2016: Euro 104,203 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 30 June 2017 and 31 December 2016, this amount includes Euro 7,838 thousand related to junior securities (investment fund units with a more subordinated character), which are fully provided, according to note 57.

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 resulted under 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 financial assets available for sale to loans and advances to customers. This reclassification is allowed only if the unquoted financial instruments correspond to this definition and if there is the intention and the ability to hold the debt instruments for the foreseeable future or until maturity.

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

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

- The reclassification of securities from financial assets available for sale portfolio to the loans and advances to customers category is 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;
- A review 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 financial assets available for sale 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, as described in note 22. 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 30 June 2017, is presented as follows:

(Thousands of Euro)

	At the reclassification date		jun 2017		
	Book value	Fair value	Book value	Fair value	Difference
Financial assets available-for-sale to:					
Loans and advances to customers	358 488	358 488	257 625	263 588	5 963
Financial assets held-to-maturity to:					
Financial assets available-for-sale	813 219	840 613	840 613	840 613	-
	1 171 707	1 199 101	1 098 238	1 104 201	5 963

The amounts recorded in profit or loss and fair value reserves as at 30 June 2017, related to financial assets reclassified in prior years, are as follows:

(Thousands of Euro)

	Profit/ (loss) in the period	Variation	
	Interests	Fair value reserves	Equity
Financial assets available-for-sale to:			
Loans and advances to customers	6.872	(1.514)	6.872
Financial assets held-to-maturity:			
Financial assets available-for-sale	-	27.394	27.394
	6.872	25.880	34.266

If the reclassifications described above had not taken place, the additional amounts recognised in equity as at 30 June 2017, would be as follows:

(Thousands of Euro)

	Profit/ (loss) in the period		
	Fair value variation	Fair value reserves	Equity
Financial assets available-for-sale to:			
Loans and advances to customers	-	8.007	8.007
Financial assets held-to-maturity to:			
Financial assets available-for-sale	-	(27.394)	(27.394)
	-	(19.387)	(19.387)

The analysis of the impact of reclassifications until 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 as at 31 December 2016, related to financial assets reclassified in prior years, are as follows:

	Profit/ (loss) in the period	Variation	(Thousands of Euro)
	Interests	Fair value reserves	Equity
Financial assets available-for-sale to:			
Loans and advances to customers	12,075	(1,381)	(1,381)
	12,075	(1,381)	(1,381)

If the reclassifications described above had not taken place, the additional amounts recognised in equity as at 31 December 2016, would be as follows:

	Profit/ (loss) in the period		(Thousands of Euro)
	Fair value variation	Fair value reserves	Equity
Financial assets available-for-sale to:			
Loans and advances to customers	12,134	13,515	13,515
	12,134	13,515	13,515

As at 30 June 2017 and during 2016, the analysis of financial assets available-for-sale net of impairment, by valuation levels, is presented as follows:

(Thousands of Euro)

	Jun 2017				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Issued by public entities					
Domestic	1 891 102	-	-	-	1 891 102
Foreign	314 419	-	-	-	314 419
Issued by other entities					
Domestic	5 200	29 789	714	-	35 703
Foreign	41 345	14 413	-	-	55 758
	2 252 066	44 202	714	-	2 296 982
Variable income securities					
Shares					
Domestic	81	-	77 539	5 176	82 796
Foreign	2 483	-	76 084	338	78 905
Investment fund units	7 655	-	376 153	-	383 808
	10 219	-	529 776	5 514	545 509
	2 262 285	44 202	530 490	5 514	2 842 491

(Thousands of Euro)

	Dec 2016				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Issued by public entities					
Domestic	1 360 417	-	-	-	1 360 417
Foreign	341 033	-	-	-	341 033
Issued by other entities					
Domestic	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					
Domestic	-	-	77 539	4 889	82 428
Foreign	1 288	-	85 647	338	87 273
Investment fund units	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 49.

The assets included in level 3, in balance Variable income securities – Participation units includes participation units in real estate investment funds, in credit recovery specialized 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 376,153 thousand (31 December 2016: Euro 390,602 thousand) of which Euro 213,291 thousand (31 December 2016: 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 entity 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 53,049 thousand was determined as at 30 June 2017 (31 December 2016: Euro 55,448 thousand).

Instruments classified as level 3 have associated unrealized gains and losses in the positive amount of Euro 29,812 thousand (31 December 2016: positive amount of Euro 42,812 thousand) recognised in fair value reserves.

As at 30 June 2017, the impairment amount recorded for these securities amounts to Euro 72,038 thousand (31 December 2016: Euro 67,492 thousand).

The movements occurred in financial assets available for sale in level 3 are analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Balance on 1 january	554 484	404 066
Acquisitions	282	17 102
Revaluations	(18,166)	6 771
Disposals	(6,110)	(8,659)
Transfers	-	135 204
Balance on 30 June	530 490	554 484

The balance Transfers is analysed in note 49.

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

(Thousands of Euro)

	Jun 2017	Jun 2016
Balance on 1 January	98 276	67 309
Charge for the period		
Continuing operations	6 024	51 533
Discontinuing operations	2	17
Write-back for the period		
Continuing operations	(1 119)	(13 477)
Discontinuing operations	(3)	(13)
Charge-off	(1 478)	(5 424)
Transfers associated to discontinuing operations	-	(1)
Balance on 30 June	101 702	99 944

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 3,425,735 million as at 30 June 2017 after hair cut (31 December 2016: Euro 3,524,496 million);
- Securities pledged as collateral to the Portuguese Securities Market Commission under the Investors' Compensation Fund in the nominal amount of Euro 1,000 thousand as at 30 June 2017 and 31 December 2016;
- The amount of the EIB loan obtained is collateralized by securities of Portuguese and Greek states in the nominal amount of Euro 628,890 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 23,000 thousand as at 30 June 2017 and 31 December 2016.

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 33 and 34.

25 Held-to-maturity investments

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 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 referred in notes 7 and 24. The decision resulted under 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 accordance with IAS 39 financial instruments, CEMG will not classify assets in this category until the end of 2019.

With reference to 31 December 2016, the Group assessed the existence of objective evidence of impairment on its held-to-maturity investments portfolio and no events with impact on the recoverable amount of the future cash flows associated with those investments were identified.

The held-to-maturity investments, 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-October-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-October-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-October-2023	June 2008	October 2023	Fixed rate of 4.950%	99 465
OT 5.650% 15-February-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 amount of loans obtained from EIB is collateralized 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.

26 Investments in associated companies

This balance is analysed as follows:

	Jun 2017	Dec 2016
	(Thousands of Euro)	
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3 000	3 344
Montepio - Gestão de Activos Imobiliários, ACE	698	698
Naviser – Transportes Marítimos Internacionais, S.A.	150	150
	3 848	4 192
Impairment for investments in associated companies	(150)	(150)
	3 698	4 042

The subsidiaries and associates included in the consolidation perimeter are presented in note 59.

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

(Thousands of Euro)

	Assets	Liabilities	Equity	Income	Profit/(Loss) for the period	Acquisition cost
30 June 2016						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	38,610	23,063	15,547	3,185	(448)	3,000
Montepio - Gestão de Ativos Imobiliários, ACE	4,005	1,555	2,450	2,311	-	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	
	Jun 2017	Dec 2016	Jun 2017	Dec 2016	Jun 2017	Dec 2016
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	20.00%	20.00%	3 000	3 344	(90)	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)

	Jun 2017	Dec 2016
Balance on 1 january	4 192	5 356
Disposals	-	(1,107)
Share of profit of associates	(90)	250
Other reserves and retained earnings	(254)	(307)
Balance on 30 June	3 848	4 192

Impairment movements for investments in associated and other companies are analysed as follows:

(Thousands of Euro)

	Jun 2017	Jun 2016
Balance on 1 january	150	1,448
Charge for the period associated to continuing operations	-	-
Charge-off	-	(1,107)
Balance on 30 June	150	341

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

27 Non-current assets held for sale

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Investments arising from recovered loans	885 246	908 615
Impairment for non-current assets held-for-sale	(151,028)	(148,411)
	734 218	760 204

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 2,107 thousand (31 December 2016: Euro 2,089 thousand) related with other non-current assets held for sale resulting from the foreclosure of loans to customers' contracts, which have an associated impairment in the amount of Euro 1,959 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 on behalf 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 sale immediately the non-current assets held for sale. According to Group's expectation, these assets are available for sale in a period less than 1 year and the Group has a strategy for its sale. Nevertheless, given the current market conditions, in some situations it is not possible to conclude these sales before the expected deadline. This balance includes buildings and other assets for which the Group has already established contracts for the sale in the amount of Euro 41,637 thousand (31 December 2016: Euro 13,347 thousand).

The movements, in the end of the first semester of 2017 and during 2016, for non-current assets held for sale are analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Balance at the beginning of the period	908 615	892 163
Acquisitions	49 866	189 249
Disposals	(72,647)	(148,773)
Transfers associated to discontinuing operations	-	(575)
Transfers	-	(23,102)
Other movements	(588)	(347)
Balance at the end of the period	885 246	908 615

The movement in impairment for non-current assets held for sale balance is analysed as follows:

(Thousands of Euro)

	Jun 2017	Jun 2016
Balance on 1 January	148 411	137 265
Charge for the period associated to continuing operations	9 136	14 861
Reversal of the period associated to continuing operations	(955)	(8 443)
Charge-off	(5 564)	(15,603)
Balance on 30 June	151 028	128 080

In addition to the impairment losses, in the first semester of 2017, the Group recognised in profit or loss, gains on real estate arising from its disposal in the amount of Euro 1,511 thousand (30 June 2016: losses in the amount of Euro 1,869 thousand).

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 properties amounts to Euro 7,793 thousand (31 December 2016: Euro 15,469 thousand) and maintenance costs of leased and not leased properties amounts to Euro 4,910 thousand (31 December 2016: Euro 9,632 thousand).

The movements in this balance are analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Balance at the beginning of the period	607,968	692,485
Acquisitions	1,254	19,078
Revaluations	3,522	(44,996)
Disposals	(50,235)	(81,701)
Transfers	-	23,102
Balance at the end of the period	562,509	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:

(Thousands of Euro)

	Jun 2017	Dec 2016
Investment		
Real estate		
For own use	218,485	219,194
Leasehold improvements in rented buildings	41,259	41,545
Constructions in progress	151	-
Equipment		
IT Equipment	89,614	89,098
Interior installations	20,858	20,767
Furniture and materials	18,882	18,849
Transport equipment	7,303	2,007
Security equipment	1,676	7,242
Office equipment	2,678	2,677
Other equipment	5	5
Assets in financial lease	38	38
Assets in operational lease	443	534
Works of art	2,870	2,870
Other tangible assets	2,063	2,063
Work in progress	6,441	4,515
	412,766	411,404
Accumulated depreciation		
Charge for the period	5,444	11,727
Accumulated charge in previous periods	171,564	161,180
	177,008	172,907
Impairment for property and equipment	1,400	1,400
	234,358	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 52.

As at 31 December 2016, the Group recorded an impairment of other property and equipment in the amount of Euro 1,400 thousand, given that the carrying amount of the asset exceeds its recoverable amount.

30 Intangible assets

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Investment		
Software	102,272	97,546
Revaluation and consolidation differences (goodwill)	9	9
Other intangible assets	1,584	1,645
Work in progress	6,516	5,921
	110,381	105,121
Accumulated depreciation		
Charge for the period	7 035	12,543
Accumulated charge in previous periods	70 140	57,597
	77,175	70,140
Impairment for intangible assets	-	(60)
	33,206	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 60.

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

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

(i) an estimate of future cash flows generated;

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

(iii) the time value of money;

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

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

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

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

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, where 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 60.

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

(Thousands of Euro)

	Jun 2017	Jun 2016
Balance on 1 january	60	-
Charge for the period		
Discontinuing operations	-	-
Charge-off	(60)	-
Transfers associated to discontinuing operations	-	-
Balance on 30 June	-	-

31 Taxes

Deferred tax assets and liabilities as at 30 June 2017 and 31 December 2016 are analysed as follows:

(Thousands of Euro)

	Assets		Liabilities		Net	
	Jun 2017	Dec 2016	Jun 2017	Dec 2016	Jun 2017	Dec 2016
Financial instruments	9 115	24 924	(22,379)	(12,778)	(13,264)	12 146
Provisions/Impairment						
Impairment on loans granted	222 558	230 526	-	-	222 558	230 526
Other risks and charges	7 872	6 594	-	-	7 872	6 594
Impairment in securities, non-financial assets	52 904	49 783	-	-	52 904	49 783
Benefits to employees	41 454	45 867	-	-	41 454	45 867
Other	660	2 210	(116)	(117)	544	2 093
Tax losses carried forward	174 224	174 707	-	-	174 224	174 707
Net deferred tax assets/(liabilities)	508 787	534 611	(22,495)	(12,895)	486 292	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 Benefits to employees includes the amount of Euro 11,940 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 also includes the amount of Euro 3,296 thousand (31 December

2016: Euro 3,410 thousand) related to deferred taxes associated with the expense generated with the transfer of liabilities with pensioners to the general social security system.

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

As at 30 June 2017, deferred taxes associated with Employee benefits include the amount of Euro 12,588 thousand (31 December 2016: 13,551 thousand) related with employee benefits in excess when compared with the existing limits.

The deferred tax rate is analysed as follows:

	Jun 2017	Dec 2016
Income tax [a]	21.0%	21.0%
Municipal surcharge rate	1.5%	1.5%
State surcharge rate	7.0%	7.0%
Total [b]	29.5%	29.5%

(a) - Applicable to deferred taxes related to tax losses;

(b) - Applicable to deferred taxes related to temporary differences.

Analysis of the recoverability of deferred tax assets

Deferred taxes related to the losses carried forward are recognised only if the existence of future taxable profits is probable. Thus, any 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 condensed financial statements have a high expectation of recoverability. The evaluation of the recoverability of deferred tax assets is based on the latest exercise prepared for the Funding and Capital Plan for 2017-2019, at the opportunity, to the Bank of Portugal, assuming a pre-tax income growth assumption between 2019 and 2024.

Thus, the recoverability of deferred tax assets, in particular related to tax losses carried forward is based on the Group's forecasted condensed financial statements, prepared under the Funding and Capital Plan mentioned above, which took into account the macroeconomic and competitive environment were the Group operates, as well as the strategic priorities defined in the strategic plan for 2016-2018.

The recovery of profitability, liquidity and capital levels recommended in the strategic plan is fundamentally based in the favorable impacts of:

(i) recovery of the core banking product: by increasing the net interest income provided by the monitoring of turnover and pricing, especially the costs of deposits, as well as by the increase in commissions, benefiting from the impact of the price list update that has been implemented;

(ii) decrease of operating costs: 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 decrease in the level of investments;

(iii) reinforcement of the 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 evaluation and as at 30 June 2017 and 31 December 2016, the Group recognised all the deferred tax assets and, therefore, there are no deferred tax assets to be recognised.

In addition, a sensitivity analysis was developed considering a scenario in which profit and loss before tax evolved at a rate lower than 10%, considering the projections mentioned above and no impact on deferred taxes was determined.

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

(Thousands of Euro)

Expire date	Jun 2017	Dec 2016
2022	45	-
2027	47,841	50,915
2028	126,338	123,792
	174,224	174,707

Main assumptions used

Due to the lack of tax rules related to the tax regime of specific credit impairment losses for 2017 and subsequent tax periods, it was considered the tax regime in force at 31 December 2016.

Tax recognised in the income statement and reserves during the first semester of 2017 and during 2016 is analysed as follows:

(Thousands of Euro)

	Jun 2017			Dec 2016		
	Charged to net (loss)/income	Charged to reserves and retained earnings	Other movements from discontinuing operations	Charged to net (loss)/income	Charged to reserves and retained earnings	Other movements from discontinuing operations
Financial instruments	-	(25,410)	-	-	12 370	-
Provisions/Impairments	(3,569)	-	-	107 139	-	-
Employees benefits	(3,086)	(1,327)	-	3 963	703	-
Other	(1,436)	-	(113)	768	-	(393)
Tax losses carried forward	(1,168)	685	-	(13,929)	12 321	(4,732)
Deferred tax charged to profit/(loss)	(9,259)	(26,052)	(113)	97 941	25 394	(5,125)
Current taxes	(3,890)	-	-	(1,697)	-	-
	(13,149)	(26,052)	(113)	96 244	25 394	(5,125)

The reconciliation of the effective tax rate, regarding the amount recognized in the income statement, is analysed as follows:

(Thousands of Euro)

	Jun 2017		Jun 2016	
	%	Value	%	Value
Profit before taxes		22 108		(135,947)
Income tax based on the current nominal tax rate	21.0	(4,643)	21.0	28 549
Impact of municipal and state surcharge	(29.3)	(6,478)	0.6	(867)
Extraordinary contribution for the banking sector	10.4	2 296	2.5	(3,455)
Benefits to employees	(0.0)	(10)	(0.8)	1 153
Autonomous taxation	(20.7)	(4,566)	0.5	(732)
Other	(4.8)	(1,060)	6.6	(9,024)
Deferred taxes not previously recorded		-	7.2	(9,737)
Previous periods adjustments	-	-	(0.4)	599
Impact on tax rate differences	3.9	869	(17.2)	23 342
Taxable profit deductions (*)	2.0	443	(29.0)	39 453
Income tax for the period	(59.5)	(13,149)	(51.0)	69 281

(*) Relates to the losses generated by investment funds included in the consolidation 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 and including the year of 2014. The inspection regarding the year 2015 is still ongoing.

32 Other assets

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Other debtors	104 149	172 390
Other accrued income	38 860	44 405
Recoverable subsidies from Portuguese Government	6 036	5 521
Prepayment and deferred costs	2 498	1 856
Sundry debtors	101 125	36 587
	252 668	260 759
Impairment for other assets	(36 757)	(37 848)
	215 911	222 911

As at 30 June 2017 and 31 December 2016, the balance Other debtors is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
SilverEquation	33 613	101 012
Supplementary capital contributions	14 910	14 910
Public entities	6 975	6 983
Others	48 651	49 485
	104 149	172 390

The balance SilverEquation includes the receivable amounts under an operation of sale of credits and property, performed in 2014, to SilverEquation as referred in not 22. During the first semester of 2017 it was received an amount of Euro 67,399 thousand. It is expected to receive the remaining amount in 2017 and 2019, in the amounts of Euro 3,347 thousand and Euro 30,266 thousand, respectively.

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

As at 30 June 2017, the balance Public Entities includes amounts receivable from public entities, mostly related with courts in the context of insolvency proceedings and lodge claims.

As at 30 June 2017, the balance Others includes the amount receivable of Euro 928 thousand under the operation of sale of credits performed in the first half of 2017, as described in note 22.

As at 31 December 2016, the balance Others includes the amount receivable of Euro 7,569 thousand under the operation of sale of credits performed in the first half of 2016, as described in note 22.

As at 31 December 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 completion of the transaction), in the amount of Euro 704 thousand.

As at 30 June 2017 and 31 December 2016, the balance Other accrued income includes the amount of Euro 36,000 thousand, referring to receivables related with services rendered by CEMG to MGAM.

The balance Recoverable subsidies from the Portuguese Government corresponds to the subsidies of mortgage loans and PME’s contracts, in accordance with the legal provisions applicable to low interest loans. These amounts do not bear interest and are claimed on a monthly basis.

As at 30 June 2017, the balance Other Debtors includes the amount of Euro 60,170 thousand (31 December 2016: Euro 424 thousand), referring to operations waiting for settlement.

As at 30 June 2017 and 31 December 2016, the balance Recoverable subsidies from the Portuguese Government is analysed as follows:

	(Thousands of Euro)	
	Jun 2017	**Dec 2016**
Overdue subsidies unclaimed	3,318	3,262
Recoverable subsidies from the Portuguese Government unliquidated	2,717	2,206
Subsidies unclaimed	1	53
	6,036	5,521

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

	(Thousands of Euro)	
	Jun 2017	**Jun 2016**
Balance on 1 january	37 848	29 536
Charge for the period associated to continuing operations	6 801	1 014
Write-back for the period		
Continuing operations	(4,807)	(672)
Charge-off	(3,085)	(23)
Transfers	-	397
Balance on 30 June	36 757	30 252

33 Deposits from central banks

As at 30 June 2017 and 31 December 2016, this balance is related to deposits obtained with the European System of Central Banks, which are pledged by securities from the available for sale portfolio, as described in note 24.

34 Deposits from other financial institutions

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017			Dec 2016		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from credit institutions in Portugal						
Deposits repayable on demand	12 696	-	12 696	10 304	-	10 304
Term deposits	-	28 193	28 193	-	26 521	26 521
Loans	-	14	14	-	25	25
Other deposits	-	1	1	-	416	416
	12 696	28 208	40 904	10 304	26 962	37 266
Deposits from credit institutions abroad						
EIB loan	-	460 452	460 452	-	460 471	460 471
Deposits repayable on demand	29 383	-	29 383	80 785	-	80 785
Term deposits	-	6 751	6 751	-	4 672	4 672
Sales operations with repurchase agreement	-	1 634 568	1 634 568	-	1 625 776	1 625 776
CSA's	1 240	-	1 240	4 340	-	4 340
Repos	-	4 858	4 858	-	5 917	5 917
Other deposits	1 281	-	1 281	2 905	53 805	56 710
	31 904	2 106 629	2 138 533	88 030	2 150 641	2 238 671
Adjustments arising from hedging operations	-	-	-	3	-	3
	44 600	2 134 837	2 179 437	98 337	2 177 603	2 275 940

As part of derivative financial instruments operations with institutional counterparties, according to the signed contracts, CSA's has on 30 June 2017 the amount of Euro 1,240 thousand (31 December 2016: Euro 4.340 thousand) deposits from other credit institutions received as collateral for these operations.

The resources obtained under CSA with international financial institutions are remunerated at the Eonia rate. However, since these rates have presented negative values, these resources have not been remunerated.

The balance Deposits from credit institutions abroad – Other deposits includes emissions at fair value according to internal valuation methodologies, considering mainly market's observed data, in the amount of Euro 53,818 thousand at 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 collateralized by Portuguese and Greek states securities in the amount of Euro 628,890 thousand (31 December 2016: Euro 638,289 thousand), registered in the balance Financial assets held for trading and Financial assets available for sale, as described in notes 23, 24 and 25, respectively.

The fair value adjustment, as 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). At 30 June 2017, it was recognised a gain in the amount of Euro 3 thousand (31 December 2016: gain in the amount of Euro 518 thousand), related to fair value changes, as referred in notes 6 and 23.

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

35 Deposits from customers

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017			Dec 2016		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits repayable on demand	3 059 317	166 314	3 225 631	3 144 799	137 699	3 282 498
Term deposits	-	8 274 930	8 274 930	-	8 751 841	8 751 841
Saving accounts	-	114 914	114 914	-	113 823	113 823
Other resources	12 441	-	12 441	19 735	299 910	319 645
Adjustments arising from fair value option operations	37	-	37	12	-	12
	3 071 795	8 556 158	11 627 953	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, within certain conditions, the reimbursement of funds deposited in credit institutions authorised to receive deposits. The criteria to calculate the annual contributions to the referred fund are defined by Regulation no. 11/94 of Bank of Portugal, from 29 December.

As at 30 June 2017, the caption Term deposits includes deposits at fair value through profit or loss, measured in accordance with internal evaluation techniques considering, mainly, observable market inputs, in the amount of Euro 15,718 thousand (31 December 2016: Euro 15,631 thousand). According with the hierarchy of the valuation sources, as referred in IFRS 13, these instruments are classified in level 2. The financial liabilities included in this balance are revalued against income statement, as referred in the accounting policy presented in note 1 d), having recognised as at 30 June 2017, a loss in the amount of Euro 25 thousand (31 December 2016: a loss of Euro 4 thousand), regarding the fair value variations resulting from the Group's credit risk, as described in notes 6 and 23.

36 Debt securities issued

This balance Debt securities issue is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec
Bonds	605,335	1,040,534
Covered bonds	-	265,028
Securitizations	457,263	574,560
Euro Medium Term Notes (EMTN)	-	39,913
	1,062,598	1,920,035

The fair value of debt securities issued is disclosed in note 49.

The balance Debt securities issued includes issues at fair value through profit or loss in the amount of Euro 27,026 thousand (31 December 2016: Euro 67,237 thousand), according with internal valuation techniques and considering, mainly, observable market data. According with the hierarchy of the valuation sources, as referred in IFRS 13, these instruments are classified in level 2. Financial liabilities are revalued against income statement, as referred in the accounting policy presented in note 1 d). As at 30 June 2017, a loss of Euro

126 thousand (31 December 2016: a loss of Euro 1,716 thousand) was recognised regarding the fair value variations resulting from the Group's credit risk, as described in notes 6 and 23.

Under the Issuance of covered bonds program, with a maximum amount of Euro 5,000,000 thousand, the Group presents live emissions amounting to Euro 2,300,000 thousand at nominal value.

As at 30 June 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	500,137	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 - 7S	500,000	500,082	December 2016	December 2022	quarterly	Euribor 3M + 0,75%	A3/A/A
Covered bonds - 8S	500,000	500,111	December 2016	December 2026	quarterly	Euribor 3M + 0,90%	A3/A/A
Covered bonds - 9S	500,000	500,281	May 2017	May 2024	quarterly	Euribor 3M + 0,85%	A3/A/A
	2,300,000	2,300,815					

As at 31 December 2016, the main characteristics of these issues are as follows:

(Thousands of Euro)

Description	Nominal value	Nominal value sold	Book value	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody´s/Fitch/Dbrs)
Covered bonds - 4S	500,000	265,028	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	265,028	2,300,624					

The operations carried out by the Group under the Issuance of Covered Bonds CEMG Programme, during the first semester of 2017, are presented as follows:

- May 2017: Euro 500,000 thousand Issue, within 7 years, at an interest rate of Euribor 3M plus 0.85%;
- May 2017: Euro 265,000 thousand reimbursement;
- December 2016: Euro 500,000 thousand Issue, within 6 years, at an interest rate of Euribor 3M plus 0.75%;
- December 2016: Euro 500,000 thousand Issue, within 10 years, interest rate of Euribor 3M plus 0.90%;
- December 2016: Euro 1,000,000 thousand reimbursement;
- November 2016: 300,000 thousand Issue, within 7 years, interest rate of Euribor 3M plus 0.80%;

The covered bonds are guaranteed by a cover assets pool, comprised of mortgage credit assets and limited classes of other assets, that the issuer of mortgage covered bonds shall maintain segregated and over which the holders of the relevant covered bonds have a statutory special creditor privilege.

The legal and regulatory framework of these bonds is set up in Decree-Law No. 59/2006, Regulations of Bank of Portugal No. 5/2006 from 20 March, No. 6/2006 from 11 October, No. 7/2006 from 11 October, no. 8/2006 from 11 October and Instruction of Bank of Portugal No. 13/2006 from 15 November.

At 30 June 2017, the amount of credits that collateralize these issues amounts to Euro 2,723,746 thousand (31 December 2016: Euro 2,725,631 thousand), as referred in note 22.

The movement in debt securities issued during period ended at 30 June 2017 is analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Issue	Reimbursements	Net purchases	Other movements (a)	Balance on 30 June
Bonds	1,040,534	-	(110,500)	(314,714)	(9,985)	605,335
Covered bonds	265,028	500,000	(265,000)	(500,000)	(28)	-
Securitizations	574,560	-	(117,297)	-	-	457,263
Euro Medium Term Notes (EMTN)	39,913	-	(39,750)	-	(163)	-
	1,920,035	500,000	(532,547)	(814,714)	(10,176)	1,062,598

(a) It includes the balance sheet's accrued interest movement, adjustments for operations at the fair value option and exchange variation

The movement in debt securities issued during the period of 2016 is analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Issue	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	(1,000,000)	(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	(1,204,798)	(586,465)	57,096	1,920,035

(a) Include the issue of Euro 65,000 thousand, the accrued interest variation, corrections for operations at the fair value option and exchange variation.

As at 30 June 2017, the Group reimbursed securities in the amount of Euro 532,547 thousand (31 December 2016: Euro 1,204,798 thousand).

As at 30 June 2017, the Group issued the 9th serie of covered bonds with a nominal value of Euro 500,000 thousand and reimbursed the 4th serie with a nominal value of Euro 500,000 thousand.

During 2016, the Group issued three series of covered bonds: 6th (Euro 300,000 thousand), 7th (Euro 500,000 thousand) and 8th (Euro 500,000 thousand). These bonds have a global nominal value of Euro 1,300,000 thousand. The Group also reimbursed the 2nd series with a nominal value of Euro 1,000,000 thousand.

As at 31 December 2016, the Group sold covered bonds in the amount of Euro 65,000 thousand – 4th series.

In accordance with the accounting policy described in note 1 d), debt issued repurchased 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 in the first semester of 2016 the Group recognised a gain of Euro 333 thousand, as referred in note 10.

As at 30 June 2017, bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 2.95% and 12.33% (31 December 2016: 0.38% and 13.61%).

37 Provisions

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Provisions for guarantees and commitments	15 928	13 857
Provisions for other liabilities and charges	12 644	7 963
	28 572	21 820

The movement in Provisions for guarantees and commitments made in the first semester of 2017 and 2016 is analysed as follows:

(Thousands of Euro)

	Jun 2017	Jun 2016
Balance on 1 january	13 857	-
Charge for the period		
Continuing operations	8 374	6 798
Discontinuing operations	24	1 016
Write-back for the period		
Continuing operations	(6,303)	(14,936)
Discontinuing operations	(33)	(431)
Transfers	-	22 592
Transfers associated to discontinuing operations	9	(94)
Balance on 30 June	15 928	14 945

The movements in Provisions for other risks and charges are analysed as follows:

(Thousands of Euro)

	Jun 2017	Jun 2016
Balance on 1 january	7 963	16 335
Charge for the period		
Continuing operations	10 057	10 734
Discontinuing operations	-	521
Write-back for the period		
Continuing operations	(1,607)	(14,409)
Discontinuing operations	-	(262)
Charge-off	(3,769)	(35)
Transfers	-	(252)
Balance on 30 June	12 644	12 632

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

38 Other subordinated debt

As at 30 June 2017, the main characteristics of Other subordinated debt, are analysed as follows:

(Thousands of Euro)

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%	111 322
CEMG/08 2nd series	Jul 2008	Jul 2018	150 000	Euribor 6 months+1.5%	113 178
CEMG/08 3rd series	Jun 2008	Jun 2018	28 000	Euribor 12 months+1.5%	4 171
FNB 08/18 1st/2nd series	Dec 2008	Dec 2018	10 363	Euribor 6 months+0.15% (i)	7 504
Finicrédito subordinated debt - Bonds	Nov 2007	Nov 2017	17 902	Base rate+0.90% (barrier level)	15 716
					251 891
				Adjustments arising from hedging operations	(220)
					251 671

As at 31 December 2016, the main characteristics of Other subordinated debt, are analysed as follows:

(Thousands of Euro)

Issue	Issue date	Maturity	Issue amount	Interest rate	Book value
CEMG/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
Finicrédito subordinated debt - Bonds	Nov 2007	Nov 2017	17 902	Base rate+0.90% (barrier level)	15 814
					252 084
				Adjustments arising from hedging operations	(1 056)
					251 028

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

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

During the six-month period ended at 30 June 2017 and 31 December 2016, the movement occurred in the balance Other subordinated debt was as follows:

(Thousands of Euro)

	Balance 1 January 2017	Reimbursements	Net purchases	Other movements (a)	Balance on 30 June 2017
CEMG/08 1st series	111 348	-	-	(26)	111 322
CEMG/08 2nd series	113 216	-	-	(38)	113 178
CEMG/08 3rd series	4 202	-	-	(31)	4 171
FNB 08/18 1st/2nd series	7 504	-	-	-	7 504
Finicrédito subordinated debt - Bonds	15 814	-	-	(98)	15 716
	252 084	-	-	(193)	251 891

(a) Includes the accrued interest in 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 Corporate 07/16_ 1st series	4 753	(4,670)	-	(83)	-
FNB Corporate 07/16 2nd/3rd series	18 922	(18,554)	-	(368)	-
Finicrédito subordinated debt - Bonds	15 684	-	-	130	15 814
	335 399	(49,324)	(33,097)	(894)	252 084

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

The financial assets included in this balance were revaluated through the income statement in accordance with the accounting policy described in note 1 d). As at 30 June 2017 was recognised a negative amount of Euro 836 thousand (31 December 2016: negative amount of Euro 1,304 thousand) related with the variations in fair value associated with the Group's credit risk, as described in note 6.

As at 30 June 2017, the subordinated debt bears postponed interest every three and six months and its effective interest rate range is set between 1.26% and 1.49% (31 December 2016: 1.31% and 1.53%).

Other subordinated debt portfolio is recorded at fair value, as presented in note 49.

39 Other liabilities

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Creditors		
Suppliers	7 433	10 681
Other creditors	64 531	74 933
Administrative public sector	11 229	13 080
Charges with staff expenses	23 562	27 881
Other administrative costs	11 574	16 190
Deferred income	5 408	6 061
Other sundry liabilities	111 572	98 202
	235 309	247 028

As at 30 June 2017, the balance Charges with staff expenses includes the amount of Euro 122 thousand (31 December 2016: Euro 7,127 thousand), related with seniority bonus. Additionally, at 30 June 2017, this balance also includes the amount of Euro 23,440 thousand (31 December 2016: Euro 20,754 thousand), related to holidays and holiday subsidies.

As at 30 June 2017, the balance Other sundry liabilities includes the amount of Euro 10,789 thousand (31 December 2016: Euro 13,300 thousand), related with net liabilities recognised in the balance sheet, which represent the difference between the costs with pensions, health benefits and death subsidy and the assets.

As at 30 June 2017, the balance Other sundry liabilities also includes the amount of 6,991 thousand (31 December 2016: Euro 3,068 thousand), referring to securities transactions to be settled.

40 Institutional capital

CEMG's institutional capital, which is fully paid, amounts to Euro 2,020,000 thousand (31 December 2016: Euro 1,770,000 thousand), fully belonging to MGAM.

At 30 June 2017, the Group performed a capital increase subscribed by MGAM, in accordance with the statutory resolutions of MGAM General Council, the General and Supervisory Council and the Board of Directors of CEMG.

The referred capital increase was materialized 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 61.

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

The referred capital increase was materialized by MGAM, fully paid-up in cash, through the realization of institutional capital in the amount of Euro 270,000 thousand, as described in note 61.

41 Participation fund

As at 30 June 2017 and 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 MGAM.

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

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

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

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

	Jun 2017		Dec 2016	
	Number of Investment Fund Units held	Percentage	Number of Investment Fund Units held	Percentage
Related parties				
Montepio Geral Associação Mutualista	293,992,794	73.50%	284,113,190	71.03%

42 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 withdrawn from equity and the difference between the purchase value and its book value is recognised in equity.

At 30 June 2017 and 31 December 2016, the repurchased perpetual subordinated instruments amounts to Euro 8,677 thousand. After these operations, 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 comply of Regulatory capital requirements regulation.

During the first semester of 2017, the Group proceeded to the interest payment for this emission in the amount of Euro 162 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 30 June 2017 and 31 December 2016, these obligations are not seen as a positive element of the Group's Equity.

43 Treasury stock

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

As at 30 June 2017 and 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.

44 General and special reserve

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

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

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

The variation of the general and special reserves balance is analysed in note 45.

45 Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Fair value reserves		
Fair value reserves		
Available-for-sale financial assets	55 113	(21,596)
Loans and advances to customers	2 344	2 477
	57 457	(19,119)
Taxes		
Available-for-sale financial assets	(12,460)	12 989
Loans and advances to customers	(691)	(730)
	(13,151)	12 259
Fair value reserve net of taxes	44 306	(6,860)
Other reserve and retained earnings		
General reserve	187 532	187 532
Special reserve	68 273	68 273
Deferred tax reserve	54 884	55 526
Consolidation exchange reserves	(41,888)	(43,694)
Other reserves and retained earnings	(1,004,795)	(917,238)
	(735,994)	(649,601)

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

The balance Loans to customers refers to the amount, 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 financial assets available for sale during the first semester of 2017 are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Revaluation	Acquisitions	Disposals	Impairment change of the period	Balance on 30 June
Fixed income securities						
Bonds issued by public Portuguese entities	(59,940)	36 047	27 830	24 054	-	27 991
Bonds issued by public foreign entities	(7,210)	2 203	51	(328)	-	(5,284)
Bonds issued by other entities:						
Domestic	469	(49)	16	12	-	448
Foreign	973	(870)	(10)	(920)	1 119	292
Commercial paper	-	-	-	-	-	-
	(65,708)	37 331	27 887	22 818	1 119	23 447
Variable income securities						
Shares						
Domestic	8 189	-	292	-	-	8 481
Foreign	14 722	(9,565)	14	(136)	-	5 035
Investment fund units	21 201	976	2 279	(1,761)	(4,545)	18 150
	44 112	(8,589)	2 585	(1,897)	(4,545)	31 666
	(21,596)	28 742	30 472	20 921	(3,426)	55 113

The movements in the fair value reserve on financial assets available-for-sale, during 2016, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Revaluation	Acquisitions	Disposals	Impairment change of 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:	-	-	-	-	-	
Domestic	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						
Domestic	7 900	(4,064)	-	289	4 064	8 189
Foreign	3 697	18 506	322	(9,840)	2 037	14 722
Investment fund units	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 financial assets available-for-sale, are detailed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Amortized cost of available-for-sale financial assets	2 889 080	2 519 376
Accumulated impairment recognised	(101 702)	(98 276)
Amortized cost of available-for-sale financial assets, net of impairment	2 787 378	2 421 100
Market value of available-for-sale financial assets	2 842 491	2 399 504
Unrealized gains/(losses) recognised in the fair value reserve	55 113	(21 596)

46 Distribution of profit

As at 30 June 2017 and during 2016, CEMG did not distributed profits.

47 Non-controlling interests

This balance is analysed as follows:

(Thousands of Euro)

	Statement of Financial Position		Income Statement	
	Jun 2017	Dec 2016	Jun 2017	jun 2016
Finibanco Angola, S.A.	13 481	12 121	1 361	1 144
Banco Terra, S.A.	12 045	11 080	(17)	(33)
	25 526	23 201	1 344	1 111

The movements of this balance are analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Opening balance	23 201	28 669
Exchange differences	981	(7 982)
Others	-	485
	24 182	21 172
Net income attributable to non-controlling interests	1 344	2 029
Closing balance	25 526	23 201

			Percentage held by non-controlling interests	
Name	Headquarters	Segment	Jun 2017	Dec 2016
Finibanco Angola, S.A.	Luanda	Banca	18.43%	18.43%
Banco Terra, S.A.	Maputo	Banca	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 60.

In accordance with IFRS 5, these entities are classified as to be discontinued.

48 Obligations and other commitments

This balance is analysed as follows:

	(Thousands of Euro)	
	Jun 2017	Dec 2016
Guarantees granted	483,433	491,501
Commitments to third parties	1,263,793	1,272,659
Deposit and custody of securities	6,455,937	6,893,858
	8,203,163	8,658,018

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

	(Thousands of Euro)	
	Jun 2017	Dec 2016
Guarantees granted		
Guarantees	425,734	432,259
Open documentary credits	57,270	58,813
Guarantees and indemnities (counter)	429	429
	483,433	491,501
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit lines	563,483	488,069
Annual contribution to the Guarantee Deposits Fund	22,768	22,768
Potential obligation with the Investor's Indemnity System	1,490	1,592
Revocable commitments		
Revocable credt lines	676,052	760,230
	1,263,793	1,272,659

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

The balances Guarantees, Open documentary credits and Commitments to third parties - Irrevocable commitments – irrevocable credit lines include Euro 58,625 thousand (31 December 2016: Euro 63,655 thousand) regarding Finibanco Angola, S.A. and Banco Terra, S.A.

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

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

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

As at 30 June 2017 and 31 December 2016, the balance Annual contribution to the obligations of the Guarantee Deposits Fund is related with the irrevocable commitment assumed by the Group and required by law, to deliver the unrealised amounts of annual contributions required by the Fund.

As at 30 June 2017 and 31 December 2016, under the Deposit Guarantee Fund, the Group granted as pledge treasury bonds (OT 4.35% 07/2017), recorded as financial assets available for sale, with a nominal value of Euro 23,000 thousand, as described in note 24.

As at 30 June 2017 and 31 December 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 to be paid to investors.

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

49 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 the Group.

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*

  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. Regarding the funding near the European Central Bank, only one of the live issues as at 30 June 2017 (around 13% of the total funding) presents an interest rate different from zero (0.05% p.a.)

  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 the monetary market or from the interest rate swap market, at the end of the period). For 30 June 2017, the average discount rate was 1.49% for Repos and 0.31% for the remaining resources. As at December 2016 they were of 0.73% and 0.17%, respectively.

- *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 templates (Black-Scholes, Black, Ho and others) considering the volatility areas 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 amortized 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 the case of those who are quoted in organized 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 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. 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 period) and the spread used at the reporting date, which was calculated from the average of production at the last month of 2016. The average discount rate was 2.95% for housing loans (31 December 2016: 2.70%), 5.72% to individual credit (31 December 2016: 5.55%) to treasury loans is 3.92% (31 December 2016: 3.90%) and 4.65% to the remaining loans (31 December 2016: 4.46%), 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.

- *Loans and advances to customers without defined maturity date and Debits to clients repayable on demand*

  Considering the short maturity of these 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.

- *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 period) and the spread of the Group at the reporting date, which was calculated from the average production of the second quarter of 2017. The average discount rate at 30 June 2017 was of 0.90% (31 December 2016: 1.1%).

- *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 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, 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 the 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 8.18% (31 December 2016: 9.09%). The average discount rate calculated for senior issues placed on the retail market was 0.61% (31 December 2016: 0.79%). The senior issue placed on the institutional market is valued at fair value through profit or loss.

