REPORT AND ACCOUNTS

1st Half 2016

GRUPO CAIXA ECONÓMICA MONTEPIO GERAL

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 2016" 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

GOVERNING BODIES

BOARD OF THE GENERAL MEETING

Chairman	Manuel Duarte Cardoso Martins
1st Secretary	Maria Leonor Loureiro Gonçalves de Oliveira Guimarães
2nd 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 H. Guimarães
	Rui Pedro Brás de Matos Heitor
	Eugénio Óscar Garcia Rosa

EXECUTIVE BOARD OF DIRECTORS

Chairman	José Manuel Félix Morgado
Members	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

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[1]

RISK COMMITTEE

Chairman	Acácio Jaime Liberado Mota Piloto
Members	Luís Eduardo H. Guimarães
	Francisco José Fonseca da Silva[1]

STATUTORY AUDITOR

KPMG, represented by Ana Cristina Soares Valente Dourado
Enrolled at the Statutory Auditors Association under number 1011

[1] Elected at the Extraordinary General Meeting held on 6 July 2016

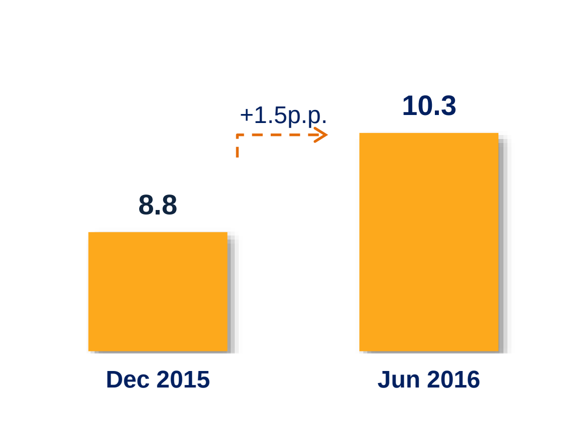
KEY INDICATORS

	Jun 2015	Dec 2015	Jun 2016	YoY Chg.
ACTIVITY AND RESULTS (thousand euros)				
Net Assets	22 146 845	21 145 216	21 383 928	(3.4%)
Loans to customers (gross)	16 365 765	15 944 015	15 599 149	(4.7%)
Customers' deposits	13 170 661	12 969 431	12 688 923	(3.7%)
Net Income	(28 909)	(243 407)	(67 627)	(<100%)
SOLVENCY				
Common Equity Tier 1 ratio (CRD IV/ CRR, phasing-in)	9.5%	8.8%	10.3%	0.7 p.p.
Tier 1 ratio (CRD IV / CRR, phasing-in)	9.5%	8.8%	10.3%	0.7 p.p.
Total Capital ratio (CRD IV / CRR, phasing-in)	10.6%	9.7%	10.9%	0.3 p.p.
Risk-Weighted Assets (thousand euros)	15 065 497	13 962 350	13 457 194	(10.7%)
LEVERAGE RATIOS				
Net loans to customers / Customer deposits (a)	113.4%	113.1%	116.4%	3.0 p.p.
Net loans to customers / Total On-balance sheet customers' resources (b)	99.8%	97.7%	99.9%	0.1 p.p.
CREDIT RISK AND COVERAGE BY IMPAIRMENTS				
Cost of credit risk	1.8%	1.6%	1.2%	(0.7 p.p.)
Ratio of loans and interest overdue by more than 90 days	7.4%	7.7%	9.2%	1.8 p.p.
Non-performing loans ratio (a)	8.8%	9.5%	10.9%	2.1 p.p.
Net non-performing loans ratio (a)	(0.04%)	1.6%	3.4%	3.5 p.p.
Coverage of loans and interest overdue by more than 90 days	118.7%	104.0%	83.7%	(35.0 p.p.)
Credit-at-risk ratio (a)	13.4%	14.3%	15.4%	2.0 p.p.
Net credit-at-risk ratio (a)	5.0%	6.8%	8.3%	3.3 p.p.
Credit-at-risk coverage ratio	66.0%	56.1%	50.2%	(15.9 p.p.)
Credit-at-risk coverage ratio factoring in associated real estate collateral	130.7%	126.9%	120.5%	(10.2 p.p.)
Restructured loans as a % of total loans (c)	10.4%	9.6%	9.4%	(1.1 p.p.)
Restructured loans not included in credit-at-risk as a % of total loans (c)	5.5%	4.0%	3.1%	(2.4 p.p.)
PROFITABILITY AND EFFICIENCY				
Net banking income / Average net assets (a)	2.6%	2.1%	1.8%	(0.8 p.p.)
Earnings before tax and non-controlling interests / Average net assets (a)	(0.5%)	(1.2%)	(1.3%)	(0.8 p.p.)
Earnings before tax and non-controlling interests / Average equity (a)	(7.9%)	(18.8%)	(18.1%)	(10.2 p.p.)
Operating expenses / Net banking income (cost-to-income) (a)	60.8%	78.9%	100.9%	40.1 p.p.
Cost to income, excluding costs with the operational reorganisation programme	94.5%	106.3%	94.6%	0.2 p.p.
Staff costs / Net banking income (a)	35.7%	44.8%	67.0%	31.3 p.p.
EMPLOYEES AND DISTRIBUTION NETWORK (Number)				
Employees				
Group total	4 434	4 404	4 182	(252)
CEMG	3 906	3 871	3 647	(259)
Branches				
Domestic - CEMG	436	421	332	(104)
International	30	30	30	0
Finibanco Angola (d)	21	21	21	0
BTM (Mozambique)	9	9	9	0
Rep. offices - CEMG	6	6	6	0