As at 30 June 2017, the following table presents the values of the interest rate used 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	-0.3600%	1.1733%	0.1700%	-0.7750%	-0.0339%
7 days	-0.3790%	1.1906%	0.2200%	-0.7450%	-0.0185%
1 month	-0.3730%	1.2200%	0.2750%	-0.7950%	-0.1500%
2 months	-0.3420%	1.3300%	0.3400%	-0.6900%	-0.1500%
3 months	-0.3310%	1.3700%	0.4100%	-0.7450%	-0.1700%
6 months	-0.2710%	1.6000%	0.5500%	-0.7250%	-0.1800%
9 months	-0.1970%	1.6900%	0.6300%	-0.6250%	-0.1500%
1 year	-0.1560%	1.8200%	0.7150%	-0.8400%	-0.1000%
2 years	-0.1300%	1.5980%	0.6800%	-0.5440%	0.0150%
3 years	0.0050%	1.7240%	0.7770%	-0.4440%	0.0300%
5 years	0.2750%	1.9250%	0.9500%	-0.2280%	0.0750%
7 years	0.5405%	2.0780%	1.0960%	-0.0210%	0.1325%
10 years	0.9025%	2.2450%	1.2860%	0.2400%	0.2375%
15 years	1.2830%	2.4030%	1.4890%	0.4870%	0.4375%
20 years	1.4510%	2.4680%	1.4890%	0.4870%	0.4375%
30 years	1.5385%	2.5020%	1.4890%	0.4870%	0.4375%

As at 31 December 2016, the following table presents the values of the interest rate used 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	**Jun 2017**	**Dec 2016**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.1412	1.0541	6.825	7.100	7.200	7.450	7.650
EUR/GBP	0.8793	0.8562	7.550	7.850	8.100	8.350	8.650
EUR/CHF	1.0930	1.0739	4.375	4.575	4.825	5.000	5.250
EUR/JPY	127.75	123.40	8.600	9.075	9.538	9.950	10.363

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 30 June 2017 and 31 December 2016, is presented as follows:

(Thousands of Euro)

	Jun 2017				
	At fair value through profit and loss	At fair value through reserves	Amortized cost	Book value	Fair value
Financial assets					
Cash and deposits at central banks	-	-	423 640	423 640	423 640
Loans and advances to credit institutions repayable on demand	-	-	58 917	58 917	58 917
Loans and advances to credit institutions	-	-	369 163	369 163	369 163
Loans and advances to customers	32 446	-	13 665 819	13 698 265	13 422 630
Financial assets held-for-trading	87 032	-	-	87 032	87 032
Financial assets available-for-sale	-	2 842 491	-	2 842 491	2 842 491
	119 478	2 842 491	14 517 539	17 479 508	17 203 873
Financial liabilities					
Deposits from central banks	-	-	2 700 425	2 700 425	2 700 425
Deposits from other credit institutions	-	-	2 179 437	2 179 437	2 181 784
Deposits from customers	15 718	-	11 612 235	11 627 953	11 642 487
Debt securities issued	27 026	-	1 035 572	1 062 598	1 087 144
Financial liabilities held-for-trading	21 534	-	-	21 534	21 534
Other subordinated debt	15 684	-	235 987	251 671	239 910
	79 962	-	17 763 656	17 843 618	17 873 284

(Thousands of Euro)

	Dec 2016				
	At fair value through profit and loss	At fair value through reserves	Amortized 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
Financial assets available-for-sale	-	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 summarizes, by valuation levels, the fair value of the Group's financial assets and liabilities, as at 30 June 2017:

(Thousands of Euro)

	jun 2017				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial assets					
Cash and deposits at central banks	423 640	-	-	-	423 640
Loans and advances to credit institutions repayable on demand	58 917	-	-	-	58 917
Loans and advances to credit institutions	-	-	369 163	-	369 163
Loans and advances to customers	-	32 446	13 390 184	-	13 422 630
Financial assets held-for-trading	59 590	27 442	-	-	87 032
Financial assets available-for-sale	2 262 285	44 202	530 490	5 514	2 842 491
	2 804 432	104 090	14 289 837	5 514	17 203 873
Financial liabilities					
Deposits from central banks	2 700 425	-	-	-	2 700 425
Deposits from other credit institutions	-	-	2 181 784	-	2 181 784
Deposits from customers	-	15 718	11 626 769	-	11 642 487
Debt securities issued	-	27 026	1 060 118	-	1 087 144
Financial liabilities held-for-trading	1 283	20 251	-	-	21 534
Other subordinated debt	-	15 684	224 226	-	239 910
	2 701 708	78 679	15 092 897	-	17 873 284

The following table summarizes, by valuation levels, the fair value of the Group's financial assets and liabilities, as at 31 December 2016:

(Thousands of Euro)

	Dec 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
Financial assets available-for-sale	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; 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.

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;
- 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.

50 Long term and post-employment 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.

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 general pension plan for Group 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 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 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 Serviço de Assistência Médico-Social (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, 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 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:

	Assumptions
	Dec 2016
Financial assumptions	
Salaries increase rate	0% 2017;1,0% 2018+
Pensions increase rate	0% 2017;0,5% 2018+
Projected rate of return of Fund assets	2.00%
Discount rate	2.00%
Revaluation	
Salaries growth rate - Social Securities	2.00%
Pensions growth rate	1.00%
Demographic assumptions and valuation methods	
Mortality table	
Men	TV 88/90
Women	TV 88/90
Actuarial method	UCP

The actuarial calculation is made using in calculatin 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 of 31 December 2016, the duration of liabilities amounts to 20.70 years.

The number of persons covered by the pension plan is as follows:

	Dec 2016
Actives	3 643
Retirees and survivors	1 232
	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 Euro)
	Dec 2016
Assets/(Liabilities) recognized in the balance sheet	
Responsabilities with retirement benefits	
Pensioners	(266,139)
Employees	(391,116)
	(657,255)
Responsabilities with healthcare benefits	
Pensioners	(20,518)
Employees	(31,140)
	(51,658)
Responsabilities with death subsidy	
Pensioners	(1,604)
Employees	(1,501)
	(3,105)
Total	(712,018)
Coverages	
Value of the fund	698 718
Net assets in the balance sheet (note 39)	(13,300)
Accumulated actuarial differences recognized in other comprehensive income	190 897

The changes in the defined benefit obligation can be analysed as follows:

	(Thousands of Euro)			
	Dec 2016			
	Retirement pensions	**Healthcare benefits**	**Death subsidy**	**Total**
Responsabilities in the beginning of the period	611 267	55 591	1 611	668 469
Current service cost	2 728	1 669	44	4 441
Interest cost	16 818	1 530	44	18 392
Actuarial gains/(losses)				
- Changes in the assumptions	56 981	(5,997)	663	51 647
- Not related to change assumptions	(4,508)	2 076	777	(1,655)
Change of the retirement age	(38,040)	(1,840)	(19)	(39,899)
Pensions paid by the fund	(13,648)	(1,371)	(15)	(15,034)
Early retirement, mutually agreed terminations and others	23 304	-	-	23 304
Participants contributions	2 353	-	-	2 353
Responsabilities in the end of the period	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 in the income statement.

The evolution of the pension fund's value in the year ended 31 December 2016 is analysed as follows:

(Thousands of Euro)

	Dec 2016
Fund value in the beginning of the period	653 704
Expected return	17 987
Deviations	(10,292)
Group contributions	50 000
Participant contributions	2 353
Pensions paid by the fund	(15,034)
Fund value at the end of the period	698 718

The balance Group contribution relates to contributions made in cash by the Group.

As at 31 December 2016, the assets of the pension fund, divided between with and without market price, can be analysed as follows:

(Thousands of Euro)

	Dec 2016		
	Assets of the Fund	**With market price**	**Without market price**
Variable income security			
Shares	51 162	51 162	-
Shares investment fund	101 235	96 316	4 919
Equity shares	1 245	1 245	-
Bonds	434 234	424 624	9 610
Real estate	7 589	-	7 589
Real estate investment funds	26 147	5 975	20 172
Securities investment funds	-	-	-
Venture capital funds	4 940	-	4 940
Investment in banks and others	72 166	-	72 166
Total	698 718	579 322	119 396

The assets of pension funds used by the Group or representative of securities issued by other CEMG entities are analysed as follows:

(Thousands of Euro)

	Dec 2016
Investments in banks and other	72 166
Real estate	7 589
Bonds	45
Others	1 245
	81 045

The costs with reform pensions, health-care benefits and death subsidies are analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Current service cost	1 144	4 441
Net interest costs/(Income) in the responsabilities hedging balance	-	405
Early retirement, mutually agreed terminations and others costs	-	23 304
Change of the retirement age	-	(39,899)
Costs of the period	1 144	(11,749)

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)

	Dec 2016	
	Liabilities	
	Increase	Decrease
Discount rate (0.25% change)	(35,968)	36 140
Wage growth rate (0.25% change)	22 844	(20,593)
Pension growth rate (0.25% change)	22 433	(20,810)
SAMS contribution (0.25% change)	3 176	(3,073)
Future death (1 year change)	(18,662)	18 287

51 Assets under management

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

As at 30 June 2017 and 31 December 2016, the amount of the investment funds managed by Group companies is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Securities investment fund	172,012	177,402
Real estate investment fund	292,287	294,436
Pensions fund	207,187	205,839
Bank and ensurance	37,930	45,415
	709,416	723,092

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

52 Related parties transactions

As defined in IAS 24, are considered related parties of CEMG the companies detailed in note 59, 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.

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:

Holder of the Institutional Capital
Montepio Geral Associação Mutualista

Executive Board of Directors
José Manuel Félix Morgado
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
Álvaro João Duarte Pinto Correia
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

Board of Directors and other related parties
Alberto Carlos Nogueira Fernandes da Silva
Aldina Antónia da Costa Romaneiro
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 Paulo Pereira Magalhães
Fernando Ribeiro Mendes
Fernão Vasco de Almeida Bezerra Fernandes Thomaz
Francisco António Laranjeira Souto
Isabel Maria Loureiro Alves Brito
João Andrade Lopes
João Filipe Milhinhos Roque
João Francisco Mendes Almeida Gouveia
Joaquim Manuel Marques Cardoso
Johannes Hendricus de Roo
Jorge Humberto Cruz Barros Jesus Luís
Jorge Manuel Santos Oliveira
Jorge Rafael Torres Gutierrez de Lima
José António Fonseca Gonçalves
José de Almeida Serra
José Joaquim Fragoso

Board of Directors and other related parties (cont.)
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 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 elements
Alexandra Manuela Quirino Pereira Silva
Alexandra Melo Pociano
Ana Catarina Mendes Horta
Ana Maria Guerreiro Almeida
António Fernando Figueiredo Lopes
António José Miranda Lopes Coutinho
António Rosa Farinha
Claúdia Sofia Reis Camilo Monteiro
Fernando Jorge Lopes Centeno Amaro
Fernando Manuel Silva Costa Alexandre
Gabriel Fernando Sá Torres
João Eduardo Dias Fernandes
José Carlos Sequeira Mateus
Luís Miguel Oliveira Melo Correia
Luísa Maria Xavier Machado
Maria Carmo Martins Ventura Calvão
Maria Eduarda Madureira Osório Botelho Fernandes
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 Fonte Araújo
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 de Serviços Auxilares, 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.
Nebra Renovables, S.L.
Nova Câmbio - 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 30 June 2017, the assets held by the Group regarding related parties, in accordance with article 109º, represented or not by securities, included in balances Loans and advances to customers (Gross), Other assets and Guarantees and commitments provided to third parties are analysed as follows:

(Thousands of Euro)

	Jun 2017			
Companies	Loans and advances to customers	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.	8	-	-	8
Board of Directors and other related parties	1.130	-	-	1.130
Executive Board of Directors	142	-	-	142
General and Supervisory Board	488	-	-	488
Other Key Management Elements	3.291	-	8	3.299
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	1	-	-	1
Germont – Empreendimentos Imobiliários, S.A.	11.317	-	7.731	19.048
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	54	-	3.445	3.499
Lusitania Vida, Companhia de Seguros, S.A.	2	-	-	2
Lusitania, Companhia de Seguros, S.A.	3	-	1.503	1.506
Montepio Geral Associação Mutualista	15	36.868	71	36.954
Montepio Gestão de Ativos Imobiliários, ACE	1	-	-	1
Montepio Imóveis – Soc Imobiliária de Serviços Auxilares, S.A.	13.418	-	-	13.418
Nova Câmbio - Instituição de Pagamento, S.A.	671	-	1.303	1.974
Residências Montepio, Serviços de Saúde, S.A.	630	-	-	630
	31.172	36.868	14.061	82.101

As at 31 December 2016, the assets held by the Group regarding related parties, in accordance with article 109º, represented or not by securities, included in balances Loans and advances to customers (Gross), Other assets and Guarantees and commitments provided to third parties are analysed as follows:

(Thousands of Euro)

	Dec 2016			
Companies	**Loans and advances to customers**	**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 and other related parties	1.181	-	-	1.181
Executive Board of Directors	145	-	-	145
General and Supervisory Board	859	-	-	859
Other Key Management Elements	3.489	-	-	3.489
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	1	-	-	1
Germont – Empreendimentos Imobiliários, S.A.	16.323	-	2.731	19.054
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	2.449	-	1.050	3.499
Lusitania Vida, Companhia de Seguros, S.A.	1	-	-	1
Lusitania, Companhia de Seguros, S.A.	-	-	1.500	1.500
Montepio Geral Associação Mutualista	11	36.834	177	37.022
Montepio Imóveis – Soc Imobiliária de Serviços Auxilares, S.A.	13.452	-	-	13.452
Nova Câmbio - Instituição de Pagamento, S.A.	1	-	1.000	1.001
Residências Montepio, Serviços de Saúde, S.A.	1.242	-	-	1.242
	39.167	36.834	6.458	82.459

As at 30 June 2017, the liabilities held by the Group regarding related parties, in accordance with article 109º, included in balances Participation Fund, Deposits from customers, Liabilities represented by securities and Other subordinated debt and Other liabilities, are analysed as follows:

(Thousands of Euro)

	Jun 2017			
Companies	**Participation fund**	**Deposits from customers**	**Liabilities represented by securities and other subordinated debt**	**Total**
Bolsimo - Gestão de Activos, S.A.	-	371	-	371
Clínica CUF Belém, S.A.	-	13	-	13
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	6	-	6
Board of Directors and other related parties	83	3 111	125	3 319
Executive Board of Directors	45	1 178	-	1 223
General and Supervisory Board	55	787	-	842
Other Key Management Elements	45	1 648	20	1 713
Empresa Gestora de Imóveis da Rua do Prior S.A	-	71	-	71
Fundação Montepio Geral	-	1 949	-	1 949
Fundo de Pensões - Montepio Geral	2 998	14 705	50	17 753
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	3 559	-	3 559
Germont – Empreendimentos Imobiliários, S.A.	-	44	-	44
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	16	-	16
Lusitania Vida, Companhia de Seguros, S.A.	-	18 346	21 250	39 596
Lusitania, Companhia de Seguros, S.A.	499	1 756	13 000	15 255
Montepio Geral Associação Mutualista	293 993	114 883	574 956	983 832
Montepio Gestão de Activos - Soc Gestora Fundos de Investimento, S.A.	-	1 328	-	1 328
Montepio Gestão de Activos Imobiliários, ACE	-	2 590	-	2 590
Montepio Imóveis - Sociedade Imobiliária de Serviços Auxiliares, S.A.	-	115	-	115
Montepio Seguros, S.G.P.S., S.A.	-	1 139	-	1 139
N Seguros, S.A.	220	563	-	783
Nova Câmbio - Instituição de Pagamento, S.A.	302	423	-	725
Residências Montepio, Serviços de Saúde, S.A.	-	69	-	69
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	34	-	34
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	2 136	-	2 136
Sociedade Portuguesa de Administrações, S.A.	-	181	-	181
	298 240	171 021	609 401	1 078 662

As at 31 December 2016, the liabilities held by the Group regarding related parties, in accordance with article 109º, included in balances Participation Fund, Deposits from customers, Liabilities represented by securities and Other subordinated debt and Other liabilities, are analysed as follows:

(Thousands of Euro)

Companies	Dec 2016			
	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 and 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 Elements	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 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 Seguros, S.G.P.S., S.A.	-	159	-	159
N Seguros, S.A.	220	1 073	-	1 293
Nova Câmbio - 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 30 June 2017, the Group´s income and expenses with related parties, in accordance with article 109º, 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)

Companies	jun 2017				
	Interest and similar income	Interest and similar expenses	Net commission and other income	Other operating income	General and administrative expenses
Board of Directors and other related parties	1	9	1	-	-
Executive Board of Directors	-	7	-	-	-
General and Supervisory Board	4	2	-	-	-
Other Key Management Elements	5	6	1	-	-
Fundo de Pensões - Montepio Geral	-	32	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	17	3	-	-
Germont – Empreendimentos Imobiliários, S.A.	162	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	11	-	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	229	235	-	-
Lusitania, Companhia de Seguros, S.A.	3	87	85	4	-
Montepio Geral Associação Mutualista	4	21 629	3	249	1 255
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	-	6	2	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	1 287	-
Montepio Imóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	241	-	-	-	-
Montepio Seguros, S.G.P.S., S.A.	-	-	18	-	-
N Seguros, S.A.	-	1	15	-	-
Nova Câmbio - Instituição de Pagamento, S.A.	5	-	15	1	-
Residências Montepio, Serviços de Saúde, S.A.	15	-	16	4	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	10	-	-	-
	451	22 035	394	1 545	1 255

As at 31 December 2016, the Group´s income and expenses with related parties, in accordance with article 109º, 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)

	Dec 2016				
Companies	Interest and similar income	Interest and similar expenses	Net commission and other income	Other operating income	General and administrative expenses
Bolsimo -Gestão de Activos, S.A.	-	-	1	-	-
Board of Directors and 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 elements	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 de Serviços Auxilares, S.A.	175	-	1	-	-
Montepio Seguros, S.G.P.S., S.A.	-	-	37	-	-
N Seguros, S.A.	-	8	10	-	-
Nova Câmbio - 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 costs with the Executive Board of Directors, with the 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 Montepio Geral Associação Mutualista's own use, for 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 Montepio Geral Associação Mutualista; and
- Acquisition of 31,500,000 Units of the Participation Fund by Montepio Geral Associação Mutualista, in the total amount of Euro 18,302 thousand.

During the first semester of 2017 and during 2016, there were no transactions with the pension's fund of the Group.

53 Securitization transactions

As at 30 June 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 Initial 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 for CEMG, as described in note 1 a).

The following paragraphs present some additional details of these securitization transactions.

As at 19 December, 2002, Caixa Económica Montepio Geral had settled a securitisation operation with a Special Purpose Vehicle («SPV») – Pelican Mortgages no. 1 PLC, established in Dublin. The referred agreement consists in a mortgage credit transfer for a period of 35 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 653,250 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.016% of the referred nominal value.

As at 30 March, 2007, Caixa Económica Montepio Geral 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, Caixa Económica Montepio Geral 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. 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, Caixa Económica Montepio Geral 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, Caixa Económica Montepio Geral 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 selling costs which represented 0.1083% of the Asset Backed Notes.

As at 7 May 2014, Caixa Económica Montepio General 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 limit (Aggregate Principal Amount Outstanding) of Euro 308,700 thousand. The sale was made at their nominal value, including the selling costs which represented 0.1871% of Asset Backed Notes.

As at 5 March 2015, Caixa Económica Montepio Geral 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 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 «Caixa Económica Montepio Geral» 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, Pelican Mortgages No. 2) 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). Montepio Crédito – Instituição Financeira de Crédito, S.A. assures the same functions for operation operating Pelican Finance No. 1.

As at 30 June 2017, the securitization operations executed by the Group are presented as follows:

				Credit		Liabilities		
Issue	Settlement date	Currency	Asset transferred	Initial amount	Current amount	Initial nominal amount	Current nominal amount	Current amountheld by third parties*
Pelican Mortgages No. 1	December, 2002	euro	Mortgage credit	653 250	45 129	653 250	44 059	34 330
Pelican Mortgages No. 3	March, 2007	euro	Mortgage credit	762 375	235 975	762 375	240 262	95 493
Pelican Mortgages No. 4	May, 2008	euro	Mortgage credit	1 028 600	644 014	1 028 600	670 360	-
Aqua Mortgage No. 1	December, 2008	euro	Mortgage credit	236 500	126 954	236 500	121 850	-
Pelican Mortgages No. 5	March, 2009	euro	Mortgage credit	1 027 500	640 918	1 027 500	664 219	-
Pelican Mortgages No. 6	February, 2012	euro	Mortgage credit	1 107 000	844 120	1 107 000	896 113	-
Pelican Finance No. 1	May, 2014	euro	Consumer credit	308 700	295 159	308 700	308 700	-
Pelican SME No. 2	March, 2015	euro	Small companies	1 124 300	939 235	1 124 300	1 012 931	327 440
				6 248 225	3 771 504	6 248 225	3 958 494	457 263

* Includes nominal amount, accrued interest and other adjustments;

As at 31 December 2016, the securitization operations executed by the Group are presented as follows:

(Thousands of Euro)

				Credit		Liabilities	
Issue	Settlement date	Currency	Asset transferred	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	308 700	-
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	6 248 225	574 560

Additionally, the detail of securitized loans not derecognised by securitization operation and nature of the contracts at 30 June 2017 is presented as follows:

(Thousands of Euro)

	Not derecognised securitisation operations							
	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	-	-	-	-	-	-	698 349	698 349
Pledged current account	-	-	-	-	-	-	113 310	113 310
Other credits	-	-	-	-	-	-	46 207	46 207
Private								
Mortgage	234 968	640 591	122 849	638 342	834 468	-	-	2 471 218
Consumer and other	-	-	-	-	-	291 323	67 847	359 170
	234 968	640 591	122 849	638 342	834 468	291 323	925 713	3 688 254
Credit and overdue interest								
Less than 90 days	33	996	730	861	2 327	444	541	5 932
More than 90 days	974	2 427	3 375	1 715	7 325	3 392	12 981	32 189
	1 007	3 423	4 105	2 576	9 652	3 836	13 522	38 121
	235 975	644 014	126 954	640 918	844 120	295 159	939 235	3 726 375

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 operations							
	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
Private								
Mortgage	249 498	666 603	129 452	665 858	864 865	-	-	2 576 276
Consumer and other	-	-	-	-	-	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 30 June 2017, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bond	Initial nominal value euros	Current nominal value 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	1 809 490	742 069	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	222 957 285	127 464 985	2054	AAA	Aaa	AAA	n.a.	BBB-	A3	BB+	n.a.
	Class B	14 250 000	5 756 441	5 756 441	2054	AA-	Aa2	AA-	n.a.	BBB-	Ba2	B-	n.a.
	Class C	12 000 000	4 847 530	4 847 530	2054	A	A3	A	n.a.	BB	B2	B-	n.a.
	Class D	6 375 000	2 575 250	2 575 250	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	506 134 478	506 134 478	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	A (h)
	Class B	55 500 000	44 804 920	44 804 920	2056	AA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	48 437 751	48 437 751	2056	A-	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	25 000 000	20 182 396	20 182 396	2056	BBB	n.a.	n.a.	n.a.	BB	n.a.	n.a.	n.a.
	Class E	27 500 000	22 200 636	22 200 636	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	442 518 736	442 518 736	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	154 986 502	154 986 502	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	21 857 071	21 857 071	2061	B	n.a.	n.a.	n.a.	BBB-	n.a.	n.a.	n.a.
	Class D	27 500 000	21 857 071	21 857 071	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	540 913 035	540 913 035	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	90 539 171	90 539 171	2063	n.a.	n.a.	AAA	n.a.	n.a.	n.a.	A+	AA (h)
	Class B	29 824 000	27 810 450	27 810 450	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	429 630 816	102 075 690	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.

As at 31 December 2016, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bond	Initial nominal value euros	Current nominal value 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 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.

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

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

The Group's consolidated activity is essentially developed in the financial sector, aiming for 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 30 June 2017, the Group had a network of 325 branches in Portugal and a local bank in Cabo Verde, one financial institution in Angola with 25 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, S.A. and (iii) Banco Terra S.A.. Through geographical criteria, the activity and results generated in Portugal (Domestic Area), from Cabo Verde, Angola and Mozambique (International Area) can be separated.

Segments description

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

Retail Bank

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

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

Corporate and Institutional

This segment includes the activity developed with small, medium and big companies, through offices network and commercial structure dedicated to this segment. It also includes the institutional clients business, mostly from the financial sector and public administration. Among the products and services provided it is 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 analyzed by the decision makers of the Group, as required by IFRS 8 – Operating Segments.

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

Measurement of profit or loss from operating segments

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

Autonomous Operating Segments

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

Group structures dedicated to the segment

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

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

(i) The origin of the operation, i.e., the operation is allocated to the same segment as the commercial structure that originated it, even though, in a subsequent phase, the Group makes a strategic decision in order to 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 condensed financial statements of that unit with the respective consolidation and elimination adjustments.

The report by operating segments as at 30 June 2017, is presented as follows:

(Thousands of Euro)

Income Statement	Retail	Corporate and institutional	Other segments: Markets	Other segments: Non core assets (Real estate)	Other segments: Discontinuing operations	Other segments: Other operating segments	Total
Interest and similar income	116 768	52 771	65 005	17 928	-	1 698	254 170
Interest and similar expense	37 991	4 032	60 973	3 846	-	4 021	110 863
Net interest income	**78 777**	**48 739**	**4 032**	**14 082**	**-**	**(2,323)**	**143 307**
Dividends from equity instuments	-	-	7 744	-	-	-	7 744
Net gains/(losses) arising from fees and commissions	48 428	11 744	-	-	-	(4,954)	55 218
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	-	-	3 973	-	-	-	3 973
Net gains/(losses) arising from available-for-sale financial assets	-	-	21 545	-	-	-	21 545
Net gains arising from foreign exchange differences	-	-	1 079	-	-	-	1 079
Net gains/(losses) arising from sale of other financial assets	-	-	14 375	4 294	-	485	19 154
Other operating income	4 903	522	(2,580)	10 238	-	(16,547)	(3,464)
Total operating income	**132 108**	**61 005**	**50 168**	**28 614**	**-**	**(23,339)**	**248 556**
Staff costs	54 340	10 710	2 510	6 613	-	10 495	84 668
General and administrative expenses	20 696	3 014	1 073	11 262	-	4 020	40 065
Depreciation and amortisation	-	-	-	-	-	12 479	12 479
	75 036	13 724	3 583	17 875	-	26 994	137 212
Total provisions and impairment	7 260	6 578	4 905	57 888	-	12 515	89 146
Total operating profit	**49 812**	**40 703**	**41 680**	**(47,149)**	**-**	**(62,848)**	**22 198**
Share of profits of associates under equity method	-	-	-	-	-	(90)	(90)
Income before taxes and non-controlling interests	**49 812**	**40 703**	**41 680**	**(47,149)**	**-**	**(62,938)**	**22 108**
Current and deferred taxes	(14,695)	(12,007)	(12,296)	13 909	-	11 940	(13,149)
Results after taxes from continuing operations	**35 117**	**28 696**	**29 384**	**(33,240)**	**-**	**(50,998)**	**8 959**
Results from discontinuing operations	-	-	-	-	5 434	-	5 434
Net results after taxes	**35 117**	**28 696**	**29 384**	**(33,240)**	**5 434**	**(50,998)**	**14 393**
Non-controlling interests	-	-	-	-	1 344	-	1 344
Consolidated net profit for the period attributable to the institutional capital and the participation fund holders	**35 117**	**28 696**	**29 384**	**(33,240)**	**4 090**	**(50,998)**	**13 049**
Net assets	9 567 591	2 986 332	2 929 523	3 373 552	445 805	903 090	20 205 893
Liabilities	9 950 000	1 678 000	1 314 269	-	319 652	5 170 843	18 432 764
Investment in associates	-	-	3 698	-	-	-	3 698

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 60.

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

(Thousands of Euro)

Income Statement	Retail	Corporate and institutional	Other segments: Markets	Other segments: Non core assets (Real estate)	Other segments: Discontinuing operations	Other segments: Other operating segments	Total
Interest and similar income	127 944	55 732	61 542	5 254	-	10 558	261 030
Interest and similar expense	59 402	2 844	64 929	-	-	22 155	149 330
Net interest income	**68 542**	**52 888**	**(3,387)**	**5 254**	**-**	**(11,597)**	**111 700**
Dividends from equity instuments	-	-	2 711	-	-	-	2 711
Net gains/(losses) arising from fees and commissions	44 487	11 426	-	-	-	(9,696)	46 217
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	-	-	(29,056)	-	-	-	(29,056)
Net gains/(losses) arising from available-for-sale financial assets	-	-	40 204	-	-	-	40 204
Net gains arising from foreign exchange differences	-	-	1 651	-	-	-	1 651
Net gains/(losses) arising from sale of other financial assets	-	-	1 490	11 361	-	(618)	12 233
Other operating income	5 531	573	(848)	(15,354)	-	(8,913)	(19,011)
Total operating income	**118 560**	**64 887**	**12 765**	**1 261**	**-**	**(30,824)**	**166 649**
Staff costs	65 442	15 005	6 407	9 691	-	28 393	124 938
General and administrative expenses	29 789	4 173	1 060	14 437	-	(2,860)	46 599
Depreciation and amortisation	-	-	-	-	-	12 296	12 296
	95 231	19 178	7 467	24 128	-	37 829	183 833
Total provisions and impairment	4 140	8 905	38 056	81 893	-	(14,212)	118 782
Total operating profit	**19 189**	**36 804**	**(32,758)**	**(104,760)**	**-**	**(54,441)**	**(135,966)**
Share of profits of associates under equity method	-	-	-	-	-	19	19
Income before taxes and non-controlling interests	**19 189**	**36 804**	**(32,758)**	**(104,760)**	**-**	**(62,938)**	**(135,947)**
Current and deferred taxes	(5,661)	(10,857)	9 664	30 904	-	45 231	69 281
Results after taxes from continuing operations	**13 528**	**25 947**	**(23,094)**	**(73,856)**	**-**	**(17,707)**	**(66,666)**
Results from discontinuing operations	-	-	-	-	150	-	150
Net results after taxes	**13 528**	**25 947**	**(23,094)**	**(73,856)**	**150**	**(17,707)**	**(66,516)**
Non-controlling interests	-	-	-	-	1 111	-	1 111
Consolidated net profit for the period attributable to the institutional capital and the participation fund holders	**13 528**	**25 947**	**(23,094)**	**(73,856)**	**(961)**	**(17,707)**	**(67,627)**
Net assets	10 235 329	1 785 955	3 603 797	3 505 888	470 416	1 782 543	21 383 928
Liabilities	9 957 000	1 576 000	2 171 063	-	354 781	5 759 812	19 818 656
Investment in associates	-	-	3 847	-	-	-	3 847

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 60.

As at 30 June 2017, the net contribution of the main geographical areas is as follows:

(Thousands of Euro)

Income Statement	Activity Domestic	Activity International	Total
Interest and similar income	254 170	-	254 170
Interest and similar expense	109 142	1 721	110 863
Net interest income	145 028	(1,721)	143 307
Dividends from equity instruments	7 744	-	7 744
Fees and commissions income	55 218	-	55 218
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	3 973	-	3 973
Net gains/(losses) arising from available-for-sale financial assets	21 545	-	21 545
Net gains arising from foreign exchange differences	976	103	1 079
Net gains/(losses) arising from the sale of other assets	19 154	-	19 154
Other operating income / (expenses)	(3,462)	(2)	(3,464)
Total operating income	250 176	(1,620)	248 556
Staff costs	84 656	12	84 668
General and administrative expenses	39 949	116	40 065
Depreciation and amortisation	12 474	5	12 479
	137 079	133	137 212
Loans impairment	63 545	-	63 545
Other financial assets impairment	4 905	-	4 905
Other assets impairment	10 175	-	10 175
Other provisions	10 521	-	10 521
Total operating profit	23 951	(1,753)	22 198
Share of profits of associates under equity method	(90)	-	(90)
Income before taxes and non-controlling interests	23 861	(1,753)	22 108
Current taxes	(3,890)	-	(3,890)
Deferred taxes	(9,259)	-	(9,259)
Results from discontinuing operations	-	5 434	5 434
Non-controlling interests	-	1 344	1 344
Consolidated net profit for the period attributable to the institutional capital and the participation fund holders	10 712	2 337	13 049

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 60.

As at 30 June 2017, the net contribution of the main geographical areas is as follows:

Statement of Financial Position	Domestic	International	Total
Cash and deposits at credit institutions	643 560	208 160	851 720
Loans and advances to customers	13 698 265	-	13 698 265
Investments in financial assets and associated companies	2 933 221	-	2 933 221
Non-current assets held-for-sale	734 218	-	734 218
Investment properties	562 509	-	562 509
Non-current assets held-for-sale - discontinuing operations	-	445 805	445 805
Other assets	980 073	82	980 155
Total Assets	19 551 846	654 047	20 205 893
Deposits from central banks and credit institutions	4 879 862	-	4 879 862
Deposits from customers	11 431 027	196 926	11 627 953
Debt securities and subordinated liabilities issued	1 314 268	1	1 314 269
Non-current liabilities held-for-sale - discontinuing operations	-	319 652	319 652
Other liabilities	289 290	1 738	291 028
Total Liabilities	17 914 447	518 317	18 432 764
Non-controlling interests	-	25 526	25 526
Total equity attributable to the institutional capital and the participation fund holders	1 637 399	110 204	1 747 603
Total Equity	1 637 399	135 730	1 773 129
Total Liabilities and Equity	19 551 846	654 047	20 205 893

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 60.

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

(Thousands of Euro)

Income Statement	Activity Domestic	Activity International	Total
Interest and similar income	261 028	2	261 030
Interest and similar expense	145 013	4 317	149 330
Net interest income	116 015	(4,315)	111 700
Dividends from equity instruments	2 711	-	2 711
Fees and commissions income	46 217	-	46 217
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	(29,056)	-	(29,056)
Net gains/(losses) arising from available-for-sale financial assets	40 204	-	40 204
Net gains arising from foreign exchange differences	1 660	(9)	1 651
Net gains/(losses) arising from the sale of other assets	12 233	-	12 233
Other operating income / (expenses)	(20,272)	1 261	(19,011)
Total operating income	169 712	(3,063)	166 649
Staff costs	124 898	40	124 938
General and administrative expenses	46 521	78	46 599
Depreciation and amortisation	12 288	8	12 296
	183 707	126	183 833
Loans impairment	85 779	-	85 779
Other financial assets impairment	38 056	-	38 056
Other assets impairment	6 760	-	6 760
Other provisions	(11,813)	-	(11,813)
Total operating profit	(132,777)	(3,189)	(135,966)
Share of profits of associates under equity method	19	-	19
Income before taxes and non-controlling interests	(132,758)	(3,189)	(135,947)
Current taxes	(2,593)	-	(2,593)
Deferred taxes	71 874	-	71 874
Results from discontinuing operations	-	150	150
Non-controlling interests	-	1 111	1 111
Consolidated net profit for the period attributable to the institutional capital and the participation fund holders	(63,477)	(4,150)	(67,627)

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 60.

As at 31 December 2016, the net contribution of the main geographical areas is as follows:

Statement of Financial Position	Domestic	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 and subordinated liabilities issued	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 institutional capital and the participation fund holders	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 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 60.

55 Risk management

Objectives of the Risk Management Policy

CEMG is exposed to a number of risks, including credit, concentration, market, interest rate, liquidity, real estate, pension fund and operating risks. Depending on the nature and severity of the risk, plans, programs or actions shall be drawn up, supported by information systems, and procedures shall be devised that provide a high degree or reliably as to the risk management measures defined whenever necessary. All risks identified as materials are subject to regular monitoring and mitigation in order to reduce potential losses to the institution. The monitoring of these risks is centralized in the Department of Risk, which informs the Executive Board of its evolution and proposes action measures when necessary.

The Executive Board of Directors seeks to ensure the existence of a sufficient level of capitalization to meet regulatory requirements and guarantees for potential losses coverage arising from the activity, with an optimized balance sheet structure that maintains stable financing capacity and strong liquidity reserves, allowing to face stressful 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, defined in its strategic plan, for capital ratios, ratio of transformation of deposits into credit and liquidity and financing ratios, based on a feasible and sustainable business model aligned with risk appetite.

Considering this, the definition of risk appetite is supported by certain principles - namely consistency, sustainability and profitability - and is defined in terms of the strategic plan and the intended market positioning, as well as the risks related to the activity that may be considered as materially relevant. For these, objectives are set according to the desired level of return and business strategy, tolerance levels, that is, ranges of risk variation that can lead to decisions about corrective measures, and limits that are exceeded lead to immediate corrective measures.

The main concern of the Executive Board in determining risk appetite is its alignment 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 and 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 risk management policy 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, which 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 policy has maintained the following main objectives:

- Identification, measurement and control of the different types of risk assumed;
- Continuous improvement of tools to support structuring of operations and the development of internal techniques for risk evaluation and optimization of the capital base;
- Follow-up of activities and international strategies of CEMG, participating in the design of organizational solutions and in the assumed risk monitoring and reporting.

Risk Governance Model

The Executive Board of Directors ("CAE") is responsible for risk management strategy and policies, including, in this context, the adoption of principles and higher-level rules to be followed in its management.

Regarding internal supervision, the General and Supervisory Board, whose members are elected at the General Meeting of CEMG, which also appoints the President, appoints the Financial Matters Committee, whose independent functions include permanent monitoring and supervision:

- Of the effectiveness on internal control, internal auditing and risk management systems;
- Of the accounting policies;
- Of the activity and independence of external auditors.

There are also three Committees to Support the General and Supervisory Board.

The Remuneration Committee is composed of three members elected at the General Assembly, who also appoints the President. The members of the Remuneration Committee shall be independent of the members of the Executive Board of Directors of CEMG and, in general, of the matters on which they deliberate and include at least one member with knowledge and experience in remuneration policy. It is the responsibility of the Remuneration Committee to exercise the functions defined in the Law, in compliance with the remuneration policy approved at the General Meeting.

The Evaluation Committee is composed of three independent members with competence to perform the functions in question, elected at a General Meeting, which also appoints the President. It is the Evaluation Committee's responsibility to perform the functions related to the internal policy of selecting and evaluating the members of the bodies.

The Risks Committee is composed of three members of the General and Supervisory Board elected for this function in the General Meeting, which also appoints the President. The Risks Committee shall apply the functions defined in the Law.

In addition, Support Committees to the Executive Board of Directors were constituted, which are dependent structures of the Executive Board of Directors, being as forums for discussion and support decision-making, through the formulation of proposals and recommendations to the Executive Board of Directors, in its areas of intervention.

The Asset and Liability Committee ("ALCO") is responsible for monitoring and manage Equity, Balance Sheet and Income Statement. Among other functions, ALCO assures the issue of proposals or recommendations to Executive Board of Directors, in order to update the CEMG's risk profile, setting limits for risk-taking, management of liquidity and equity positions, taking into account the activity evaluation scenarios, the macroeconomic context and the indicators related with the actual and expected evolution of the different risks.

The Committee for Internal Control is responsible for support and advice the Executive Board of Directors on the matters relating to the internal control system, in order to ensure their adequacy and effectiveness and the compliance with the applicable provisions, as well as promote its continuous improvement and best practices in this field. Among other functions, the Committee for Internal Control elaborates proposals and recommendations to the Executive Board of Directors in order to optimize the internal control system and the improvement of operational risk levels and the implementation of corrective or improvement actions in accordance with the timetable set.

The Risk Committee is responsible for monitoring the evolution of exposure to different types of risk, as well as for the analysis of policies, methodologies, models and limits for the quantification of risks relevant to CEMG's activity and the adequacy of government models, processes and procedures, methodologies and systems for identification, quantification, monitoring and reporting of risks, and these are formulated or issued recommendations to the Executive Board of Directors, in order to promote the improvement of risk management processes.

The Business Committee discusses and defines the characteristics of new products and services as well as the products and services commercialised with regard to their suitability for the risk policy and regulatory framework in force.

The analysis and monitoring of pension fund management is the responsibility of the Monitoring Committee of the Pension Fund, where advice on possible amendments to the existing management policy are issued. In addition, CEMG is part of the Future Investment Committee, which makes management decisions on the Montepio Pension Fund.

The Real Estate Risk Committee monitors the management of property risk by elaborate proposals or issuing recommendations to the Executive Board of Directors in order to promote an optimized management of exposure of property risk in line with the defined objectives.

Regarding efficiency and effectiveness, the Credit Recovery Committee monitors the performance of the credit recovery process, formulating proposals or issuing recommendations for approval by the Executive Board of Directors with the purpose to reinforce the performance of this process.

The Department of Risk is responsible for supporting the Executive Board of Directors in making decisions related to the management of different types of risk inherent to the business, within the Group, and is the responsible body for the risk management.

This department ensures the analysis and management of the risk, providing advice to the Executive Board of Directors, namely through the proposal of normative and management of different risk models, through the development of management reports that provide the basis for decision making and participation in Support Committees to the Executive Board of Directors.

This department ensures the accomplishment of several prudential reports to the supervision authority, namely the domain of their own funds requirements, major risk control, liquidity risk, interest rate risk, country risk, counterparty risk, self-evaluation of Own Funds' adjustment, Market Discipline, Recovery Plan and Resolution Plan.

The Internal Auditing function is ensured by the Internal Audit and Inspection Department and integrates the internal control monitorization process, through the execution of complementary independent evaluations over the performance of controls, identifying deficiencies and recommendations and submitting its conclusions to the Executive Board of Directors and to the Supervisory Body.

The Internal Audit and Inspection Department is also responsible for performing audits to the Risk Management processes, according with the guidance provided by the supervision entities, including the independent review of risk assessment internal models and to calculate the equity minimum requirements for risk hedging. Based in the results obtained from the audits, measures are recommended and their implementation is followed in order to ensure that necessary measures are taken and managed properly.

The compliance function has the main goal of managing the compliance risk which is the risk of incurring in legal or regulatory sanctions, financial or reputation loss as a consequence of non-compliance with laws, regulations, conduct code and good practices.

The compliance risk is mitigated encouraging a culture of compliance and the respect of group's entities and their employees by the framework applicable through an independent intervention, together with all organic units. It is part of compliance's functions, through an independent intervention, permanent and effective, to define the procedures and mechanisms of compliance control, and respective monitoring.

In the performed activities, the aspects that contribute to the characterization of compliance risk are identified and evaluated, with a special focus on the institutional processes, associated with products and services, information duties towards clients and, in general, providing specialized support in matters of control and compliance.

It is the responsibility of the compliance function to prepare and submit to the Management and Supervisory Bodies a report, at least on an annual basis, identifying any non-compliance and the respective recommendations for the purpose of correcting identified nonconformities or weaknesses.

Identification, measurement and risk control processes

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 founded in the existence of a strong process of analysis and credit decision, based on a set of supporting tools to the credit decision process. The quantification of credit risk is also supported on the calculation model of 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 (eg 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' behaviour. 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, differentiating the construction sector and the third sector of the remaining activity sectors, while for "Single person entrepreneur" (SPE's) and microenterprises is applied the scoring model business.

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, and there is always, at least, one class of rejection risk.

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 scoring models. In terms of preventive monitoring, an alert system is in place for the main indicators of credit risk tightening, as well as watchlist for monitoring the largest exposures of the credit portfolio. A weekly exposure risk report is also prepared for counterparties.

The Group's Calculation Model of Impairment 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 / client group:

- 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.
- 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 Analysis based on Collective Basis.

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, the PD corresponds to 100%;

- LGD (default loss): corresponds to internal loss estimates, which vary depending on the segment, existence of a real guarantee, Loan-to-Value (LTV) and default seniority, based on the historical experience of the institution's 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 and other relevant factcs for this analysis.

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.