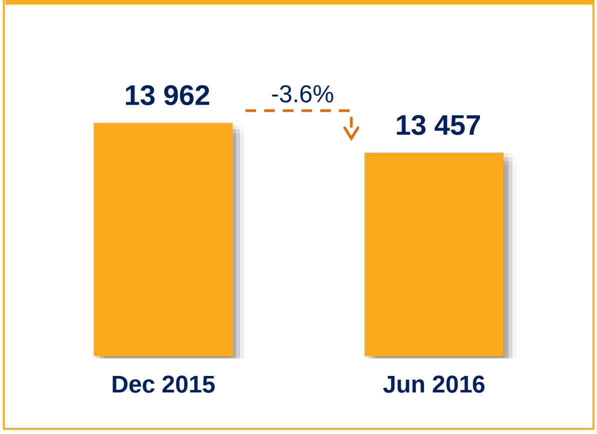
(a) In accordance with Banco de Portugal Instruction No. 16/2004, in its current version.
(b) Total On-Balance sheet Customers' resources = Customers' resources and debt securities issued
(c) In accordance with Banco de Portugal Instruction No. 32/2013.
(d) Includes Business Centres.

HIGHLIGHTS

Common Equity Tier 1 ratio (%)

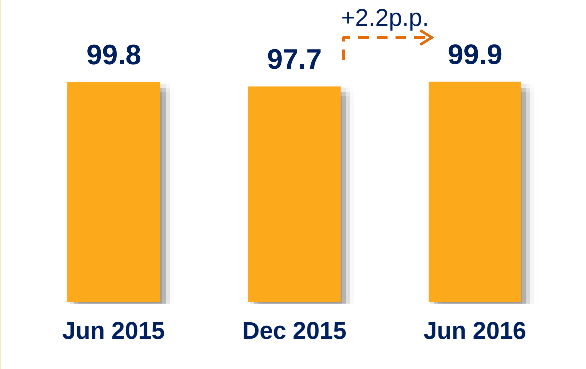


Risk-Weighted Assets (€Mn)

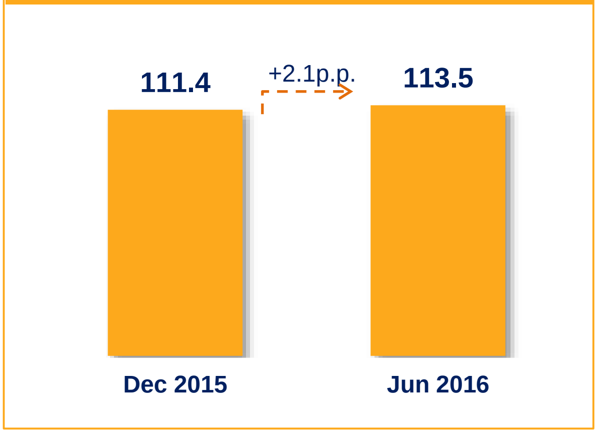


CTD ratio (%)

Crédito líquido / Recursos de Clientes e Responsabilidades representadas por títulos

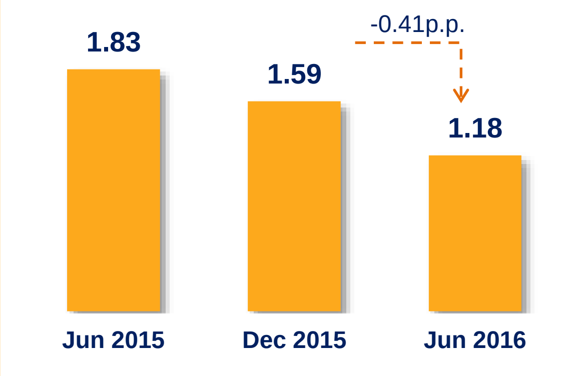


Liquidity Coverage Ratio (%)



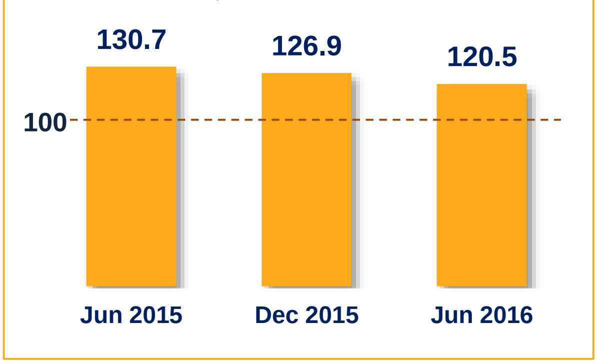
Cost of Credit Risk (%)

Loan impairments as a % of average gross loans.



Credit-at-Risk Coverage (%)

Considering impairments and real estate collateral related to the contracts with credit at risk, pursuant with Banco de Portugal Instruction No. 16/2004, in its current version.



THE CAIXA ECONÓMICA MONTEPIO GERAL GROUP

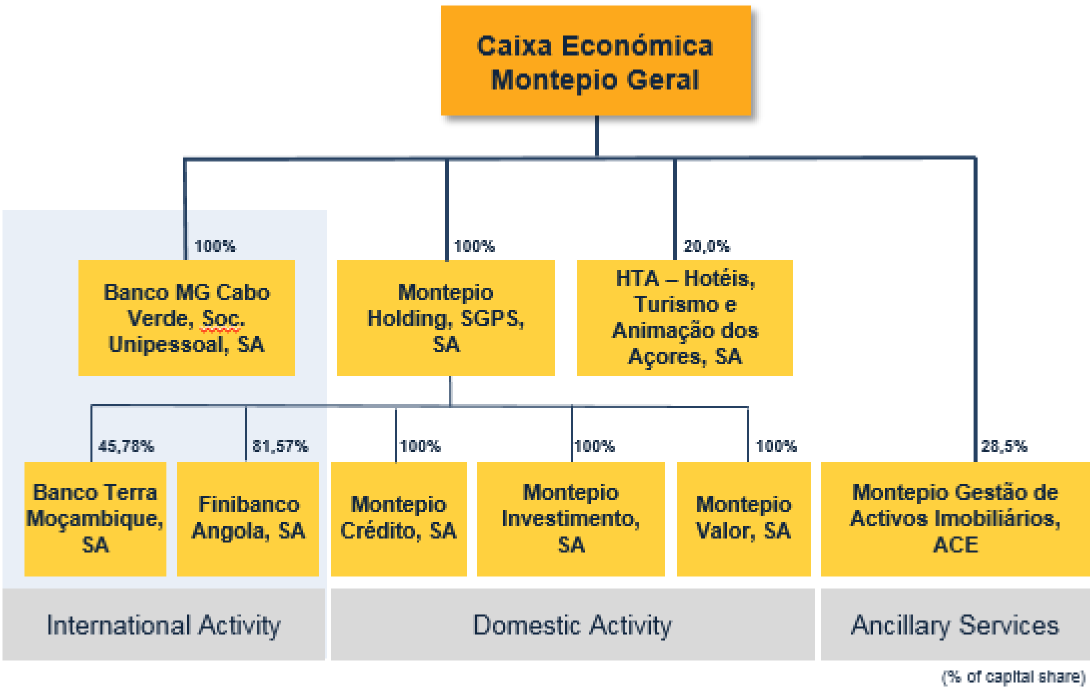
GROUP STRUCTURE

Caixa Económica Montepio Geral (CEMG) is a "Caixa Económica Bancária[2]" (Savings Bank), equivalent to a bank and attached to Montepio Geral – Associação Mutualista, its founder, holding a series 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 presents itself as one of the most differentiated banking and financial groups of the national and European financial sector in view of its mutual origins, nature and goals, which give it unique characteristics and an unmatched position in its sector and in Portuguese society.

Under the implementation of CEMG's Strategic Plan for the three-year period 2016-2018, decisions were taken at the end of June to close Montepio Recuperação de Crédito, A.C.E. and dissolve Montepio Capital de Risco, S.C.R., S.A. These two decisions confirm the good rate of implementation of the aforesaid Plan, where the reorganisation of the operational platform embodies one of its fundamental pillars, in a context of increased efficiency and strengthening of the quality of service provided to its Customers.

The CEMG Group is composed of the entities presented below:

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



[2] Decree-Law 190/2015, of 10 September

MONTEPIO BRAND

In the first semester of 2016, Caixa Económica Montepio Geral – a brand commercially known as "Montepio" – was once again recognised and distinguished by its customers.

The quality of its service associated to transparent, rigorous and competent performance contributed to CEMG having achieved more customers, who are the recipients of a transversal and integrated offer of products and services that advocate in favour of the brand and contribute to consolidate its positioning. Among the distinctions received, we highlight the following:

One of the largest Banks in the world

CEMG continued to ensure its presence in the 2016 ranking of the 1, 000 largest banks of the world, according to "The Banker" magazine, a reference publication in the banking sector and part of the British publishing group "Financial Times". This ranking, considered the standard measure of bank strength and performance for the industry since 1970, is based on an appraisal of the financial robustness of each institution, where the Core Tier I capital ratio (capital + reserves and income) plays a leading role.

For the 2nd consecutive year, the Private Customer Net24 platform gained the "Five Stars" Award

In 2016, CEMG was once again distinguished with its customers´ recognition of the Internet Banking platform – Private Customer Net24 – in conquering, for the 2nd consecutive year, the "Five Stars" certification. This award is attributed by the service users as well as the Portuguese consumers, based on the features of the service such as: Satisfaction, Price-Quality, Intention of Recommendation, Confidence in the Brand and Innovation.