CEMG's credit risk exposure can be analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Deposits with other credit institutions	58 917	69 568
Deposits with banks	369 163	559 091
Loans and advances to customers	13 698 265	13 861 034
Financial assets held-for-trading	79 802	70 998
Financial assets available-for-sale	2 296 982	1 832 323
Held-to-maturity investments	-	1 126 125
Investments in associated companies	3 698	4 042
Other assets	207 363	215 694
Guarantees granted	425 734	432 259
Open documentary credits	57 270	58 813
Irrevocable commitments	563 483	488 069
	17 760 677	18 718 016

The analysis of the risk exposure by activity sector, for the period ended at 30 June 2017, can be analysed as follows:

(Thousands of Euro)

	Jun 2017						
Activity sector	**Loans and advances to customers**		**Financial assets held-for-trading**	**Financial assets availabe-for-sale**		**Garantees granted and documentary credits**	
	Gross Amount	**Impairment**	**Book value**	**Gross Amount**	**Impairment**	**Off balance sheet value**	**Provisions for guarantees and assumed commitments**
Agriculture	163 511	13 216	-	-	-	2 100	81
Mining	20 961	1 904	-	-	-	960	69
Food, beverage and tobacco	253 199	19 169	-	6 160	-	3 056	74
Textiles	89 119	12 209	-	-	-	1 040	1
Shoes	46 311	5 318	-	-	-	227	-
Wood and cork	39 038	5 985	-	-	-	499	37
Printing and publishing	108 516	9 289	-	907	-	377	57
Petroleum refining	573	48	-	1 985	-	-	-
Chemicals and rubber	116 124	11 362	-	-	-	3 596	90
Non-metallic minerals	149 582	5 817	-	-	-	1 909	133
Basis metallurgic industries and metallic products	178 854	20 322	-	-	-	7 717	282
Production of machinery	43 751	3 323	-	-	-	1 798	84
Production of transport material	42 376	1 562	-	-	-	3 550	183
Other transforming industries	54 182	7 869	-	-	-	699	2
Electricity, gas and water	160 357	2 842	-	12 466	-	4 340	200
Construction	1 069 412	324 987	-	-		110 691	5 566
Wholesale and retail	1 225 362	168 147	-	5 151	-	66 708	2 563
Tourism	506 736	34 739	-	-	-	10 666	217
Transports	499 709	59 097	-	-	-	12 316	479
Communication and information activities	113 239	10 048	25 060	42 465	26 522	5 594	260
Financial activities	743 434	65 849	27 442	25 920	10 451	130 651	1 097
Real estate activities	747 438	134 896	-	-	-	19 662	913
Services provided to companies	636 645	50 178	-	27 909	-	37 123	181
Public services	129 369	4 399	27 300	2 205 521	-	505	10
Other activities of collective services	454 507	32 655	-	-	-	12 608	3 178
Mortgage loans	7 058 820	169 065	-	30 201	25 800	3 988	147
Other	238 729	17 294	-	1 070	-	41 053	24
	14 889 854	1 191 589	79 802	2 359 755	62 773	483 433	15 928

The analysis of the risk exposure by activity sector, for 2016, can be analysed as follows:

(Thousands of Euro)

Activity sector	Dec 2016							
	Loans and advances to customers		Financial assets held-for-trading	Financial assets availabe-for-sale		Held-to-maturity investments	Garantees granted and documentary credits	
	Gross Amount	Impairment	Book value	Gross Amount	Impairment	Book value	Off balance sheet value	Provisions for guarantees and assumed commitments
Agriculture	159 747	12 837	-	2 138	-	-	1 460	23
Mining	17 417	1 695	-	-	-	-	996	72
Food, beverage and tobacco	235 450	20 094	-	981	-	-	2 483	95
Textiles	89 450	11 469	-	-	-	-	934	2
Shoes	45 029	4 246	-	-	-	-	245	0
Wood and cork	38 896	5 546	-	-	-	-	522	27
Printing and publishing	109 818	8 364	-	-	-	-	377	59
Petroleum refining	328	41	-	14 011	-	-	-	-
Chemicals and rubber	123 526	12 743	-	-	-	-	3 219	99
Non-metallic minerals	147 077	5 480	-	-	-	-	1 974	137
Basis metallurgic industries and metallic products	180 300	19 046	-	-	-	-	6 104	109
Production of machinery	41 015	2 913	-	-	-	-	1 532	95
Production of transport material	36 505	1 442	-	-	-	-	6 725	222
Other transforming industries	56 059	7 337	-	-	-	-	5 369	1
Electricity, gas and water	194 940	2 769	-	29 441	-	-	4 923	254
Construction	1 126 457	339 924	-	998	998	-	128 754	5 863
Wholesale and retail	1 238 224	163 832	-	7 064	-	-	68 486	2 765
Tourism	499 696	33 065	-	-	-	-	9 458	217
Transports	471 380	53 612	-	-	-	-	12 227	434
Communication and information activities	103 576	8 716	-	22 675	-	-	6 317	40
Financial activities	734 671	64 443	56 338	114 729	9 209	-	119 672	1 342
Real estate activities	682 875	131 047	-	-	-	-	19 615	1 076
Services provided to companies	656 754	52 347	-	-	-	-	69 630	275
Public services	135 419	4 783	14 660	2 263 821	7 343	1 126 125	517	11
Other activities of collective services	460 449	30 460	-	-	-	-	9 126	427
Mortgage loans	7 226 569	169 298	-	108 861	32 040	-	4 327	205
Other	229 027	12 069	-	3 369	-	-	6 510	33
	15 040 651	1 179 617	70 998	2 568 088	49 590	1 126 125	491 501	13 881

CEMG's total credit portfolio, including in addition to customer loans, guarantees and guarantees provided in the amount of Euro 483,004 thousand (31 December 2016: Euro 491,072 thousand) and irrevocable credit amounting to Euro 563,483 thousand (31 December 2016: Euro 488,069 thousand), broken down between impairment and non-impairment credit, is presented as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Total of loans	15 877 716	15 956 137
Individually significant		
Gross amount	5 372 298	5 259 203
Impairment	(623,832)	(631,581)
Net amount	4 748 466	4 627 622
Collective analysis		
Loans with impairment triggers		
Gross amount	1 891 475	1 941 787
Impairment	(568,919)	(548,908)
Net amount	1 322 556	1 392 879
Loans and advances to customers without impairment	8 613 943	8 755 147
Impairment (IBNR)	(14,766)	(12,985)
Net amount	14 670 199	14 762 663

As at 30 June 2017 and in 31 December 2016, impairment determined according to the accounting policy described in note 1 c), is presented as follows:

(Thousands of Euro)

	Jun 2017						
	Impairment calculated in an individual basis		Impairment calculated in a portfolio basis		Total		
	Loan amount	Impairment	Loan amount	Impairment	Loan amount	Impairment	Loan net of impairment
Corporate	5 308 695	610 452	2 706 649	388 557	8 015 344	999 009	7 016 335
Retail – Mortgages	25 613	1 411	6 974 810	99 779	7 000 423	101 190	6 899 233
Retails – Others	37 990	11 969	823 959	95 349	861 949	107 318	754 631
	5 372 298	623 832	10 505 418	583 685	15 877 716	1 207 517	14 670 199

(Thousands of Euro)

	Dec 2016						
	Impairment calculated in an individual basis		Impairment calculated in a portfolio basis		Total		
	Loan amount	Impairment	Loan amount	Impairment	Loan amount	Impairment	Loan net of impairment
Corporate	5 178 687	617 914	2 729 499	372 427	7 908 186	990 341	6 917 845
Retail – Mortgages	23 923	1 392	7 136 075	96 324	7 159 998	97 716	7 062 282
Retails – Others	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 CEMG's total portfolio, is as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Loans with impairment:		
Securities and other financial assets	197 824	207 299
Residential real estate - Mortgage loans	42 599	39 653
Real estate - Construction and CRE	2 561 087	1 968 615
Other real estate	1 820 643	1 799 299
Other guarantees	546 061	482 654
	5 168 214	4 497 520
Parametric analysis:		
Securities and other financial assets	18 620	24 659
Residential real estate - Mortgage loans	1 351 447	1 415 103
Real estate - Construction and CRE	327 628	381 828
Other real estate	349 895	360 348
Other guarantees	29 208	29 564
	2 076 798	2 211 502
Loans without impairment:		
Securities and other financial assets	250 803	265 297
Residential real estate - Mortgage loans	12 203 607	12 265 692
Real estate - Construction and CRE	282 295	242 739
Other real estate	821 307	839 790
Other guarantees	297 225	284 584
	13 855 237	13 898 102
	21 100 249	20 607 124

The Group uses physical and financial collateral as instruments to mitigate credit risk. Physical collaterals mostly correspond to mortgages on real estate under mortgage lending operations and mortgages on other types of real estate under other types of lending operations. In order to reflect their market value, these collaterals are regularly reviewed based on evaluations performed by independent and certified valuation entities or through the use of revaluation coefficients that reflect the market's trend for the type of property and corresponding geographical area. The financial collaterals are revalued based on the market values of the respective assets, when available, and certain devaluation coefficients are applied in order to reflect their volatility. Most part of physical collaterals are re-evaluated at least annually.

CEMG's total credit portfolio, by segment and respective impairment, recorded in the first semester of 2017 and during 2016, is presented as follows:

(Thousands of Euro)

	Exposure Jun 2017					Impairment Jun 2017		
Segment	Total exposure	Credit in compliance	Reestructured credit in compliance	Default credit	Reestructured default credit	Total impairment	Credit in compliance	Default credit
Corporate	5 664 508	4 826 283	175 539	838 225	250 133	502 819	69 393	433 426
Construction and CRE	2 350 836	1 311 170	106 987	1 039 666	487 401	496 190	37 248	458 942
Mortgages	7 000 423	6 596 219	118 181	404 204	137 430	101 190	7 129	94 061
Retail - others	861 949	695 340	18 156	166 609	29 112	107 318	4 735	102 583
	15 877 716	13 429 012	418 863	2 448 704	904 076	1 207 517	118 505	1 089 012

(Thousands of Euro)

	Exposure Dec 2016					Impairment Dec 2016		
Segment	Total exposure	Credit in compliance	Reestructured credit in compliance	Default credit	Reestructured default credit	Total impairment	Credit in compliance	Default credit
Corporate	5 617 940	4 777 041	156 978	840 899	245 614	484 565	69 080	415 485
Construction and CRE	2 290 246	1 250 438	117 423	1 039 808	487 618	505 776	27 603	478 173
Mortgages	7 159 998	6 761 657	147 684	398 341	135 547	97 716	7 134	90 582
Retail - others	887 953	723 866	21 925	164 087	28 649	105 417	5 527	99 890
	15 956 137	13 513 002	444 010	2 443 135	897 428	1 193 474	109 344	1 084 130

(Thousands of Euro)

		Total exposure Jun 2017						Total impairment Jun 2017			
		Credit in compliance			Credit in default			Credit in compliance		Credit in default	
Segment	Total exposure Jun 2017	Without signs	Overdue days <30 with signs	Sub-total	Overdue days <= 90*	Overdue days > 90 days	Total impairment Jun 2017	Overdue days < 30	Overdue days between 30 - 90	Overdue days <= 90*	Overdue days > 90 days
Corporate	5 664 508	4 287 432	499 809	4 826 283	42 849	795 376	502 819	63 745	5 648	11 751	421 675
Construction and CRE	2 350 836	1 094 206	186 846	1 311 170	193 459	846 207	496 190	27 995	9 253	46 006	412 936
Mortgage	7 000 423	6 082 087	455 953	6 596 219	27 051	377 153	101 190	5 657	1 472	7 373	86 688
Retail - Other	861 949	604 353	78 487	695 340	6 367	160 242	107 318	3 595	1 140	1 825	100 758
	15 877 716	12 068 078	1 221 095	13 429 012	269 726	2 178 978	1 207 517	100 992	17 513	66 955	1 022 057

(Thousands of Euro)

		Total exposure Dec 2016						Total impairment Dec 2016			
		Credit in compliance			Credit in default			Credit in compliance		Credit in default	
Segment	Total exposure Dec 2016	Without signs	Overdue days <30 with signs	Sub-total	Overdue days <= 90*	Overdue days > 90 days	Total impairment Dec 2016	Overdue days < 30	Overdue days between 30 - 90	Overdue days <= 90*	Overdue days > 90 days
Corporate	5 617 940	4 296 707	434 467	4 777 041	45 594	795 305	484 566	58 070	11 011	12 171	403 314
Construction and CRE	2 290 246	1 001 231	235 557	1 250 438	154 749	885 059	505 776	26 806	797	48 495	429 678
Mortgage	7 159 998	6 196 527	490 573	6 761 657	25 510	372 831	97 716	5 150	1 985	4 976	85 605
Retail - Other	887 953	609 419	102 102	723 866	5 459	158 628	105 416	4 401	1 124	1 556	98 335
	15 956 137	12 103 884	1 262 699	13 513 002	231 312	2 211 823	1 193 474	94 427	14 917	67 198	1 016 932

The credit portfolio, by segment and by production year, in the first semester of 2017, is presented as follows:

(Thousands of Euro)

	Corporate			Construction and CRE			Retail - Mortgages			Reatil - Others		
Production year	Number of operations	Amount	Booked impairment	Number of operations	Amount	Booked impairment	Number of operations	Amount	Booked impairment	Number of operations	Amount	Booked impairment
2004 and before	2 155	90 528	21 394	1 618	258 550	109 842	60 152	2 157 871	32 430	39 628	31 849	8 208
2005	694	34 534	6 623	443	84 951	39 115	14 009	768 054	12 410	4 727	9 703	2 020
2006	959	69 453	9 914	584	118 711	45 691	16 903	942 057	18 086	7 023	27 829	4 704
2007	1 570	102 954	20 874	858	145 605	46 750	17 135	943 852	17 457	39 380	43 236	15 740
2008	5 557	100 371	23 446	1 430	105 007	27 835	8 922	490 016	8 771	53 057	41 240	9 691
2009	8 182	177 890	38 985	2 480	126 575	37 192	4 876	306 608	4 292	39 454	40 398	11 430
2010	7 871	279 004	71 728	1 680	101 349	35 364	5 097	348 947	3 655	20 182	43 093	14 849
2011	10 719	255 906	56 126	2 488	91 079	25 732	1 912	130 983	1 297	21 096	39 142	11 723
2012	7 086	269 319	48 708	1 484	70 211	20 742	1 265	86 805	1 064	12 285	33 832	8 153
2013	14 039	703 705	79 982	1 972	137 739	25 929	1 607	115 694	949	18 240	54 863	7 704
2014	21 579	877 197	54 631	4 536	251 773	29 440	1 897	137 374	308	27 419	100 160	7 753
2015	19 941	852 928	36 105	3 086	234 108	10 695	2 193	170 454	204	31 592	130 095	3 087
2016	18 566	1 062 432	21 539	4 589	351 651	23 884	2 906	242 971	185	43 128	176 409	1 798
2017	15 004	788 287	12 764	2 447	273 527	17 979	1 975	158 737	82	19 522	90 100	458
	133 922	5 664 508	502 819	29 695	2 350 836	496 190	140 849	7 000 423	101 190	376 733	861 949	107 318

The credit portfolio, by segment and by production year, as of 31 December 2016, is presented as follows:

(Thousands of Euro)

	Corporate			Construction and CRE			Retail - Mortgages			Reatil - Others		
Production year	Number of operations	Amount	Booked impairment	Number of operations	Amount	Booked impairment	Number of operations	Amount	Booked impairment	Number of operations	Amount	Booked impairment
2004 and before	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 credit gross exposure and individual and collective impairment by segment, as of 30 June 2017 and in 2016, is analysed as follows:

(Thousands of Euro)

	Jun 2017									
	Corporate		Construction and CRE		Retail - Mortgages		Retail - Others		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation										
Individual	3 528 805	237 495	1 779 890	372 958	25 613	1 411	37 990	11 968	5 372 298	623 832
Collective	2 135 703	265 324	570 946	123 232	6 974 810	99 779	823 959	95 350	10 505 418	583 685
	5 664 508	502 819	2 350 836	496 190	7 000 423	101 190	861 949	107 318	15 877 716	1 207 517

(Thousands of Euro)

	Dec 2016									
	Corporate		Construction and CRE		Retail - Mortgages		Retail - Others		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation										
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 credit gross exposure and individual and collective impairment by business sector, as of 30 June 2017 and during 2016, is analysed as follows:

(Thousands of Euro)

	Jun 2017											
	Construction		Industry		Commerce		Real Estate Activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation												
Individual	901 608	245 461	725 030	40 670	439 537	34 646	709 746	117 882	2 532 774	171 794	5 308 695	610 453
Collective	287 952	81 067	559 324	64 443	863 141	129 978	132 714	17 643	863 518	95 425	2 706 649	388 556
	1 189 560	326 528	1 284 354	105 113	1 302 678	164 624	842 460	135 525	3 396 292	267 219	8 015 344	999 009

(Thousands of Euro)

	Dec 2016											
	Construction		Industry		Commerce		Real Estate Activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation												
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 restructured loan portfolio, by applied restructuring measure, as of 30 June 2017 and in 2016, is analysed as follows:

(Thousands of Euro)

	jun 2017								
	Credit in compliance			Credit in default			Total		
Measure	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Term extension	647	55 903	3 785	546	40 903	12 592	1 193	96 806	16 377
Interest capitalization	500	87 950	8 429	1 278	417 282	182 154	1 778	505 232	190 583
Shortage period	1 184	95 373	3 797	1 089	157 258	60 282	2 273	252 631	64 079
New operation with settlement	835	39 095	2 683	781	86 035	20 502	1 616	125 130	23 185
Interest rate decrease	6	603	17	114	29 426	15 804	120	30 029	15 821
Bullet	55	23 572	1 121	13	10 059	4 533	68	33 631	5 654
Others	414	116 367	8 420	581	163 113	79 092	995	279 480	87 512
	3 641	418 863	28 252	4 402	904 076	374 959	8 043	1 322 939	403 211

(Thousands of Euro)

	Dec 2016								
	Credit in compliance			Credit in default			Total		
Measure	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Term extension	779	73 112	3 572	543	52 566	19 928	1 322	125 678	23 500
Shortage period	2 047	198 425	17 620	2 371	610 504	248 758	4 418	808 929	266 378
New operation with settlement	781	72 927	4 357	719	46 064	16 654	1 500	118 991	21 011
Interest rate decrease	6	613	18	116	13 161	4 603	122	13 774	4 621
Others	620	98 933	4 245	614	175 133	83 629	1 234	274 066	87 874
	4 233	444 010	29 812	4 363	897 428	373 572	8 596	1 341 438	403 384

The inflow and outflow movements in the restructured loan portfolio are presented as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Opening balance of the restructured portfolio	1 341 438	1 518 194
Restructured credit in the period	139 078	288 594
Accrued interest of the restructured portfolio	649	1 361
Restructured credit liquidation (partial or total)	(88,904)	(339,617)
Reclassified credits from "restructured" to "normal"	(69,322)	(127,094)
Closing balance of the restructured portfolio	1 322 939	1 341 438

The fair value of the collateral underlying the credit portfolio of the Construction and Commercial Real Estate (CRE) and Retail - Mortgages segments, with reference to 30 June 2017, is presented as follows:

(Thousands of Euro)

	Construction and CRE				Retail - Mortgages			
	Real Estate		Other real collaterals		Real Estate		Other real collaterals	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	4 873	571 750	1 777	70 526	109 485	13 278 702	333	11 184
>= 0,5 M€ e <1M€	283	198 087	31	19 596	353	218 374	-	-
>= 1 M€ e <5M€	278	590 980	18	31 983	40	63 077	-	-
>= 5 M€ e <10M€	29	206 575	4	27 878	-	-	-	-
>= 10 M€ e <20M€	27	376 756	1	12 609	2	37 500	-	-
>= 20 M€ e <50M€	11	297 946	2	66 000	-	-	-	-
>= 50M€	5	928 916	-	-	-	-	-	-
	5 506	3 171 010	1 833	228 592	109 880	13 597 653	333	11 184

The fair value of the collateral underlying the credit portfolio of the Construction and Commercial Real Estate (CRE) and Retail - Mortgages segments, with reference to 31 December 2016, is presented as follows:

(Thousands of Euro)

	Construction and CRE				**Retail - Mortgages**			
	Real Estate		**Other real collaterals**		**Real Estate**		**Other real collaterals**	
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 Retail - Mortgages segments, as of 30 June 2017 and 31 December 2016, is presented as follows:

(Thousands of Euro)

	Jun 2017			
Segment/ Ratio	Number of real estate	Credit in compliance	Credit in default	Impairment
Corporate				
Without real estate (*)	-	3 871 239	568 173	382 333
< 60%	2 278	294 215	86 717	30 240
>= 60% e < 80%	1 072	398 907	73 013	26 172
>= 80% e < 100%	966	230 349	45 995	26 061
>= 100%	197	31 573	64 327	38 013
Construction and CRE				
Without real estate (*)	-	701 197	360 334	194 111
< 60%	2 054	269 442	242 518	84 047
>= 60% e < 80%	1 017	161 262	100 641	42 311
>= 80% e < 100%	1 559	152 740	116 085	46 812
>= 100%	876	26 529	220 088	128 909
Retail - Mortgage				
Without real estate (*)	-	547 304	70 630	22 805
< 60%	65 226	2 553 487	50 665	8 912
>= 60% e < 80%	28 076	2 209 812	63 312	12 478
>= 80% e < 100%	14 159	1 205 535	89 286	20 289
>= 100%	2 419	80 081	130 311	36 706

(*) Includes operations w ith other types of associated collaterals, namely, financial collaterals.

(Thousands of Euro)

Segment/ Ratio	Dec 2016			
	Number of real estate	Credit in compliance	Credit in default	Impairment
Corporate				
Without real estate (*)	-	3 817 397	558 318	354 271
< 60%	2 250	279 537	101 956	34 545
>= 60% and < 80%	1 018	355 213	65 469	30 432
>= 80% and < 100%	1 004	294 445	44 826	26 465
>= 100%	287	30 449	70 331	38 851
Construction and CRE				
Without real estate (*)	-	737 201	347 653	180 207
< 60%	2 086	215 146	203 369	89 258
>= 60% and < 80%	931	136 964	103 194	42 602
>= 80% and < 100%	1 793	132 823	132 519	47 332
>= 100%	1 168	28 304	253 073	146 377
Retail - Mortgage				
Without real estate (*)	-	566 554	65 243	17 798
< 60%	64 610	2 548 893	46 311	9 087
>= 60% and < 80%	28 640	2 244 821	62 241	12 343
>= 80% and < 100%	15 260	1 314 180	90 707	20 526
>= 100%	2 529	87 209	133 839	37 963

(*) Includes operations with other types of associated collaterals, namely, financial collaterals.

The fair value and net value of real estate received as payment, by type of asset, as of 30 June 2017 and 31 December 2016 and are presented as follows:

(Thousands of Euro)

Asset	Jun 2017		
	Number of real estate	Fair value	Book value
Land	**1 942**	**363 510**	**330 966**
Urban	1 668	260 418	241 714
Rural	274	103 092	89 252
Buildings under development	**833**	**116 314**	**105 739**
Commercials	93	8 466	6 992
Housing	593	106 373	97 336
Others	147	1 475	1 411
Buildings built	**2 866**	**334 522**	**297 365**
Commercials	882	121 004	106 868
Housing	1 493	197 502	176 462
Others	491	16 016	14 035
	5 641	814 346	734 070

(Thousands of Euro)

Asset	Dec 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 development	**842**	**122 267**	**112 423**
Commercials	92	9 093	7 613
Housing	601	111 655	103 360
Others	149	1 519	1 450
Buildings built	**2 942**	**341 153**	**303 916**
Commercials	868	120 913	106 477
Housing	1 562	203 971	183 202
Others	512	16 269	14 237
	5 767	840 233	760 054

The time lapse since the recovery / execution of properties received, as of 30 June 2017 and 31 December 2016, is presented as follows:

(Thousands of Euro)

Elapsed time since the recovery/execution	Jun 2017 < 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**91 246**	**51 083**	**178 274**	**10 363**	**330 966**
Urban	83 434	33 303	116 888	8 089	241 714
Rural	7 812	17 780	61 386	2 274	89 252
Buildings under development	**13 911**	**45 172**	**43 164**	**3 492**	**105 739**
Commercials	835	2 422	3 517	218	6 992
Housing	13 076	42 205	38 781	3 274	97 336
Others	-	545	866	-	1 411
Buildings built	**71 239**	**82 075**	**131 332**	**12 719**	**297 365**
Commercials	17 024	24 318	60 251	5 275	106 868
Housing	52 073	50 021	67 699	6 669	176 462
Others	2 142	7 736	3 382	775	14 035
	176 396	178 330	352 770	26 574	734 070

(Thousands of Euro)

Elapsed time since the recovery/execution	Dec 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 development	**11 565**	**49 991**	**47 337**	**3 529**	**112 422**
Commercials	805	3 174	3 416	218	7 613
Housing	10 760	46 231	43 058	3 311	103 360
Others	-	586	863	-	1 449
Buildings built	**57 767**	**92 198**	**139 935**	**14 017**	**303 917**
Commercials	12 120	25 396	62 872	6 090	106 478
Housing	43 640	58 890	73 527	7 144	183 201
Others	2 007	7 912	3 536	783	14 238
	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. 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.

Concerning information and market risk analysis, regular reports are provided on the company's and other group entities financial assets. For the company's own portfolio, the various risk limits are defined using the Value-at-Risk («VaR») method. There are different exposure limits such as global «VaR» limits, by issuer, by asset type and rating. There are also limits of Stop Loss and Loss Trigger to position held for trading and available for sale.

CEMG 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.

In reports prepared, the various exposure limits are controlled, analyzing the concentration, credit, interest rate and asset price variation risks, among others. These analyzes 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 CEMG's global portfolio risk report, specific risk reports for the trading portfolio as well as for the portfolios of available-for-sale assets are also carried out.

CEMG's investment portfolio is mainly concentrated in bonds, and as of 30 June 2017 represented 81.0% (31 December 2016: 84.5%) of the total portfolio, maintaining its dominant position in bonds of sovereign issuers, essentially of the Portuguese Republic.

Regarding the credit quality of debt securities, the major changes resulted from decreased exposure to the sovereigns of the Portuguese and Italian Republics:

(Thousands of Euro)

Rating	Jun 2017		Dec 2016		Change	
	Value	%	Value	%	Value	%
AAA	-	-	8,081	0.4	(8,081)	(100.0)
AA+	-	-	2,131	0.1	(2,131)	(100.0)
AA	1,914	0.1	1,412	-	502	35.6
AA-	1,009	-	1,025	-	(16)	(1.6)
A+	718	-	4,558	0.1	(3,840)	(84.2)
A	1,829	0.1	4,443	0.1	(2,614)	(58.8)
A-	3,155	0.1	5,415	0.2	(2,260)	(41.7)
BBB+	182,004	7.3	179,061	5.7	2,943	1.6
BBB	151,838	6.1	177,068	5.6	(25,230)	(14.2)
BBB-	8,717	0.3	23,763	0.8	(15,046)	(63.3)
BB+	1,905,297	76.2	2,497,867	79.5	(592,570)	(23.7)
B+	-	-	2,561	0.1	(2,561)	(100.0)
B	148,922	6.0	144,852	4.6	4,070	2.8
CCC	14,019	0.6	12,371	0.4	1,648	13.3
CC	2,775	0.1	633	-	2,142	338.4
D	38,109	1.5	35,116	1.1	2,993	8.5
NR	40,733	1.6	41,347	1.3	(614)	(1.5)
Total	2,501,039	100.0	3,141,704	100.0	(640,665)	(20.4)

The total of Euro 2,501,039 thousand includes the amount of Euro 151,697 thousand - corresponding to Finibanco Angola's securities portfolio (Euro 148,922 thousand, rated B) and Banco Terra (Euro 2,775 thousand, rated CC) – which are recorded in Discontinuing operations.

With regard to the trading portfolio, the main VaR indicators are presented below:

(Thousands of Euro)

	Jun 2017	Average	Minimum	Maximum	Dec 2016
Market VaR	299	407	316	769	316
Interest rate risk	163	118	98	114	98
Exchange risk	57	81	78	99	78
Price risk	251	388	318	769	318
Diversification effect	*(172)*	*(180)*	*(178)*	*(213)*	*(178)*
Credit VaR	1 751	1 299	285	1 592	285
VaR Total	**2 050**	**1 706**	**601**	**2 361**	**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, on a consolidated basis for the entities included in the consolidation perimeter of the Group.

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 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.

Following the recommendations of Basel and Instruction no. 19/2005, of Bank of Portugal, CEMG calculates its exposure to interest rate risk based on the methodology of CEMG of International Settlements («BIS») which requires the classification of non-trading balances and off balance positions by repricing intervals.

In this context, limits are set for exposure to interest rate risk factors, which are monitored at ALCO, and any possible exceedance of any of the established limits, even if temporary, requires approval from the Executive Board of Directors or application of measures to cover the exposure.

(Thousands of Euro)

	Within 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years
30 June 2017					
Assets	8 431 709	3 348 715	659 095	1 074 931	2 081 933
Off balance sheet	7 664 689	84 675	5 000	101 373	-
Total	16 096 398	3 433 390	664 095	1 176 304	2 081 933
Liabilities	4 876 125	1 468 162	3 163 083	7 903 940	261 465
Off balance sheet	7 640 901	94 587	4 750	115 560	-
Total	12 517 026	1 562 749	3 167 833	8 019 500	261 465
GAP (Assets - Liabilities)	3 579 372	1 870 641	(2,503,738)	(6,843,196)	1 820 468
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 the first semester of 2017 and for 2016:

(Thousands of Euro)

	Jun 2017				Dec 2016			
	December	Average	Maximum	Minimum	December	Average	Maximum	Minimum
Interest rate Gap	(2,076,454)	(1,810,588)	(1,544,721)	(2,076,454)	(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 30 June 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 10,731 thousand (31 December 2016: Euro 30,531 thousand).

The following table presents the average interests, in relation to CEMG major assets and liabilities categories for the first semester of 2017 and for 31 December 2016, as well as the average balances and income and expense for the period:

(Thousands of Euro)

	Jun 2017			Dec 2016		
	Average balance	Average interest rate (%)	Interests	Average balance	Average interest rate (%)	Interests
Interest assets generators						
Deposits at central banks and OIC	206,781	0.12	125	340,532	0.05	181
Loans and advances to OIC	472,666	0.95	2,259	182,353	2.16	3,999
Loans and advances to customers	14,972,972	2.48	186,538	15,316,627	2.54	394,449
Securities portfolio	2,829,113	2.14	30,378	2,962,028	1.99	59,890
Others (Includes derivatives)	-	-	34,870	-	-	75,819
	18,481,532	**2.74**	**254,170**	**18,801,540**	**2.99**	**534,338**
Interest liabilities generators						
Deposits from BCE	2,573,651	0.01	160	2,806,845	0.04	1,063
Deposits from OIC	2,311,289	0.40	4,598	1,752,884	0.58	10,372
Deposits from customers	11,839,150	0.72	43,054	12,090,533	1.07	131,147
Senior debt	1,676,654	2.62	22,067	2,147,635	2.91	55,527
Subordinated debt	250,960	1.27	1,599	273,674	1.41	3,909
Others (Includes derivatives)	-	-	39,385	-	-	79,147
	18,651,704	**1.18**	**110,863**	**19,071,571**	**2.00**	**281,165**
Net interest income		**1.54**	**143,307**		**1.33**	**253,173**

Currency Risk

Regarding to currency risk, the procedure is the application of funds raised in various currencies through active money market and for periods not exceeding those of the resources, and therefore existing currency gaps are mainly due to eventual mismatches between the investment terms and resources.

With regards to banking portfolio's currency exchange risks, limits are set for exposure, which are monitored at ALCO, and any possible exceedance of any of the established limits, even if temporary, requires approval from the Executive Board of Directors or application of measures to cover that risk.

The breakdown of assets and liabilities, by currency, as at 30 June 2017 and 31 December 2016 is analysed as follows:

(Thousands of Euro)

	Jun 2017							
	Euro	United States Dollar	Angolan Kwanza	Mozambican Metical	Sterling Pound	Brazilian Real	Other foreign currencies	Total amount
Assets by currency								
Cash and deposits at central banks	409 152	9 541	-	-	1 760	166	3 021	423 640
Loans and advances to credit instituitions repayable on demand	39 254	16 837	-	-	329	-	2 497	58 917
Other loans and advances to credit institutions	324 804	14 895	-	-	3 724	-	25 740	369 163
Loans and advances to customers	13 574 924	123 230	-	-	78	-	33	13 698 265
Financial assets held-for-trading	84 555	2 477	-	-	-	-	-	87 032
Financial assets available-for-sale	2 780 936	486	-	-	100	60 877	92	2 842 491
Investments in associated companies and others	3 698	-	-	-	-	-	-	3 698
Non-current assets held-for-sale	734 218	-	-	-	-	-	-	734 218
Non-current assets held for sale - discontinued operations	15 400	151 754	231 994	46 267	86	-	304	445 805
Investment properties	562 509	-	-	-	-	-	-	562 509
Property and equipment	234 358	-	-	-	-	-	-	234 358
Intangible assets	33 206	-	-	-	-	-	-	33 206
Current tax assets	10 388	-	-	-	-	-	-	10 388
Deferred tax assets	486 292	-	-	-	-	-	-	486 292
Other assets	215 397	489	-	-	4	-	21	215 911
Total Assets	**19 509 091**	**319 709**	**231 994**	**46 267**	**6 081**	**61 043**	**31 708**	**20 205 893**
Liabilities by currency								
Deposits from central banks	2 700 425	-	-	-	-	-	-	2 700 425
Deposits from other financial institutions	2 106 379	42 766	-	-	3 932	-	26 360	2 179 437
Deposits from customers	11 472 623	101 521	-	-	10 715	-	43 094	11 627 953
Debt securities issued	1 032 158	30 440	-	-	-	-	-	1 062 598
Financial liabilities held-for-trading	20 961	573	-	-	-	-	-	21 534
Non-current liabilities held-for-sale - discontinued operations	32 672	74 489	186 292	26 178	7	-	14	319 652
Provisions	28 572	-	-	-	-	-	-	28 572
Current tax liabilities	5 613	-	-	-	-	-	-	5 613
Other subordinated debt	251 671	-	-	-	-	-	-	251 671
Other liabilities	232 758	965	-	-	115	-	1 471	235 309
Total Liabilities	**17 883 832**	**250 754**	**186 292**	**26 178**	**14 769**	**-**	**70 939**	**18 432 764**
Exchange forward transaction	(2,866)	(47,840)	-	-	7 733	-	43 256	
Exchange gap		21 115	45 702	20 089	(955)	61 043	4 025	
Stress Test		**(4,223)**	**(9,140)**	**(4,018)**	**191**	**(12,208)**	**(805)**	

(Thousands of Euro)

	Dec 2016							
	Euro	United States Dollar	Angolan Kwanza	Mozambican Metical	Sterling Pound	Brazilian Real	Other foreign currencies	Total amount
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 instituitions repayable on der	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
Other financial assets at fair value through profit or loss	-	-	-	-	-	-	-	-
Financial assets available-for-sale	2 332 421	212	-	-	-	66 871	-	2 399 504
Hedging derivatives	-	-	-	-	-	-	-	-
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 - discontinued 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 financial 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
Hedging derivatives	-	-	-	-	-	-	-	-
Non-current liabilities held-for-sale - discontinued operations	-	91 730	239 993	23 034	7	-	17	354 781
Provisions	21 820	-	-	-	-	-	-	21 820
Current tax liabilities	1 865	-	-	-	-	-	-	1 865
Deferred tax liabilities	-	-	-	-	-	-	-	-
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 transaction	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 non controlling interests, due to a devaluation of 20% in exchange rate of each currency against Euro.

Liquidity Risk

Liquidity risk reflects CEMG'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 also exposure limits. This control is reinforced with monthly execution of stress tests, in order to characterize the risk profile of CEMG and ensure that fulfills its obligations in a liquidity crisis scenario.

The purpose of liquidity management is to maintain adequate liquidity levels to meet short, medium and long term funding needs. Liquidity risk is monitored daily basis, and prepared several reports for the purpose of control and monitoring and support to the decision in place of ALCO Committee.

The evolution of the liquidity situation is monitored based particularly on future cash flows estimated for various time horizons, taking into account the balance sheet of CEMG. To the calculated values is added the analysis day's liquidity position and the amount of assets considered highly liquid in the portfolio of uncommitted assets, determining the cumulative liquidity gap for different time horizons. In addition, it is also carried out a follow-up of liquidity positions of a prudential point of view, calculated under the rules required by the Bank of Portugal (Instruction no. 13/2009 of 15 September), as well as the level of compliance of the prudential liquidity ratios, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and Additional Liquidity Monitoring Metrics (ALMM) and internal ratios such as the transformation of deposits into credit, concentration of funding sources, short-term financing and eligible assets.

Limits are set for various liquidity risk indicators, which are monitored through weekly and monthly reports.

As at 30 June 2017, the recorded amount in LCR was 129.5% (31 December 2016: 106.6%).

As at 30 June 2017, the Group's funding was as follows:

(Thousands of Euro)

	Jun 2017	Undetermined	Until 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	2 700 425	-	795 000	-	-	1 905 425
Financial liabilities held-for-trading	21 534	-	-	-	-	21 534
Deposits from other financial institutions	2 179 437		506 824	-	153 527	1 519 086
Deposits from customers and other loans	11 627 953		5 382 625	1 195 934	3 041 498	2 007 896
Debt securities issued	1 062 598	-	29 000	125 594	164 136	743 868
Non-current liabilities held-for-sale - discontinuing operations	319 652	319 652	-	-	-	-
Other subordinated debt	251 671	-	-	17 679	115 016	118 976
Other liabilities	235 309	235 309	-	-	-	-
Total Funding	**18 398 579**	**554 961**	**6 713 449**	**1 339 207**	**3 474 177**	**6 316 785**

As at 31 December 2016, the Group's funding was as follows:

(Thousands of Euro)

	Dec 2016	Undetermined	Until 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 financial institutions	2 275 940	-	821 026	82 828	11 419	1 360 667
Deposits from customers and other loans	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 liabilities held-for-sale - discontinuing operations	354 781	354 781	-	-	-	-
Hedging derivatives	-	-	-	-	-	-
Other subordinated debt	251 028	-	499	34	16 482	234 013
Other liabilities	247 028	247 028				-
Total Funding	**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, 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 30 June 2017 and 31 December 2016 on the assets and collaterals:

(Thousands of Euro)

Assets	Jun 2017			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of encumbered assets	Fair value of encumbered assets
Assets from the reporting institution	6 448 033	n/a	13 757 861	n/a
Equity instruments	-	-	552 739	627 757
Debt securities	1 236 760	1 256 408	1 644 057	2 711 064
Other assets	-	n/a	2 853 218	n/a

(Thousands of Euro)

Assets	Dec 2016			
	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of encumbered assets	Fair value of encumbered assets
Assets from the reporting institution	6 380 472	n/a	14 965 437	n/a
Equity instruments	-	-	574 351	651 423
Debt securities	1 893 490	1 838 568	1 605 832	2 241 062
Other assets	-	n/a	3 284 835	n/a

(Thousands of Euro)

Collateral received	Jun 2017	
	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumberance
Assets from the reporting institution		-
Equity instruments	81 127	-
Debt securities	-	-
Other collateral received	81 127	-
Own securities issued that are not own covered bonds or ABS	-	-

(Thousands of Euro)

Collateral received	Dec 2016	
	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumberance
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	-	-

Encumbered assets, encumbered collateral received and associated liabilities	Jun 2017 (Thousands of Euro) Carrying amount of selected financial liabilities
Associated liabilities, contingent liabilities and securities borrowed	4 815 244
Assets, collateral received and own debt securities issued other than covered bons and encumbered ABS	6 500 100

Encumbered assets, encumbered collateral received and associated liabilities	Dec 2016 (Thousands of Euro) 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 bons and encumbered ABS	6 434 521

The encumbered assets are mostly related to collateralized 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 are divided into portfolios of loans to clients, supporting securitization programs and covered bonds issues, whether placed outside the Group, whether to improve the pool of collateral with the ECB, and Portuguese sovereign debt, which collateralize repo transactions in the money market.

The amounts presented previously correspond to the position as at 30 June 2017 and 31 December 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 30 June 2017 amounts to Euro 1,000,838 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 (BCE) on 30 June 2017 amounted to Euro 3,425,735 thousand (31 December 2016: Euro 3,524,496 thousand) with a utilization of Euro 2,700,425 thousand (31 December 2015: Euro 2,322,946 thousand):

(Thousands of Euro)

	Jun 2017	Dec 2016
Total collateral eligible	**5,548,826**	**5,924,629**
Total collateral in the "pool"	3,425,735	3,524,496
Collateral outside the "pool"	2,123,091	2,400,133
Collateral used	**4,547,987**	**4,709,634**
Collateral used for ECB	2,700,425	2,322,946
Collateral commited to other financing operations	1,847,562	2,386,688
Collateral available for ECB	**725,309**	**1,201,549**
Total collateral available	**1,000,838**	**1,214,995**

Note: collateral value takes into account the applied haircut

Real Estate Risk

Real estate risk results from possible negative impacts on CEMG's results or capital due to fluctuations in the market price of real estate.

The real estate risk results from exposure in real estate, whether from the assignment or judicial decision in the credit recovery process or real estate fund units held in securities portfolio. These exposures are monthly monitored and scenario analyses are performed on a regular basis that attempt to estimate potential impacts of changes in real estate markets in portfolios of these real estate assests and to provide the required information for the definition of the real estate risk management policy.

As at 30 June 2017 and 31 December 2016, exposure to real estate and investments real estate fund units presented the following value:

(Thousands of Euro)

	Jun 2017	Dec 2016
Real estate received as loan guarantee	734,070	758,690
Investment properties	562,509	607,968
Real estate investment fund units	213,291	213,063
	1,509,870	1,579,721
Stress test	(150,987)	(157,972)

Stress test results correspond to the estimated impact in equity (before taxes) of a 10% negative variation in values of real estate and real estate funds.

Operational Risk

The operational risk is the potential loss resulting from failures or inadequacies in internal procedures, people or systems, or potential losses resulting from external events.

The Bank of Portugal approved the use of the standard method for quantifying CEMG's capital requirements for operating risk, supported by an operating risk management system 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 the Group 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 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, 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 interval of 99.5% for one-year time horizon. Since VaR does not totally guarantee 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 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 amortizations 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 limits established in the risk appetite.

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 on the size of the unexpected loss, typically occurring in larger volume transactions, especially in construction financing and housing acquisition.

In terms of direct reduction of the exposure value, credit operations collateralized by financial collateral are considered, namely, time deposits, bonds and shares included in a recognised main stock exchange index, as stipulated in Section 4, Chapter 4, Title II, Part III of Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR). The market risk of the assets involved is assessed in financial collaterals and the value of the collateral is adjusted.

With regard to real mortgage collaterals, 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 centralized 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 goods' value, depending on the cases, either by statistical and computerized methods or by review or revaluation of the valuation value by the expert.

Regarding credit guarantees, the principle of the risk of substitution of the customer by that of the protection provider, as long as it does not originate credit derivatives on the portfolio exposure.

The Group does not usually use off-balance sheet and off-balance sheet processes, nor does it generate credit derivatives 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, the partial or total sale of exposures to reduce exposure or cancel it completely, and in defining limits that control exposure to market risk.

With regard to the banking portfolio, interest rate and foreign exchange risk mitigation techniques are the negotiation of hedging transactions with derivatives and closing positions through the sale of open positions.