SISAB 2016

CEMG was present, for the 5th consecutive year, in the International Show of the Food and Drinks Sector (SISAB). Being the largest annual convention of leading export companies and entrepreneurs, the event revealed the offer of 600 Portuguese companies dedicated to exports, representing around 30 food, drinks and associated sectors. The event was visited by buyers from 110 countries that had the opportunity to contact a total offer of 6,000 brands and products.

COMMUNICATION

Only a different bank can make the difference

Following the campaign launched at the end of 2015 and meeting the strategic guidelines of attracting new resources and strengthening the positioning of the Institution in the Private Customers segment, the second stage of the institutional campaign was launched, inspired by the message "Only a different bank can make the difference".

This campaign aims to affirm the values of the brand, its respective differentiating nature and positioning as a close entity that follows the different stages of life, different projects and needs based on a previously developed creative concept. However, this time it presented real customers of CEMG, who share their experience of relations with the Bank concerning two aspects – savings and mortgage loans.
Likewise, it is also important to stress the communication effort to attract savings through radio broadcast of a message of general nature - "Increasingly more Portuguese save their money with us. And this makes all the difference" and, in particular, with the flagship product "Montepio Super Deposit", disseminated in all Branches and digital media.

Also regarding communication addressed to the Individual Customer segment and following the campaign " Only a different bank can make the difference", a new phase was launched in early June aimed at aggregating the different stages of life of each client (mortgage loan, savings, funding and accomplishment of ideas/projects), as well as confirming the brand's values, its differentiating nature and positioning as a close partner prepared to value and respond with products, services and solutions to meet the needs and expectations of more than one million customers.

SUPPORT TO CULTURE

During the first semester of 2015, the strategy to support national culture was continued, in particular in the areas of music and theatre:

- **Music –** the support to the *fado* singer Camané started in the first four month period of 2016 and assured the accomplishment of a national tour. Over seven thousand people attended the galas in Lisbon (CCB), Porto (Coliseu) and Évora (Arena);

- **Theatre –** support to the play "*Plaza Suite*", on stage in Porto (Coliseu). During three days, more than four thousand people watched the performance of Alexandra Lencastre and Diogo Infante.

COMMITMENT TO PROMOTE EQUALITY AND COMBINE WORK AND FAMILY

In early 2016, CEMG concluded the Agreement of Accession to the Equality Companies Forum (IGEN), undertaking a new commitment to promote gender equality and balanced professional and family life as a factor of sustainability factor of society, aligning good practices in terms of mission, remunerations, career progression, collective contracting and processes of dialogue.

HUMAN RESOURCES

At the end of the first semester of 2016, CEMG had a total number of 3,647 employees, 19 of whom are allocated to the Group's international subsidiaries. This represents a year-on-year reduction of 259 employees.

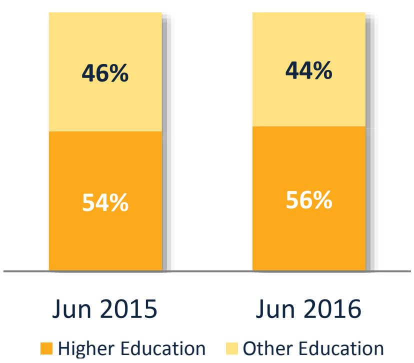
As at 30 June 2016, the total number of employees of all the entities of the CEMG Group was 4,182, with the following distribution among the different entities:

	Jun 2015		Dec 2015		Jun 2016		Change	
	No.	Weight (%)	No.	Weight (%)	No.	Weight (%)	No.	%
Total of CEMG Group	**4 434**	**100.0**	**4 404**	**100.0**	**4 182**	**100.0**	**(252)**	**(5.7)**
Caixa Económica Montepio Geral	3 906	88.1	3 871	87.9	3 647	87.2	(259)	(6.6)
Banco MG Cabo Verde	3	0.1	3	0.1	3	0.1	0	0.0
Montepio Holding, of which:	525	11.8	530	12.0	532	12.7		
Montepio Investimento	2	0.0	1	0.0	1	0.0	(1)	(50.0)
Finibanco Angola	193	4.4	194	4.4	201	4.8	8	4.1
Banco Terra	182	4.1	180	4.1	177	4.2	(5)	(2.7)
Montepio Crédito	131	3.0	131	3.0	131	3.1	0	0.0
Montepio Valor	16	0.4	23	0.5	22	0.5	6	37.5

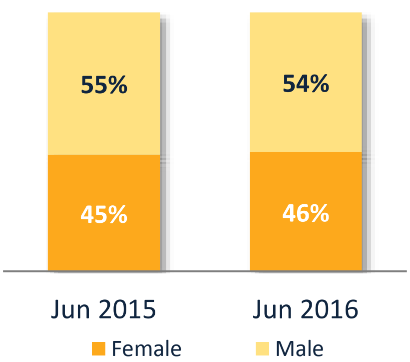
DISTRIBUTION OF CEMG EMPLOYEES

The number of employees with higher education qualifications, composed of employees with bachelor, licentiate, master, post-graduate and doctoral degrees has increased to 56%.
In terms of gender distribution, the male component is predominant (54%) at CEMG.
Concerning age structure, there was a slight increase of the bracket of employees "over 40 years old" (74%).

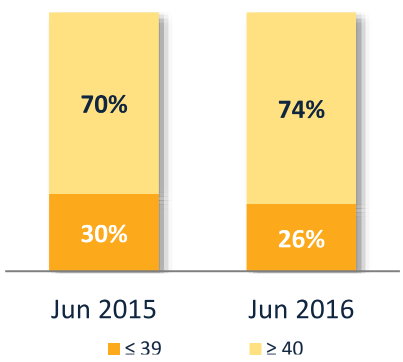
QUALIFICATION



GENDER



AGE RANGE



TRAINING OF EMPLOYEES

During the 1st semester, the Training Plan's objective was to assure compliance with the legal and regulatory provisions in force and the continuity of projects carried forward from 2015, namely the Montepio i9 Programme.

Compared with the same period of the previous year, there was a considerable increase in the number of actions, which was not accompanied by the variation in the number of hours. Following a universal trend, this data is in line with the participants' preference of a short-term training offer focused on practical situations.

	Jun 2015	Dec 2015	Jun 2016	Change (%)
Number of actions	174	1 091	440	>100
Hours of training sessions	57 535	82 095	31 794	(44.7)
Number of attendees	3 756	3 770	2 630	(30.0)
Number of appearances	12 579	23 996	14 235	13.2
Employees covered by training	**96%**	**97%**	**72%**	**(24) p.p.**

The **"Academia Montepio"** was recently created and presents itself as the embodiment of one of CEMG's strategic pillars – promotion of talent so as to leverage the business. This academy groups the training into a single management instrument directed at meeting the development needs of the employees.

ACADEMIA Montepio

Composed of 5 schools – Management and Innovation School, Leadership School, Functional School, Compliance School and Self-development School – the Academy fosters initiatives that provide flexible learning pathways in different formats (e-learning, face-to-face sessions, videos, specialised articles, webinars, coaching, etc.), grouped in separate pillars according to the target group, in order to cover all organisation levels.

In view of the series of initiatives that have already been planned and ongoing actions, for the 2nd semester we estimate a significant increase in training hours and an index of over 90% of employees involved.