Own funds and capital ratios

The own funds of CEMG are established in accordance with the applicable regulatory standards, namely Directive 2013/36/EU and Regulation (EU) No. 575/2013 adopted by the European Parliament and by the Council (CRD IV / CRR), and the Notice No. 6/2013 of the Bank of Portugal. The own funds includes 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), accumulated results, results retained from the period when positives and certified or by its fullness if negatives. The value of reserves and retained earnings are 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. Non-controlling interests are only elegible in the necessary measure in order to cover the Group´s capital requirements attributable to non-controlling interests. It is deducted the balance value of the amounts relative to goodwill, other intangible assets, as well as the gap, if positive, between the asset and the pension fund responsibility. The assets for deferred taxes are also deducted from assets related to tax losses. 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. Considering the implementation of Regulation (EU) n.575/2013 in 2014 and 2018, 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 pensions fund that allow to acknowledge 20% per year of the eventual negative effects caused by the new standards. Fair-value reserves will also be subjects to a transitory plan of 20%/year, being however excluded from this plan the fair-value reserves related to risk positions over Central Administrations.
- *Own Funds of Level 1 or Tier 1 (T1)***:** includes capital equivalent instruments, whose conditions are in accordance with the article 52º 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 63º from 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. 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 the 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. It also determined the CVA requirement (credit valuation adjustments).

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 is actually in process, being verified in this base if determined entity have the amount of own funds superior to the minimum requirement, and properly certifying its capital adequation. 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. For 2016 the Bank of Portugal defined a Counter-cyclical Reserve of 0%. Regarding Conservation Reserve, the Bank of Portugal, in its Notice 6/2016, defines its application according to the transitional plan set out in Article 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.

Pursuant to these provisions, as of 30 June 2017, the Common Equity Tier 1, Tier 1 and Total regulatory minimum ratios were 5.75%, 7.25% and 9.25%, respectively, including Own Capital Reserves already defined.

The summary of the calculation for the Group's capital requirements as at 30 June 2017 and 31 December 2016 is presented as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Capital Common Equity Tier 1		
Paid-up capital	2 420 000	2 170 000
Net profit, reserves and retained earnings	(678,638)	(742,945)
Other regulatory adjustments	(201,722)	(96,079)
	1 539 640	1 330 976
Capital Tier 1	1 539 640	1 330 976
Capital Tier 2		
Subordinated loans	49 492	74 339
Regulatory adjustments	(10,801)	(13,191)
	38 691	61 148
Total own funds	1 578 331	1 392 124
Own funds requirements		
Credit risk	861 849	921 598
Market risk	17 439	14 222
Operational risk	60 394	60 394
Other requirements	36 117	30 155
	975 799	1 026 369
Prutential Ratio		
Ratio Common Equity Tier 1	12.62%	10.37%
Ratio Tier 1	12.62%	10.37%
Total Capital Ratio	12.94%	10.85%

56 Sovereign debt of European Union countries subject to bailout

As at 30 June 2017, the exposure of the Group to sovereign debt of European Union countries subject to bailout is as follows:

(Thousands of Euro)

	Jun 2017						
Issuer / portfolio	Book value	Fair value	Fair value reserve	Impairment	Average interest rate	Average maturity (years)	Measurement level
Greece							
Financial assets available-for-sale	13 991	13 991	(4,249)	-	3.00%	17.94	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)

	Dec 2016						
Issuer / portfolio	Book value	Fair value	Fair value reserve	Impairment	Average interest rate	Average maturity (years)	Measurement level
Greece							
Financial assets available-for-sale	12 365	12 365	(6 148)		3.00%	18.43	1

As at 30 June 2017, the value of securities includes respective accrued interest in the amount of Euro 187 thousand (31 December 2016: Euro 460 thousand).

57 Transfer of assets

The Group performed a set of transactions of sale of financial assets (namely loans and advances to customers) for Funds specialized 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 specialized funds that acquire the financial assets 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 the banks holds more than 50% of the capital of the Funds.

The Funds have a specific management structure (General Partner), fully independent from the banks 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 the majority of the transactions (in which the Group holds minority positions) establish companies under the Portuguese law in order to acquire the loans to the banks, 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 of the loans to companies under Portuguese law.

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:

- 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.

- Junior bonds (with higher subordination degree) issued by the companies under Portuguese law 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, 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)

	Jun 2017			Dec 2016		
	Value associated with the transfer of assets			Value 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 30 June 2017 and 31 December 2016, the assets received under these transactions are as follows:

(Thousands of Euro)

	Jun 2017				
	Senior Securities	Junior Securities	Total	Impairment	Net value
Fundo Vega, FCR	27,544	-	27,544	-	27,544
Vallis Construction Sector Fund	19,269	7,838	27,107	(26,221)	886
Discovery Portugal Real Estate Fund	13,780	-	13,780	-	13,780
Fundo Aquarius, FCR	13,925	-	13,925	(966)	12,959
Fundo de Reestruturação Empresarial, FCR	44,092	-	44,092	(2,554)	41,538
	118,610	7,838	126,448	(29,741)	96,707

(Thousands of Euro)

	Dec 2016				
	Senior Securities	Junior Securities	Total	Impairment	Net value
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 30 June 2017, impairments of Euro 4,978 thousand, Euro 184 thousand and Euro 65 thousand were recorded, related to the devaluation of the units in the Vallis Construction Sector Fund, Restructuring Corporate Fund, FCR and Aquarius Fund, FCR, respectively, as described in notes 15 and 24.

As at 30 June 2017 and 31 December 2016, the junior securities refers to investment units on the amount of Euro 7,838 thousand, as referred in note 24, which are fully provisioned.

Additionally, the Group acquired, during 2016, investment units in the Vega Fund, in the amount of Euro 3,026 thousand.

Although the 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 participation units of the funds (denominated in the table as senior bonds).

58 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 hypothetical 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 yet 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 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. "

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, with reference to 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 responsibilities 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 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 fulfill 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 fulfill its obligations.

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. The Group is recognising as an expense the contribution to the RF in the year in which it becomes due.

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

In 2016, the Group made regular contributions to the Resolution Fund in the amount of Euro 3,005 thousand and paid the contribution on the banking sector in the amount of Euro 13,226 thousand and were recognised as cost in April and June, in accordance with IFRIC No. 21 - Levies.

Under the Single European Resolution Fund ('FUR'), the Group made an initial contribution of Euro 8,590 thousand in 2015, which within the Intergovernmental Agreement on the transfer of the contributions mutualisation to the FUR, was not transferred to the FUR but used for the fulfillment of obligations of the Resolution Fund resulting from the application of resolution measures prior to the Agreement's application date. This amount will have to be supplemented over an 8-year period (starting in 2016) through periodic contributions to the FUR. The total amount of the contribution for the year 2016 attributable to the Group was Euro 11,895 thousand, of which the Group delivered Euro 10,121 thousand and the remainder was constituted in the form of a payment irrevocable commitment, according to the note. The FUR does not cover situations in progress on 31 December 2015 from the National Resolution Fund.

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 prejudice to the possibility of early repayment based on the use of revenues 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 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, with reference to 30 June 2017, the amount of credit and interest owed to the Group totaled Euro 70,926 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: (i) the partial sale of Novo Banco shareholding under the Bank of Portugal statement of 31 March 2017; (ii) 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 liquidation; (iii) additional liabilities or contingencies for Novo Banco, S.A. that have to be neutralized by the Resolution Fund; (iv) 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, the Group 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 2016, reflect the Group'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.

59 Subsidiary and associated companies of Caixa Económica Montepio Geral

As at 30 June 2017, the companies under full consolidation method in the Group are presented as follows:

					Group	
Subsidiary Company	**Head of Office**	**Share Capital**	**Currency**	**Activity**	**% of control**	**% 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	Holding company	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	Finance lease	100.00%	100.00%
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	Lisboa	1 550 000	Euro	Investment fund management	100.00%	100.00%
Finibanco Angola, S.A.	Luanda	4 181 999 740	Kwanza	Banking	81.57%	81.57%
Banco Terra, S.A.	Maputo	2 686 458 998	Metical	Banking	45.78%	45.78%
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.	Lisboa	100 000	Euro	Real estate management	100.00%	100.00%
Semelhanças e Coincidências, S.A.	Vila Nova de Gaia	50 000	Euro	Real estate management	100.00%	100.00%

As at 30 June 2017, the companies accounted under the equity method are as follows:

Subsidiary company	Head of Office	Share Capital	Activity	% Held
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	São Miguel Island	Euro 10 000 000	Tourism	20.00%
Montepio Gestão de Activos Imobiliários, A.C.E.	Lisbon	Euro 2 449 707	Real estate management	28.50%

The presented percentage reflects the economic interest of the Group.

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

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

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

As at 16 June 2016, the Group established 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 setting-up and operation of credit institutions and / or financial companies, its shareholders and / or companies that are in a controlling or group relation, 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.

As at December 2016, the Group acquired 100% of the share capital of Semelhanças e Coincidências S.A., for the amount of Euro 24 thousand. This company provides the purchase and sale of real estate and the resale of those acquired for that purpose, as well as the management of property owned by the company, including its lease, and as any other acts or transactions directly related to the mentioned activity.

In 2015, a contract was entered 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 thousand.

The Group analysed the effectiveness of regulatory and legal compliance, and decided not to recognize the sale of the financial participation until the financial settlement is completed. On this basis, until the transaction’s financial settlement, the Group will continue to control the participation. Therefore, on 31 December 2016, the Group controls 81.57% of the subsidiary Finibanco Angola, S.A.

As at 30 June 2017, the consolidation perimeter of the Group includes the following special purpose entities and investment funds:

Subsidiary company	Establishment year	Aquisition year	Head of Office	% of controlling interest	Consolidation method
Pelican Mortgages No. 1 PLC	2002	2002	Dublin	100%	Full
Valor *Prime* - Fundo de Investimento Imobiliário Aberto	1997	2012	Lisbon	91,10%	Full
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2011	2011	Lisbon	100%	Full
Montepio Arrendamento II – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional II (FIIAH)	2013	2013	Lisbon	100%	Full
Montepio Arrendamento III – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2013	2013	Lisbon	100%	Full
Polaris - Fundo de Investimento Imobiliário Fechado	2009	2012	Lisbon	100%	Full
PEF - Portugal Estates Fund	2013	2013	Lisbon	100%	Full
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto (FEIIA)	2013	2013	Lisbon	100%	Full

As at 14 December 2016, the Group settled Pelican Mortgages No. 2 PLC.

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

In 2014, considering the IFRS 10 and the commitments of CEMG in the aim of the activity management of Banco Terra S.A., that gives the ability to manage the main activities, having the ability to face the power and responsibilities of Chief Executive Officer, that will be appointed by the Group, to influence the remaining areas, the shareholding was consolidated by the full consolidation method. This situation remained unchanged during the first semester of 2017.

60 Discontinued operations

CEMG is now in a negotiating process with a group of investors with the purpose to refocus the approach to the African market aiming for the deconsolidation of the current financial holdings held in Finibanco Angola SA and BTM - Banco Terra, SA, both under the "ARISE" project in an international partnership with Rabobank, the Norwegian sovereign fund NORFUND and the Dutch development bank FMO, as well as other alternatives being developed.

Considering the deliberations already taken by the Executive Board of Directors and the provisions of IFRS 5, the activities carried out by these subsidiaries were considered as discontinued with reference to the year 2016.

Regarding the income statement, the results of these subsidiaries were recognised in a balance line designated "Discontinued operations" and, with respect to the balance sheet, under "Non-current assets held for sale - Discontinued operations" and "Non-current liabilities held for sale - Discontinued operations".

For comparative purposes, the operating account was prepared on the same basis for the six month period ended 30 June 2016.

In this context, the Group restated its consolidated income statement and the consolidated statement of comprehensive income for the period from 1 January to 30 June 2016, under the provisions of International Financial Reporting Standard 5 - Non-current assets held for (IFRS 5). The costs and income for the periods with reference to 30 June 2017 and 2016 were presented in a single line designated Results of Discontinued operations.

During 2016, this restatement implied changes in the way the contribution of Finibanco Angola, SA and Banco Terra, SA. is presented in the mentioned statement, and had no impact on the consolidated net income and on the Group's consolidated comprehensive income for the three month period ended 30 June 2016. The breakdown of assets and liabilities was not changed in the consolidated balance sheet.

In accordance with paragraph 33 (a) of IFRS 5, net cash flows attributable to operating, investing and financing activities of discontinued operations should be disclosed, but should not be mandatory for groups of assets held for sale that may be recently acquired subsidiaries and that meet the criteria for classification as available-for-sale on the acquisition.

The Statement of financial position as at 30 June 2017 of Finibanco Angola, S.A. and Banco Terra, S.A. is as follows:

(Thousands of Euro)

	Jun 2017			
	Finibanco Angola	**Banco Terra**	**Adjustments**	**Total**
Cash and deposits at central banks and to credit instituitions	46 513	6 294	(18,047)	34 760
Other loans and advances to credit institutions	36 490	1 456	(23,266)	14 680
Loans and advances to customers	136 308	35 678	-	171 986
Securities portfolio and derivatives	149 050	2 797	-	151 847
Intangible assets	679	498	10 200	11 377
Other assets	55 317	5 838	-	61 155
Total Assets	**424 357**	**52 561**	**(31,113)**	**445 805**
Deposits from other financial institutions	21 539	1 465	(21,087)	1 917
Deposits from customers	296 038	25 476	(13,935)	307 579
Other subordinated debt	27 325	-	(26,755)	570
Provisions	2 048	212	-	2 260
Other liabilities	4 248	3 192	(114)	7 326
Total Liabilities	**351 198**	**30 345**	**(61,891)**	**319 652**
Total Equity	**73 159**	**22 216**	**-**	**95 375**
Total Liabilities and Equity	**424 357**	**52 561**	**(61,891)**	**415 027**

The Statement of financial position as at 31 December 2016 of Finibanco Angola, S.A. and Banco Terra, S.A. is as follows:

(Thousands of Euro)

	Dec 2016			
	Finibanco Angola	Banco Terra	Adjustments	Total
Cash and deposits at central banks and to credit instituitions	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 financial 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 balances related to this discontinued operation are analysed as follows:

(Thousands of Euro)

	Jun 2017				Jun 2016			
	Finibanco Angola	Banco Terra						
	Initial	Initial	Adjustments	Total	Finibanco Angola	Banco Terra	Adjustments	Total
Net interest income	15 304	3 134	-	18 438	13 238	2 357	-	15 595
Dividends from equity instruments	-	-	-	-	-	-	-	-
Net gains/(losses) arising from fees and commissions	4 534	256	-	4 790	2 764	355	-	3 119
Net gains/(losses) arising from financial operations	2 313	(293)	-	2 020	8 316	(19)	-	8 297
Other operating income / (expenses)	(506)	30	-	(476)	(458)	1 261	-	803
Total operating income	**21 645**	**3 127**	**-**	**24 772**	**23 860**	**3 954**	**-**	**27 814**
Staff costs	4 055	1 666	-	5 721	3 435	1 851	-	5 286
General and administrative expenses	4 006	1 202	-	5 208	4 385	1 513	-	5 898
Depreciation and amortisation	796	266	-	1 062	830	338	(70)	1 098
Total operating expenses	**8 857**	**3 134**	**-**	**11 991**	**8 650**	**3 702**	**(70)**	**12 282**
Loans and other assets impairment and other provisions	3 930	25	1 919	5 874	7 894	313	5 966	14 173
Total operating profit	**8 858**	**(32)**	**1 919**	**6 907**	**7 316**	**(61)**	**5 966**	**1 359**
Profit before income tax	**8 858**	**(32)**	**1 919**	**6 907**	**7 316**	**(61)**	**5 966**	**1 359**
Tax	1 473	-	-	1 473	1 109	-	100	1 209
Profit/ (loss) for the period	**7 385**	**(32)**	**1 919**	**5 434**	**6 207**	**(61)**	**5 866**	**150**

Finibanco Angola

The evaluation carried out for Finibanco Angola was based on a study carried out by an external consultant 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.

On this basis, the appreciation of the 81.57% held by Montepio Holding in Finibanco Angola stood at USD 79,653 thousand, corresponding to approximately Euro 69,798 thousand.

BTM - Banco Terra

The fair value estimate of BTM - Banco Terra was determined based on a study carried out by an external consultant who considered two different valuation methodologies: market multiples (P/B) and comparable transactions.

Thus, the valuation of 45.78% held by Montepio Holding in BTM - Banco Terra, obtained on the basis of the aforementioned study, resulted in an appreciation of the 45.78% position in Banco Terra at USD 12,104 thousand, corresponding to approximately Euro 10,606 thousand.

As at 30 June 2017, the amounts recorded in the balance sheet related to goodwill and consolidation differences correspond to the difference between the acquisition cost and the total fair value of the assets and liabilities and contingent liabilities of: (i) Finibanco Angola, SA acquired on 31 March 2011 to Montepio Geral Associação Mutualista, as described in note 1 a), in the amount of Euro 53,024 thousand with associated impairment of Euro 42,863 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, with an associated impairment of Euro 3,280 thousand.

61 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.

As at 18 March 2016, CEMG 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 above mentioned capital increase was fulfilled by MGAM by conducting institutional capital in cash in the amount of Euro 270,000 thousand.

On the same date occurred the disposal of 31,500,000 of investment units held by Montepio Investimento SA with a nominal value of Euro 31,500 thousand.

Additionally, and in accordance with the resolutions mentioned above, CEMG acquired from MGAM a group of real estate and securities by the amount of Euro 199,444 thousand and Euro 69,929 thousand, respectively.

62 Subsequent events

Legal transformation into a public limited company

Due to an asset higher than Euro 50,000.000, Caixa Económica Montepio Geral 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 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 by-laws, Caixa Económica Bancária, S.A .; 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, 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.

The Deed of the by-laws took place on 14 September 2017, transforming Caixa Económica Montepio Geral into a public limited company, changing its name to Caixa Económica Montepio Geral, caixa económica bancária, S.A.

As a result of the transformation into a public limited company, the CEMG Participation Fund was extinguished by conversion into share capital, whereby participation units were converted into ordinary shares.

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 CEMG Participation Fund, which form (atypical) capital securities for the purposes of article 1 (g) of the Código VM ("bid"), under the following terms and conditions:

1) The offeror is Montepio Geral - Associação Mutualista, a private social solidarity institution, with registered office at Rua Áurea, 219-241, Lisbon, NIPC 500 766 681 and registered with the DGSS (Direção-Geral da Segurança Social), registration no. 3/81, at p. 3 verse and 4 of book I of Associações Socorros Mútuos ("Offerer");
2) The target company is Caixa Económica Montepio Geral, a credit institution of a savings bank sort, a publicly traded entity with registered office at Rua Áurea, no. 219 to 241, in Lisbon, registered at the Commercial Registry Office of Lisbon under the NIPC 500 792 615, with the institutional capital of Euro 2,020,000,000 ("Target Company" or "CEMG");
3) The object of the bid is formed by all participation units, book-entry and ordinary, with a nominal value of 1 Euro, representing CEMG Shareholders' Equity Fund ("Participation Units"), which on the date of the bid's closure are fully paid, with all rights attached thereto and free from any encumbrances, charges and liabilities, as well as any restrictions or attachments, namely regarding its property and/or social rights or their transferability and which are not directly held by the offeror. Given that the offeror directly holds, on 4 July 2017, Euro 293,992,794 (two hundred and ninety-three million, nine hundred and ninety-two thousand, seven hundred and ninety-four) Participation Units, the bid, even if general, can only be accepted by the holders of the remaining 106,007,206 (one hundred and six million, seven thousand, two hundred and six) Participation Units, representing 26.5% of the total Participation Units representing the CEMG Participation Fund.
   On this date, the target Company has been admitted to trading on Euronext Lisbon, the official quota market managed by Euronext Lisbon - Sociedade Gestora de Mercados Regulamentados, S.A., 400,000,000 Participation Units representing the entire Participation Fund.
4) As at 4 July 2017, the offeror holds the entire institutional capital of the Target Company, in the amount of Euro 2,020,000, thereby holding 100% of the voting rights. These voting rights are exercised at the General Meeting of the Target Company by the members of the Offeror's General Council.
   The percentage of the Participation Units held by the offeror and by other people or entities which fall within one of the situations described in article 20 (1), of the Código VM, is 73.5% of the total Participation Units representing the CEMG Participation Fund.
5) The consideration offered is 1 Euro per Participation Unit, payable in cash and the Bid's total amount is Euro 106,007,206, considering only the Participation Units where there may be a bid acceptance.
6) The launching of the bid is subject to prior registration with the Portuguese Securities Market Commission, in accordance with article 114 of the Código VM.

7) Under the purposes of article 128 of the Código VM, the offeror explicitly states that the decision of launching the Bid was based on the assumption that, between the date of this Preliminary Announcement and the date of the bid's closure, it shall not take place:
   a. No circumstance or event with a material impact on the economic and financial situation of the target Company, on a consolidated basis, or in companies that are in a controlling or group relationship with the target Company in accordance with article 21 of the Código VM; neither
   b. A significant change in the national and international financial markets neither in their institutions, which has not been included in the official scenarios published by the authorities up to the present date and with a significant negative impact on the bid, exceeding the risks therein.
8) The bid seeks to ensure equal treatment of the Participation Units' holders, providing them with the chance of selling these securities, which are part of CEMG's capital assets, to the offeror, at a price equivalent to its nominal value, prior to the conversion of the Participation Units into shares of the target Company under the process towards the transformation of CEMG into a public limited company currently underway and whose conclusion should take place at a later stage close to the bid's closure. The final aim of the offeror is to ensure that, following the transformation of the Target Company into a public limited company, CEMG's share capital will be held, to the greatest extent possible, by entities of the social economy.

   Regarding the business of the target Company, the offeror further states with this offer to continue the business and strategy of CEMG, maintaining its main long-term guidelines defined for the 2016-2018 triennium. The implementation of the recommended Strategic Plan aims to ensure the commitment, already announced, to improve the well-being of families, the financial needs of Portuguese Small and Medium Enterprises and the support to the national social economy.
9) Following the transformation of CEMG into a public limited company, it is the offeror's intention to promote the mechanism of loss of public company status provided for in article 27 (1), al. b), and numbers 3 and 4, of the Código VM, whose conclusion should take place at a later stage close to the bid's closure.

   In accordance with legal provisions, the loss of public company status is effective as of the publication of the CMVM's favorable decision and results in the immediate exclusion of trading shares and securities on a regulated market of the issuing company granting the right to its acquisition and subscription, with relisting being proihibited for one year.
10) Given the legal nature of its association and the fact that the bid relates only to 26.5% of the total number of Participation Units representing the Participation Fund of the Target Company, the offeror is not subject to the system established in article 182 of the Código VM.

In addition, considering the legal nature of the savings bank of the Target Company, it is the understanding of the Offeror that the provisions of article 182-A of the Código VM in this Offer will not be applicable.

Caixa Económica Montepio Geral

Interim Individual Income Statement
for the six-month period ended at 30 June 2017 and 2016

(Thousands of Euro)

	Notes	30 June 2017	30 June 2016
Interest and similar income	3	244 662	284 052
Interest and similar expense	3	108 616	178 936
Net interest income		136 046	105 116
Dividends from equity instruments	4	8 197	2 711
Net fee and comission income	5	58 825	49 957
Net gains / (losses) arising from assets and liabilities at fair value through profit or loss	6	4 724	(27 035)
Net gains / (losses) arising from available-for-sale financial assets	7	21 130	43 824
Net gains / (losses) arising from foreign exchange differences	8	921	1 161
Net gains / (losses) arising from the sale of other assets	9	21 065	12 430
Other operating income	10	(15 417)	(9 257)
Total operating income		235 491	178 907
Staff costs	11	80 856	120 862
General and administrative expenses	12	32 870	47 403
Depreciation and amortisation	13	11 467	11 257
		125 193	179 522
Loans impairment	14	63 691	83 737
Other financial assets impairment	15	9 271	75 906
Other assets impairment	16	15 017	156 112
Other provisions	17	6 602	(11,836)
Operating profit / (loss)		15 717	(304 534)
Tax			
Current	29	(2 808)	(1 517)
Deferred	29	(8 831)	77 563
Profit / (loss) for the period		4 078	(228 488)

CERTIFIED ACCOUNTANT

THE EXECUTIVE BOARD OF DIRECTORS

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

Caixa Económica Montepio Geral

Interim Individual Statement of Financial Position as at 30 June 2017 and 31 December 2016

(Thousands of Euro)

	Notes	30 June 2017	31 December 2016
Asset			
Cash and deposits at central banks	18	423 639	381 288
Loans and advances to credit institutions repayable on demand	19	61 493	71 039
Other loans and advances to credit institutions	20	544 854	729 040
Loans and advances to customers	21	13 622 438	13 799 711
Financial assets held for trading	22	86 966	78 161
Financial assets available for sale	23	3 325 477	2 888 732
Held-to-maturity investments	24	-	1 126 125
Investments in subsidiaries and associated companies	25	263 638	259 287
Non-current assets held for sale	26	702 125	723 742
Property and equipment	27	220 968	222 809
Intangible assets	28	31 362	33 013
Current tax assets	29	7 658	9 281
Deferred tax assets	29	477 947	513 808
Other assets	30	200 649	205 631
Total Assets		19 969 214	21 041 667
Liabilities			
Deposits from central banks	31	2 685 425	2 307 947
Deposits from other financial institutions	32	2 490 540	2 600 733
Deposits from customers	33	11 588 680	12 370 011
Debt securities issued	34	1 028 268	1 883 629
Financial liabilities held for trading	22	21 534	26 148
Provisions	35	27 595	20 993
Current tax liabilities	29	4 079	1 271
Other subordinated debt	36	236 999	237 094
Other liabilities	37	189 456	203 979
Total Liabilities		18 272 576	19 651 805
Equity			
Institutional capital	38	2 020 000	1 770 000
Participation fund	39	400 000	400 000
Other equity instruments	40	6 323	6 323
Fair value reserves	42	51 197	(2,303)
Other reserves and retained earnings	41 and 42	(784,960)	(540,391)
Profit / (loss) for the period		4 078	(243,767)
Total Equity		1 696 638	1 389 862
Total Liabilities and Equity		19 969 214	21 041 667

CERTIFIED ACCOUNTANT

THE EXECUTIVE BOARD OF DIRECTORS

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

Caixa Económica Montepio Geral

Interim Individual Income Statement
for the three-month between 1 April and 30 June 2017 and 2016

(Thousands of Euro)

	2nd quarter 2017	2nd quarter 2016
Interest and similar income	121 101	140 819
Interest and similar expense	52 586	84 384
Net interest income	68 515	56 435
Dividends from equity instruments	5 674	2 696
Net fee and comission income	30 709	26 836
Net gains / (losses) arising from assets and liabilities at fair value through profit or loss	3 131	(11 662)
Net gains / (losses) arising from available-for-sale financial assets	15 543	33 396
Net gains / (losses) arising from foreign exchange differences	341	679
Net gains / (losses) arising from the sale of other assets	20 555	12 201
Other operating income	(18 507)	(24 196)
Total operating income	125 961	96 385
Staff costs	40 910	66 481
General and administrative expenses	17 279	26 785
Depreciation and amortisation	5 784	5 904
	63 973	99 170
Loans impairment	30 634	60 251
Other financial assets impairment	8 285	58 114
Other assets impairment	13 038	151 841
Other provisions	6 713	(7,430)
Operating profit / (loss)	3 318	(265 561)
Tax		
Current	153	(1 116)
Deferred	(6 970)	67 772
Profit / (loss) for the period	(3 499)	(198 905)

CERTIFIED ACCOUNTANT THE EXECUTIVE BOARD OF DIRECTORS

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

Caixa Económica Montepio Geral

Interim Individual Statement of Cash Flows
for the six-month period ended at 30 June 2017 and 2016

(Thousands of Euro)

	30 June 2017	30 June 2016
Cash flows arising from operating activities		
Interest income received	256 644	224 761
Commission income received	72 046	62 629
Interest expense paid	(165.296)	(189.402)
Commission expense paid	(13.088)	(11.782)
Payments to employees and suppliers	(122.283)	(151.447)
Recovery of loans and interests	1 926	3 200
Other payments and receivables	42 126	20 331
Income tax payment	1 623	(151)
	73 698	(41.861)
(Increase) / decrease in operating assets		
Loans and advances to credit institutions	291 936	135 754
Other assets	(40.395)	26 952
	251 541	162 706
Increase / (decrease) in operating liabilities		
Deposits from customers	(771.786)	(49.758)
Deposits from credit institutions	(107.683)	(147.859)
Deposits from central banks	377 840	594 010
	(501.629)	396 393
	(176.390)	517 238
Cash flows arising from investing activities		
Dividends received	8 197	2 711
(Acquisition) / sale of financial assets held-for-trading	(8.658)	(24.520)
(Acquisition) / sale of financial assets available-for-sale	(343.323)	906 419
Interests received from financial assets available-for-sale	50 074	52 763
(Acquisition) / sale of hedging derivatives	-	270
(Acquisition) / sale of held-to-maturity investments	1 119 599	(1.086.394)
Increase of investments in associated companies	(10.000)	-
Deposits owned with the purpose of monetary control	(94.438)	13 862
(Acquisition) / sale of other financial assets	424	(1.510)
Acquisition of fixed assets	(8.007)	(207.930)
	713 868	(344.329)
Cash flows arising from financing activities		
Capital increase	250 000	270 000
Other equity instruments	(162)	(2.160)
Proceeds from issuance of bonds and subordinated debt	500 000	-
Reimbursement of bonds and subordinated debt	(1.345.186)	(386.425)
Increase / (decrease) in other sundry liabilities	(4.112)	(74.932)
	(599.460)	(193.517)
Exchange effects on cash and cash equivalents	349	560
Net changes in cash and cash equivalents	(61.633)	(20.048)
Cash and cash equivalents at the beginning of the period	282 685	249 543
Net changes in cash and cash equivalents	(61.633)	(20.048)
Cash and cash equivalents at the end of the period	221 052	229 495
Cash and cash equivalents at the end of the period includes:		
Cash (note 18)	159 559	174 212
Loans and advances to credit institutions repayable on demand (note 19)	61 493	55 283
Total	221 052	229 495

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

Caixa Económica Montepio Geral

Interim Individual Statement of Changes in Equity
for the six-month period ended at 30 June 2017 and 2016

(Thousands of Euro)

	Total Equity	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:							
Deferred taxes related to balance sheet changes accounted for reserves (note 29)	(1,328)	-	-	-	-	-	(1,328)
Changes in fair value (note 42)	32 568	-	-	-	-	32 568	-
Deferred taxes related to fair value changes (note 29)	(9,607)	-	-	-	-	(9,607)	-
Profit / (loss) for the period	(228,488)	-	-	-	-	-	(228,488)
Total comprehensive income for the period	(206,855)	-	-	-	-	22 961	(229,816)
Costs related to the issue of perpetual subordinated instruments (note 40)	(210)	-	-	-	-	-	(210)
Own perpetual subordinated instruments (note 40)	(1,950)	-	-	(1,950)	-	-	-
Institutional capital increase	270 000	270 000	-	-	-	-	-
Balance on 30 June 2016	1 484 134	1 770 000	400 000	6 323	254 273	29 827	(976,289)
Other comprehensive income:							
Actuarial losses in the period (note 46)	(61,053)	-	-	-	-	-	(61,053)
Deferred taxes related to balance sheet changes accounted for reserves (note 29)	14 352	-	-	-	-	-	14 352
Changes in fair value (note 42)	(54,962)	-	-	-	-	(54,962)	-
Deferred taxes related to fair value changes (note 29)	22 832	-	-	-	-	22 832	-
Profit / (loss) for the period	(15,279)	-	-	-	-	-	(15,279)
Total comprehensive income for the period	(94,110)	-	-	-	-	(32,130)	(61,980)
Costs related to the issue of perpetual subordinated instruments (note 40)	(162)	-	-	-	-	-	(162)
Own perpetual subordinated instruments (note 40)	-	-	-	-	-	-	-
Institutional capital increase (note 38)	-	-	-	-	-	-	-
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 losses in the period (note 46)	-	-	-	-	-	-	-
Deferred taxes related to balance sheet changes accounted for reserves (note 29)	(640)	-	-	-	-	-	(640)
Changes in fair value (note 42)	79 888	-	-	-	-	79 888	-
Deferred taxes related to fair value changes (note 29)	(26,388)	-	-	-	-	(26,388)	-
Profit / (loss) for the period	4 078	-	-	-	-	-	4 078
Total comprehensive income for the period	56 938	-	-	-	-	53 500	3 438
Costs related to the issue of perpetual subordinated instruments (note 40)	(162)	-	-	-	-	-	(162)
Institutional capital increase (note 38)	250 000	250 000	-	-	-	-	-
Balance on 30 June 2017	1 696 638	2 020 000	400 000	6 323	254 273	51 197	(1,035,155)

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

Caixa Económica Montepio Geral

Interim Individual Statement of Comprehensive Income
for the six-month period ended at 30 June 2017 and 2016

(Thousands of Euro)

	Notes	30 June 2017	30 June 2016
Items that may be reclassified into the Income Statement			
Fair value reserves			
Financial assets available-for-sale	42	79 888	32 568
Taxes	29 and 42	(26,388)	(9,607)
		53 500	22 961
Items that won't be reclassified into the Income Statement			
Actuarial losses for the period	46	-	-
Deferred taxes	29	(640)	(1,328)
		(640)	(1,328)
Other comprehensive income for the period		52 860	21 633
Profit / (loss) for the period		4 078	(228,488)
Total comprehensive income for the period		56 938	(206,855)

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

Caixa Económica Montepio Geral

Interim Individual Statement of Comprehensive Income
for the three-month period between 1 April and 30 June 2017 and 2016

(Thousands of Euro)

	Notes	2nd quarter 2017	2nd quarter 2016
Items that may be reclassified into the Income Statement			
Fair value reserves			
Financial assets available-for-sale	42	69 174	(12,500)
Taxes	29 and 42	(23,577)	948
		45 597	(11,552)
Items that won't be reclassified into the Income Statement			
Actuarial losses for the period	46	-	-
Deferred taxes	29	(951)	(663)
		(951)	(663)
Other comprehensive income for the period		44 646	(12,215)
Profit / (loss) for the period		(3,499)	(198,905)
Total comprehensive income for the period		41 147	(211,120)

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

1 Accounting policies

a) Basis of presentation

Caixa Económica Montepio Geral. Caixa económica bancária, S.A. (hereinafter referred to as "CEMG") is a credit institution, with its head office at Rua Áurea, 219-241, Lisboa, held by Montepio Geral – Associação Mutualista, established on 24 March 1844 and authorized 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 authorized to carry out banking operations in addition to those mentioned in its by-laws, if previously authorized by Bank of Portugal. This fact conducts to the practice of banking operations in general.

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

As at 31 March 2011, Montepio Geral – Associação Mutualista sold its participation in Finibanco Holding, S.G.P.S., S.A. to CEMG. Under the change in the structure of the Group arising from this acquisition, as at 4 April 2011, CEMG acquired a set of assets and liabilities of Finibanco, S.A. (excluding properties owned by Finibanco, SA and acquired as a result of loans and advances to customers 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 General Regime for Credit Institutions and Financial Companies (Regime Geral das Instituições de Crédito e Sociedades Financeiras) and in the Mutual Association Code (Código das Associações Mutualistas). Following the publication of this Decree-Law, CEMG changed its classification to "Caixa Económica Bancária" (Economical Savings Bank).

In accordance with Regulation (EC) no. 1606/2002 from the European Parliament and the Counsel, of 19 July and Regulation no. 5/2015 of Bank of Portugal, from 7 December, CEMG's financial statements are prepared in accordance with the International Financial Reporting Standards ("IFRS") as endorsed by the European Union, from 2016 onwards. IFRS comprise accounting standards issued by the International Accounting Standards Board ("IASB") as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body.

The interim condensed financial statements presented herein were approved by the Executive Board of Directors of CEMG on 25 July 2017. The financial statements are presented in Euro rounded to the nearest thousand.

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

CEMG's condensed financial statements for the six-month period ended at 30 June 2017 have been prepared in accordance with the IFRS, as adopted by the European Union and effective at that date, considering the disclosures required by the standards defined in IAS 34. These condensed financial statements also present the income statement for the second quarter of 2017 compared with the same period of the previous year. The condensed financial statements for the six-month period ended at 30 June 2017 do not include all the information required to be disclosed in the annual financial statements.

CEMG has adopted IFRS and interpretations mandatory for accounting years beginning on, or after, 1 January 2017.

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

The condensed 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 financial liabilities that are hedged under hedge accounting are stated at fair value in respect of the risk that is being hedged.

The preparation of the condensed 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 considered to be reasonable under the circumstances, the results which form the basis of 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 note 1 z).

b) 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 relating to the respective cash flow 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 is to regularly assess the existence of objective evidence of impairment in its credit portfolio. The identified impairment losses are recorded in the income statement being subsequently reversed by results if there is a reduction in the estimated impairment loss in a subsequent period.

After initial recognition, a loan or customer loan portfolio, defined as a group of loans with similar risk characteristics, may be classified as impairment when there is objective evidence of impairment resulting from one or more events, and when these have an impact on the estimated future cash flows of the loan or customer loan portfolio that can be reliably estimated.

According to IAS 39, there are two methods for calculating impairment losses: (i) individual assessment and (ii) collective assessment.

(i) individual assessment

The assessment of existing impairment losses on an individual basis is determined by analyzing the total credit exposure case-by-case. For each loan considered individually significant, CEMG evaluates, at each balance sheet date, the existence of objective evidence of impairment. In determining the impairment losses, on individual assessmentloans, the following factors are considered:

- CEMG's total exposure to the customer and the existence of overdue loans;
- the economic and financial viability of the client's business and its ability to generate sufficient cash flow to service its debt in the future;
- the existence, nature and estimated value of the collateral associated with each loan;
- significant downgrading in the client's rating;
- client's assets on liquidation or insolvency situations;
- the existence of privileged creditors; and
- the amount and estimated recovery periods.

Impairment losses are calculated by comparing the present value of expected future cash flows discounted at the original effective interest rate of each contract and the book value of each loan, and losses are recorded in the income statement. The book value of impaired loans is presented in the balance sheet net of impairment losses. For loans with a variable interest rate, the discount rate used corresponds to the effective annual interest rate applicable in the year in which the impairment was determined.

(ii) Colletive assessment

Loans for which no objective evidence of impairment has been identified are grouped together based on similar risk characteristics with the purpose of determining, collectively, impairment losses. This analysis allows CEMG to recognize losses whose identification, on an individual basis, will only occur in future periods.

Impairment losses based on a collective assessment can be calculated under two perspectives:

- for homogeneous groups of loans not considered individually significant; or
- regarding losses incurred but not reported ("IBNR") in loans for which there is no objective evidence of impairment (see previous paragraph (i)).

Impairment losses on a collective assessment are determined considering the following aspects:

- historical experience of losses in portfolios with similar risk;

- knowing the current economic and credit environment and its influence on historical losses; and
- estimated period between the loss occurence and its identification.

The methodology and assumptions used to estimate future cash flows are regularly reviewed by CEMG with the purpose of 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.

c) 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 acquire the asset and are classified considering its underlying purpose following the categories described below:

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 interest net 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.

1b) Other financial assets and liabilities at fair value through profit or 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 variations of CEMG's credit risk related with financial liabilities accounted under the Fair Value Option are disclosed in Net gains / (losses) arising from assets and liabilities at fair value through profit or loss.

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

- the assets and liabilities are managed, evaluated and reported internally at its fair value;
- the designation eliminates or significantly reduces the accounting mismatch of the transactions; or

- the assets and liabilities include derivatives that significantly change the cash-flows of the original contracts (host contracts).

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

2) Financial assets available for sale

Financial assets available for sale held with the purpose of being maintained by 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 financial assets available for sale are initially accounted at fair value, including all expenses or income associated with the transactions are 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 financial assets available for sale. These financial assets are initially recognised at fair value and subsequently measured at amortized 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, of the assets will require CEMG to reclassify the entire portfolio as Financial assets available for sale 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 recognizes in this category unquoted bonds and commercial paper. The financial assets recognised in this category are initially accounted at fair value and subsequently at amortized cost net of impairment. The incremental direct transaction costs are included in the effective interest rate for these financial instruments. The interest accounted based on the effective interest rate method are recognised in net interest income.

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

5) Other financial liabilities

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

These financial liabilities are initially recognised at fair value and subsequently at amortized 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 CEMG's policies, 30% depreciation in the fair value of an equity instrument is considered a significant devaluation and the 1-year period is assumed to be a prolonged decrease in the fair value below the acquisition cost.

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

(iii) Embedded derivatives

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

d) Derivatives 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 instruments.

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

- at the inception of the hedge there is formal documentation of the hedge;

- the hedge is expected to be highly effective;

- the effectiveness of the hedge can be reliably measured;

- the hedge is valuable in a continuous basis and highly effective throughout the reporting period; 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 amortized 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 recognized immediately in profit and loss when incurred.

e) Reclassifications between financial instruments categories

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

CEMG adopted this possibility for a group of financial assets.

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

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

f) 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 derecognizes financial liabilities when these are discharged, cancelled or extinguished.

g) 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 instrument 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.

h) 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 collateralized 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 income or expenses and similar income and Interest and similar expense.

i) Investments in subsidiaries and associates

Investments in subsidiaries and associates are accounted for in CEMG's individual condensed financial statements at its historical cost less any impairment losses.

Subsidiaries are entities (including investment funds and securitization 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 amount 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.

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.

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.

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 amortized 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 financial assets available for sale calculated at the effective interest rate method are also recognised on the net interest income as well as those from assets and liabilities at fair value through profit and loss.

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

When calculating the effective interest rate, 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).

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 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.

n) Fee and comission income

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

p) Property and equipment

Property and equipment are stated at acquisition cost less accumulated depreciation and impairment losses. Subsequent costs are recognised as a separate asset only when it is probable that future economic benefits will result for 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
Premises	50
Expenditure on freehold and leasehold buildings	10
Other property and equipment	4 to 10

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

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

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

q) 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 to 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.

r) 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.

s) 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.

t) Foreign currency transactions

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

u) 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% of 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 (see note 46).

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 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

On 30 June 2017, CEMG has a defined contribution plan for employees who were hired 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 year to which they relate.

v) 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 net income for the year 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 financial assets available for sale and cash flow hedging derivatives are recognised in shareholders" equity and are recognised in the income statement 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 years.

Deferred taxes are calculated in accordance with the liability method based on the balance sheet, considering temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes using the tax rates approved or substantially approved at 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.

w) Segmental reporting

CEMG adopted the IFRS 8 – Operational Segments for the purposes of disclosure of financial information by operating 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.

Taking into consideration that the individual condensed financial statements are present 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.

x) Provisões

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.

y) Insurance and resinsurance brokerage services

CEMG is duly authorized 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".

z) 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 management, CEMG reported results would differ if a different treatment was chosen. Management 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 the case of debt instruments it is considered the existence of impairment whenever there is objective evidence of events that impact the recoverable value of future cash flows of these assets.

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

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

Intangible assets without finite useful life impairment

The recoverable amount of CEMG's intangible assets without finite 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 without finite 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 on the date of depreciation. 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 condensed 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)

	Jun 2017	Jun 2016
Net interest income	136 046	105 116
Net gains arising from assets and liabilities at fair value through profit and loss	4 724	(27,035)
Net gains arising from available-for-sale financial assets	21 130	43 824
	161 900	121 905

3 Net interest income

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2017	Jun 2016
Interest and similar income		
Interest from loans to customers	178 847	184 940
Interest from deposits and other investments	1 347	1 371
Interest from available-for-sale finacial assets	16 797	48 474
Interest from held for trading financial assets	34 922	36 945
Interest from held-to-maturity financial assets	12 504	6 094
Interest from hedging derivatives	-	307
Other interest and similar income	245	5 921
	244 662	284 052
Interest and similar expense		
Interest from deposits of customers	41 349	70 295
Interest from loans of Central Banks and other financial institutions	7 217	11 219
Interest from securities issued	20 909	58 213
Interest from subordinated liabilities	1 599	2 328
Interest from held for trading financial liabilities	36 285	35 564
Interest from hedging derivatives	-	20
Other interest and similar expense	1 257	1 297
	108 616	178 936
Net interest income	136 046	105 116

The balances Interest and similar income – Interest from loans to customers and Interest and similar expenses – Other interest and similar expense include, respectively, the positive amount of Euro 9,804 thousand and the negative amount of Euro 1,256 thousand (30 June 2016: the positive amount of Euro 9,996 thousand and the negative amount of Euro 1,295 thousand), related to commissions and other gains/losses which are accounted for under the effective interest rate method, as referred in the accounting policy described in note 1 l).

The balance Interest and similar income includes, as at 30 June 2017, the amount of Euro 29,904 thousand (30 June 2016: Euro 33,870 thousand) related to gains from customers with signs of impairment, representing 12.2% 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:

(Thousands of Euro)

	Jun 2017	Jun 2016
Fee and commission income		
From banking services	48 846	43 273
From transactions on behalf of third parties	13 649	10 524
From insurance brokerage services	2 800	3 760
From commitments to third parties	2 833	3 257
Other fee and commission income	4 475	1 834
	72 603	62 648
Fee and commission expense		
From banking services rendered by third parties	7 420	7 055
From transactions with securities	254	243
Other fee and commission expense	6 104	5 393
	13 778	12 691
Net fee and commission income	58 825	49 957

As at 30 June 2017 and 2016, the balance Insurance brokerage services are presented as follows:

(Thousands of Euro)

	Jun 2017	Jun 2016
Life Insurance	1 575	1 973
Non-life insurance	1 225	1 787
	2 800	3 760

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

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

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2017			Jun 2016		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Securities						
Bonds and other fixed income securities						
Issued by public entities	9 307	9 146	161	4 431	4 289	142
Issued by other entities	46 532	44 582	1 950	-	-	-
Shares	7 162	6 662	500	5 209	5 962	(753)
Investment units	560	431	129	295	324	(29)
	63 561	60 821	2 740	9 935	10 575	(640)
Derivative financial instruments						
Interest rate contracts	47 053	44 164	2 889	63 172	63 090	82
Exchange rate contracts	17 556	17 803	(247)	36 852	36 779	73
Futures contracts	2 033	2 367	(334)	3 290	3 051	239
Options contracts	1 549	1 466	83	5 025	4 777	248
Commodities contracts	-	-	-	7 750	7 716	34
Credit default contracts (CDS)	-	-	-	21 787	46 629	(24,842)
	68 191	65 800	2 391	137 876	162 042	(24,166)
Other financial assets at fair value through profit or loss						
Loans to customers	44	303	(259)	413	515	(102)
	44	303	(259)	413	515	(102)
Hedging derivatives						
Interest rate contracts	-	-	-	22	35	(13)
	-	-	-	22	35	(13)
Financial liabilities at fair value through profit or loss						
Deposits from other credit institutions	3	-	3	803	1 356	(553)
Deposits from customers	19	44	(25)	23	44	(21)
Debt securities issued	275	401	(126)	931	2 471	(1,540)
	297	445	(148)	1 757	3 871	(2,114)
	132 093	127 369	4 724	150 003	177 038	(27,035)

As at 30 June 2016, the balance Financial liabilities includes fair value changes related with changes in the own credit risk (spread) of operations, in the amount of Euro 3,926 thousand, as disclosed in note 22.

In accordance with the accounting policies followed by 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 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)

	Jun 2017			Jun 2016		
	Gains	Losses	Total	Gains	Losses	Total
Fixed income securities						
Bonds						
Issued by public entities	18 836	2 750	16 086	25 871	299	25 572
Issued by other entities	3 701	207	3 494	4 883	1 124	3 759
Shares	352	19	333	14 911	2 130	12 781
Other variable income securities	1 996	779	1 217	2 615	903	1 712
	24 885	3 755	21 130	48 280	4 456	43 824

As at 30 June 2017, the balance Fixed income securities – Bonds – Issued by public entities includes the amount of Euro 15,833 thousand related with capital gains generated with the sale of Spanish and Italian treasury bonds. As at 30 June 2016, this balance includes the amount of Euro 22,910 thousand, related with capital gains generated with the sale of treasury bonds of the Spanish and Italian domestic debt.

As at 30 June 2016, the balance Shares includes the amount of Euro 11,294 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 2,169 thousand regarding the received preference shares; and (iii) Euro 704 thousand regarding a deferred payment to be settled in 2019, as described in note 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 and a part of such securities have already been sold, as described in notes 23 and 24.

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

The amount of this account is comprised of:

(milhares de euros)

	Jun 2017			Jun 2016		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differences	16 797	15 876	921	33 688	32 527	1 161

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

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

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2017	Jun 2016
Sale of other assets	14 641	83
Sale of loans and advances to customers	2 783	13 455
Sale of non-current assets held for sale	3 641	(1,108)
	21 065	12 430

As at 30 June 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 which was transferred to the portfolio of financial assets available for sale and that was previously recorded in the portfolio of financial assets held to maturity, as described in note 23.

As at 30 June 2017, the balance Sale of loans and advances to customers in the amount of Euro 2,783 thousand refers to a capital gain 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 215,288 thousand, as described in note 21.

As at 30 June 2016, the balance Sale of loans and advances to customers includes the amount of Euro 13,455 thousand related to the gain generated on the sale of a portfolio of loans to customers which were in default and were booked outside the Statement of Financial Position, as described in note 21.

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 26.

10 Other operating income

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2017	Jun 2016
Other operating income		
Staff transfer	7 336	18 998
Services rendered	2 574	3 624
Profits arising from deposits on demand management	5 357	6 041
Reimbursement of expenses	879	849
Repurchase of own securities	-	333
Other	3 623	4 807
	19 769	34 652
Other operating expense		
Contributions:		
Banking Sector	11 406	12 793
Ex-ante for the Resolution Fund	9 645	10 050
Resolution Fund	3 473	2 907
Deposit Guarantee Fund	13	10
Servicing and expenses with loan recovery	572	7 715
Expenses with real estate trading	4 070	3 885
Issuances costs	1 553	1 182
Donations and membership	421	394
Taxes	371	137
Repurchase of own securities	631	-
Other	3 031	4 836
	35 186	43 909
Other net operating income	(15,417)	(9,257)

As at 30 June 2017, the balance Other operating income – Staff transfer includes the amount of Euro 6,915 thousand (30 June 2016: Euro 18,424 thousand) referring to the staff transfers from CEMG to MGAM and to entities under its control.

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

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

The balance Ex-ante Contribution to the 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 the Delegated Regulation in accordance with its articles 4, 13 and 20. Under the Single Resolution Mechanism this contribution must be transferred to the Single Resolution Fund until 30 June each year, in accordance with the Agreement for the Transfer and Mutualisation of the contributions to the Single Resolution Fund signed in Brussels on 21 May 2014 and approved by Resolution No. 129/2015 of the Assembly of the Republic, from 3 September, according to paragraph 4 of Article 67 of Regulation (EU) No. 806/2014 of the European Parliament and of the Council, from 15 July 2014 ("Regulation MUR").

Additionally, the Single Resolution Council ("SRB"), in close cooperation with Bank of Portugal, as a national resolution authority, is responsible for the calculation of these contributions on an annual basis, according to and for the purposes of paragraph 2, Article 70, of Regulation MUR. In 2016, CEMG decided to use irrevocable payment commitments in the proportion of 15% of the contribution amount, in accordance with paragraph 3, Article 8, of the Implementing Regulation. On this basis, CEMG, as at 30 June 2017, opted for the settlement of Euro 3,475 thousand, in the form of irrevocable payment commitments booked in the caption Loans and advances to credit institutions abroad - term deposits, as described in note 20. It should be noted that only cash collateral is accepted as collateral for irrevocable payment commitments.

The item Contribution to the Resolution Fund corresponds to the mandatory periodic contributions paid to the Fund, in accordance with Decree-Law No 24/2013. The periodic contributions are determined using a base rate, established by the Bank of Portugal through regulatory instruments, to be applied in each year and which may be adjusted to the credit institution's risk profile, over the objective base rate of those contributions. 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 core capital and supplementary 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)

	Jun 2017	Jun 2016
Remunerations	56 479	63 881
Mandatory social security charges	14 628	17 284
Charges with the pensions fund	1 144	24 926
Other staff costs	8 605	14 771
	80 856	120 862

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

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

This program was completed in 2016. As at 30 June 2016, it was recorded in the condensed financial statements a cost of Euro 32,022 thousand. On this basis, the caption Charges with the pensions fund includes the amount of Euro 19,285 thousand and the caption Other staff costs includes the amount of Euro 12,737 thousand related with compensations and other charges, paid in the first half of 2016.

As at 30 June 2017, the Charges with the pension fund includes the amount of Euro 1,144 thousand (30 June 2016: Euro 5,641 thousand) regarding the current service cost.

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 30 June 2017 and 2016, the Executive Board of Directors and Other Key management personnel did not received any retribution of variable remuneration.

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 the first half of 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	1 032	574	1 830	3 436
Costs with health-care benefits (SAMS)	6	-	32	38
	1 038	574	1 862	3 474
Social Security charges	229	106	446	781
Charges with the pensions fund	13	-	125	138
Seniority bonuses	-	-	191	191
	242	106	762	1 110

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 of CEMG, in the first half of 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	963	459	1 551	2 973
Pension costs	13	-	121	134
Costs with health-care benefits (SAMS)	9	-	51	60
	985	459	1 723	3 167
Social Security charges	225	84	346	655
Charges with the pensions fund	12	-	109	121
Seniority bonuses	-	-	21	21
	237	84	476	797

As at 30 June 2017, the remuneration of the General and Supervisory Board amounted to Euro 570 thousand (30 June 2016: Euro 455 thousand).

As at 30 June 2017, loans granted to CEMG's key management personnel amounted to Euro 3,291 thousand (30 June 2016: Euro 3,030 thousand), to the General and Supervisory Board amounted to Euro 488 thousand (30 June 2016: Euro 687 thousand) and to the Executive Board of Directors amounted to Euro 142 thousand (30 June 2016: Euro 150 thousand), as referred in note 47.

12 General and administrative expenses

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2017	Jun 2016
Rental costs	5 638	8 225
Specialised services:		
IT services	3 580	7 960
Independent work	1 676	1 767
Other specialised services	7 525	9 685
Communication costs	2 725	3 446
Water, energy and fuel	2 016	2 213
Advertising costs	1 311	2 266
Maintenance and related services	2 351	1 892
Insurance	1 007	1 226
Transportation	1 258	1 463
Consumables	845	746
Travel, hotel and representation costs	433	483
Training costs	7	74
Other supplies and services	2 498	5 957
	32 870	47 403

The Rental costs balance includes the amount of Euro 4,445 thousand (30 June 2016: Euro 6,945 thousand) related to rents paid regarding buildings used by CEMG as lessee.

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)

	Jun 2017	Jun 2016
Until 1 year	2 692	16
1 to 5 years	4 536	2 698
	7 228	2 714

As at 30 June 2016, the balance Other administrative expenses includes the amount of Euro 3,413 thousand related to services rendered by Montepio Recuperação de Crédito, A.C.E. Additionally, this balance includes the amount of Euro 1,535 thousand (30 June 2016: Euro 1,508 thousand) for services provided by Montepio Gestão de Activos Imobiliários, A.C.E.

13 Depreciation and amortisation

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2017	Jun 2016
Intangible assets		
Software	6 965	6 059
Other tangible assets:		
Land and buildings		
For own use	1 537	1 078
Leasehold improvements in rented buildings	842	1 243
Equipment:		
IT equipment	1 258	1 731
Interior installations	510	673
Furniture	201	261
Security equipment	125	139
Office equipment	5	9
Motor vechicles	-	5
Operating leases	21	40
Other tangible assets	3	19
	4 502	5 198
	11 467	11 257

14 Loans impairment

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2017	Jun 2016
Loans and advances to customers		
Charge for the period net of reversals	65 616	86 937
Recovery of loans and interest charged-off	(1,925)	(3,200)
	63 691	83 737

The caption Loans and advances to customers records the estimate of losses incurred, determined according with the accounting policy described in note 1 b).

15 Other financial assets impairment

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2017	Jun 2016
Impairment for available for sale financial assets		
Charge for the period net of reversals	9 271	75 906

As at 30 June 2017, the balance Impairment for financial assets available-for-sale – Charge for the period includes the amount of Euro 5,030 thousand (30 June 2016: Euro 6,841 thousand) that corresponds to impairment losses recognised for investment units in a Fund specialised in the recovery of loans, acquired under the sale of loans and advances to customers, as described in note 51.

Additionally, this caption includes, as at 30 June 2016, the amount of Euro 105,712 thousand (30 June 2016: Euro 34,588 thousand) related to impairment recognised for investment units in Real Estate Funds, as mentioned in note 23.

16 Other assets impairment

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2017	Jun 2016
Impairment for non-current assets held for sale		
Charge for the period	7 915	13 560
Write-back for the period	-	(6,778)
	7 915	6 782
Impairment for investments in subsidiaries and associates		
Charge for the period	5 649	149 368
Impairment for other assets		
Charge for the period	1 455	15
Write-back for the period	(2)	(53)
	1 453	(38)
	15 017	156 112

As at 30 June 2016, the caption Impairment in subsidiaries and associated companies – Charge for the period is related to the impairment for the participation held in Montepio Holding, S.G.P.S, S.A., in the amount of Euro 149,368 thousand, as described in note 25.

17 Other provisions

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2017	Jun 2016
Provision for guarantees and commitments		
Charge for the period	8 374	6 798
Write-back for the period	(6,300)	(14,936)
	2 074	(8,138)
Provision for other liabilities and charges		
Charge for the period	5 629	1 635
Write-back for the period	(1,101)	(5,333)
	4 528	(3,698)
	6 602	(11,836)

18 Cash and deposits at central banks

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Cash	159 559	211 646
Deposits at Central Banks		
Bank of Portugal	264 080	169 642
	423 639	381 288

The balance with Bank of Portugal aims 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.

As at December 30 June 2017 and during 2016, these deposits were non-interest-bearing.

19 Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

	(Thousands of Euro)	
	Jun 2017	**Dec 2016**
Credit institutions in Portugal	2 170	830
Credit institutions abroad	22 330	20 441
Amounts due for collection	36 993	49 768
	61 493	71 039

The balance Amounts due for collection represents essentially check 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)	
	jun 2017	**dez 2016**
Loans and advances to credit institutions in Portugal:		
Short term deposits	-	150 000
Term deposits	1 987	2 131
Loans	107 549	103 053
Other loans and advances	75 310	81 175
	184 846	336 359
Loans and advances to credit institutions abroad		
Short term deposits	30 000	30 000
Term deposits	19 607	21 339
Subordinate deposits	1 701	1 702
Repos	33 384	25 444
CSA's	41 031	46 312
Other loans and advances	234 285	267 884
	360 008	392 681
	544 854	729 040

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 30 June 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 – Very short term deposits relate to investments performed in Fininbanco 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 CEMG, this collateral might be in the form of securities or cash, however, in 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 exposure towards the counterparty.

On this basis, and within operations of derivative financial instruments with institutional counterparties, and as defined in the respective contracts, CEMG holds an amount of Euro 41,031 thousand (31 December 2016: Euro 46,312 thousand) related to deposits in credit institutions provided as collateral for the referred operations.

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

21 Loans and advances to customers

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Corporate		
Loans not represented by securities		
Loans	2 996 310	2 903 553
Commercial lines of credits	724 314	791 117
Finance leases	295 828	292 196
Discounted bills	75 936	89 137
Factoring	124 927	114 954
Overdrafts	3 718	9 245
Other loans	800 642	802 742
Loans represented by securities		
Commercial paper	393 436	376 415
Bonds	267 580	278 749
Retail		
Mortgage Loans	6 834 673	6 997 142
Finance Leases	34 988	34 069
Consumer and other loans	815 054	838 221
	13 367 406	13 527 540
Correction value of assets subject to hedge operations	276	534
Overdue loans and interest		
Less than 90 days	85 687	80 902
More than 90 days	1 332 439	1 341 995
	1 418 126	1 422 897
	14 785 808	14 950 971
Impairment for credit risks	(1,163,370)	(1,151,260)
	13 622 438	13 799 711

As at 30 June 2017, the balance Loans and advances to customers includes de amount of Euro 2,723,746 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 30 June 2017, the credit, guarantees and irrevocable credit lines (excluding interbank and money market transactions) that CEMG granted to the holder of institutional capital and to its subsidiaries, including companies in the consolidation perimeter, was Euro 511,066 thousand (31 December 2016: Euro 536,525 thousand), as referred in note 47. The conclusion of businesses between CEMG and the holders of institutional capital 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 253 thousand as at 30 June 2017 (31 December 2016: Euro 528 thousand).

In the first half of 2017, CEMG carried out a sale of loans to customers that were in default and recorded off-balance sheet. The total amount of credits sold amounted to Euro 215,288 thousand and generated a gain of Euro 2,783 thousand, as described in note 9.

During the first half of 2016, CEMG carried out a sale of loans to customers that were in default and recorded off-balance sheet. The global amount of credits sold amounted to Euro 362,996 thousand, generating a gain of Euro 13,455 thousand, as described in notes 9 and 30.

As at 30 June 2017, the balance Loans and advances to customers includes the amount of Euro 3,608,474 thousand (31 December 2016: 3,796,840 thousand) related with loans object of securitization that, in accordance with note 1 f), were not subject of derecognition, as described in note 48. Additionally, the securities linked to these transactions are recorded as a liability, as described in note 34.

In the balance Correction value of assets subject to hedge operations is accounted the fair value of portfolio that is hedged. The valuation is accounted for in the income statement, in accordance with the accounting policy described in note 1 d). CEMG assesses on a regular basis the effectiveness of the existing hedge operations.

The balance Loans and advances to customers includes loans that are valued at fair value through profit or loss in the amount of 32,446 thousand (31 December 2016: 40,713 thousand). The fair value correction amounted to Euro 275 thousand (31 December 2016: Euro 534 thousand), and the impact on results was negative in the amount of Euro 259 thousand (31 December 2015: negative in Euro 799 thousand), as described in note 22.

The fair value of the portfolio of loans to customers is presented in note 45.

The analysis of loans and advances to customers, by type of rate as at 30 June 2017 and 31 December 2016, is as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Variable interest rate contract	13 397 199	13 755 364
Fixed interest rate contract	1 388 609	1 195 607
	14 785 808	14 950 971

The analysis of loans and advances to customers, by maturity and by type of credit, is as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Asset-backed loans	918 682	920 716
Other guarantee loans	319 188	325 425
Financial leases	17 492	16 028
Secured loans	4 300	4 300
Other loans	158 464	156 428
	1 418 126	1 422 897

The analysis of loans and advances to customers, by maturity and by type of credit, as at 30 June 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	229 465	654 230	9 052 140	918 682	10 854 517
Other guarantee loans	558 403	266 004	409 672	319 188	1 553 267
Financial leases	7 764	107 243	215 809	17 492	348 308
Loans represented by securities	449 226	204 179	7 611	4 300	665 316
Other credits	570 900	171 958	463 078	158 464	1 364 400
	1 815 758	1 403 614	10 148 310	1 418 126	14 785 808

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 30 June 2017, is analysed as follows:

(Thousands of Euro)

	Financial Leases			
	Due within 1 year	1 to 5 years	Over 5 years	Total
Outstanding rents	57 699	144 720	120 129	322 548
Outstanding interests	(10,660)	(26,640)	(20,434)	(57,734)
Residual values	2 492	23 117	40 393	66 002
	49 531	141 197	140 088	330 816

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

In relation to operating leases, CEMG does not present significant contracts as a Lessor.

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

(Thousands of Euro)

	Jun 2017	Dec 2016
Corporate		
Construction/Production	288 947	303 668
Investment	510 888	487 658
Treasury	303 312	323 421
Other loans	54 651	55 663
Retail		
Mortgage loans	119 479	116 975
Consumer credit	61 724	58 887
Other loans	79 125	76 625
	1 418 126	1 422 897

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

(Thousands of Euro)

	Jun 2017	Jun 2016
Balance on 1 January	1 151 260	1 219 310
Charge for the period net of reversals	65 616	86 937
Loans charged-off	(53,506)	(134,293)
Transfers	-	(22,737)
Balance on 30 June	1 163 370	1 149 217

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 35 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 397 thousand, respectively.

In compliance with the accounting policy described in note 1 l), interest on overdue loans for a period over 90 days not covered by asset-backed guarantees, are 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)

	Jun 2017	Dec 2016
Asset-backed loans	695 078	721 443
Other guaranteed loans	327 356	302 700
Unsecured loans	140 936	127 117
	1 163 370	1 151 260

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

(Thousands of Euro)

	Jun 2017	Jun 2016
Asset-backed loans	8 976	22 229
Other guaranteed loans	31 814	62 499
Unsecured loans	12 716	49 565
	53 506	134 293

The total recovery of loans and overdue interest, regarding the recovery of loans with real guarantees, as mentioned in note 14, accounted in the first half of 2017 and 2016, amounted to Euro 1,925 thousand and 3,200 thousand euros, respectively.

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 1,309,375 thousand (31 December 2016: Euro 1,328,198 thousand) which have an impairment of Euro 400,774 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, the recommendations legislated within the non-compliance regimes (Decree-Law No. 227/2012) and in the companies (SIREVE, PER) were adopted, and are widely disclosed in the institutional website, in internal rules and communications to disclosure and implementation within customers which present evidence of financial difficulties.

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

The restructuring operations that were performed during the first half of 2017 and during 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 involves an extension of maturities or a different interest rate. The analysis of restructured loans, performed in the first half of 2017 and in 2016, by type of credit, is as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Corporate		
Loans not represented by securities		
Loans	76 184	185 837
Commercial lines of credit	12 275	13 357
Financial leases	628	7 639
Other loans	40 718	42 776
Retail		
Mortgage Loans	5 952	19 314
Consumer and other loans	1 640	6 776
	137 397	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.

Regarding restructured loans, the impairment associated to these operations amounts to Euro 18,820 thousand (31 December 2016: Euro 25,456 thousand).

CEMG is applying physical collaterals and financial guarantees as instruments to mitigate the credit risk.

The physical collaterals are mainly mortgages on residential buildings for the mortgage portfolio and other mortgages on other types of buildings related to other types of loans. In order to reflect the market value, these collaterals are regularly reviewed based on independent and certified valuation entities or through the application of evaluation coefficients that reflect the market trends for each specific type of property and the geographical area. The financial collaterals are reviewed based on the market value of the respective assets, when available, with the subsequent application of haircuts that reflect the volatility of their prices.

Most of the physical collaterals are reevaluated at least once a year.

22 Financial assets and liabilities held for trading

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

(Thousands of Euro)

	Jun 2017	Dec 2016
Financial assets held for trading		
Securities		
Shares	6 908	6 870
Bonds	52 360	37 769
Investment units	322	300
	59 590	44 939
Derivatives		
Derivatives financial instruments with positive fair value	27 376	33 222
	86 966	78 161
Financial liabilities held for trading		
Securities		
Short sales	1 283	1 458
Derivatives		
Derivatives financial instruments with negative fair value	20 251	24 690
	21 534	26 148

The balance Derivatives financial instruments with positive fair value includes, as at 30 June 2017, the amount of Euro 12,656 thousand (31 December 2016: Euro 15,905 thousand) referred to instruments associated to assets or liabilities at fair value through profit and loss and negotiation.

The balance Derivatives financial instruments with negative fair value includes, as at 30 June 2017, the amount of Euro 1,509 thousand (31 December 2016: Euro 1,306 thousand) referred to embedded derivatives marked according to the accounting policy described in note 1 c).

The balance Derivatives financial instruments with negative fair value, also includes as at 30 June 2017 the amount of Euro 5,149 thousand (31 December 2016: Euro 6,657 thousand) referred to instruments associated to assets or liabilities at fair value through profit or loss and negotiation, with the exception of loans and advances to customers in the amount of Euro 382 thousand (31 December 2016: Euro 716 thousand).

During 2016, the Group completed an asset assignment (loans and real estate) in the amount of Euro 311,532 thousand. Within this business, CEMG acquired the right to return of a set of parameters of assigned assets. As at 31 December 2016, this transaction amounted to Euro 12,000 thousand and is recorded under the caption Financial instruments with positive fair value.

As referred in IFRS 13 financial instruments are measured in accordance with the following levels of valuation, described in note 45, as follows:

(Thousands of Euro)

	Jun 2017		
	Level 1	Level 2	Total
Financial assets held for trading			
Securities			
Shares	6,908	-	6,908
Bonds	52,360	-	52,360
Investment units	322	-	322
	59,590	-	59,590
Derivatives			
Derivatives financial instruments with positive fair value	-	27,376	27,376
	59,590	27,376	86,966
Financial liabilities held for trading			
Securities			
Short sales	1,283	-	1,283
Derivatives			
Derivatives financial instruments with negative fair value	-	20,251	20,251
	1,283	20,251	21,534

(Thousands of Euro)

	Dec 2016		
	Level 1	Level 2	Total
Financial assets held for trading			
Securities			
Shares	6 870	-	6 870
Bonds	37 769	-	37 769
Investment units	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 balance of Derivatives financial instruments as at 30 June 2017, in comparison with the assets and liabilities associated, registered in the fair value, can be analysed as follows:

(Thousands of Euro)

		Jun 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	27 206	334	(606)	174	126	27 026	26 971
Interest rate swap		16 100	(164)	(116)	37	25	15 718	15 718
Interest rate swap	Deposits from others financial institutions	-	-	(2,576)	-	(3)	-	-
Interest rate swap	Mortgages obligations	5 404 833	(1,208)	1 172	-	-	-	-
Interest rate swap	Loans and advances to customers	32 338	(382)	334	275	(259)	32 446	32 338
Interest rate swap	Others	4 052 878	(3,775)	454	-	-	-	-
Currency swap (Short)	-	51 499	302	(77)	-	-	-	-
Currency swap (Long)	-	51 777						-
Future options (Short)	-	7 024	-	-	-	-	-	-
Future options (Long)	-	7 733	-	-	-	-	-	-
Forwards (Short)	-	3 145	(2)	(6)	-	-	-	-
Forwards (Long)	-	3 150						
Options (Short)	-	80 930	12 020	14	-	-	-	-
Options (Long)	-	408 833						
		10 147 446	7 125	(1,407)	486	(111)	75 190	75 027

(1) Includes the derivatives gains/(losses) disclosed in Note 6.

The balance of Derivatives financial instruments as at 31 December 2016, in comparison with the assets and liabilities associated, registered in the fair value, can be analysed as follows:

(Thousands of Euro)

		Dec 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	Mortgages 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	4 144 224	(4 229)	(835)	-	-	-	-
Currency swap (Short)	-	67 540	379	(157)	-	-	-	-
Currency swap (Short)	-	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 derivatives gains/(losses) disclosed in Note 6.

As at 30 June 2016, the fair value component of financial liabilities recognised at fair value through profit or loss attributable to the CEMG's credit risk is negative and the respective accumulated value amounts to Euro 1, 367 thousand, as described in notes 6.

As at 31 December 2016, the amount of the loan obtained from EIB is collateralized by Portuguese bonds at the nominal value of Euro 2,500 thousand, provided as collateral and recorded under the caption Financial assets held for trading.

23 Financial assets available for sale

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017				
	Cost (1)	Fair value reserve: Positive	Fair value reserve: Negative	Impairment Losses	Book Value
Fixed income securities:					
Issued by public entities					
Portuguese	1,851,791	35,820	(8,343)	-	1,879,268
Foreign	318,603	1,102	(6,445)	-	313,260
Issued by other entities					
Portuguese	37,864	23	(43)	(28,107)	9,737
Foreign	86,853	7,470	(243)	(33,522)	60,558
Variable income securities:					
Shares					
Portuguese	76,230	10,107	(1,626)	(1,920)	82,791
Foreign	73,948	9,535	(4,501)	(77)	78,905
Investment fund units	1,013,292	23,469	(1,438)	(134,365)	900,958
	3,458,581	87,526	(22,639)	(197,991)	3,325,477

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

(Thousands of Euro)

	Dec 2016				
	Cost (1)	Fair value reserve: Positive	Fair value reserve: Negative	Impairment Losses	Book Value
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
Investment fund units	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 51, the balance Variable income securities – Investment fund units includes at 30 June 2017 the amount of Euro 40,312 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 30 June 2017 and 31 December 2016, this amount includes Euro 7,838 thousand related to junior securities (investment fund units with a more subordinated character), which are fully provided, according to notes 21 and 51.

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 24. The decision resulted under 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 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, 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 financial assets available for sale 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;

– A review 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 financial assets available for sale 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, as described in note 21. 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 30 June 2017, is presented as follows:

(Thousands of Euro)

	At the date of reclassification		Jun 2017		
	Book value	Fair value	Book value	Fair value	Difference
Financial assets available-for-sale to:					
Loans to customers	358 488	358 488	257 625	263 588	5 963
Financial assets held-to-maturity to:					
Financial assets available-for-sale	813 219	840 613	840 613	840 613	-
	1 171 707	1 199 101	1 098 238	1 104 201	5 963

The amounts recorded in profit or loss and fair value reserves as at 30 June 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
Financial assets available-for-sale to:			
Loans to customers	6.872	(1.514)	6.872
Financial assets held-to-maturity to:			
Financial assets available-for-sale	-	27.394	27.394
	6.872	25.880	34.266

If the reclassifications described above had not taken place, the additional amounts recognised in equity as at 30 June 2017, would be as follows:

(Thousands of Euro)

	Profit / (loss) in the period		
	Fair value changes	Fair value reserves	Equity
Financial assets available-for-sale to:			
Loans to customers	-	8.007	8.007
Financial assets held-to-maturity to:			
Financial assets available-for-sale	-	(27.394)	(27.394)
	-	(19.387)	(19.387)

The analysis of the impact of reclassifications until 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 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 as 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
Financial assets available for sale to:			
Loans to customers	12,075	(1,381)	(1,381)
	12,075	(1,381)	(1,381)

If the reclassifications described above had not taken place, the additional amounts recognised in equity as at 31 December 2016, would be as follows:

(Thousands of Euro)

	Profit / (loss) in the period		
	Fair value changes	Fair value reserves	Equity
Financial assets available for sale to:			
Loans to customers	12,134	13,515	13,515
	12,134	13,515	13,515

As at 30 June 2017 and 2016, the analysis of financial assets available-for-sale net of impairment, by valuation levels, is presented as follows:

(Thousands of Euro)

	Jun 2017				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Issued by public entities					
Portuguese	1,879,268	-	-	-	1,879,268
Foreign	313,260	-	-	-	313,260
Issued by other entities				-	
Portuguese	5,200	1,881	2,656	-	9,737
Foreign	34,738	9,262	16,558	-	60,558
	2,232,466	11,143	19,214	-	2,262,823
Variable income securities					
Shares					
Portuguese	81	-	77,539	5,171	82,791
Foreign	2,483	-	76,084	338	78,905
Investment fund units	7,655	-	893,303	-	900,958
	10,219	-	1,046,926	5,509	1,062,654
	2,242,685	11,143	1,066,140	5,509	3,325,477

(Thousands of Euro)

	Dec 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
Investment fund units	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 45.

The assets included in level 3, in balance Variable income securities – Participation units includes participation units in real estate investment funds, in credit recovery specialized 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 893,303 thousand (31 December 2016: Euro 913,424 thousand) of which Euro 790,109 thousand (31 December 2016: 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 entity 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 106,614 thousand was verified on 30 June 2017 (31 December 2016: Euro 109,562 thousand).

Instruments classified as level 3 have associated unrealized gains and losses in the positive amount of Euro 40,889 thousand (31 December 2016: positive amount of Euro 49,778 thousand) recognised in fair value reserves.

As at 30 June 2017, the impairment amount recorded for these securities amounts to Euro 169,471 thousand (31 December 2016: Euro 160,789 thousand).

The movements occurred in financial assets available for sale in level 3 are analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Balance on 1 January	1 095 624	1 031 856
Acquisitions	217	23 467
Revaluations	(27,661)	(33,858)
Disposals	(2,040)	(61,045)
Transfers	-	135 204
Balance on 30 June	1 066 140	1 095 624

The balance Transfers is analysed in note 45.

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

(Thousands of Euro)

	Jun 2017	Jun 2016
Balance on 1 January	190 428	125 466
Charge for the period	10 390	89 384
Write-back for the period	(1,119)	(13,478)
Charge-off	(1,708)	(4,202)
Balance on 30 June	197 991	197 170

As at 30 June 2017, an impairment for investment units of real estate investment funds was recognised in the amount of Euro 105,712 thousand (31 December 2016: Euro 101,340 thousand), as described in note 15.

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 3,408,536 million as at 30 June 2017 after hair cut (31 December 2016: Euro 3,508,001 million);

- Securities pledged as collateral to the Portuguese Securities Market Commission under the Investors' Compensation Fund in the nominal amount of Euro 1,000 thousand as at 30 June 2017 and 31 December 2016;

- The amount of the EIB loan obtained is collateralized by securities of Portuguese and Greek states in the nominal amount of Euro 628,890 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 23,000 thousand (31 December 2016: Euro 25 million).

These financial assets pledged as collateral can be executed in case of default of contractual obligations assumed by CEMG 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)

	Jun 2017	Dec 2016
Fixed income securities		
Bonds issued by Portuguese public entities	-	1,126,125

The fair value of the held-to-maturity investments portfolio is described in note 45.

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 23. The decision resulted under 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 accordance with IAS 39 financial instruments, CEMG will not 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 amount of loans obtained from EIB is collateralized 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 associated companies

This balance is analysed as follows:

	(Thousands of Euro)	
	Jun 2017	Dec 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 for investments in subsidiaries and associated companies	162,946	157,297
	263,638	259,287

As at 30 June 2017, the balance “Impairment on investments in associated companies” in the amount of Euro 162,946 thousand (31 December 2016: Euro 157,297 thousand) relating to the shareholding of Montepio Holding, S.G.P.S., S.A.

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 value in use.

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.

Condensed financial statements were prepared based on the continuity assumption 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 2016 financial statements of an impairment in the amount of Euro 157,297 thousands related with the shareholding held in Montepio Holding, S.G.P.S., S.A. ("Montepio Holding").

Montepio Holding holds 100% of the capital and voting rights of Montepio Investimento, S.A., Montepio Crédito, S.A., Montepio Valor, S.A., Ssagincentive, S.A., and Semelhanças e Coincidências, S.A., as well as a 81.57% shareholding in Finibanco Angola, S.A. and a 45.78% shareholding in Banco Terra, S.A.

On this basis, each of the subsidiaries directly owned by Montepio Holding was evaluated, as follows:

Montepio Investimento

Regarding Montepio Investimento, the evaluation considered the value of equity and incorporated the impacts resulting from the weighting made over the following aspects:

- the business funding is dependent on ECB and CEMG funding;
- the commissioning has a relevant contribution to the results and, therefore, is subject to some seasonality;
- the proportion and concentration of instruments recorded in the portfolio of available-for-sale financial assets;
- the implied real estate risk in the captions of loans to customers and non-current assets held for sale.

Montepio Crédito

Following the analysis of Montepio Crédito's balance sheet, the best value for the valuation of this subsidiary considered was its equity.

Montepio Valor

The discounted dividend methodology was used in the valuation made to this subsidiary, based on the business plan for 2017 and a zero percent dividend growth in perpetuity, despite the expectation of market recovery.

Finibanco Angola

The evaluation carried out for Finibanco Angola was based on a study carried out by an external consultant 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.

On this basis, the appreciation of the 81.57% held by Montepio Holding in Finibanco Angola stood at USD 79,653 thousand, corresponding to approximately Euro 69,798 thousand.

BTM - Banco Terra

The fair value estimate of BTM - Banco Terra was determined based on a study carried out by an external consultant who considered two different valuation methodologies: market multiples (P/B) and comparable transactions.

Thus, the valuation of 45.78% held by Montepio Holding in BTM - Banco Terra, obtained on the basis of the aforementioned study, resulted in an appreciation of the 45.78% position in Banco Terra at USD 12,104 thousand, corresponding to approximately Euro 10,606 thousand.

The implementation result of such methodologies to each of the subsidiaries determined that the valuation amount of Montepio Holding is Euro 250,804 thousand.

Impairment movements of investments in associatead companies are analysed as follows:

(Thousands of Euro)

	Jun 2017	Jun 2016
Balance on 1 January	157 297	-
Charge for the period	5 649	149 368
Balance on 30 June	162 946	149 368

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
30 June 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 described in note 53.

26 Non-current assets held for sale

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Investments arising from recovered loans	848 319	867 174
Impairment for non-current assets held for sale	(146,194)	(143,432)
	702 125	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 1,422 thousand (31 December 2016: Euro 1,496 thousand) related with other non-current assets held for sale resulting from the foreclosure of loans to customers' contracts, which have an associated impairment in the amount of Euro 1,367 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 attorneyenfim issued by the customer on behalf 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 sale 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 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 CEMG has already established contracts for the sale in the amount of Euro 40,810 thousand (31 December 2016: Euro 12,439 thousand).

The movements, in the end of the first semester of 2017 and during 2016, for non-current assets held for sale are analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Balance on 1 January	867 174	866 484
Acquisitions	48 233	184 447
Disposals	(66,428)	(183,685)
Other movements	(660)	(72)
Balance on 31 December	848 319	867 174

The movement in impairment for non-current assets held for sale balance is analysed as follows:

(Thousands of Euro)

	Jun 2017	Jun 2016
Balance on 1 January	143 432	132 619
Charge for the period	7 915	13 560
Write-back for the period	-	(6,778)
Charge-off	(5,153)	(15,604)
Balance on 30 June	146 194	123 797

In addition to the impairment losses, CEMG recognised in profit or loss, in the first half of 2017, losses in the amount of Euro 568 thousand arising from the disposal of real estate properties and gains in the amount of Euro 4,209 thousand (31 December 2016: losses of Euro 5,499 thousand and gains of Euro 21,739 thousand), as described in note 9.

27 Property and equipment

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Cost		
Land and buildings		
For own use	204 334	204 334
Leasehold improvements in rented buildings	30 233	30 517
Equipment		
Computer equipment	88 058	87 554
Interior installations	20 352	20 262
Furniture	18 418	18 386
Security equipment	7 271	7 210
Office equipment	2 548	2 547
Motor vehicles	714	901
Other equipment	1	1
Works of art	2 870	2 870
Assets in operacional lease	443	534
Other tangible assets	1 849	1 848
Work in progress	6 442	4 507
	383 533	381 471
Accumulated depreciation		
Charge for the period	(4,502)	(10,452)
Accumulated charge in previous periods	(158,063)	(148,210)
	(162,565)	(158,662)
	220 968	222 809

During the first quarter of 2016, CEMG acquired from Montepio Geral Associação Mutualista real estate for own use, in the amount of Euro 199,444 thousand, as described in notes 47 and 54.

28 Intangible assets

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Cost		
Software	98 439	93 713
Other intangible assets	-	61
Work in progress	6 441	5 853
	104 880	99 627
Accumulated depreciation		
Charge for the period	(6,965)	(12,376)
Accumulated charge in previous periods	(66,553)	(54,177)
	(73,518)	(66,553)
	31 362	33 074
Impairment for intangible assets	-	(61)
	31 362	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 thousands, which was impaired.

29 Taxes

Deferred tax assets and liabilities as at 30 June 2017 and 31 December 2016 are analysed as follows:

(Thousands of Euro)

	Asset		Liability		Net	
	Jun 2017	Dec 2016	Jun 2017	Dec 2016	Jun 2017	Dec 2016
Financial instruments	5,478	22,231	(21,514)	(11,879)	(16,036)	10,352
Provisions / impairment						
Granted credit impairment	219,693	227,430	-	-	219,693	227,430
Other risks and charges	7,262	6,345	-	-	7,262	6,345
Impairment in securities and non-financial asset:	52,447	49,326	-	-	52,447	49,326
Employees benefits	41,269	45,621	-	-	41,269	45,621
Other	83	82	(53)	(53)	30	29
Tax losses carried forward	173,282	174,705	-	-	173,282	174,705
Net deferred tax asset / (liability)	499,514	525,740	(21,567)	(11,932)	477,947	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 11,940 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 also includes the amount of Euro 3,289 thousand (31 December 2016: Euro 3,404 thousand) related to deferred taxes associated with the expense generated with the transfer of liabilities with pensioners to the general social security system.

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

As at 30 June 2017, deferred taxes associated with Employee benefits include the amount of Euro 12,588 thousand (31 December 2016: 13,551 thousand) related with employee benefits in excess when compared with the existing limits.

The deferred tax rate is analysed as follows:

	Jun 2017	Dec 2016
Income tax (a)	21.0%	21.0%
Municipal surcharge rate	1.5%	1.5%
State surcharge rate	7.0%	7.0%
Total (b)	29.5%	29,5%

(a) Applicable to deferred taxes associated with tax losses.
(b) Applicable to deferred taxes associated with temporary differences.

Analysis of the recoverability of deferred tax assets

Deferred taxes related to the losses carried forward are recognised only if the existence of future taxable profits is probable. Thus, any 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 the CEMG´s condensed financial statements have a high expectation of recoverability. The evaluation of the recoverability of deferred tax assets is based on the latest exercise prepared for the Funding and Capital Plan for 2017-2019, at the opportunity, to the Bank of Portugal, assuming a pre-tax income growth assumption between 2019 and 2024.

Thus, the recoverability of deferred tax assets, in particular related to tax losses carried forward is based on the CEMG's forecasted financial statements, prepared under the Funding and Capital Plan mentioned above, which took into account the macroeconomic and competitive environment were CEMG operates, as well as the strategic priorities defined in the strategic plan for 2016-2018.

The recovery of profitability, liquidity and capital levels recommended in the strategic plan is fundamentally based in the favorable impacts of:

(i) recovery of the core banking product: by increasing the net interest income provided by the monitoring of turnover and pricing, especially the costs of deposits, as well as by the increase in commissions, benefiting from the impact of the price list update that has been implemented;

(ii) decrease of operating costs: 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 decrease in the level of investments;

(iii) reinforcement of the 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 evaluation and as at 30 June 2017 and 31 December 2016, CEMG recognised all the deferred tax assets and, therefore, there are no deferred tax assets to be recognised.

In addition, a sensitivity analysis was developed considering a scenario in which profit and loss before tax evolved at a rate lower than 10%, considering the projections mentioned above and no impact on deferred taxes was determined.

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

(Thousands of Euro)

Expire date	Jun 2017	Dec 2016
2027	47,841	50,915
2028	125,442	123,790
	173,283	174,705

Main assumptions used

Due to the lack of tax rules related to the tax regime of specific credit impairment losses for 2017 and subsequent tax periods, it was considered the tax regime in force at 31 December 2016.