DISTRIBUTION AND RELATION NETWORK

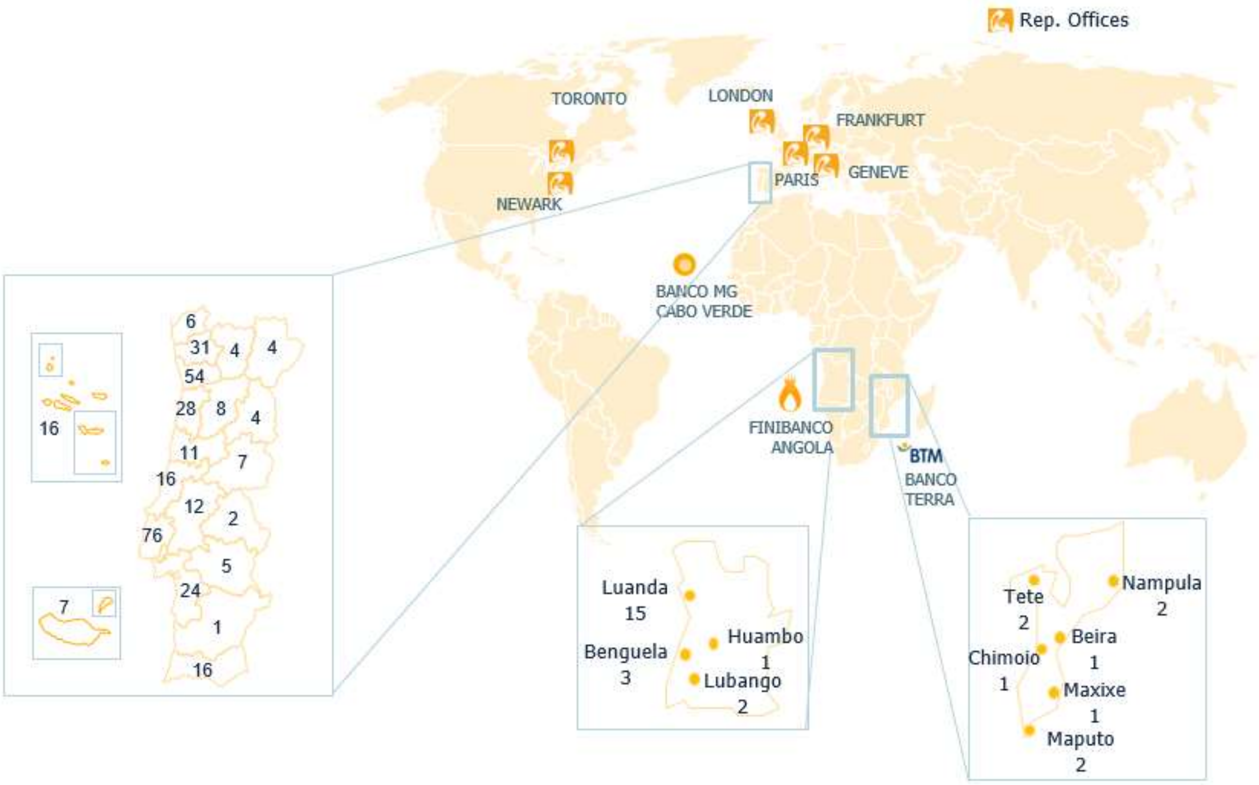
BRANCHES

In the first semester of 2016, CEMG had a network of 332 branches in Portugal, corresponding to a decrease of 104 branches in relation to June 2015. In the international activity, the network has a total of 21 branches in Angola (including 4 business centres), and 9 BTM branches in Mozambique. CEMG also has 6 representative offices located throughout Europe and North America.

No. of Banches and Rep. Offices

	Jun 2015	Dec 2015	Jun 2016
Domestic network	436	421	332
International network	30	30	30
Finibanco Angola (a)	21	21	21
BTM	9	9	9
Rep. Offices	6	6	6

(a) Includes Business Centres.



CUSTOMER MANAGERS

The personalised service and the development of close relations that characterises CEMG is assured by the network of customer managers, composed of 482 managers, 187 of whom directed to the Individual Customers segment and 295 to the Corporate segment.

Regarding the Corporate segment and continuing the efforts to specialise the service, CEMG provided 171 Small Business managers, 85 Small and Medium-sized Company managers and 9 Large Company managers. For the Institutional and Social Economy segment, the structure was reinforced with two new managers at the end of the year, offering a total of 30 dedicated managers.

No. of Managers per Customer segment

	Jun 2015	Dec 2015	Jun 2016	Change	
				Value	%
Companies	**306**	**299**	**295**	**(11)**	**(3.6)**
Institutional and Social Economy (a)	32	28	30	(2)	(6.3)
Large Companies	11	9	9	(2)	(18.2)
Small and Medium-sized Enterprises	82	83	85	3	3.7
Small Businesses	181	179	171	(10)	(5.5)
Individuals	**190**	**192**	**187**	**(3)**	**(1.6)**
Top Premium	9	9	7	(2)	(22.2)
Premium	181	183	180	(1)	(0.6)
Total of Managers	**496**	**491**	**482**	**(14)**	**(2.8)**

(a) Includes Microcredit managers.

COMPLEMENTARY CHANNELS

Montepio24 Service is a multichannel platform that includes Net24, Phone24, Netmóvel24 and SMS24 channels. During the 1st semester 2016, this service showed an increased number of clients, year-on-year, with 816 thousand users in the Private Customers segment (+5%) and 122 thousand Companies (+7%).

CEMG's public website, available at *www.montepio.pt*, also experienced a positive evolution in the number of accesses during the 1st semester of 2016, with a positive year-on-year variation of 26%, consolidating its position as a main contact point, offering products and services. This website had a monthly average above 3.1 million visitors and more than 18 million page views.

Concerning its support to national culture, CEMG's website publicised its different sponsorships during the semester in the music area, supporting artists such as Camané with the presentation of his new work "Infinito Presente", the Festival ("Às Vezes o Amor") or the D.A.M.A. ("Dá-me um Segundo"), among others.

At the end of the first semester of 2016, CEMG had 1,083 Automated Teller Machines (ATMs), of which 459 are installed in branches and 624 in external locations. In net terms, this quantity represents a reduction of 24 ATMs compared to the number recorded of the end of 2015 (1,107). This decrease was essentially due to the closing of branches during this period, which resulted in the removal of the respective equipment.

It should be noted, however, that due to the installation of new ATMs in new external locations and the continued readjustment of the number of machines available in the national market, pursued by SIBS Global Network, which resulted in a reduction of 102 machines to a total of 12,335, there was only a decrease of 0.12% in CEMG's market share, which reached 8.78%.

In what concerns the internal ATM network – Chave24 – the number of machines has followed the readjustment of the branch network, leading to a total number of 316 machines installed.

CEMG's number of Electronic Funds Transfer at Point of Sale (EFTPOS) increased by 5.5% during the first semester of 2016, maintaining the trend of growth of the previous year. Furthermore, the national market only grew by 3.2%, which enabled CEMG to increase its market share from 6.9% to 7.1%.

During the first semester, the card business recorded a slight decrease of 0.40%[3] in the quantity of cards, while the market showed an increase of 4.92%. Nevertheless, transactions increased by 13.40%, which was higher than the market increase (12.35%). Regarding the amount of transactions, Montepio cards showed an increase of 14.18%, also higher than the market, which grew by 13.10%.