Tax recognised in the income statement and reserves during the first semester of 2017 and during 2016 is analysed as follows:

(Thousands of Euro)

	Jun 2017		Dec 2016	
	Charged to results	Charged to reserves and retained earnings	Charged to results	Charged to reserves and retained earnings
Financial instruments	-	(26,388)	-	13 225
Provisions / impairment	(3,699)	-	108 254	-
Employees benefits	(3,024)	(1,326)	3 990	703
Other	1	-	(326)	-
Tax losses carried forward	(2,109)	686	(13,930)	12 321
Deferred taxes/ recognized as (profit)/ losses	(8,831)	(27,028)	97 988	26 249
Current taxes/ recognized as (profit)/ losses	(2,808)	-	317	-
	(11,639)	(27,028)	98 305	26 249

The reconciliation of the effective tax rate, regarding the amount recognized in the income statement, is analysed as follows:

(Thousands of Euro)

	Jun 2017		Jun 2016	
	%	Value	%	Value
Profit before taxes		15 717		(304,534)
Income tax based on the current nominal tax rate	(21.0)	(3,301)	(21.0)	63 952
Municipal surcharge	(7.4)	(1,164)	0.3	(784)
Extraordinary contribution for the banking sector	(15.2)	(2,395)	0.9	(2,687)
Post-employment benefits and Pension Fund	-	-	0.4	(1,115)
Charge/reversal of taxable provisions/impairments	(17.7)	(2,789)	1.4	(4,231)
Autonomous taxation	(2.1)	(327)	0.2	(632)
Corrections to previous periods	-	-	(0.3)	847
Effect of differences in income tax for the period	(4.9)	(768)	(7.6)	23 134
Other	(5.7)	(895)	0.8	(2,438)
Income tax for the period	(74.1)	(11,639)	(25.0)	76 046

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 and including the year of 2014. The inspection regarding the year 2015 is still ongoing.

30 Other Assets

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Other debtors	101 317	167 664
Sundry debtors	78 724	14 624
Other accrued income	38 157	43 908
Recoverable subsidies from Portuguese Government	6 036	5 521
Prepayments and deferred costs	1 171	303
	225 405	232 020
Impairment for other assets	(24,756)	(26,389)
	200 649	205 631

As at 30 June 2017 and 31 December 2016, the balance Other debtors is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
SilverEquation	33 613	101 012
Supplementary capital contributions	14 910	14 910
Public Entities	6 975	6 983
Other	45 819	44 759
	101 317	167 664

The balance SilverEquation includes the receivable amounts under an operation of sale of credits and property, performed in 2014, to SilverEquation. During the first semester of 2017 it was received an amount of Euro 67,399 thousand. It is expected to receive the remaining amount in the second semester of 2017 and in 2019, in the amounts of Euro 3,347 thousand and Euro 30,266 thousand, respectively.

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, as described in note 51. These supplementary capital contributions are fully provided.

As at 30 June 2017, the balance Public Entities includes an amount of Euro 6,975 thousands (31 December 2016: Euro 6,983 thousands) related to receivable amounts from public entities, mostly related with courts in the context of insolvency proceedings and lodge claims.

As at 31 December 2016, the balance Others includes the amount receivable of Euro 7,569 thousand under the operation of sale of credits performed in the first half of 2016, as described in notes 9 and 21.

As at 31 December 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 completion of the transaction), in the amount of Euro 704 thousand.

As at 30 June 2017 and 31 December 2016, the balance Other accrued income includes the amount of Euro 36,000 thousand, referring to receivables related with services rendered by CEMG to MGAM.

The balance Recoverable subsidies from the Portuguese Government corresponds to the subsidies of mortgage loans and PME's contracts, in accordance with the legal provisions applicable to low interest loans. These amounts do not bear interest and are claimed on a monthly basis.

As at 30 June 2017 and 31 December 2016, the balance Recoverable subsidies from the Portuguese Government is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Overdue subsidies unclaimed	3 317	3 262
Recoverable subsidies from the Portuguese Government unliquidated	2 704	2 206
Subsidies unclaimed	15	53
	6 036	5 521

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

(Thousands of Euro)

	Jun 2017	Jun 2016
Balance on 1 January	26 389	17 996
Charge for the period	1 455	15
Reversal for the period	(2)	(53)
Charge-off	(3,086)	(22)
Transfers	-	397
Balance on 30 June	24 756	18 333

The balance Transfers refers to the impairment associated to the renting, which is now recorded in the balance Other assets, as described in note 21.

31 Deposits from central banks

As at 30 June 2017 and 31 December 2016, this balance is related to deposits obtained with the European System of Central Banks, which are pledged by securities from the available for sale portfolio, as described in note 23.

32 Deposits from other financial institutions

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017			Dec 2016		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from financial institutions in Portugal						
Deposits repayable on demand	74 893	-	74 893	56 724	-	56 724
Term deposits	-	28 193	28 193	-	26 521	26 521
Other resources	-	-	-	-	405	405
	74 893	28 193	103 086	56 724	26 926	83 650
Deposits from financial institutions abroad						
BEI loan	-	460 452	460 452	-	460 471	460 471
Deposits repayable on demand	49 131	-	49 131	103 990	-	103 990
Term deposits	-	235 924	235 924	-	259 875	259 875
Sales operations with repurchase agreement	-	1 634 568	1 634 568	-	1 625 776	1 625 776
CSA's	1 240	-	1 240	4 340	-	4 340
Repos	-	4 858	4 858	-	5 917	5 917
Other deposits	1 281	-	1 281	2 906	53 805	56 711
	51 652	2 335 802	2 387 454	111 236	2 405 844	2 517 080
Adjustments to hedge operations value	-	-	-	3	-	3
	126 545	2 363 995	2 490 540	167 963	2 432 770	2 600 733

As part of derivative financial instruments operations with institutional counterparties, according to the signed contracts, CSA's has on 30 June 2017 the amount of Euro 1,240 thousand (31 December 2016: Euro 4,340 thousand) deposits from other credit institutions received as collateral for these operations.

The resources obtained under CSA with international financial institutions are remunerated at the Eonia rate. However, since these rates have presented negative values, these resources have not been remunerated.

The balance Deposits from other financial institutions includes emissions at fair value through profit or loss measured in accordance with internal valuation methodologies, considering mainly market's observed data, in the amount of Euro 53,818 thousand at 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, as 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). At 30 June 2017, it was recognised a gain in the amount of Euro 3 thousand (31 December 2016: gain in the amount of Euro 518 thousand), related to fair value changes, as referred in notes 6 and 22.

The amount of the EIB loan is collateralized by Portuguese and Greek states securities in the amount of Euro 628,890 thousand (31 December 2016: Euro 638,289 thousand), registered in the balance Financial assets held for trading, Financial assets available-for-sale and Held-to-maturity investments, as described in notes 22, 23 and 24, respectively.

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

33 Deposits from customers

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017			Dec 2016		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits repayable on demand	3 196 960	166 314	3 363 274	3 252 183	137 699	3 389 882
Term deposits	-	8 098 015	8 098 015	-	8 546 819	8 546 819
Saving accounts	-	114 914	114 914	-	113 653	113 653
Other deposits	12 440		12 440	19 735	299 910	319 645
Adjustments arising from hedging operations	37	-	37	12	-	12
	3 209 437	8 379 243	11 588 680	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, within certain conditions, the reimbursement of funds deposited in credit institutions authorised to receive deposits. The criteria to calculate the annual contributions to the referred fund are defined by Regulation no. 11/94 of Bank of Portugal, from 29 December.

The caption Term deposits includes deposits at fair value through profit or loss, measured in accordance with internal evaluation techniques considering, mainly, observable market inputs, in the amount of Euro 15,718 thousand (31 December 2016: Euro 15,631 thousand). So, according with the hierarchy of the valuation sources, as referred in IFRS 13, these instruments are classified in level 2. The financial liabilities included in this balance are revalued against income statement, as referred in the accounting policy presented in note 1 c), having recognised as at 30 June 2017, a loss in the amount of Euro 25 thousand (31 December 2016: a gain of Euro 4 thousand), regarding the fair value variations resulting from CEMG´s credit risk, as described in notes 6 and 22.

During the first semester of 2017, deposits from clients were remunerated at the average rate of 0.70% (31 December 2016: 1.03%).

34 Debt securities issued

This balance Debt securities issue is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Euro Medium Term Notes (EMTN)	-	39,913
Bonds	605,335	1,040,533
Covered bonds	-	265,028
Securitizations	422,933	538,155
	1,028,268	1,883,629

The fair value of debt securities issued is disclosed in note 45.

The balance Debt securities issued includes issues at fair value through profit or loss in the amount of Euro 27,026 thousand (31 December 2016: Euro 67,237 thousand), measured in accordance with internal valuation techniques and considering, mainly, observable market data. So, according with the hierarchy of the valuation sources, and as referred in IFRS 13, these instruments are classified in level 2. Financial liabilities are revalued against income statement, as referred in the accounting policy presented in note 1 c). As at 30 June 2017, a loss of Euro 126 thousand (31 December 2016: a loss of Euro 1,716 thousand) was recognised regarding the fair value variations resulting from the CEMG's credit risk, as described in notes 6 and 22.

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 30 June 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	500,137	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 - 7S	500,000	500,082	December 2016	December 2022	Quarterly	Euribor 3M + 0,75%	A3/A/A
Covered bonds - 8S	500,000	500,111	December 2016	December 2026	Quarterly	Euribor 3M + 0,90%	A3/A/A
Covered bonds - 9S	500,000	500,281	May 2017	May 2024	Quarterly	Euribor 3M + 0,85%	A3/A/A
	2,300,000	2,300,815					

As at 31 December 2016, the main characteristics of these issues are as follows:

(Thousands of Euro)

Description	Nominal value	Nominal value of sale	Book value	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody´s/Fitch/Dbrs)
Covered bonds - 4S	500,000	265,028	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	265,028	2,300,624					

The operations carried out by CEMG under the Issuance of Covered Bonds CEMG Programme, during the first semester of 2017, are presented as follows:

- May 2017: Euro 500,000 thousand Issue, within 7 years, at an interest rate of Euribor 3M plus 0.85%;
- May 2017: Euro 265,000 thousand reimbursement;
- December 2016: Euro 500,000 thousand Issue, within 6 years, at an interest rate of Euribor 3M plus 0.75%;
- December 2016: Euro 500,000 thousand Issue, within 10 years, interest rate of Euribor 3M plus 0.90%;
- December 2016: Euro 1,000,000 thousand reimbursement;
- November 2016: 300,000 thousand Issue, within 7 years, interest rate of Euribor 3M plus 0.80%;

The covered bonds are guaranteed by a cover assets pool, comprised of mortgage credit assets and limited classes of other assets, that the issuer of mortgage covered bonds shall maintain segregated and over which the holders of the relevant covered bonds have a statutory special creditor privilege.

The legal and regulatory framework of these bonds is set up in Decree-Law No. 59/2006, Regulations of Bank of Portugal No. 5/2006 from 20 March, No. 6/2006 from 11 October, No. 7/2006 from 11 October, no. 8/2006 from 11 October and Instruction of Bank of Portugal No. 13/2006 from 15 November.

At 30 June 2017, the amount of credits that collateralize these issues amounts to Euro 2,723,746 thousand (31 December 2016: Euro 2,725,631 thousand), as referred in note 21.

The movement in debt securities issued during period ended at 30 June 2017 is analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Issues	Reimbursements	Net Repurchases	Other movements [a]	Balance on 30 June
Euro Medium Term Notes (EMTN)	39,913	-	(39,750)	-	(163)	-
Bonds	1,040,533	-	(110,500)	(314,714)	(9,984)	605 335
Covered bonds	265,028	500,000	(265,000)	(500,000)	(28)	-
Securitizations	538,155	-	(115,222)	-	-	422 933
	1,883,629	500,000	(530,472)	(814,714)	(10,175)	1 028 268

The movements in debt securities issued during the period of 2016 is analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Issues	Reimbursements	Net Repurchases	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 30 June 2017, CEMG reimbursed securities in the amount of Euro 530,472 thousand (31 December 2016: Euro 1,126,997 thousand).

As at 30 June 2017, CEMG issued the 9th serie of covered bonds with a nominal value of Euro 500,000 thousand and reimbursed the 5th serie with a nominal value of Euro 500,000 thousand.

During 2016, CEMG issued three series of covered bonds: 6th (Euro 300,000 thousand), 7th (Euro 500,000 thousand) and 8th (Euro 500,000 thousand). These bonds have a global nominal value of Euro 1,300,000 thousand. CEMG also reimbursed the 2nd series with a nominal value of Euro 1,000,000 thousand.

As at 31 December 2016, CEMG sold covered bonds in the amount of Euro 65,000 thousand – 4th series.

In accordance with the accounting 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 2016 CEMG recognised a loss of Euro 701 thousand.

As at 30 June 2017, bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 2.95% and 12.33% (31 December 2016: 0.38% and 13.61%).

35 Provisions

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Provisions for guarantees and commitments	15,925	13,851
Provisions for other liabilities and charges	11,670	7,142
	27,595	20,993

The movement in Provisions for guarantees and commitments made in the first semester of 2017 and 2016 is analysed as follows:

(Thousands of Euro)

	Jun 2017	Jun 2016
Balance on 1 January	13,851	-
Charge for the period	8 374	6,798
Write-back for the period	(6,300)	(14,936)
Transfers	-	22,340
Balance on 30 June	15 925	14,202

The movements in Provisions for other risks and charges are analysed as follows:

(Thousands of Euro)

	Jun 2017	Jun 2016
Balance on 1 January	7 142	15 509
Charge for the period	5 629	1 635
Write-back for the period	(1,101)	(5,333)
Balance on 30 June	11 670	11 811

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

36 Other subordinated debt

As at 30 June 2017, the main characteristics of Other subordinated debt, are analysed as follows:

(Thousands of Euro)

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%	111,322
CEMG/08 2nd series	Jul 2008	Jul 2018	150 000	Euribor 6 months+1,5%	113,178
CEMG/08 3rd series	Jun 2008	Jun 2018	28 000	Euribor 12 months+1,5%	4,171
FNB 08/18 1st/2nd series	Dec 2008	Dec 2018	10 363	Euribor 6 months+1,75% (i)	8,328
					236,999

As at 31 December 2016, the main characteristics of Other subordinated debt, are analysed as follows:

(Thousands of Euro)

Issue	Issue date	Maturity date	Issue amount	Interest rate	Book value
CEMG/08 1st series	Feb 2008	Feb 2008	150 000	Euribor 6 months+1,5%	111,348
CEMG/08 2nd series	Jul 2008	Jul 2008	150 000	Euribor 6 months+1,5%	113,216
CEMG/08 3rd series	Jun 2008	Jun 2008	28 000	Euribor 12 months+1,5%	4,202
FNB 08/18 1st/2nd series	Dec 2008	Dec 2008	10 363	Euribor 6 months+1,75% (i)	8,328
					237,094

(i) - Remuneration paid on paid on a half-yearly basis. The first cupon is fixed:

Coupon	Interest rate/range
1st coupon	6,50% (annual rate)
Betweem the 2nd and 10th coupon	Euribor 6M + 1,50% (annual rate)
Remaining 11	Euribor 6M + 1,75% (annual rate)

During the six-month period ended at 30 June 2017 and 31 December 2016, the movement occurred in the balance Other subordinated debt was as follows:

(Thousands of Euro)

	Jun 2017				
	Balance on 1 January	Reimbursements	Net purchases	Other movements (a)	Balance on 30 June
CEMG/08 1st series	111,348	-	-	(26)	111,322
CEMG/08 2nd series	113,216	-	-	(38)	113,178
CEMG/08 3rd series	4,202	-	-	(31)	4,171
FNB 08/18 1st/2nd series	8,328	-	-	-	8,328
	237,094	-	-	(95)	236,999

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

(Thousands of Euro)

	Dec 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 Corporate 07/16_ 1st series	6,532	(6,450)	-	(82)	-
FNB Corporate 07/16 2nd/3rd series	30,330	(30,250)	-	(80)	-
	333,686	(62,800)	(33,097)	(695)	237,094

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

As at 30 June 2017, the subordinated debt bears postponed interest every six and twelve months and its effective interest rate range is set between 1.26% and 1.49% (31 December 2016: 1.31% and 1.53%).

Other subordinated debt portfolio is recorded at fair value, as presented in note 45.

37 Other liabilities

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Creditors		
Suppliers	4 007	4 633
Other creditors	10 177	17 567
Administrative Public Sector	10 419	11 692
Charges with staff expenses	22 402	26 460
Other expenses	9 414	14 716
Deferred income	659	770
National and foreign operations to settle	93 768	105 637
Other sundry liabilities	38 610	22 504
	189 456	203 979

As at 30 June 2017, the balance Other sundry liabilities includes the amount of Euro 12,494 thousand (31 December 2016: Euro 15,142 thousand), related with net liabilities recognised in the balance sheet, which represent the difference between the costs with pensions, health benefits and death subsidy and the assets, as referred in note 46.

As at 30 June 2017, the balance Holiday pay and subsidies includes the amount of Euro 113 thousand (31 December 2016: Euro 6,911 thousand), related with seniority bonus. Additionally, at 30 June 2017, this balance also includes the amount of Euro 18,970 thousand (31 December 2016: Euro 18,942 thousand), related to holidays and holiday subsidies.

38 Institutional capital

CEMG's institutional capital, which is fully paid, amounts to Euro 2,020,000 thousand (31 December 2016: Euro 1,770,000 thousand), fully belonging to MGAM.

At 30 June 2017, the Group performed a capital increase subscribed by MGAM, in accordance with the statutory resolutions of MGAM General Council, the General and Supervisory Council and the Board of Directors of CEMG.

The referred capital increase was materialized by MGAM, fully paid-up in cash, through the realization of institutional capital in the amount of Euro 250,000 thousand.

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

The referred capital increase was materialized by MGAM, fully paid-up in cash, through the realization of institutional capital in the amount of Euro 270,000 thousand.

39 Participation fund

As at 30 June 2017 and 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 MGAM.

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

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

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

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

	Jun 2017		**Dec 2016**	
	Number of Investment Fund Units held	**Percentage**	**Number of Investment Fund Units held**	**Percentage**
Related parties				
Montepio Geral Associação Mutualista	293,992,794	73.50%	284,113,190	71.03%
Montepio Investimento, S.A.	80,918	0.02%	80,918	0.02%
	294,073,712	73.52%	284,194,108	71.05%

40 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 withdrawn from equity and the difference between the purchase value and its book value is recognised in equity.

At 30 June 2017 and 31 December 2016, the repurchased perpetual subordinated instruments amounts to Euro 8,677 thousand. After these operations, 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 comply of Regulatory capital requirements regulation.

During the first semester of 2017, CEMG proceeded to the interest payment for this emission in the amount of Euro 162 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).

As at 31 December 2016 and 2015, these obligations are not seen as a positive element of CEMG's Equity.

41 General and special reserve

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

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

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

The variation of the general and special reserves balance is analysed in note 42.

42 Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

(Thousand of Euro)

	Jun 2017	Dec 2016
Fair value reserves		
Fair value reserves		
Available-for-sale financial assets	64 890	(15,131)
Loans to customers	2 343	2 476
	67 233	(12,655)
Taxes		
Available-for-sale financial assets	(15,345)	11 082
Loans to customers	(691)	(730)
	(16,036)	10 352
Fair value reserves net of taxes	51 197	(2,303)
Reserves and retained earnings:		
General reserve	186 000	186 000
Special reserve	68 273	68 273
Deferred tax reserve	54 885	55 526
Other reserves and retained earnings	(1,094,118)	(850,190)
	(784,960)	(540,391)

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

The balance Loans 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 23.

The movements in the fair value reserve on financial assets available for sale during the first semester of 2017 are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Reavaluation	Acquisition	Sales	Impairment recognized in the period	Balance on 30 June
Fixed income securities						
Bonds issued by public Portuguese entities	(59,774)	36 014	27 380	23 857	-	27 477
Bonds issued by public foreign entities	(7,254)	2 202	50	(341)	-	(5,343)
Bonds issued by other entities						
Portuguese	(126)	94	15	(3)	-	(20)
Foreign	6 652	510	15	(1,069)	1 119	7 227
	(60,502)	38 820	27 460	22 444	1 119	29 341
Variable income securities						
Shares in companies						
Portuguese	8 189	287	5	-	-	8 481
Foreign	14 722	(9,565)	13	(136)	-	5 034
Investments fund units	22 460	9 297	9	(1,053)	(8,682)	22 031
	45 371	19	27	(1,189)	(8,682)	35 546
	(15,131)	38 839	27 487	21 255	(7,563)	64 887

The movements in the fair value reserve on financial assets available-for-sale, 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
Investments fund units	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 financial assets available-for-sale, are detailed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Amortised cost of available-for-sale financial assets	3,458,581	3,094,291
Accumulated impairment recognised	(197,991)	(190,428)
Amortised cost of available-for-sale financial assets, net of impairment	3,260,590	2,903,863
Market value of available-for-sale financial assets	3,325,477	2,888,732
Unrealised gains/(losses) recognised in the fair value reserve	64,887	(15,131)

43 Distribution of profit

As at 30 June 2017 and during 2016, CEMG did not distributed profits.

44 Obligations and other commitments

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Guarantees granted	436,967	442,010
Commitments to third parties	1,309,532	1,339,783
Assets transferred in securitised operations	44,760	48,553
Securities and other items held for safekeeping on behalf of customer	6,279,566	6,710,382
	8,070,825	8,540,728

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

(Thousands of Euro)

	Jun 2017	Dec 2016
Guarantees granted		
Guarantees	416,684	414,608
Open documentary credits	20,283	27,402
	436,967	442,010
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit lines	614,192	561,996
Potential obligation with the Investors' Indemnity System	1,490	1,592
Annual contribution to the Guarantee Deposits Fund	22,768	22,768
Revocable commitments		
Revocable credit lines	671,082	753,427
	1,309,532	1,339,783

Bank guarantees granted are financial operations that are not consisted by mobilization on Funds by CEMG.

Documentary credits correspond to irrevocable commitments with CEMG's customers, 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 agreement of all parties involved.

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

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

As at 30 June 2017 and 31 December 2016, the balance Annual contribution to the obligations of the 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 the Fund.

As at 30 June 2017 and 31 December 2016, under the Deposit Guarantee Fund, CEMG granted as pledge treasury bonds (OT 4.35% 07/2017), recorded as financial assets available for sale, with a nominal value of Euro 23,000 thousand, as described in note 23.

As at 30 June 2017 and 31 December 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 to be paid to investors.

The financial instruments accounted as Guarantees and other commitments are subject to the same approval and control procedures applied to the credit portfolio, namely regarding the analysis of objective evidence of impairment, as described in note 1 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 recoveries or collaterals.

45 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. Regarding the funding near the European Central Bank, only one of the live issues as at 30 June 2017 (around 13% of the total funding) presents an interest rate different from zero (0.05% p.a.)

  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 the monetary market or from the interest rate swap market, at the end of the period). For 30 June 2017, the average discount rate was 1.49% for Repos and 0.31% for the remaining resources. As at December 2016 they were of 0.73% and 0.17%, respectively.

- *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 templates (Black-Scholes, Black, Ho and others) considering the volatility areas 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 amortized 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 the case of those who are quoted in organized 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 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. 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 period) and the spread used at the reporting date, which was calculated from the average of production at the last month of 2016. The average discount rate was 2.95% for housing loans (31 December 2016: 2.70%), 5.72% to individual credit (31 December 2016: 5.55%) to treasury loans is 3.92% (31 December 2016: 3.90%) and 4.46% to the remaining loans (31 December 2016: 4.46%), 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.

- *Loans and advances to customers without defined maturity date and Debits to clients repayable on demand*

  Considering the short maturity of these 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.

- *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 period) and the spread of CEMG at the reporting date, which was calculated from the average production of the second quarter of 2017. The average discount rate at 30 June 2017 was of 0.90% (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 the 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 8.19% (31 December 2016: 9.09%). The average discount rate calculated for senior issues placed on the retail market was 0.61% (31 December 2016: 0.79%). The senior issue placed on the institutional market is valued at fair value through profit or loss.

As at 30 June 2017, the following table presents the values of the interest rate used 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	-0.3600%	1.1733%	0.1700%	-0.7750%	-0.0339%
7 days	-0.3790%	1.1906%	0.2200%	-0.7450%	-0.0185%
1 month	-0.3730%	1.2200%	0.2750%	-0.7950%	-0.1500%
2 months	-0.3420%	1.3300%	0.3400%	-0.6900%	-0.1500%
3 months	-0.3310%	1.3700%	0.4100%	-0.7450%	-0.1700%
6 months	-0.2710%	1.6000%	0.5500%	-0.7250%	-0.1800%
9 months	-0.1970%	1.6900%	0.6300%	-0.6250%	-0.1500%
1 year	-0.1560%	1.8200%	0.7150%	-0.8400%	-0.1000%
2 years	-0.1300%	1.5980%	0.6800%	-0.5440%	0.0150%
3 years	0.0050%	1.7240%	0.7770%	-0.4440%	0.0300%
5 years	0.2750%	1.9250%	0.9500%	-0.2280%	0.0750%
7 years	0.5405%	2.0780%	1.0960%	-0.0210%	0.1325%
10 years	0.9025%	2.2450%	1.2860%	0.2400%	0.2375%
15 years	1.2830%	2.4030%	1.4890%	0.4870%	0.4375%
20 years	1.4510%	2.4680%	1.4890%	0.4870%	0.4375%
30 years	1.5385%	2.5020%	1.4890%	0.4870%	0.4375%

As at 31 December 2016, the following table presents the values of the interest rate used 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	**Jun 2017**	**Dec 2016**	**1 month**	**3 months**	**6 months**	**9 months**	**1 year**
EUR/USD	1.1412	1.0541	6.825	7.100	7.200	7.450	7.650
EUR/GBP	0.8793	0.8562	7.550	7.850	8.100	8.350	8.650
EUR/CHF	1.0930	1.0739	4.375	4.575	4.825	5.000	5.250
EUR/JPY	127.75	123.40	8.600	9.075	9.538	9.950	10.363

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 30 June 2017 and 31 December 2016, is presented as follows:

(Thousands of Euro)

	Jun 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	-	-	423 639	423 639	423 639
Loans and advances to credit institutions repayable on demand	-	-	61 493	61 493	61 493
Loans and advances to credit institutions	-	-	544 854	544 854	544 854
Loans and advances to customers	32 446	-	13 589 992	13 622 438	13 343 231
Financial assets held for trading	86 966	-	-	86 966	86 966
Available-for-sale financial assets	-	3 325 477	-	3 325 477	3 325 477
Held-to-maturity investments	-	-	-	-	
	119 412	3 325 477	14 619 978	18 064 867	17 785 660
Financial liabilities					
Deposits from central banks	-	-	2 685 425	2 685 425	2 685 425
Deposits from other credit institutions	-	-	2 490 540	2 490 540	2 490 970
Deposits from customers	15 718	-	11 572 962	11 588 680	11 600 847
Debt securities issued	27 026	-	1 001 242	1 028 268	1 087 144
Financial liabilities held for trading	21 534	-	-	21 534	21 534
Other subordinated debt	-	-	236 999	236 999	224 579
	64 278	-	17 987 168	18 051 446	18 110 499

(Thousands of Euro)

	Dec 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 summarizes, by valuation levels, the fair value of CEMG's financial assets and liabilities, as at 30 June 2017:

(Thousands of Euro)

	Jun 2017				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair Value
Financial assets					
Cash and deposits at central banks	423,639	-	-	-	423,639
Loans and advances to credit institutions repayable on demand	61,493	-	-	-	61,493
Loans and advances to credit institutions	-	-	544,854	-	544,854
Loans and advances to customers	-	32,446	13,310,785	-	13,343,231
Financial assets held for trading	59,590	27,376	-	-	86,966
Available-for-sale financial assets	2,242,685	11,143	1,066,140	5,509	3,325,477
Held-to-maturity investments	-	-	-	-	-
	2,787,407	70,965	14,921,779	5,509	17,785,660
Financial liabilities					
Deposits from central banks	2,685,425	-	-	-	2,685,425
Deposits from other credit institutions	-	-	2,490,970	-	2,490,970
Deposits from customers	-	15,718	11,585,129	-	11,600,847
Debt securities issued	-	27,026	1,060,118	-	1,087,144
Financial liabilities held for trading	1,283	20,251	-	-	21,534
Other subordinated debt	-	-	224,579	-	224,579
	2,686,708	62,995	15,360,796	-	18,110,499

The following table summarizes, by valuation levels, the fair value of CEMG's financial assets and liabilities, as at 31 December 2016:

(Thousands of Euro)

	Dec 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.

46 Long term and post-employment 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.

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 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 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, 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 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:

	Assumptions
	Dec 2016
Financial assumptions	
Wage growth rate	0% 2017;1,0% 2018+
Pension growth rate	0% 2017;0,5% 2018+
Projected rate of return of Fund assets	2.00%
Discount rate	2.00%
Revaluation Rate	
Salaries growth rate - Social Security	2.00%
Monetary correction rate	1.00%
Demographic assumptions and valuation methods	
Mortality table	
Men	TV 88/90
Women	TV 88/90
Actuarial method	UCP

The actuarial calculation is made using in calculation 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 of 31 December 2016, the duration of liabilities amounts to 20.70 years.

The number of persons covered by the pension plan is as follows:

	Dec 2016
Actives	3,437
Retirees and survivors	1,230
	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)

	Dec 2016
Assets/(Liabilities) recognised in the balance sheet	
Responsabilities with retirement benefits	
Pensioners	(265,870)
Employees	(384,125)
	(649,995)
Responsabilities with healthcare benefits	
Pensioners	(20,484)
Employees	(30,322)
	(50,806)
Responsabilities with death subsidy	
Pensioners	(1,602)
Employees	(1,469)
	(3,071)
Total	(703,872)
Coverages	
Value of the fund	688 730
Net assets/(liabilities) in the balance sheet (see note 39)	(15,142)
Accumulated actuarial differences recognized in other comprehensive income	181 527

The changes in the defined benefit obligation can be analysed as follows:

(Thousands of Euro)

	Dec 2016			
	Retirement pensions	Healthcare benefits	Death Subsidy	Total
Responsabilities in the beginning of the period	602 857	54 923	1 590	659 370
Current service cost	2 527	1 625	41	4 193
Interest cost	16 579	1 510	44	18 133
Actuarial gains and losses				
- Changes in the assumptions	55 866	(6,230)	657	50 293
- Not related to changes assumptions	(2,248)	2 125	770	647
Change of the retirement age	(37,551)	(1,777)	(16)	(39,344)
Pensions paid by the fund	(13,635)	(1,370)	(15)	(15,020)
Early retirement, mutually agreed terminations and others	23 304	-	-	23 304
Participant contributions	2 296	-	-	2 296
Responsabilities in the end of the period	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 in the income statement.

The evolution of the pension fund's value in the year ended 31 December 2016 is analysed as follows:

(Thousands of Euro)

	Dec 2016
Fund value in the beginning of the period	643 861
Expected income	17 706
Deviations	(10,113)
CEMG contributions	50 000
Participant contributions	2 296
Pensions paid by the fund	(15,020)
Fund value at the end of the period	688 730

The pension fund is managed by "Futuro – Sociedade Gestora de Fundos de Pensões, S.A.", in which CEMG participates in 97.3% as at 31 December 2016.

The balance CEMG contribution relates to contributions made in cash by CEMG in 2016.

As at 31 December 2016, the assets of the pension fund, divided between with and without market price, can be analysed as follows:

(Thousands of Euro)

	Dec 2016		
	Assets of the Fund	With market price	Without market price
Variable income security			
Shares	50 431	50 431	-
Shares investment fund	99 787	94 939	4 848
Equity shares	1 227	1 227	-
Bonds	428 027	418 554	9 473
Real estate	7 480	-	7 480
Real estate investment funds	25 774	5 890	19 884
Venture capital funds	4 869	-	4 869
Hedge funds - Uncorrelated Investments	-	-	-
Investment in banks and others	71 135	-	71 135
	688 730	571 041	117 689

The assets of pension funds used by CEMG or representative of securities issued by other CEMG entities are analysed as follows:

(Thousands of Euro

	Dec 2016
Investments in banks and other	71,135
Real Estate	7,480
Bonds	43
Others	1,228
	79,886

The costs with reform pensions, health-care benefits and death subsidies are analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Current service cost	1 144	4 193
Net interest costs/(Income) in the responsabilities hedging balance	-	427
Costs with early retirement and mutually agreed terminations	-	23 304
Change of the retirement age	-	(39,344)
Costs for the period	1 144	(11,420)

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)

	Dec 2016	
	Liabilities	
	Increase	Decrease
Discount rate (0.25% change)	(35,485)	35 632
Wage growth rate (0.25% change)	22 497	(20,272)
Pension growth rate (0.25% change)	22 200	(20,594)
SAMS contribution (0.25% change)	3 143	(3,041)
Future death (1 year change)	(18,162)	17 784

As at 31 December 2016 and 2015, liabilities with the seniority premium amounted to Euro 6,911 thousands and Euro 14,219 thousands, respectively.

The cost associated with the seniority award, for 2016 and 2015, amounted to Euro 1,612 thousands and Euro 721 thousands, respectively. Following the revision of the ACT applicable to CEMG, there was a profit of Euro 7,422 thousands in the year 2016, related to the extinction of this benefit.

The cost associated with the defined contribution plan amounted to Euro 46 thousands (31 december 2016: Euro 52 thousands).

47 Related parties transaction

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.

Nesta base o conjunto de partes relacionadas consideradas pela CEMG e apresentado como se segue:

Holder of the institutional capital
Montepio Geral Associação Mutualista

Executive Board of Directors
José Manuel Félix Morgado
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
Álvaro João Duarte Pinto Correia
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
Aldina Antónia da Costa Romaneiro
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 Paulo Pereira Magalhães
Fernando Ribeiro Mendes
Fernão Vasco de Almeida Bezerra Fernandes Thomaz
Francisco António Laranjeira Souto
Isabel Maria Loureiro Alves Brito
João Andrade Lopes
João Filipe Milhinhos Roque
João Francisco Mendes Almeida Gouveia
Joaquim Manuel Marques Cardoso
Johannes Hendricus de Roo
Jorge Humberto Cruz Barros Jesus Luís
Jorge Manuel Santos Oliveira
Jorge Rafael Torres Gutierrez de Lima
José António Fonseca Gonçalves
José de Almeida Serra
José Joaquim Fragoso

Other related parties' Board of Directors (cont.)
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 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 elements (cont.)
Alexandra Manuela Quirino Pereira Silva
Alexandra Melo Pociano
Ana Catarina Mendes Horta
Ana Maria Guerreiro Almeida
António Fernando Figueiredo Lopes
António José Miranda Lopes Coutinho
António Rosa Farinha
Claúdia Sofia Reis Camilo Monteiro
Fernando Jorge Lopes Centeno Amaro
Fernando Manuel Silva Costa Alexandre
Gabriel Fernando Sá Torres
João Eduardo Dias Fernandes
José Carlos Sequeira Mateus
Luís Miguel Oliveira Melo Correia
Luísa Maria Xavier Machado
Maria Carmo Martins Ventura Calvão
Maria Eduarda Madureira Osório Botelho Fernandes
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 Fonte Araújo
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 de Serviços Auxilares, 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.
Nebra Renovables, S.L.
Nova Câmbio - Instituição de Pagamento, S.A.
Pelican Mortgages I P Limited Company
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.
Semelhanças e Coincidências, 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 30 June 2017, the assets held by CEMG regarding related parties, represented or not by securities, included in balances Deposits in credit institutions repayable on demand, Other Loans and advances to credit institutions, Loans and advances to customers (Gross), Available-for-sale financial assets, Other Assets, Guarantees and commitments provided to third parties, are analysed as follows:

(Thousands of Euro)

	Jun 2017						
Companies	Deposits in credit institutions repayable on demand	Other loans and advances to credit institutions	Loans and advances to customers	Available for sale financial assets	Other assets	Guarantees and commitments provided to third parties	Total
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	-	1.701	-	-	-	-	1.701
Bolsimo - Gestão de Activos, S.A.	-	-	1	-	-	-	1
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	-	8	-	-	-	8
Board of Directors of Other Related Parties	-	-	1.130	-	-	-	1.130
Executive Board of Directors	-	-	142	-	-	-	142
General and Supervisory Board	-	-	488	-	-	-	488
Other key management elements	-	-	3.291	-	-	8	3.299
Finibanco Angola, S.A.	10.198	21.087	-	-	116	85	31.486
Valor Prime - Fundo de Investimento Imobiliário Aberto	-	-	35.039	-	98	5.000	40.137
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	-	-	1	-	-	-	1
Germont – Empreendimentos Imobiliários, S.A.	-	-	11.317	-	-	7.731	19.048
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	54	-	-	3.445	3.499
Lusitania Vida, Companhia de Seguros, S.A.	-	-	2	-	-	-	2
Lusitania, Companhia de Seguros, S.A.	-	-	3	-	-	1.503	1.506
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	107.549	230.378	1.943	436	57.945	398.251
Montepio Geral Associação Mutualista	-	-	15	-	36.868	71	36.954
Montepio Gestão de Activos Imobiliários, ACE	-	-	1	-	-	-	1
Montepio Holding, S.G.P.S., S.A.	-	-	131.002	-	69	-	131.071
Montepio Imóveis – Soc Imobiliária de Serviços Auxilares, S.A.	-	-	13.418	-	-	-	13.418
Montepio Investimento, S.A.	-	75.227	-	-	262	181	75.670
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	-	-	-	309	-	309
Nova Câmbio - Instituição de Pagamento, S.A.	-	-	671	-	-	1.303	1.974
PEF - Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	200	200
Polaris-Fundo de Investimento Imobiliário Fechado	-	-	6.003	-	3	-	6.006
Residências Montepio, Serviços de Saúde, S.A.	-	-	630	-	-	-	630
	10.198	205.564	433.594	1.943	38.161	77.472	766.932

As at 31 December 2016, the assets held by CEMG regarding related parties, represented or not by securities, included in balances Deposits in credit institutions repayable on demand, Other Loans and advances to credit institutions, Loans and advances to customers (Gross), Available-for-sale financial assets, Other Assets, Guarantees and commitments provided to third parties, are analysed as follows:

(Thousands of Euro)

	Dec 2016							
Companies	Deposits in credit institutions repayable on demand	Other loans and advances to credit institutions	Loans and advances to customers	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	-	-	-	-	859
Other key management elements	-	-	3.489	-	-	-	-	3.489
Finibanco Angola, S.A.	10.343	22.842	-	-	-	46	4.357	37.588
Germont – Empreendimentos Imobiliários, S.A.	-	-	16.323	-	-	-	2.731	19.054
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	2.449	-	-	-	1.050	3.499
Lusitania Vida, Companhia de Seguros, S.A.	-	-	1	-	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	-	-	-	-	-	-	1.500	1.500
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	-	-	36.834	177	37.022
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	-	-	-	-	-
Montepio Holding, S.G.P.S., S.A.	-	-	152.905	-	-	69	-	152.974
Montepio Imóveis – Soc Imobiliária de Serviços Auxilares, S.A.	-	-	13.452	-	-	-	-	13.452
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	-	-	-	1.000	1.001
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	-	-	-	-	312
Valor *Prime* - Fundo de Investimento Imobiliário Aberto	-	-	35.016	-	-	109	5.000	40.125
	10.343	202.763	441.350	1.846	99	38.124	95.175	789.700

As at 30 June 2017, the liabilities held by CEMG regarding related parties, included in 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)

	Jun 2017					
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.	-	208 150	-	-	-	208 150
Banco Terra, S.A.	-	1 227	-	-	-	1 227
Bolsimo - Gestão de Activos, S.A.	-	-	371	-	-	371
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto	-	-	21 305	-	-	21 305
Clínica CUF Belém, S.A.	-	-	13	-	-	13
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	-	6	-	-	6
Board of Directors of Other Related Parties	83	-	3 111	125	-	3 319
Executive Board of Directors	45	-	1 178	-	-	1 223
General and Supervisory Board	55	-	787	-	-	842
Other key management elements	45	-	1 648	20	-	1 713
Empresa Gestora de Imóveis da Rua do Prior S.A	-	-	71	-	-	71
Finibanco Angola, S.A.	-	39 544	543	-	-	40 087
Fundação Montepio Geral	-	-	1 949	-	-	1 949
Fundo de Pensões - Montepio Geral	2 998	-	14 705	50	-	17 753
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	-	3 559	-	-	3 559
Germont – Empreendimentos Imobiliários, S.A.	-	-	44	-	-	44
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	16	-	-	16
Lusitania Vida, Companhia de Seguros, S.A.	-	-	18 346	21 250	-	39 596
Lusitania, Companhia de Seguros, S.A.	499	-	1 756	13 000	-	15 255
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	-	33 059	-	-	33 059
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	-	38 106	-	-	38 106
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	-	29 290	-	-	29 290
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	-	959	-	179	1 138
Montepio Geral Associação Mutualista	293 993	-	114 883	574 956	-	983 832
Montepio Gestão de Activos - Soc Gestora Fundos de Investimento, S.A.	-	-	1 328	-	-	1 328
Montepio Gestão de Activos Imobiliários, ACE	-	-	2 590	-	-	2 590
Montepio Holding, S.G.P.S., S.A.	-	-	8 809	874	-	9 683
Montepio Imóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	-	-	115	-	-	115
Montepio Investimento, S.A.	81	62 197	-	-	259	62 537
Montepio Seguros, S.G.P.S., S.A.	-	-	1 139	-	-	1 139
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	-	4 269	-	-	4 269
N Seguros, S.A.	220	-	563	-	-	783
Nova Câmbio - Instituição de Pagamento, S.A.	302	-	423	-	-	725
PEF - Fundo de Investimento Imobiliário Fechado	-	-	89	-	-	89
Polaris-Fundo de Investimento Imobiliário Fechado	-	-	13	-	-	13
Residências Montepio, Serviços de Saúde, S.A.	-	-	69	-	-	69
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	-	34	-	-	34
Semelhanças e Coincidências, S.A.	-	-	15	-	-	15
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	-	2 136	-	-	2 136
Sociedade Portuguesa de Administrações, S.A.	-	-	181	-	-	181
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.	-	-	7 651	-	-	7 651
Valor *Prime* - Fundo de Investimento Imobiliário Aberto	-	-	13 546	-	26	13 572
	298 321	311 118	328 675	610 275	464	1 548 853

As at 31 December 2016, the liabilities held by CEMG regarding related parties, included in 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)

	Dec 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 elements	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 30 June 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)

	Jun 2017				
Companies	**Interest and similar income**	**Interest and similar expenses**	**Net commission and other income**	**Other operating income**	**General and administrative expenses**
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	6	-	-	265	-
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	49	-	-	-
Board of Directors of Other Related Parties	1	9	1	-	-
Executive Board of Directors	-	7	-	-	-
General and Supervisory Board	4	2	-	-	-
Other key management elements	5	6	1	-	-
Finibanco Angola, S.A.	-	28	-	46	-
Valor Prime - Fundo de Investimento Imobiliário Aberto	506	1	102	-	-
Fundo de Capital de Risco Montepio Crescimento	-	-	-	-	-
Fundo de Pensões - Montepio Geral	-	32	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	17	3	-	-
Germont – Empreendimentos Imobiliários, S.A.	162	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	11	-	-	-	-
Lestinvest, S.G.P.S., S.A.	-	-	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	229	235	-	-
Lusitania, Companhia de Seguros, S.A.	3	87	85	4	-
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	28	100	-	-
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	25	88	-	-
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	6	108	-	-
Montepio Crédito - Instituição Financeira de Crédito, S.A.	2 195	-	18	46	-
Montepio Geral Associação Mutualista	4	21 629	3	249	1 255
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	-	6	2	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	1 287	-
Montepio Holding, S.G.P.S., S.A.	2 164	7	11	-	-
Montepio Imóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	241	-	-	-	-
Montepio Investimento, S.A.	247	64	9	172	-
Montepio Seguros, S.G.P.S., S.A.	-	-	18	-	-
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	17	60	433	-
N Seguros, S.A.	-	1	15	-	-
Nova Câmbio - Instituição de Pagamento, S.A.	5	-	15	1	-
PEF - Fundo de Investimento Imobiliário Fechado	2	-	6	-	-
Polaris-Fundo de Investimento Imobiliário Fechado	91	-	2	-	-
Residências Montepio, Serviços de Saúde, S.A.	15	-	16	4	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	10	-	-	-
	5 662	22 260	898	2 507	1 255

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)

	Dec 2016				
Companies	**Interest and similar income**	**Interest and similar expenses**	**Net commission and other income**	**Other operating income**	**General and administrative expenses**
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	18	7 113	1	274	-
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 elements	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 de Serviços Auxilares, 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 MGAM'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 MGAM; and
- Acquisition of 2,868,092 Units of the Prime Participation Fund, in the amount of Euro 24,738 thousand to MGAM.

During the first semester of 2017 and during 2016, there were no transactions with the pension's fund of CEMG.

48 Securitization transactions

As at 31 December 2016, there are eight securitization transactions, seven of which originated in CEMG and one in Montepio Investimento, S.A., currently integrated into CEMG following the success of General and Voluntary Initial 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 for CEMG, as described in note 1 a).

The following paragraphs present some additional details of these securitization transactions.

As at 19 December, 2002, Caixa Económica Montepio Geral had settled a securitisation operation with a Special Purpose Vehicle («SPV») – Pelican Mortgages no. 1 PLC, established in Dublin. The referred agreement consists in a mortgage credit transfer for a period of 35 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 653,250 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.016% of the referred nominal value.

As at 30 March, 2007, Caixa Económica Montepio Geral 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, Caixa Económica Montepio Geral 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. 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 Caixa Económica Montepio Geral.

As at 25 March 2009, Caixa Económica Montepio Geral 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, Caixa Económica Montepio Geral 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 selling costs which represented 0.1083% of the Asset Backed Notes.

As at 7 May 2014, Caixa Económica Montepio General 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 limit (Aggregate Principal Amount Outstanding) of Euro 308,700 thousand. The sale was made at their nominal value, including the selling costs which represented 0.1871% of Asset Backed Notes.

As at 5 March 2015, Caixa Económica Montepio Geral 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 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 «Caixa Económica Montepio Geral» 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 30 June 2017, the securitization operations executed by CEMG are presented as follows:

Issue	Settlement date	Currency	Asset transferred	Initial amount	Current amount	Initial nominal amount	Current nominal amount	Current amount held by third parties*
Pelican Mortgages No. 1	December 2002	Euro	Mortgage credit	653 250	45 129	653 250	-	-
Pelican Mortgages No. 3	March 2007	Euro	Mortgage credit	762 375	235 975	762 375	240 262	95 493
Pelican Mortgages No. 4	May 2008	Euro	Mortgage credit	1 028 600	644 014	1 028 600	670 360	-
Aqua Mortgage No. 1	December 2008	Euro	Mortgage credit	236 500	126 954	236 500	121 850	-
Pelican Mortgages No. 5	March 2009	Euro	Mortgage credit	1 027 500	640 918	1 027 500	664 219	-
Pelican Mortgages No. 6	February 2012	Euro	Mortgage credit	1 107 000	844 120	1 107 000	896 113	-
Pelican Finance No. 1	May 2014	Euro	Consumer credit	185 300	177 258	185 300	185 300	-
Pelican SME No. 2	March 2015	Euro	Small companies	1 124 300	939 235	1 124 300	1 012 931	327 440
				6 124 825	3 653 603	6 124 825	3 791 035	422 933

* includes nominal amount, accrued interest and other adjustments.

Additionally, the detail of securitized loans not derecognised by securitization operation and nature of the contracts at 30 June 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	Pelican SME No. 2	Total
Domestic credit								
Corporate								
Loans and advances	-	-	-	-	-	-	698 349	698 349
Pledged current account	-	-	-	-	-	-	113 310	113 310
Other credits	-	-	-	-	-	-	46 207	46 207
Private								
Mortgage	234 968	640 591	122 849	638 342	834 468	-	-	2 471 218
Consumer and other credits	-	-	-	-	-	175 468	67 847	243 315
	234 968	640 591	122 849	638 342	834 468	175 468	925 713	3 572 399
Credit and overdue interest								
Less than 90 days	33	996	730	861	2 327	236	541	5 724
More than 90 days	974	2 427	3 375	1 715	7 325	1 554	12 981	30 351
	1 007	3 423	4 105	2 576	9 652	1 790	13 522	36 075
	235 975	644 014	126 954	640 918	844 120	177 258	939 235	3 608 474

In December 2016, CEMG settled Pelican Mortgages no. 2, through the exercise of the existing Call Option.

As at 31 December 2016, 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 amount	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

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 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
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 30 June 2017, the notes issued by the special purpose vehicles, are analysed as follows:

						Rating (initial)				Rating (current)			
Issue	**Bond issued**	**Issue amount Euro**	**Current amount Euro**	**CEMG's interest retention Euro**	**Maturity date**	**Fitch**	**Moodys**	**S&P**	**DBRS**	**Fitch**	**Moodys**	**S&P**	**DBRS**
Pelican Mortgages No 1	Class A	611 000 000	1 809 490	742 069	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	222 957 285	127 464 985	2054	AAA	Aaa	AAA	n.a.	BBB-	A3	BB+	n.a.
	Class B	14 250 000	5 756 441	5 756 441	2054	AA-	Aa2	AA-	n.a.	BBB-	Ba2	B-	n.a.
	Class C	12 000 000	4 847 530	4 847 530	2054	A	A3	A	n.a.	BB	B2	B-	n.a.
	Class D	6 375 000	2 575 250	2 575 250	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	506 134 478	506 134 478	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	A (h)
	Class B	55 500 000	44 804 920	44 804 920	2056	AA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	48 437 751	48 437 751	2056	A-	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	25 000 000	20 182 396	20 182 396	2056	BBB	n.a.	n.a.	n.a.	BB	n.a.	n.a.	n.a.
	Class E	27 500 000	22 200 636	22 200 636	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	442 518 736	442 518 736	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	154 986 502	154 986 502	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	21 857 071	21 857 071	2061	B	n.a.	n.a.	n.a.	BBB-	n.a.	n.a.	n.a.
	Class D	27 500 000	21 857 071	21 857 071	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	540 913 035	540 913 035	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	90 539 171	90 539 171	2063	n.a.	n.a.	AAA	n.a.	n.a.	n.a.	A+	AA (h)
	Class B	29 824 000	27 810 450	27 810 450	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	429 630 816	102 075 690	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.

As at 31 December 2016, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bond issued	Issue amount Euro	Current amount Euro	CEMG's interest retention Euro	Maturity date	Rating (initial)				Rating (current)			
						Fitch	Moodys	S&P	DBRS	Fitch	Moodys	S&P	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.

49 Risk management

Objectives of the Risk Management Policy

CEMG is exposed to a number of risks, including credit, concentration, market, interest rate, liquidity, real estate, pension fund and operating risks. Depending on the nature and severity of the risk, plans, programs or actions shall be prepared, supported by information systems and procedures that provide a high degree of reliability as to the risk management measures defined whenever necessary. All risks identified as material are subject to regular monitoring and mitigation in order to reduce potential losses to the Group. The monitoring of these risks is centralized at the Department of Risk, which informs the Executive Board of its evolution and proposes action measures when necessary.

The Executive Board of Directors seeks to ensure sufficient capital to meet regulatory requirements to cover potential losses resulting from its business, with an optimized balance sheet structure that maintains stable financing capacity and a stable and secure liquidity profile, 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, based on the execution of a feasible and sustainable business model aligned with its risk appetite.

Considering this, the definition of risk appetite is supported by certain principles - namely consistency, sustainability and profitability - and is defined in terms of the strategic plan and the intended market positioning, as well as risks associated with the business that are considered 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 about corrective measures and limits that when exceeded can lead to immediate corrective measures.

The main concern of the Executive Board of Directors in determining risk appetite is its alignment 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 organisation, particularly the business units responsible for decision making and which may affect risk exposure and its monitoring.

The Group’s risk management policy is designed to ensure adequate relationship, at all times, between its own funds and the business performed, and also to evaluate the risk/return profile by business line. In this context, the monitoring and control of the main types of financial risk – credit, market, liquidity, real estate and operating – to which the Group's business is subject, takes on particular relevance.

CEMG's risk management policy 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 established strategic objectives and business plans, and this policy is regularly reviewed.

The control and efficient risk management have been playing a key role in the balanced and sustained development of CEMG. Additionally, they contribute to optimize the profitability/risk of several business lines and also ensure the maintenance of a conservative risk profile in terms of solvency and liquidity.

The risk management has the following main objectives:

- Identification, quantification 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;
- Follow-up of CEMG's activities and strategies, participating in the design of organizational solutions and in the assumed risk monitoring and reporting of the risk assumed by local entities.

Risk Governance Model

The Executive Board of Directors, in the performance of its duties, is responsible for risk management strategy and policies, including, in this context, the approval of principles and higher-level rules to be followed in its management.

Regarding internal supervision, the General and Supervisory Board, whose members are elected at the General Meeting of CEMG, which also appoints the President, appoints the Financial Matters Committee, whose independent functions include ongoing monitoring and supervision of the:

- effectiveness of internal control systems, internal audit and risk management;

- accounting policies;

- activity and Independence of external auditors.

There are also three Committees to Support the General and Supervisory Board.

The Remuneration Committee is composed of three members elected at the General Assembly, who also appoints the President. The members of the Remuneration Committee shall be independent of the members of the CEMG's Executive Board of Directors and, in general, of the matters on which they deliberate and include at least one member with knowledge and experience in remuneration policy. It is the responsibility of the Remuneration Committee to exercise the functions defined by Law, in compliance with the remuneration policy approved at the General Meeting.

The Evaluation Committee is composed by three independent members with competence to perform the concerned functions, elected at a General Meeting, which also appoints the President. It is the Evaluation Committee's responsibility to perform the functions related to the internal policy of selecting and evaluating the members of the bodies.

The Risks Committee is formed by three members of the General and Supervisory Board elected for this function in the General Meeting, which also appoints the President. The Risks Committee shall apply the functions defined by Law.

In addition, Support Committees to the Executive Board of Directors were established, which are dependent structures of the Executive Board of Directors, representing forums for discussion and support decision-making, through the formulation of proposals and recommendations to the Executive Board of Directors, in its areas of intervention.

The Asset and Liability Committee (ALCO) is responsible for monitoring the management of Equity, Financial Position and Income Statement. Among other functions, ALCO assures the issue of proposals or recommendations to Executive Board of Directors aiming to update CEMG's risk profile, setting limits for risk-taking, management of liquidity and equity positions, considering the business developing scenarios, the macroeconomic context and the indicators related with the actual and expected development of the different risks.

The Committee for Internal Control is responsible for support and advice the Executive Board of Directors on the matters relating to the internal control system, in order to ensure their adequacy and effectiveness and compliance with the applicable provisions, as well as to promote its continuous improvement and best practices in this field. Among other functions, the Committee for Internal Control draws proposals and recommendations to the Executive Board of Directors in order to enhance the internal control system and improve operating risk levels and the implementation of corrective or improvement actions in accordance with the timetable set.

The Risk Committee is responsible for monitoring the evolution of exposure to different types of risk, as well as for the analysis of policies, methodologies, models and limits for the quantification of risks relevant to CEMG’s activity and the adequacy of government models, processes and procedures, methodologies and systems for identification, quantification, monitoring and reporting of risks, and proposals and recommendations are drawn or issued to the Executive Board of Directors, in order to promote the improvement of risk management processes.

The Business Committee analyses and defines the features of new products and services as well as marketing products and services relating to their adequacy to risk policy and regulatory framework in force.

The analysis and monitoring of the Pension Fund management is the responsibility of the Monitoring Committee of the Pension Fund, where advice on possible amendments to the existing management policy are issued. In addition, CEMG is part of the Future Investment Committee, which makes management decisions on the Montepio Pension Fund.

The Real Estate Risk Committee monitors the management of property risk by drawing proposals or issuing recommendations to the Executive Board of Directors in order to promote an optimized management of property risk in line with the defined objectives.

Regarding efficiency and effectiveness, the Credit Recovery Committee monitors the performance of the credit recovery process, preparing proposals or issuing recommendations for approval by the Executive Board of Directors with the purpose to enhance the performance of such process.

The Department of Risk is responsible for supporting the Executive Board of Directors in the decision making related to the management of the different types of risk associated with the business, within the Group, and is the responsible body for the risk management function.

This Department ensures the analysis and management of the risks, providing advice to the Executive Board of Directors, namely through the proposal of normative and management of different risk models, through the development of management reports that provide the basis for decision making and participation in Support Committees to the Executive Board of Directors.

This Department of Risk also ensures the accomplishment of several prudential reports to the supervision authority, namely in the field of their own funds requirements, major risk control, liquidity risk, interest rate risk, country risk, counterparty risk, self-evaluation of Own Funds' adjustment, Market Discipline, Recovery Plan and Resolution Plan.

The Internal Auditing function is ensured by the Internal Audit and Inspection Department and is part of the internal control monitoring process, through the execution of complementary independent evaluations over the performance of controls, identifying weaknesses and recommendations and submitting its conclusions to the Executive Board of Directors and to the Supervisory Body.

The Internal Audit and Inspection Department is also responsible for performing audits to the Risk Management processes, according with the guidance provided by the supervision entities, including the independent review of risk assessment internal models and the estimate of the equity minimum requirements for risk hedging. Based on the results obtained from the audits, measures are recommended and their implementation is followed in order to ensure that necessary measures are taken and managed properly.

The compliance function ("compliance control") as a part of the internal control system takes as main responsibility the management of the compliance risk which is the risk of incurring in legal or regulatory sanctions, financial or reputation loss as a consequence of non-compliance with laws, regulations, conduct code and good practices.

The compliance risk is mitigated encouraging a culture of compliance and the respect of group's entities and their employees across the framework applicable. It is the responsibility of the compliance function, through an independent, permanent and effective participation, to define its procedures and compliance control mechanisms and carry out the respective monitoring.

In the performed activities, the aspects that contribute to the characterization of compliance risk are identified and assessed, with a special focus on institutional processes, associated with products and services, information duties towards clients and, in general, providing specialized support in matters of control and compliance.

It is the responsibility of the compliance function to prepare and submit to the Management and Supervisory Bodies a report, at least on an annual basis, identifying any non-compliance and the respective recommendations for the purpose of correcting identified nonconformities or weaknesses.

Identification, Measurement and Risk Control Process

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 founded on the existence of a strong process of credit analysis and decision, based on a set of tools to support 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 rely 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. There are reactive scoring models for the main individual credit portfolios, such as mortgage and individual loans, distinguishing between customers and non-customers (or new customers).

In the corporate credit domain, internal rating models are used to medium and large companies, distinguishing the construction sector and the third sector from other sectors, whereas individual entrepreneurs (ENI’s) and small companies is applied the scoring model business.

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 and there is always, at least, one risk class of 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 Credit Analysis Department (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, as well as watchlist for monitoring the largest exposures of the credit portfolio to companies. A weekly exposure risk report is also prepared for counterparties.

The Model of Calculation of Impairment Losses of the Group's Credit Portfolio is in force since June 2006, being periodically updated and is governed by the general principles set out in IAS 39 and by the guidelines contained in the circular letter of Bank of Portugal No. 02/2014/DSP, in order to align the calculation process with the best international practices.

The Group's impairment model divides the customers of the credit portfolio in three different groups, depending on the existence of impairment indicators (which include internal and external information) and the size of the exposures of each economic group/customers:

- Individually Significant: are subject to individual analysis, Customers or Economic Groups, that meet, at least, one of the following requirements:
    - Exposure higher than 1M€; with signs of impairment
    - Exposure higher than 2,5M€; without any 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.
- Homogeneous population with signs of impairment: Customers or Economic Groups that doesn't meet the criteria to be Individually Significant and with, at least, one sign of impairment.

- Homogeneous population without any signs of impairment: Customers or Economic Groups that doesn't meet the criteria to be Individually Significant and with no signs of impairment

Depending on the customers' group, transactions are analysed either through Analysis on Individual Basis or Analysis on a Collective Basis.

For each active customer/credits, there are a number of impairment indicators which are verified and which include internal and external information that aggravate the impairment values since they represent an increase in the risk of default. It should be noted that restructured credit is an impairment sign and, therefore, the restructured credit portfolio is included in credits with signs of impairment.

In the Homogeneous Population group, customer exposures are subject to a collective analysis. The calculation of the impairment for credits to customers belonging to homogeneous populations results from the product of EAD exposure (less financial collateral without any risk) through the following risk parameters:

- PD (probability of default): corresponds to internal estimates of default, based on the risk classifications associated with transactions/customers, segment and respective signs of impairment/credit conditions (if any). If the credit is in default situation or cross-default, the PD corresponds to 100%;

- LGD (loss in case of default): corresponds to internal estimates of loss, which may vary, depending if the segment has or not a real guarantee and on the LTV (Loan-to-Value) and default antiquity, which is based on the experience of historical recovery of credit in default.

In the Individually Significant customers group, the exposures of customers are subject to an individual analysis. This analysis focuses on the creditworthiness of the debtor, as well as credit recovery expectations with particular regard to existing collateral and guarantees and to other factors relevant for this analysis.

The amount of impairment for Individually Significant customers is determined by the method of discounted cash-flows, which means that the impairment amount is the difference between the credit amount and the sum of the expected cash-flows, regarding the several customer transactions, updated according to the interest rates of each transaction.

The information on CEMG's exposure to credit risk is as follows:

	Jun 2017	Dec 2016
	(Thousands of Euro)	
Deposits with other credit institutions	61 493	71 039
Deposits with banks	544 854	729 040
Loans and advances to customers	13 622 438	13 799 711
Financial assets held for trading	79 736	70 991
Available-for-sale financial assets	2 262 823	1 798 734
Held-to-maturity investments	-	1 126 125
Other assets	196 384	203 746
Guarantees granted	416 684	414 608
Documentary credits	20 283	27 402
Irrevocable commitments	614 192	561 996
	17 818 887	18 803 392

The breakdown of the main exposures to credit risk by business sector, for the first half of 2017, is as follows:

(Thousands of Euro)

Activity	Jun 2017						
	Loans and advances to customers		Financial assets held for trading	Availabe-for-sale financial assets		Guarantees granted and documentary credits	
	Gross Amount	Impairment	Book value	Gross Amount	Impairment	Gross amount	Impairment
Agriculture	161 273	13 126	-	-	-	2 100	81
Mining	18 756	1 174	-	-	-	960	69
Food, beverage and tobacco	251 089	18 951	-	6 160	-	3 056	74
Textiles	86 321	11 633	-	-	-	1 040	1
Shoes	45 269	5 199	-	-	-	227	-
Wood and cork	38 169	5 884	-	-	-	499	37
Printing and publishing	105 733	7 919	-	907	-	377	57
Petroleum refining	573	48	-	1 985	-	-	-
Chemicals and rubber	114 143	11 156	-	-	-	3 596	90
Non-metallic minerals	148 775	5 562	-	-	-	1 909	133
Basis metallurgic industries and metallic products	175 573	19 987	-	-	-	7 717	282
Production of machinery	42 533	3 285	-	-	-	1 798	84
Production of transport material	41 934	1 488	-	-	-	3 550	183
Other transforming industries	51 522	7 422	-	-	-	699	2
Electricity, gas and water	159 255	2 815	-	11 360	-	4 340	200
Construction	1 058 443	322 918	-	-	-	110 691	5 566
Wholesale and retail	1 187 934	163 531	-	-	-	66 708	2 563
Tourism	502 648	34 425	-	-	-	10 666	217
Transports	410 739	57 560	-	-	-	12 316	479
Communication and information activities	112 334	10 003	25 060	42 465	26 522	5 594	260
Financial activities	1 091 016	65 755	27 376	22 289	9 307	124 651	1 097
Real estate activities	776 192	134 081	-	-	-	19 552	913
Services provided to companies	612 693	49 279	-	-	-	37 123	181
Public services	127 525	4 382	27 300	2 192 528	-	505	10
Other activities of collective services	440 557	31 713	-	-	-	12 608	3 178
Mortgage loans	7 006 058	171 275	-	46 757	25 800	3 988	147
Other	18 751	2 799	-	-	-	697	21
	14 785 808	1 163 370	79 736	2 324 451	61 629	436 967	15 925

The breakdown of the main exposures to credit risk, for 2016, is as follows:

(Thousands of Euro)

Activity	Dec 2016							
	Loans and advances to customers		Financial assets held for trading	Availabe-for-sale financial assets		Held-to-maturity investments	Guarantees granted and documentary credits	
	Gross Amount	Impairment	Book value	Gross Amount	Impairment	Book value	Gross Amount	Impairment
Agriculture	157 258	12 802	-	-	-	-	1 331	15
Mining	15 129	963	-	-	-	-	996	72
Food, beverage and tobacco	233 135	19 940	-	2 181	-	-	2 483	95
Textiles	86 532	10 931	-	-	-	-	934	2
Shoes	43 935	4 147	-	-	-	-	245	-
Wood and cork	37 964	5 447	-	-	-	-	522	27
Printing and publishing	106 973	7 747	-	998	-	-	377	59
Petroleum refining	328	41	-	17 925	-	-	-	-
Chemicals and rubber	121 307	12 323	-	-	-	-	3 219	99
Non-metallic minerals	146 178	5 171	-	-	-	-	1 974	137
Basis metallurgic industries and metallic products	176 863	18 670	-	-	-	-	6 104	109
Production of machinery	39 732	2 817	-	-	-	-	1 532	95
Production of transport material	36 014	1 349	-	-	-	-	6 725	222
Other transforming industries	53 355	6 781	-	-	-	-	481	1
Electricity, gas and water	191 994	2 739	-	22 196	-	-	4 923	254
Construction	1 113 829	337 492	-	-	-	-	116 424	5 849
Wholesale and retail	1 200 093	158 191	-	7 996	-	-	68 486	2 765
Tourism	495 477	32 726	-	-	-	-	9 458	217
Transports	389 093	52 355	-	-	-	-	12 226	434
Communication and information activities	102 543	8 675	-	40 504	27 641	-	6 317	40
Financial activities	1 085 265	64 259	56 331	31 722	9 307	-	129 536	1 342
Real estate activities	710 581	129 881	-	-	-	-	19 505	1 076
Services provided to companies	638 365	51 462	-	-	-	-	33 566	275
Public services	133 645	4 773	14 660	1 689 202	-	1 126 125	517	11
Other activities of collective services	445 809	29 694	-	-	-	-	9 126	427
Mortgage loans	7 169 989	166 935	-	48 757	25 800	-	4 327	205
Other	19 585	2 949	-	-	-	-	676	23
	14 950 971	1 151 260	70 991	1 861 481	62 748	1 126 125	442 010	13 851

Regarding the credit risk, the financial assets portfolio keeps it dominant position in bonds issued by sovereign issuers, mainly from the Portuguese Republic.

In terms of credit quality, there was an increase of the average level of counterparties due to the improvement of the Portuguese public debt rating.

CEMG's credit portfolio, which includes loans to customers and also guarantees and commitments granted, in the amount of Euro 436,967 thousand (31 December 2016: 442,010 thousand) and the irrevocable credit in the amount of Euro 614,192 thousand (31 December 2016: 442,010 thousand), divided between impaired and not impaired credit, is analysed as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Total credit	15 836 967	15 954 977
Individually significant		
Gross amount	5 737 754	5 656 232
Impairment	(618,849)	(626,604)
Net value	5 118 905	5 029 628
Collective analysis		
Loans with signs of impairment		
Gross amount	1 833 895	1 883 406
Impairment	(546,745)	(526,578)
Net value	1 287 150	1 356 828
Loans with no signs of impairment	8 265 318	8 415 339
Impairment (IBNR)	(13,701)	(11,929)
Net value	14 657 672	14 789 866

As at 30 June 2017 and during 2016, the impairment determined according to the accounting policy described in note 1 b), is as follows:

(Thousands of Euro)

	Jun 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	5 674 776	605 491	2 557 806	375 716	8 232 582	981 207	7 251 375
Mortgage loans	25 099	1 397	6 913 797	97 630	6 938 896	99 027	6 839 869
Other loans	37 879	11 961	627 610	87 100	665 489	99 061	566 428
	5 737 754	618 849	10 099 213	560 446	15 836 967	1 179 295	14 657 672

(Thousands of Euro)

	Dec 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 with CEMG's total portfolio is presented as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Loans with impairment:		
Securities and other financial assets	197 824	225 069
Residential real estate - Mortgage loans	42 239	39 293
Real Estate - Construction and CRE	2 560 772	1 967 427
Other Real Estate	1 819 533	1 798 189
Other guarantees	526 704	424 533
	5 147 072	4 454 511
Parametric Analysis:		
Securities and other financial assets	18 619	24 294
Residential real estate - Mortgage loans	1 335 073	1 396 889
Real Estate - Construction and CRE	327 714	381 937
Other Real Estate	350 454	361 092
Other guarantees	7 313	7 553
	2 039 173	2 171 765
Loans without impairment:		
Securities and other financial assets	250 773	293 549
Residential real estate - Mortgage loans	12 040 568	12 096 015
Real Estate - Construction and CRE	282 295	242 739
Other Real Estate	824 647	843 136
Other guarantees	33 385	31 756
	13 431 668	13 507 195
	20 617 913	20 133 471

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.

CEMG's total credit portfolio, by segment and respective impairment, as of 30 June 2017 and 31 December 2016, is presented as follows:

(Thousands of Euro)

	Exposure Jun 2017					Impairment Jun 2017		
Segment	Total exposure	Default loans	Restructured	Default loans	Restructured	Total impairment	Loans in compliance	Default loans
Corporate	5 910 717	5 102 569	175 015	808 148	238 991	488 903	68 214	420 689
Construction and CRE	2 321 865	1 288 389	106 923	1 033 476	487 342	492 304	36 985	455 319
Mortgage loans	6 938 896	6 542 588	117 705	396 308	137 365	99 027	7 077	91 950
Other	665 489	508 334	17 438	157 155	28 596	99 061	3 736	95 325
	15 836 967	13 441 880	417 081	2 395 087	892 294	1 179 295	116 012	1 063 283

(Thousands of Euro)

	Exposure Dec 2016					Impairment Dec 2016		
Segment	Total exposure	Default loans	Restructured	Default loans	Restructured	Total impairment	Loans in compliance	Default loans
Corporate	5 899 071	5 087 888	156 378	811 183	234 570	471 135	67 770	403 365
Construction and CRE	2 259 059	1 226 120	117 423	1 032 939	487 465	501 241	27 305	473 936
Mortgage loans	7 093 624	6 702 804	147 082	390 820	135 547	95 428	7 078	88 350
Other	703 223	548 095	21 435	155 128	28 298	97 307	4 511	92 796
	15 954 977	13 564 907	442 318	2 390 070	885 880	1 165 111	106 664	1 058 447

(Thousands of Euro)

		Total exposure Jun 2017						Total impairment Jun 2017			
		Loans in compliance			Default loans			Loans in compliance		Default loans	
Segment	Total exposure 2016	With no evidence	Delay (days) <30 With evidence	Sub-total	Delay (days) <= 90*	Delay (days) > 90 dias	Total impairment 2016	Delay (days) < 30	Delay (days) between 30 - 90	Delay (days) <= 90*	Delay (days) > 90 dias
Corporate	5 910 717	4 574 484	492 500	5 102 569	41 778	766 370	488 903	62 783	5 431	11 598	409 091
Construction and CRE	2 321 865	1 072 757	185 834	1 288 389	193 360	840 116	492 304	27 752	9 233	45 991	409 328
Mortgage loans	6 938 896	6 033 242	451 890	6 542 588	26 854	369 454	99 027	5 618	1 459	7 356	84 594
Other	665 489	426 996	72 647	508 334	6 266	150 889	99 061	2 931	805	1 781	93 544
	15 836 967	12 107 479	1 202 871	13 441 880	268 258	2 126 829	1 179 295	99 084	16 928	66 726	996 557

(Thousands of Euro)

		Total exposure 2016						Total impairment 2016			
		Loans in compliance			Default loans			Loans in compliance		Default loans	
Segment	Total exposure 2016	With no evidence	Delay (days) <30 With evidence	Sub-total	Delay (days) <= 90*	Delay (days) > 90 dias	Total impairment 2016	Delay (days) < 30	Delay (days) between 30 - 90	Delay (days) <= 90*	Delay (days) > 90 dias
Corporate	5 899 071	4 622 224	423 398	5 087 888	44 372	766 811	471 135	56 983	10 787	12 014	391 351
Construction and CRE	2 259 059	980 254	234 338	1 226 120	154 624	878 315	501 241	26 574	731	48 475	425 461
Mortgage loans	7 093 624	6 143 586	485 340	6 702 804	25 257	365 563	95 428	5 108	1 970	4 955	83 395
Other	703 223	443 750	95 610	548 095	5 333	149 795	97 307	3 717	794	1 516	91 280
	15 954 977	12 189 814	1 238 686	13 564 907	229 586	2 160 484	1 165 111	92 382	14 282	66 960	991 487

The credit portfolio, by segment and by production year, as of 30 June 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	1 858	87 835	20 968	1 558	255 780	109 064	58 521	2 104 668	30 713	38 813	31 779	8 153
2005	578	32 566	6 312	408	84 148	38 949	13 976	766 706	12 306	4 475	9 614	1 952
2006	795	76 963	9 245	516	117 825	45 483	16 859	940 333	18 000	6 503	27 508	4 417
2007	1 352	97 596	19 935	778	143 835	46 401	17 103	942 096	17 365	38 642	42 107	14 752
2008	5 298	94 187	21 999	1 368	103 729	27 507	8 893	488 416	8 715	52 347	39 871	8 501
2009	7 918	174 035	37 764	2 413	123 105	36 740	4 866	306 098	4 277	38 922	39 371	10 786
2010	7 270	269 930	67 863	1 547	98 481	34 608	5 080	348 131	3 566	18 596	39 455	13 867
2011	10 025	249 944	54 906	2 352	89 777	25 220	1 908	130 803	1 297	19 289	32 860	10 832
2012	6 460	266 457	47 986	1 415	69 924	20 632	1 265	86 805	1 064	10 651	27 344	7 557
2013	12 928	971 025	78 591	1 864	133 379	25 825	1 607	115 694	949	15 852	43 631	7 234
2014	20 039	858 975	54 017	4 378	250 511	29 413	1 897	137 374	308	23 870	77 320	7 144
2015	18 009	812 071	35 637	2 857	231 252	10 652	2 191	170 064	203	24 520	88 802	2 413
2016	16 444	1 038 811	21 092	4 408	349 061	23 844	2 906	242 971	185	30 322	116 950	1 186
2017	13 697	880 322	12 588	2 321	271 058	17 966	1 975	158 737	79	11 313	48 877	267
	122 671	5 910 717	488 903	28 183	2 321 865	492 304	139 047	6 938 896	99 027	334 115	665 489	99 061

The credit portfolio, by segment and by production year, as of 31 December 2016, is presented as follows:

(Thousands of Euro)

Year of production	Corporate			Construction and CRE			Mortgage loans			Other		
	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 credit gross exposure and individual and collective impairment by segment, as of 30 June 2017 and 31 December 2016, is analysed as follows:

(Thousands of Euro)

	Jun 2017									
	Corporate		Construction and CRE		Mortgage loans		Other		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation										
Individual	3 907 181	233 448	1 767 595	372 043	25 099	1 397	37 879	11 961	5 737 754	618 849
Consolidated	2 003 536	255 455	554 270	120 261	6 913 797	97 630	627 610	87 100	10 099 213	560 446
	5 910 717	488 903	2 321 865	492 304	6 938 896	99 027	665 489	99 061	15 836 967	1 179 295

(Thousand of Euros)

	Dec 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 credit gross exposure and individual and collective impairment by business sector, as of 30 June 2017 and 31 December 2016, is analysed as follows:

(Thousands of Euro)

	Jun 2017											
	Construction		Industries		Trade		Real estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation												
Individual	899 042	245 373	716 656	38 339	431 396	33 669	700 934	117 351	2 926 748	170 759	5 674 776	605 491
Consolidated	278 064	78 800	543 403	62 116	833 621	126 535	129 363	17 350	773 355	90 915	2 557 806	375 716
	1 177 106	324 173	1 260 059	100 455	1 265 017	160 204	830 297	134 701	3 700 103	261 674	8 232 582	981 207

(Thousand of Euros)

	Dec 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 restructured loan portfolio, by applied restructuring measure, as of 30 June 2017 and 31 December 2016, is analysed as follows:

(Thousands of Euro)

	Jun 2017								
	Loans in compliance			Default loans			Total		
Measure	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Deadline extension	582	55 540	3 780	542	40 861	12 566	1 124	96 401	16 346
Waiting period	1 675	183 232	12 223	2 367	574 540	242 436	4 042	757 772	254 659
New operation / settlement	835	39 095	2 683	781	86 035	20 502	1 616	125 130	23 185
Interest rate decrease	6	603	17	114	29 426	15 804	120	30 029	15 821
Bullet	55	23 572	1 121	13	10 059	4 533	68	33 631	5 654
Other	361	115 039	8 390	383	151 373	76 719	744	266 412	85 109
	3 514	417 081	28 214	4 200	892 294	372 560	7 714	1 309 375	400 774

(Thousands of Euro)

	Dec 2016								
	Loans in compliance			Default loans			Total		
Measure	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment	Number of operations	Exposure	Impairment
Deadline extension	708	72 824	3 564	537	52 532	19 912	1 245	125 356	23 476
Waiting period	2 038	198 394	17 619	2 371	610 504	248 758	4 409	808 898	266 377
New operation / settlement	781	72 927	4 357	719	46 064	16 654	1 500	118 991	21 011
Interest rate decrease	6	613	18	116	13 161	4 603	122	13 774	4 621
Other	575	97 560	4 211	422	163 619	82 244	997	261 179	86 455
	4 108	442 318	29 769	4 165	885 880	372 171	8 273	1 328 198	401 940

The inflow and outflow movements in the restructured loan portfolio are presented as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Opening balance of the restructured portfolio	1 328 198	1 516 320
Restructured loans for the period	137 397	275 699
Accrued interest of the restructured portfolio	647	1 359
Settlement of restructured loans (total ou partial)	(88,209)	(338,776)
Loans reclassified as "normal"	(68,658)	(126,404)
Closing balance of the restructured portfolio	1 309 375	1 328 198

The fair value of collaterals underlying the credit portfolio of the Corporate, Construction and Commercial Real Estate (CRE) and Retail – Mortgages segments, with reference to 30 June 2017, is presented as follows:

(Thousands of Euro)

	Corporate, Construction and CRE				Retail - Mortgages			
	Real Estate		Other real collaterals		Real Estate		Other real collaterals	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	4 871	571 521	1 094	60 360	107 980	13 100 440	332	11 154
>= 0,5 M€ e <1M€	283	198 087	31	19 596	353	218 374	-	-
>= 1 M€ e <5M€	278	590 980	17	28 831	39	61 566	-	-
>= 5 M€ e <10M€	29	206 575	4	27 878	-	-	-	-
>= 10 M€ e <20M€	27	376 756	1	12 609	2	37 500	-	-
>= 20 M€ e <50M€	11	297 946	2	66 000	-	-	-	-
>= 50M€	5	928 914	-	-	-	-	-	-
	5 504	3 170 779	1 149	215 274	108 374	13 417 880	332	11 154

The fair value of collaterals underlying the credit portfolio of the Corporate, Construction and Commercial Real Estate (CRE) and Retail – Mortgages segments, with reference to 31 December 2016, is presented as follows:

(Thousands of Euro)

	Construction and CRE				Retail - Mortgages			
	Real Estate		Other real collaterals		Real Estate		Other real collaterals	
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€ e <1M€	292	203 781	39	25 191	350	215 782	-	-
>= 1 M€ e <5M€	303	641 714	19	31 500	40	62 216	-	-
>= 5 M€ e <10M€	32	229 208	3	19 115	-	-	-	-
>= 10 M€ e <20M€	26	369 133	1	12 609	2	37 500	-	-
>= 20 M€ e <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 Reatil – Mortgages segments, as of 30 June 2017, is presented as follows:

(Thousands of Euro)

	Jun 2017			
Segment/ Ratio	Number of real estate	Credit in compliance	Credit in default	Impairment
Corporate				
Without real estate (*)	-	4 147 871	538 453	368 708
< 60%	2 281	294 313	86 717	30 243
>= 60% e < 80%	1 073	398 946	73 013	26 172
>= 80% e < 100%	966	230 349	45 995	26 061
>= 100%	194	31 090	63 970	37 719
Construction and CRE				
Without real estate (*)	-	678 734	354 098	190 204
< 60%	2 055	269 442	242 573	84 076
>= 60% e < 80%	1 017	161 262	100 641	42 311
>= 80% e < 100%	1 559	152 740	116 085	46 812
>= 100%	873	26 211	220 079	128 901
Retail - Mortgages				
Without real estate (*)	-	532 936	67 402	22 083
< 60%	63 572	2 514 741	48 634	8 535
>= 60% e < 80%	28 064	2 209 537	62 587	12 343
>= 80% e < 100%	14 150	1 205 441	88 361	19 901
>= 100%	2 408	79 933	129 324	36 165

(*) Includes operations with other types of associated collaterals, namely, financial collaterals.

(Thousands of Euro)

Segment/ Ratio	Dec 2016			
	Number of real estate	Credit in compliance	Credit in default	Impairment
Corporate				
Without real estate (*)	-	4 128 665	528 882	341 123
< 60%	2 253	279 600	101 956	34 547
>= 60% and < 80%	1 020	355 304	65 469	30 432
>= 80% and < 100%	1 004	294 445	44 826	26 465
>= 100%	284	29 874	70 050	38 567
Construction and CRE				
Without real estate (*)	-	713 259	341 029	175 937
< 60%	2 087	215 146	203 426	89 294
>= 60% and < 80%	931	136 964	103 194	42 602
>= 80% and < 100%	1 793	132 823	132 519	47 332
>= 100%	1 163	27 929	252 771	146 076
Retail - Mortgages				
Without real estate (*)	-	550 205	62 576	17 129
< 60%	63 070	2 507 032	44 350	8 669
>= 60% and < 80%	28 625	2 244 488	61 364	12 135
>= 80% and < 100%	15 251	1 314 024	89 705	20 063
>= 100%	2 516	87 056	132 825	37 432

(*) Includes operations with other types of associated collaterals, namely, financial collaterals.

The fair value and net value of real estate receivables, by type of asset, as of 30 June 2017 and 31 December 2016 are presented as follows:

(Thousands of Euro)

Assets	Jun 2017		
	Number of real estate	Fair value	Book value
Land	**1 738**	**337 391**	**313 172**
Urban	1 508	238 773	221 046
Rural	230	98 618	92 126
Buildings under development	**830**	**116 200**	**105 626**
Commercials	93	8 466	6 992
Housing	590	106 259	97 223
Others	147	1 475	1 411
Buildings built	**2 719**	**316 721**	**283 272**
Commercials	800	108 648	97 285
Housing	1 454	192 341	172 162
Others	465	15 732	13 825
	5 287	770 312	702 070

(Thousands of Euro)

Assets	Dec 2016 Number of real estate	Fair value	Book value
Land	**1 772**	**348 217**	**323 770**
Urban	1 533	275 890	256 383
Rural	239	72 327	67 387
Buildings under development	**839**	**122 149**	**112 309**
Commercials	92	9 093	7 613
Housing	598	111 537	103 246
Others	149	1 519	1 450
Buildings built	**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 recovery / execution of properties received, as of 30 June 2017 and 31 December 2016, is presented as follows:

(Thousands of Euro)

Elapsed time since the recovery/execution	Jun 2017 < 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**75 176**	**50 944**	**177 529**	**9 523**	**313 172**
Urban	63 336	33 164	116 546	8 000	221 046
Rural	11 840	17 780	60 983	1 523	92 126
Buildings under development	**13 911**	**45 131**	**43 092**	**3 492**	**105 626**
Commercials	835	2 422	3 517	218	6 992
Housing	13 076	42 164	38 709	3 274	97 223
Others	-	545	866	-	1 411
Buildings built	**70 559**	**77 498**	**126 289**	**8 926**	**283 272**
Commercials	16 855	21 682	56 235	2 513	97 285
Housing	51 562	48 131	66 785	5 684	172 162
Others	2 142	7 685	3 269	729	13 825
	159 646	173 573	346 910	21 941	702 070

(Thousands of Euro)

Elapsed time since the recovery/execution	Dec 2016				
	< 1 year	>= 1 year and < 2.5 years	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**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 under development	**11 565**	**49 950**	**47 264**	**3 529**	**112 308**
Commercials	805	3 174	3 416	218	7 613
Housing	10 760	46 190	42 985	3 311	103 246
Others	-	586	863	-	1 449
Buildings built	**56 774**	**87 551**	**133 956**	**9 254**	**287 535**
Commercials	12 112	22 570	58 042	2 627	95 351
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 fluctuations.

Concerning information and market risk analysis, regular reports are provided on CEMG's and other group entities financial assets. For the company's own portfolio, the various risk limits are defined using the Value-at-Risk («VaR») method. There are different exposure limits such as global «VaR» limits, by issuer, by asset type/class and rating. There are also limits of Stop Loss and Loss Trigger to position held for trading and available for sale.

The Group calculates VaR on a regular basis for both its trading portfolio and the portfolio of assets available for sale, which is calculated based on a timeline of 10 business days and a level of 99% significance by the method of historical simulation. The types of risk considered in this methodology are interest rate risk, exchange rate risk, price risk, CD risk, option risk and specific credit risk.

In reports prepared, the various exposure limits are controlled, analyzing the concentration, credit, interest rate and asset price variation risks, among others. These analysis 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 CEMG's global portfolio risk report, specific risk reports for the trading portfolio as well as for the portfolios of available-for-sale assets are also performed.

CEMG's investment portfolio is mainly concentrated in bonds, and as of 30 June 2017 represented 68.4% (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 30 June 2017 and 31 December 2016.