The online trading platform – Montepio Trader – was present among the university target group through support to "The Trading Game". This is a trading competition of financial instruments (cash and non-cash) held between April and May, involving around 600 students of the University of Coimbra, representing more than 58 thousand hours of online trading. This initiative, exclusively developed in electronic format, enabled university students to compete during eight weeks and run for three remunerated internships, in the CEMG Markets Room. These internships enabled the students to complete and enrich their acquired theoretical knowledge.

3 SIBS Data

MACROECONOMIC ENVIRONMENT

According to International Monetary Fund (IMF) forecasts, published in July, the growth of the **world economy** was cut by a tenth for 2016 and 2017, following the British referendum on remaining in the EU (which was won by "Brexit") and even in light of a year which began by surpassing expectations in various geographic regions (the main exception having been the USA). The IMF also stressed the situation of the banking system of Italy and Portugal as part of the negative risks. This institution also mentioned that the initial reaction of the financial markets to the referendum was severe but, as a whole, orderly. In all truth, most of the assets of risk, primarily shares, have already recovered from these losses. The Fund foresees that the global economy should grow by 3.1% in 2016, the same as the previous year. This figure should reach 3.4% in 2017, also a tenth less than that forecast in April. The principal reduction is found in the developed countries, where growth shall stand at 1.8% both in 2016 and 2017. The IMF forecasts that the Euro Zone should grow by 1.6% in 2016 and 1.4% in 2017. While an upward review by a tenth has been given for 2016, growth in 2017 is expected to be two tenths lower than that forecast in April. For the USA, the IMF forecast growth of 2.2% in 2016, a figure which is likely to be excessively optimistic in view of the weak 1st semester. In turn, the emerging and developing economies should expand by 4.1%, only one tenth more than in 2015, and only in 2017 shall it growth at the same rate of 2014 (+4.6%). The sluggish growth in the emerging economies is derived from the low commodity prices, tight external financing conditions, structural flaws and adverse economic impacts arising from geopolitical factors.

In the **USA**, the economy grew an annualised rate, successively, of 0.8% in the 1st quarter and 1.1% in the 2nd quarter. In both cases this was below the median growth of the last 40 years (+3.0%), the potential growth estimated by the Federal Reserve (Fed) (around +2.0%) and average growth of 2.1% observes since the end of the Great Recession of 2008/09. For the fifth consecutive quarter investment in inventories penalised growth. Taking into account this strong adjustment to the level of inventories, and even in the context of international uncertainty further enhanced by Brexit, the economy should now emerge out of a period of weak growth, which was affected by a series of factors: *i*) the rapid rise of the dollar and fall in the oil sector derived from shale gas (penalised by the declining prices); *ii*) the slowdown of China and, especially the fears of a more significant deceleration, which have not in fact occurred; *iii*) the strong volatility of the financial markets in August 2015 and during early 2016, with highest impact on consumption (particularly durables) and investment decisions. Despite the disappointing economic growth of the 1st semester, the economy continued to create jobs, with the **unemployment rate** having fallen from 5.0% in December 2015 to 4.9% in June. This indicator stood at 4.7% in May, a minimum rate since November 2007. The problem is that the rate of participation of the labour market is almost at its lowest point since 1977 and the duration of unemployment continues historically high, therefore, even with the unemployment rate now close to its long term value, the Fed persists in applying a very accommodative monetary policy, moreover in a context where **inflation** continues below the target of 2%. The year-on-year growth of the private consumption deflator shifted from 0.6% in December 2015 to 0.9% in June. Thus, its main **reference rate** closed the semester with the same interval that it closed 2015, between 0.25% and 0.55%, and after, in December 2015, the monetary authority had ordered the first increase of rates since 2006, by 25 b.p.

Still showing some fragility in its economic recovery, the **Euro Zone** recorded **GDP** growth of 1.6% for 2015, after already having risen by 0.9% in 2014 and following two years of contraction (-0.4% in 2013), derived above all from the budget consolidation policies carried out by a significant number of Member States, in the wake of the sovereign debt crisis in the region. In **2016** the economy continued to grow, with GDP having progressed in chain by 0.6% and 0.3% in the first and second quarter of the year, respectively. It should be noted that GDP only surpassed the pre-recession levels of 2008/09 in the 1st quarter, having ended the first half of the year at merely 0.8% above the previous peak figure, reached in the 1st quarter of 2008. The **unemployment rate** continued on its downward trend observed since mid 2013, but still remains high, having ended the 1st half of 2016 at 10.1% (10.5% in December 2015), standing only 2.0 p.p. below the historic peak levels since the beginning of the series (1990), observed between April and July 2013. The **inflation rate** continued fairy low throughout the quarter, occasionally entering into negative figures and showing a modest downward trend. Inflation shifted from 0.2% in December 2015 to 0.1% in June, remaining well below the target set by the European Central Bank (ECB) of 2.0%. Core inflation continued relatively stable, having ended the semester at 0.9%, identical to the figure recorded at the end of 2015, remaining above the general index but likewise below the target.