Regarding the credit quality of debt securities, the major changes resulted from decreased exposure to the Portuguese and Italian Republics:

(Thousands of Euro)

Rating	Jun 2017		Dec 2016		Change	
	Value		Value	%	Value	%
AAA	-	-	8,080	0.4	(8,080)	(100.0)
AA+	-	-	2,131	0.1	(2,131)	(100.0)
AA	1,914	0.1	1,412	-	502	35.6
AA-	1,009	-	1,025	-	(16)	(1.6)
A+	7,241	0.3	3,510	0.1	3,731	106.3
A	805	-	4,443	0.1	(3,638)	(81.9)
A-	1,957	0.1	4,211	0.1	(2,254)	(53.5)
BBB+	179,673	7.8	176,754	6.0	2,919	1.7
BBB	150,771	6.5	175,884	5.9	(25,113)	(14.3)
BBB-	6,617	0.3	21,659	0.8	(15,042)	(69.4)
BB+	1,893,463	81.9	2,500,427	84.4	(606,964)	(24.3)
B+	-	-	2,561	0.1	(2,561)	(100.0)
CCC	13,991	0.6	12,371	0.4	1,620	13.1
D	38,109	1.6	35,116	1.2	2,993	8.5
NR	19,633	0.8	13,044	0.4	6,589	50.5
Total	2,315,183	100.0	2,962,628	100.0	(647,445)	(21.9)

Note: excludes securities arising from own securitisations belonging to the consolidation perimeter.

Regarding the trading portfolio, the main VaR indicators are presented below:

(Thousands of Euro)

	Jun 2017	Average	Minimum	Maximum	Dec 2016
Market VaR	299	407	316	769	316
Interest rate risk	163	118	98	114	98
Exchange risk	57	81	78	99	78
Price risk	251	388	318	769	318
Diversification effect	*(172)*	*(180)*	*(178)*	*(213)*	*(178)*
Credit VaR	1 751	1 299	285	1 592	285
VaR Total	**2 050**	**1 706**	**601**	**2 361**	**601**

Bank Portfolio Interest Rate Risk

The assessment of the interest rate risk caused by banking portfolio operations is performed by a sensitivity analysis to the risk.

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.

Following the recommendations of Basel and Instruction no. 19/2005, of Bank of Portugal, of 15 June, CEMG calculates its exposure to interest rate risk based on the methodology of the Bank of International Settlements («BIS») which requires the classification of all assets, liabilities and off balance positions, not belonging to the trade portfolio, by repricing intervals.

In this context, limits are set for exposure to these risks, which are monitored at ALCO, and any possible exceedance of the established limits, even if temporary, requires approval from the Executive Board of Directors or application of measures to cover the exposure.

(Thousands of Euro)

	Within 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years
30 June 2017					
Assets	8,261,786	3,567,734	755,844	788,139	1,968,080
Off balance sheet	7,664,689	84,675	5,000	101,373	-
Total	15,926,475	3,652,409	760,844	889,512	1,968,080
Liabilities	4,739,319	1,438,387	3,108,271	7,591,766	261,465
Off balance sheet	7,640,901	94,587	4,750	115,560	-
Total	12,380,220	1,532,974	3,113,021	7,707,326	261,465
Gap (Assets - Liabilities)	3,546,255	2,119,435	(2,352,177)	(6,817,814)	1,706,615
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 during the first half of 2017 and in 2016:

(Thousands of Euro)

	Jun 2017				Dec 2016			
	June	Average	Maximum	Minimum	December	Average	Maximum	Minimum
Interest rate Gap	(1,797,686)	(1,326,403)	(855,120)	(1,797,686)	(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 30 June 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 the negative amount of Euro 2,887 thousand (31 December 2016: Euro 24,839 thousand).

The following table presents the average interests, in relation to CEMG major assets and liabilities categories for the first half of 2017 and 2016, as well as the average balances and income and expense for the years:

(Thousands of Euro)

	Jun 2017			Dec 2016		
	Average balance	Average interest rate (%)	Interests	Average balance	Average interest rate (%)	Interests
Interest assets generators						
Deposits at central banks and OIC	207,561	0.00	-	307,172	0.00	7
Loans and advances to OIC	646,918	0.41	1,347	396,790	0.68	2,747
Loans and advances to customers	14,874,795	2.39	178,847	15,116,264	2.47	378,404
Securities portfolio	7,565,640	0.78	29,549	2,974,856	1.92	58,041
Others (Includes derivatives)	-	-	34,919	-	-	75,935
	23,294,914	**2.09**	**244,662**	**18,795,082**	**2.70**	**515,134**
Interest liabilities generators						
Deposits from BCE	2,558,652	0.01	160	2,791,845	0.04	1,061
Deposits from OIC	2,624,071	0.53	7,057	2,141,414	0.80	17,468
Deposits from customers	11,765,069	0.70	41,349	11,897,869	1.03	124,783
Senior debt	6,412,494	0.65	20,909	2,050,805	2.51	52,087
Subordinated debt	236,666	1.34	1,599	267,707	1.44	3,909
Others (Includes derivatives)	-	-	37,542	-	-	77,364
	23,596,952	**0.92**	**108,616**	**19,149,640**	**1.42**	**276,672**
Net interest income		**1.16**	**136,046**		**1.25**	**238,462**

Currency risk

Regarding currency risk of the banking portfolio, the funds raised in various are usually invested through assets in its money market and for years not exceeding those of the resources, which is why the existing currency gaps result from possible mismatches between the investment terms and resources.

With respect to currency risk of the banking portfolio, limits are set for exposure to these risks, which are monitored at ALCO, and any possible exceedance of the established limits, even if temporary, requires approval from the Executive Board of Directors or application of measures to cover the exposure.

Montepio

The breakdown of assets and liabilities, by currency, as at 30 June 2017 and 31 December 2016 is analysed as follows:

(Thousands of Euro)

	Jun 2017							
	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	409,151	9,541	1,760	976	1,287	166	758	423,639
Loans and advances to credit instituitions repayable on de	46,410	12,513	275	362	1,604	-	329	61,493
Other loans and advances to credit institutions	523,646	21,208	-	-	-	-	-	544,854
Loans and advances to customers	13,499,097	123,230	78	-	33	-	-	13,622,438
Financial assets held-for-trading	84,489	2,477	-	-	-	-	-	86,966
Financial assets available-for-sale	3,263,922	486	100	-	92	60,877	-	3,325,477
Investments in associated companies and others	263,638	-	-	-	-	-	-	263,638
Non-current assets held-for-sale	702,125	-	-	-	-	-	-	702,125
Property and equipment	220,968	-	-	-	-	-	-	220,968
Intangible assets	31,362	-	-	-	-	-	-	31,362
Current tax assets	7,658	-	-	-	-	-	-	7,658
Deferred tax assets	477,947	-	-	-	-	-	-	477,947
Other assets	200,136	489	4	-	20	-	-	200,649
Total Assets	19,730,549	169,944	2,217	1,338	3,036	61,043	1,087	19,969,214
Liabilities by currency								
Deposits from central banks	2,685,425	-	-	-	-	-	-	2,685,425
Deposits from other financial institutions	2,414,374	45,875	3,932	26,109	208	-	42	2,490,540
Deposits from customers	11,493,708	71,348	6,865	12,346	1,298	-	3,115	11,588,680
Debt securities issued	1,028,031	237	-	-	-	-	-	1,028,268
Financial liabilities held-for-trading	20,961	573	-	-	-	-	-	21,534
Provisions	27,595	-	-	-	-	-	-	27,595
Current tax liabilities	4,079	-	-	-	-	-	-	4,079
Other subordinated debt	236,999	-	-	-	-	-	-	236,999
Other liabilities	186,922	948	115	1	262	-	1,208	189,456
Total Liabilities	18,098,094	118,981	10,912	38,456	1,768	-	4,365	18,272,576
Exchange forward transaction	(2,866)	(47,840)	7,733	38,079	-	-	5,176	
Exchange gap		3,123	(962)	961	1,268	61,043	1,898	
Stress Test		(624)	192	(192)	(254)	(12,208)	(380)	

(Thousands of Euro)

	Dec 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 (pre-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 also defined exposure limits. This control is reinforced with monthly execution of stress tests, in order to classify CEMG's risk profile and to ensure that the Group meets its obligations in a liquidity crisis scenario.

The purpose of liquidity management is to maintain adequate liquidity levels to meet short, medium and long term funding needs. Liquidity risk is monitored on a daily basis, and several reports are prepared in order to control, monitor and support the decision-making of the ALCO Committee.

The development of the liquidity situation is carried out based particularly on future cash flows estimated for various timelines, considering CEMG's financial position. The analysis of the day's liquidity position is added to the calculated values and the amount of assets considered highly liquid in the portfolio of uncommitted assets, determining the cumulative liquidity gap for different timelines. In addition, it is also carried out a follow-up of liquidity positions of a prudential point of view, calculated under the rules required by the Bank of Portugal (Instruction no. 13/2009 of 15 September), as well as compliance of the prudential liquidity ratios, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR), and Additional Liquidity Monitoring Metrics (ALMM), and internal ratios such as of transformation of deposits into credit, concentration of funding sources, short-term financing and eligible assets.

Limits are set for various liquidity risk indicators, which are monitored through weekly and monthly reports.

As at 30 June 2017, the recorded amount in LCR was 128.3% (31 December 2016: 101.7%).

As at 30 June 2017, CEMG's financing was as follows:

(Thousands of Euro)

Liabilities	Jun 2017	Undetermined	Until 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	2 685 425	-	780 000	-	-	1 905 425
Financial liabilities held-for-trading	21 534	-	-	-	-	21 534
Deposits from other credit institutions	2 490 540	-	816 927	1 000	153 527	1 519 086
Deposits from customers	11 588 680	-	5 669 066	1 723 097	1 767 414	2 429 103
Debt securities issued	1 028 268	-	29 000	125 621	164 137	709 510
Other subordinated debt	236 999	-	-	-	115 016	121 983
Other liabilities	189 456	189 456	-	-	-	-
Total Liabilities	**18 240 902**	**189 456**	**7 294 993**	**1 849 718**	**2 200 094**	**6 706 641**

As at 31 December 2016, CEMG's financing was as follows:

(Thousands of Euro)

Liabilities	Dec 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**	**3 560 836**	**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 related 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 30 June 2017 and 31 December 2016, related to assets and collaterals:

(Thousands of Euro)

Assets	Jun 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	6,265,828	-	13,703,385	-
Equity instruments	-	-	1,069,885	1,246,220
Debt securities	1,236,760	1,256,408	1,740,898	2,960,357
Other assets	-	-	2,031,112	-

(milhares de euros)

Assets	Dec 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	Jun 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	81 727	72 476
Equity instruments	-	-
Debt securities	81 727	72 476
Other collateral received		
Own securities issued that are not own covered bonds or ABS		

(Thousands of Euro)

Collateral received	Dec 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	Jun 2017
	Carrying amount of selected financial liabilities
Associated liabilities, contingent liabilities and securities borrowed	4,744,752
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	6,317,895

Encumbered assets, encumbered collateral received and associated liabilities	Dec 2016 Carrying amount of selected financial liabilities
	(Thousands of Euro)
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 CEMG's financing operations, namely ECB's, in repo operations through the issuance of mortgage bonds and securitization programs. The types of assets used as collateral of these financing transactions are divided into portfolios of loans to clients, supporting securitization programs and covered bonds issues, whether placed outside the Group, whether to improve the pool of collateral with the ECB, and Portuguese sovereign debt, which collateralize repo transactions in the money market.

The amounts presented previously correspond to the position as at 30 June 2017 and 31 December 2016 and reflect the high level of collateralisation of CMG's wholesale funding. The buffer of eligible assets for ECB, after haircuts, less net borrowing at ECB, as at 30 June 2017 amounts to Euro 998,640 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 (BCE) on 31 June 2017 amounts to Euro 3,408,536 thousand (31 December 2016: Euro 3,508,001 thousands) with a utilization of Euro 2,685,425 thousand (31 December 2016: Euro 2,307,946 thousand):

(Thousands of Euro)

	Jun 2017	Dec 2016
Total collateral eligible	**5,531,627**	**5,908,134**
Total collateral in the pool	3,408,536	3,508,001
Collateral outside the pool	2,123,091	2,400,133
Collateral used	**4,532,987**	**4,694,634**
Collateral used for ECB	2,685,425	2,307,946
Collateral commited to other financing operations	1,847,562	2,386,688
Collateral available for ECB	**723,111**	**1,200,055**
Total collateral available	**998,640**	**1,213,500**

Note: collateral value takes into account the applied haircut

Real Estate risk

Real estate risk results from possible negative impacts on CEMG's results or capital due to fluctuations in the market price of real estate.

The real estate risk results from exposure in real estate assets, whether from legal proceedings or foreclosure in the context of credit recovery processes or investment properties held in securities portfolio. These exposures are monitored based on scenario analysis that seek to estimate potential impacts of changes in real estate markets in portfolios of these real estate assets and provide the necessary information for the definition of the real estate risk management policy.

As at 30 June 2017 and 31 December 2016, exposure to real estate and investments real estate fund units presented the following amounts:

(Thousands of Euro)

	Jun 2017	Dec 2016
Real estate received as loan guarantee	702,070	723,613
Real estate investment fund units	790,109	800,151
	1,492,179	1,523,764
Stress test	(149,218)	(152,376)

Stress test results correspond to the estimated impact in equity (pre-tax) of a 10% variation in values of real estate and real estate funds.

Operating risk

Operating risk is the potential loss resulting from failures or inadequacies in internal processes, people or systems, or potential losses resulting from external events.

The Bank of Portugal approved the use of the standard method for quantifying CEMG's capital requirements for operating risk, supported by an operating risk management system based on the identification, evaluation, monitoring, measurement, mitigation and reporting of this type of risk.

The Department of Risk performs CEMG's corporate operating risk management function which is supported by responsible employees in the different organic units that ensure the proper implementation of the Group's operational risk management.

The operating risk profile assessment for new products, processes and systems and consequent follow-up has allowed the prior identification and mitigation of operating risk situations.

Regarding risk monitoring, the main activities carried out were the collection and analysis of operating risk loss events, the analysis of Key Risk Indicators, the assessment of the exposure to operating risk and the preparation of periodic reports on the Institution's operating risk profile. In particular, quarterly monitoring reports of operating risk loss events and mitigation measures are prepared. An annual report is prepared which includes the analysis of all operating risk management instruments.

Within the mitigation phase, action plans were suggested for the most significant risks, identified based on the operating 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, included in 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 of situations that cause the interruption of the business, 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 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.

Coverage Policies and Risk Reduction

For the purpose of reducing credit risk, risk mitigation elements associated with each operation are considered. In particular, real mortgage guarantees and financial collaterals are relevant, as well as provision of unfunded credit protection, namely collaterals.

The enforcement of collaterals depends on the size of the unexpected loss, typically occurring in larger volume transactions, especially in construction financing and housing acquisition.

In terms of direct reduction of the exposure value, credit operations collateralized by financial collateral are considered, namely, time deposits, bonds and shares included in a recognized main stock exchange index, as stipulated in Section 4, Chapter 4, Title II, Part III of Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 (CRR). The market risk of the assets involved is assessed in financial collaterals and the value of the collateral is adjusted.

With regard to real mortgage collaterals, CEMG has defined valuation and revaluation models to be applied to properties that may constitute collaterals for credit operations. The asset evaluation is carried out by independent experts, and the management of evaluations and visits is centralized 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 goods' value, depending on the cases, either by statistical and computerized methods or by review or revaluation of the valuation value by the expert.

Regarding credit guarantees, the principle of substitution of the customer's risk by that of the protection provider is applied, provided that the risk of the latter is lower than of the customer's.

The Group does not usually use off-balance sheet and off-balance sheet processes, nor does it generate credit derivatives on positions 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 positions through the sale of open positions.

Own Funds and Capital Racios

The own funds of CEMG are established in accordance with the applicable regulatory standards, namely Directive 2013/36/EU and Regulation (EU) No. 575/2013 adopted by the European Parliament and by the Council (CRD IV / CRR), and the Notice No. 6/2013 of the Bank of Portugal. The own funds includes 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 paid-up capital (with deduction of own funds), eligible reserves (including fair-value reserves), retained earnings, retained earnings for the period when positive and certified or by its fullness if negative. The value of reserves and retained earnings is adjusted by reversal of results with financial liabilities at fair value through profit or loss in the part corresponding to the Institution's own credit risk. Non-controlling interests are only eligible to the extent necessary to cover the Group's capital requirements attributable to minority shareholders. The balance value of the amounts related to goodwill, other intangible assets, as well as the gap, if positive, between assets and the pension fund's liability is deducted. The assets for deferred taxes are also deducted from assets related to tax losses. With regard to financial investments on financial entities and deferred tax assets arising from temporary differences which rely on CEMG's the future profitability, the values in these accounts are deducted when, individually, overcome 10% of CET1, or subsequently, 15% of CET1 when considered together (only for the non-deducted part on the 10% and considering only significant investments). Non-deducted values will be subject to a weight of 250% for total risk-weighted assets. Regarding investments in financial institutions, the possible deduction is paid-up proportionally to its held capital. Under the implementation of the requirements set forth in EU Regulation no. 575/2013, for the period 2014 - 2018, a transitory plan will be in force which will allow to gradually recognise the greatest impacts of this new regulation. This transitory plan, applied to deferred tax assets and negative actuarial deviations of the pension's fund, allows the cumulative recognition of 20%, per year, of possible negative effects caused by the new standards. Fair-value reserves will also be subject to the same transitory plan of 20%/year, whereas fair-value reserves related to risk positions over Central Administrations will be excluded from this plan.
- *Own Funds of Level 1 or Tier 1 (T1):* Includes capital equivalent instruments, whose conditions are in accordance with Article 52 of Regulation no. 575/2013 and approved by the Bank of Portugal. Non-controlled interests related to additional own funds minimum requirements of the institutions for which CEMG does not hold full ownership are also eligible. Possible T1 capital holdings of financial institutions subject 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 Article 63 of Regulation no. 575/2013 and approved by the Bank of Portugal. Non-controlled interests related to total own funds minimum requirements of the institutions for which CEMG does not hold full ownership are also eligible. Possible T2 capital holdings of financial institutions subject to deduction are deducted from this capital.

Total Own Funds or Total Capital consist of the sum of the three levels of own funds previously mentioned.

With respect to the calculation of risk-weighted assets, in addition to the credit, operating and market risks requirements, a particular reference to the weighting of 250% of deferred tax assets arising from temporary differences which 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 mentioned, by 2018, the effects of Basel III's new regulation will gradually be implemented. This process is usually referred to as phasing-in. The full assumption of the new regulation, without considering transitory plans, is referred to as full implementation. Phasing-in process is currently in force and it is at this stage that it is verified whether an entity has own funds not less to the minimum requirements, thereby certifying the adequacy of its capital. This relation reflects the different capital ratios, namely CET1 ratio, T1 ratio and total capital ratio (formerly referred to as solvency ratio, represented by its capital as a percentage of the amount corresponding to 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, reserves of own funds are applied to these regulatory minimums (such as Conservation Reserve, Counter-Cyclical Reserve and Reserves for Other Systemic Institutions) whose value is set by the Bank of Portugal. As at June 2017, the Bank of Portugal defined a Counter-cyclical Reserve of 0%. Regarding Conservation Reserve, the Bank of Portugal, in its Notice 6/2016, defines its application according to the transitional 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 30 June 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.

A summary of CEMG's capital requirement estimates as at 30 June 2017 and 31 December 2016 is as follows:

(Thousands of Euro)

	Jun 2017	Dec 2016
Capital Common Equity Tier 1		
Paid-up capital	2,420,000	2,170,000
Net profit, reserves and retained earnings	(729,685)	(786,460)
Other regulatory adjustments	(361,907)	(235,693)
	1,328,408	1,147,847
Capital Tier 1	1,328,408	1,147,847
Capital Tier 2		
Subordinated loans	47,929	71,221
Regulatory adjustments	(27,675)	(45,106)
	20,254	26,115
Total own funds	1,348,662	1,173,962
Own funds requirements		
Credit risk	792,698	840,247
Market risk	10,745	9,522
Operational risk	49,122	49,122
Other requirements	36,301	30,282
	888,866	929,173
Prutential Ratio		
Ratio Common Equity Tier 1	11.96%	9.88%

50 Sovereign debt of European Union countries subject to bailout

As at 30 June 2017, the exposure of CEMG to sovereign debt of European Union countries subject to bailout is as follows:

(Thousands of Euro)

	Jun 2017						
Issuer / portfolio	Book value	Fair value	Fair value reserve	Impairment	Average interest rate	Average maturity (years)	Measurement level
Greece							
Financial assets available-for-sale	13 991	13 991	(4,249)	-	3.00%	17.94	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)

Issuer / portfolio	Dec 2016						
	Book value	Fair value	Fair value reserve	Impairment	Average interest rate	Average maturity (years)	Measurement level
Greece							
Financial assets available-for-sale	12 365	12 365	(6,148)	-	3.00	18,43	1

As at 30 June 2017, the value of securities includes respective accrued interest in the amount of Euro 187 thousand (31 December 2016: Euro 460 thousand).

51 Transfer of assets

CEMG performed a set of transactions of sale of financial assets (namely loans and advances to customers) for Funds specialized 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 specialized funds that acquire the financial assets 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 the banks holds more than 50% of the capital of the Funds.

The Funds have a specific management structure (General Partner), fully independent from the banks 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 the majority of the transactions (in which CEMG holds minority positions) establish companies under the Portuguese law in order to acquire the loans to the banks, 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 of the loans to companies under Portuguese law.

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, 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.

- Junior bonds (with higher subordination degree) issued by the companies under Portuguese law 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)

	Jun 2017			Dec 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 30 June 2017 and 31 December 2016, the assets received under these transactions are as follows:

(Thousands of Euro)

	Jun 2017				
	Senior Securities	Junior Securities	Total	Impairment	Net Value
Fundo Vega, FCR	27,544	-	27,544	-	27,544
Vallis Construction Sector Fund	19,269	7,838	27,107	(26,221)	886
Fundo de Reestruturação Empresarial, FCR	12,645	-	12,645	(763)	11,882
	59,458	7,838	67,296	(26,984)	40,312

(Thousands of Euro)

	Dec 2016				
	Senior Securities	Junior Securities	Total	Impairment	Net Value
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 30 June 2017, an impairment in the amount of Euro 4,978 thousand was recorded (31 December 2016: Euro 15,090 thousand), related to the devaluation of investment units in the Vallis Construction Sector Fund, as described in notes 15 and 23.

As at 31 December 2016, junior bonds refer to investment units in the amount of Euro 7,838 thousand, as described 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).

52 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 hypothetical 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 yet 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 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."

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, with reference to 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 responsibilities 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 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 fulfill 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 fulfill its obligations.

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. The Group is recognising as an expense the contribution to the RF in the year in which it becomes due.

The Resolution Fund issued, on 15 November 2015, a public statement declaring: "…it is further clarified that it is not expected that the Resolution Fund will propose the setting up of a special contribution to finance the resolution measure applied to Banco Espírito Santo (BES). Therefore, the possible 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%.

In 2016, CEMG made regular contributions to the Resolution Fund in the amount of Euro 2,907 thousand and paid the contribution on the banking sector in the amount of Euro 12,793 thousand and were recognised as cost in April and June, in accordance with IFRIC No. 21 – Levies.

Under the Single European Resolution Fund ('FUR'), CEMG made an initial contribution of Euro 8,452 thousand in 2015, which within the Intergovernmental Agreement on the transfer of the contributions mutualisation to the FUR, was not transferred to the FUR but used for the fulfillment of obligations of the Resolution Fund resulting from the application of resolution measures prior to the Agreement's application date. This amount will have to be supplemented over an 8-year period (starting in 2016) through periodic contributions to the FUR. The total amount of the contribution for the year 2016 attributable to CEMG was Euro 11,795 thousand, of which CEMG delivered Euro 10,022 thousand and the remainder was constituted in the form of a payment irrevocable commitment, according to the note. The FUR does not cover situations in progress on 31 December 2015 from the National Resolution Fund.

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 prejudice to the possibility of early repayment based on the use of revenues 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 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, with reference to 30 June 2017, the amount of credit and interest owed to the Group totaled Euro 70,926 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: (i) the partial sale of Novo Banco shareholding under the Bank of Portugal statement of 31 March 2017; (ii) 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 liquidation; (iii) additional liabilities or contingencies for Novo Banco, S.A. that have to be neutralized by the Resolution Fund; (iv) 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 2016, reflect the 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.

53 Subsidiary and associated companies of Caixa Económica Montepio Geral

As at 30 June 2017, the subsidiary companies of CEMG, are as follows:

					Group		Bank
Subsidiary Company	**Head of Office**	**Share Capital**	**Currency**	**Activity**	**% 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%

As at 30 June 2017, the associated companies of CEMG, held directly or indirectly, are as follows:

(Euro)

Subsidiary company	Head of 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 Recovery of ACE credit was settled, as referred in note 25.

As at 30 June 2017, CEMG held participation units of special purpose entities and investment funds as follows:

Subsidiary company	Establishment year	Aquisition year	Head of Office	% of controlling interest	Consolidation method
Pelican Mortgages No. 1 PLC	2002	2002	Dublin	100%	Full
Valor *Prime* - Fundo de Investimento Imobiliário Aberto	1997	2012	Lisbon	91,1%	Full
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2011	2011	Lisbon	100%	Full
Montepio Arrendamento II – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional II (FIIAH)	2013	2013	Lisbon	100%	Full
Montepio Arrendamento III – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2013	2013	Lisbon	100%	Full
Polaris - Fundo de Investimento Imobiliário Fechado	2009	2012	Lisbon	100%	Full
PEF - Portugal Estates Fund	2013	2013	Lisbon	100%	Full
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto (FEIIA)	2013	2013	Lisbon	100%	Full

54 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.

As at 18 March 2016, CEMG 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 above mentioned capital increase was fulfilled by MGAM by conducting institutional capital in cash in the amount of Euro 270,000 thousand.

On the same date occurred the disposal of 31,500,000 of investment units held by Montepio Investimento SA with a nominal value of Euro 31,500 thousand.

Additionally, and in accordance with the resolutions mentioned above, CEMG acquired from MGAM a group of real estate and securities by the amount of Euro 199,444 thousand and Euro 69,929 thousand, respectively.

55 Subsequent events

Legal transformation into a public limited company

Due to an asset higher than Euro 50,000.000, Caixa Económica Montepio Geral 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 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 by-laws, Caixa Económica Bancária, S.A .; 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, 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.

The Deed of the by-laws took place on 14 September 2017, transforming Caixa Económica Montepio Geral into a public limited company, changing its name to Caixa Económica Montepio Geral, caixa económica bancária, S.A.

As a result of the transformation into a public limited company, the CEMG Participation Fund was extinguished by conversion into share capital, whereby participation units were converted into ordinary shares.

STATEMENT OF COMPLIANCE OF THE FINANCIAL INFORMATION ISSUED BY THE EXECUTIVE BOARD OF DIRECTORS

This statement has been issued under the terms of sub-paragraph c) of No. 1 of article 245 of the Securities Code (CVM).

The Executive 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 the Institution's 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 the first six months of 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 the Institution and companies included in the consolidation perimeter;
- The management report provides an accurate indication of the evolution of the business, performance and position of the Institution and companies included in the consolidation perimeter, in conformity with the legal requirements.

THE CHARTERED ACCOUNTANT

Luís Miguel Lines Andrade

THE EXECUTIVE BOARD OF DIRECTORS

José Manuel Félix Morgado – CEO

João Carlos Martins da Cunha Neves

Luís Gabriel Moreira Maia Almeida

Fernando Ferreira Santo

João José Belard da Fonseca Lopes Raimundo

Jorge Manuel Viana de Azevedo Pinto Bravo

Luís Miguel Resende de Jesus

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 recommendation of Banco de Portugal, using references to detailed information in the various chapters of this Annual Report and Accounts, whenever applicable.

Caption: MR – Management Report; FSNO – Financial Statements, Explanatory Notes and Opinions on the Accounts; CGR - Corporate Governance Report

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 28
2.	Description of strategies and objectives (including those specifically related to the undertaking of securitisation operations and operations with structured products);	MR, Strategy, page 25
3.	Description of the importance of the activities developed and their contribution to the business (including in quantitative terms);	MR, Business Areas, page 28 FSNO, Indicators of the balance sheet and income statement by operating segment, page 198
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 28 Financial Analysis, page 42 Risk Management, page 63 FSNO, Financial assets and liabilities held for trading, page 139, Financial assets available for sale, page 142, Investments held to maturity, page 148
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 63 FSNO, Risk Management, page 207
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 63 FSNO, Risk Management, page 207
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 42

		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 42 FSNO, Earnings from assets and liabilities at fair value through profit or loss, page 120, Net gains from financial assets available for sale, page 121
10.	Description of the reasons and factors responsible for the impact incurred;	MR, Financial Analysis, page 42, Macroeconomic Environment, page 20
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 42 FSNO, Financial Statements, page 86
12.	Breakdown of write-downs between realised and unrealised amounts;	MR, Financial Analysis, page 42 FSNO, Financial assets and liabilities held for trading, page 139, Financial assets available for sale, page 142, Investments held to maturity, page 148
13.	Description of the influence of the financial turbulence on the entity's share price;	MR, Participation Fund, page 77
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 63 FSNO, Risk Management, 207
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 42 FSNO, Fair Value, page 174 Risk Management, page 207
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 139, Financial assets available for sale, page 142, Investments held to maturity, page 148 Risk Management, page 207
17.	Information on mitigation of credit risk (i.e. through credit default swaps) and the respective effect on existing exposure;	MR, Risk Management, page 63 FSNO, Risk Management, page 207
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 63 FSNO, Loans and advances to customers, page 132, Financial assets and liabilities held for trading, page 139, Financial assets available for sale, page 142, Investments held to maturity, page 148.Indicators of the balance sheet and income statement by operating segment, page 198, Risk Management, page 207
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 42 FSNO, Financial assets and liabilities held for trading, page 139, Financial assets available for sale, page142, Investments held to maturity, page 148

		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.
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 96
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 96, Securitisation of assets, page 193
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 96
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 63 FSNO, Risk Management, page 207
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 96

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 financial reporting of the 1st Half 2017, with references to the various chapters of this Report.

Caption: FS - Financial Statements. *2015 restated in accordance with IFRS5 guidelines related to the accounts of Finibanco Angola and BTM.

BALANCE SHEET AND EXTRAPATRIMONIALS

SECURITIES PORTFOLIO (PAGE 51, 54)

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.
Components and calculus	Page 87, 139, 142, 148
Definition	

(thousand euros)

		Dec-16	Jun-17
(a)	Financial assets held for trading	78 168	87 032
(b)	Financial assets available for sale	2 399 504	2 842 491
(c)	Held to maturity investments	1 126 125	-
(d)	Securities portfolio (a+b+c)	3 603 797	2 929 523
(e)	Total assets	21 345 909	20 205 893
	% of securities portfolio (d / e)	**16.9%**	**14.5%**

OTHER INVESTMENTS (PAGE 51)

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 FS	Page 87, 132, 139, 142, 148
Components and calculus	

(thousand euros)

		Dec-16	Jun-17
(a)	Total assets	21 345 909	20 205 893
(b)	Net loans to customers	13 861 034	13 698 265
(c)	Financial assets held for trading	78 168	87 032
(d)	Financial assets available for sale	2 399 504	2 842 491
(e)	Held to maturity instruments	1 126 125	-
(f)	Other investments (a - b - c - d - e)	3 881 078	3 578 105
	% of other investments (f / a)	**18.2%**	**17.7%**

DEBT ISSUED (PAGE 51, 58)

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 FS	Page 87, 161, 165
Components and calculus	(thousand euros)

		Dec-16	Jun-17
(a)	Debt securities issued	1920 035	1062 598
(b)	Other subordinated debt	251028	251671
(c)	Issued debt (a+b)	2 171063	1314 269
(d)	Total liabilities and equity	21345 909	18 432 764
	% of debt issued (c / d)	**10.2%**	**7.1%**

OTHER RESOURCES (PAGE 51)

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 FS	Page 87, 161, 161, 165
Components and calculus	(thousand euros)

		Dec-16	Jun-17
(a)	Total liabilities	19 889 411	18 432 764
(b)	Deposits from customers	12 467 819	11627 953
(c)	Debt securities issued	1920 035	1062 598
(d)	Other subordinated debt	251028	251671
(e)	Complementary resources (a - b - c - d)	5 250 529	5 490 542
	% of complementary resources (e / a)	**26.4%**	**29.8%**

OFF-BALANCE SHEET RESOURCES (PAGE 57)

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.
Components and calculus	(thousand euros)

		Dec-16	Jun-17
(a)	Securities investment fund	177 402	172 012
(b)	Real estate investment fund	294 436	292 287
(c)	Pensions fund	205 839	207 187
(d)	Bancassurance	45 415	37 930
	Off-balance sheet resources (a + b + c + d)	**723 092**	**709 416**

INCOME STATEMENT

COMMERCIAL NET INTEREST INCOME (PAGE 43)

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 FS	Page 118
Components and calculus	

(thousand euros)

		Jun-16*	Jun-17
(a)	Interest received from loans to customers	197 611	186 538
(b)	Interest paid on customers' deposits	74 542	43 054
	Commercial net interest income (a - b)	**123 069**	**143 484**

COMPARABLE OPERATING COSTS (PAGE 43, 48)

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.
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.
Reference to FS	Page 86, 125, 127, 128
Components and calculus	

(thousand euros)

		Jun-16*	Jun-17
(a)	Staff costs	124 938	84 668
(b)	General and administrative expenses	46 599	40 065
(c)	Depreciation and amortisation	12 296	12 479
(d)	Costs related to the re-dimensioning of the operating structure	32 021	-
	Operating costs, excluding costs related to the staff reduction programme and CLA revision (a + b + c - d)	**151 812**	**137 212**

RESULTS FROM THE COMMERCIAL ACTIVITY (PAGE 43)

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.
Relevance	Assess the evolution of the core banking activity, excluding specific measures such as the process of re-dimensioning the operating structure.
Reference to FS	Page 86, 118, 119
Components and calculus	

(thousand euros)

		Mar-16*	Mar-17
(a)	Commercial net interest income	123 069	143 484
(b)	Net fees and commissions	46 217	55 218
(c)	Operating costs, excluding costs related to the re-dimensioning of the operating structure	151 812	137 212
	Results from the commercial activity (a + b - c)	**17 474**	**61 490**

RATIOS

CTD RATIO: NET LOANS TO CUSTOMERS / ON-BALANCE SHEET CUSTOMERS' RESOURCES (PAGE 7, 59)

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 FS	Page 87, 132, 161
Components and calculus	

(thousand euros)

		Dec-16	Jun-17
(a)	Loans to customers (net)	13 861034	13 698 265
(b)	Customers' deposits	12 467 819	11627 953
(c)	Debt securities issued	1920 035	1062 598
	Loans to customers (net) / On-balance sheet customers' resources (a / (b + c))	**96.3%**	**107.9%**

EFFICIENCY RATIO: COST TO INCOME, WITHOUT SPECIFIC IMPACTS (PAGE 7, 48)

Definition	Operating efficiency ratio measured by the portion of the total operating income that is absorbed by operating costs, excluding results from financial operations and costs related to the process of re-dimensioning of the operating structure, 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 re-dimensioning of the operating structure.
Reference to FS	Page 86, 120, 121, 125, 127, 128
Components and calculus	

(thousand euros)

		Jun-16*	Jun-17
(a)	Total operating income	166 649	248 556
(b)	Results from financial operations (i +ii +iii)	12 799	26 597
(i)	Net gains / (losses) from finacial assets and liabilities at fair value through profit or loss	(29 056)	3 973
(ii)	Net gains / (losses) from available for sale financial assets	40 204	21545
(iii)	Net gains / (losses) from foreign exchange differences	1651	1079
(c)	Operating costs	183 833	137 212
(d)	Costs related to the re-dimensioning of the operating structure	32 021	-
	Cost to Income,without specific impacts ((c - d) / (a - b))	**98.7%**	**61.8%**

COST OF CREDIT RISK (PAGE 7, 49)

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 FS	Page 128, 132
Components and calculus	

(thousand euros)

		Dec-16	Jun-17
(a)	Loan impairments (annualized[1])	182 479	128 142
(b)	Average gross loans to customers[2]	15 318 362	14 973 382
	Cost of credit risk (a / b)	**1.2%**	**0.9%**

1) Annualized values considering the total number of days elapsed and total days of the year. 2) Average balance for the period (2016: 366 days/2017: 365 days).

RATIO OF LOANS AND INTEREST OVERDUE BY MORE THAN 90 DAYS (PAGE 7, 68)

Definition	Quality ratio of the loan portfolio that measures the proportion of loans and interest overdue by more than 90 days in relation to the total loan portfolio.
Relevance	Assess the loan quality evolution.
Reference to FS	Page 132
Components and calculus	(thousand euros)

		Dec-16	Jun-17
(a)	Loans and interest overdue by more than 90 days	1 371 620	1 371 040
(b)	Loans to customers (gross)	15 040 651	14 889 854
	Ratio of loans and interest overdue by more than 90 days (a / b)	**9.1%**	**9.2%**

COVERAGE OF LOANS AND INTEREST OVERDUE BY MORE THAN 90 DAYS (PAGE 7, 68)

Definition	Ratio that measures the proportion of impairment for loans in 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 FS	Page 132
Components and calculus	(thousand euros)

		Dec-16	Jun-17
(a)	Impairment for loans (Balance sheet)	1 179 617	1 191 589
(b)	Loans and interest overdue by more than 90 days	1 371 620	1 371 040
	Coverage of loans and interest overdue by more than 90 days (a / b)	**86.0%**	**86.9%**

CREDIT AT RISK COVERAGE RATIO (PAGE 7, 53, 68)

Definition	Ratio that measures the proportion of impairment for loans in the balance sheet in relation to the total amount of credit at risk.
Relevance	Assess the institution’s ability to absorb potential losses arising from credit at risk.
Reference to FS	Page 132
Components and calculus	(thousand euros)

		Dec-16	Jun-17
(a)	Impairment for loans (Balance sheet)	1 179 617	1 191 589
(b)	Credit at risk	2 287 575	2 245 479
	Credit at risk coverage ratio (a / b)	**51.6%**	**53.1%**

CREDIT AT RISK COVERAGE RATIO, FACTORING-IN RELATED REAL ESTATE COLLATERAL (PAGE 7, 53, 68)

Definition	Ratio that measures the proportion between the sum of impairment for loans in the balance sheet and real estate collateral related to contracts with credit at risk, in relation to the total amount of credit at risk.
Relevance	Assess the institution’s ability to absorb potential losses arising from credit at risk, given the impairment for loans in the balance sheet and real estate collateral related to contracts with credit at risk.
Reference to FS	Page 132
Components and calculus	(thousand euros)

		Dec-16	Jun-17
(a)	Impairment for loans (Balance sheet)	1 179 617	1 191 589
(b)	Real estate collateral related to contracts with credit at risk	1 566 349	1 467 687
(c)	Credit at risk	2 287 575	2 245 479
	Credit at risk coverage ratio, factoring-in related real estate collateral ((a + b) / c)	**120.0%**	**118.4%**

AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL INFORMATION

KPMG

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A.
Edifício Monumental - Av. Praia da Vitória, 71 - A, 8º
1069-006 Lisboa - Portugal
+351 210 110 000 | www.kpmg.pt

LIMITED REVIEW REPORT ON CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(This report is a free translation to English from the original Portuguese version. In case of doubt or misinterpretation the Portuguese version will prevail.)

Introduction

We have performed a limited review of the accompanying condensed consolidated financial statements of **Caixa Económica Montepio Geral, Caixa económica bancária, S.A.**, which comprise the interim consolidated balance sheet as of 30 June 2017 (that presents a total of Euro 20,205,893 thousand and total equity attributable to equity and participation fund holders of Euro 1,747,603 thousand, including a consolidated net profit attributable to equity and participation fund holders of Euro 13,049 thousand), the interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended, and the accompanying explanatory notes to these condensed consolidated financial statements.

Executive Board of Directors' responsibilities

The Executive Board of Directors is responsible for the preparation of these condensed consolidated financial statements in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union, and for the implementation and maintenance of an appropriate internal control system to enable the preparation of condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibilities

Our responsibility is to express a conclusion on the accompanying condensed consolidated financial statements. Our work was performed in accordance with ISRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity and further technical and ethical standards and guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"). These standards require that we conduct the work in order to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared in all material respects in accordance with the International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union.

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A limited review of condensed consolidated financial statements is a limited assurance engagement. The procedures that we have performed consist mainly of making inquiries and applying analytical procedures and subsequent assessment of the evidence obtained.

The procedures performed in a limited review are substantially less that those performed in an audit conducted in accordance with International Standards on Auditing (ISA). Accordingly, we do not express an audit opinion on these condensed consolidated financial statements.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated financial statements of **Caixa Económica Montepio Geral, Caixa económica bancária, S.A.** at 30 June 2017, are not prepared in all material respects, in accordance with the International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union.

Lisbon, 28 September, 2017

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (nr 189)
represented by
Ana Cristina Soares Valente Dourado (ROC nr 1011)

AUDITOR'S REPORT ON INDIVIDUAL FINANCIAL INFORMATION

KPMG & Associados - Sociedade de Revisores Oficiais de Contas, S.A.
Edifício Monumental - Av. Praia da Vitória, 71 - A, 8º
1069-006 Lisboa - Portugal
+351 210 110 000 | www.kpmg.pt

LIMITED REVIEW REPORT ON CONDENSED FINANCIAL STATEMENTS

(This report is a free translation to English from the original Portuguese version. In case of doubt or misinterpretation the Portuguese version will prevail.)

Introduction

We have performed a limited review of the accompanying condensed financial statements of **Caixa Económica Montepio Geral, Caixa económica bancária, S.A.**, which comprise the interim balance sheet as of 30 June 2017 (that presents a total of Euro 19,969,214 thousand and total equity of Euro 1,696,638 thousand, including a net profit of Euro 4,078 thousand), the interim statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended, and the accompanying explanatory notes to these condensed financial statements.

Executive Board of Directors' responsibilities

The Executive Board of Directors is responsible for the preparation of these condensed financial statements in accordance with International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union, and for the implementation and maintenance of an appropriate internal control system to enable the preparation of condensed financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibilities

Our responsibility is to express a conclusion on the accompanying condensed financial statements. Our work was performed in accordance with ISRE 2410 – Review of Interim Financial Information Performed by the Independent Auditor of the Entity and further technical and ethical standards and guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"). These standards require that we conduct the work in order to conclude whether anything has come to our attention that causes us to believe that the condensed financial statements are not prepared in all material respects in accordance with the International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union.

A limited review of condensed financial statements is a limited assurance engagement. The procedures that we have performed consist mainly of making inquiries and applying analytical procedures and subsequent assessment of the evidence obtained.

KPMG

The procedures performed in a limited review are substantially less that those performed in an audit conducted in accordance with International Standards on Auditing (ISA). Accordingly, we do not express an audit opinion on these condensed financial statements.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the accompanying condensed financial statements of **Caixa Económica Montepio Geral, Caixa económica bancária, S.A.**, at 30 June 2017, are not prepared in all material respects in accordance with the International Accounting Standard 34 – Interim Financial Reporting as adopted by the European Union.

Lisbon, 28 September, 2017

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.
Sociedade aberta

Head Office: Rua Áurea, 219-241, Lisboa
Share Capital: 2.420.000.000 Euros
Legal Person and Lisbon Commercial Registry number: 500 792 615

www.montepio.pt