After three years of recession, the **Portuguese economy** resumed its growth in 2014 (+0.9%) and continued the process of gradual recovery in 2015, with GDP growth of 1.5%, and having continued to grow in chain by 0.2% in both the 1st and 2nd quarters of 2016. The slowdown observed at the beginning of the year was due, in particular, to the fall of exports, which were penalised not only by the declining demand of markets such as Angola and China, but also by the strikes of workers at Sines refinery, whose negative effect was partly reversed in the 2nd quarter. The outlook for **2016** as a whole points to a deceleration of growth to 1.0%, which should be supported only by renewed growth of domestic demand. The construction sector has been among the sectors under heaviest pressure, with its Gross Value Added (GVA) returning to growth in 2015 (+3.5%), after having contracted by 1.4% in 2014 to its lowest levels since at least 1995 (representing less than half of the historic peaks of 2001). This sector showed further contraction in early 2016 (-3.4% in chain in the 1st quarter), but should return to positive figures in the 2nd quarter. With regard to public finance, after the **budget deficit** of 4.4% of GDP observed in 2015, declining in comparison to the deficit of 7.2% recorded in 2014 - the Banif resolution operation had an impact of 1.3% of GDP-, the national accounts data relative to the 1st quarter reveals a deficit of 3.2%. This figure is above the 2.2% established as the annual target in the State Budget for 2016 [and 2.3% permitted in the alternative scenario presented to the European Commission, although the latter had proposed a less ambitious target of 2.5%, in exchange for additional consolidation measures], but represents a reduction of 2.3 p.p. in relation to the same period of 2015, which exceeds the 0.9 p.p. improvement foreseen in the State Budget for 2016. Furthermore, according to Eurostat's seasonally adjusted data, the budget deficit should have been 0.8% in the 1st quarter (-9.3% in the 4th quarter of 2015). In turn, the national accounts data relative to the entire 1st semester also shows a budget reduction, corresponding to 52.2% of the figure forecast for 2016, a much more favourable situation than that observed in 2015 (80.8% in the same period). The **unemployment rate** increased in the 1st quarter from 12.2% to 12.4%, having risen for the 2nd consecutive quarter (+0.3 p.p. in the 4th quarter of 2015). However, when adjusted for seasonality, the figures how an estimated decline from 12.1% to 12.0%. This indicator showed a strong reduction to 10.8% in the 2nd quarter, with the first semester of the year having ended at its lowest level since the 2nd quarter of 2010, returning to the downward trend that has been observed since the historic peak reached in the 1st quarter of 2013 (17.5%). This permits an outlook of a significant annual decrease in 2016 to 11.3%, below the 12.4% of 2015, although still representing a historically high figure. **Inflation** (measured by the harmonised consumer price index - HCPI) accelerated from 0.4% in the 1st quarter to 0.5% in the 2nd quarter, with a forecast average inflation rate of 0.7% in 2016. This figure represents a slight increase in relation to the 0.5% observed in 2015, and is the second consecutive year of growth of prices, after the 0.2% decline in 2014, in what was, with the exception of 2009 (-0.8%), the first situation of negative inflation since 1954 (-1.9%), largely due to the fall of prices of energy products.

In **Angola**, the economy has been severely affected by the sharp drop in the price of oil. The economic scenario in 2016 should continue to present challenges, as it is not expected that international oil prices will recover significantly during the year. Thus, risks remain negative and **GDP** should slow down once again in 2016, to growth below the 3.0% estimated for 2015.. Effectively, in the "Executive Macroeconomic Reprogramming" document, published in July, upon whose projections the Amending State Budget for 2016 is based (under preparation), the Government admits GDP growth of merely 1.1% for this year. The strong economic risks and challenges, essentially triggered by the aforesaid fall in oil prices, led the Angolan Government, in March, to ask the IMF for a bailout through an economic and financial assistance request, under an Extended Fund Facility (EFF). However, the Angolan Government withdrew this request for assistance a few months later (in June), with the President of the Republic of Angola informing the IMF of its decision to maintain the dialogue with the IMF merely in the context of the consultations under article IV. Regarding price evolution, the annual average rate of **inflation** had increased in 2015, from 7.3% to 10.3%. Strong upward pressure was maintained throughout the 1st half of this year, with year-on-year inflation having shifted from 14.3% in December 2015 to 31.8% in June 2016, reaching peak levels since November 2004. For 2016 as a whole, the devaluation of the kwanza in relation to the dollar, the exacerbation of the customs tariff, the protectionist policies and increase of fuel prices should lead to a new increase of inflation, from 10.3% observed in 2015, in accordance with the Executive Macroeconomic Reprogramming" document 2016, a value above 30%, (in Executive Macroeconomic Reprogramming" document is expected the year-on-year inflation rate is expected to stand at 38.5% in December). Thus, inflation continues, for the second time consecutively, significantly above the target inflation [+7.0%; +9.0%] of Banco Nacional de Angola (BNA) and the 7.0% forecast by the Government in the State Budget for 2016. It should be noted that more cuts are programmed in fuel price subsidies, with natural upward impacts on prices in general (the State Budget for 2016 considers new reductions for this year). The escalation of inflation in 2015 led the BNA to initiate a cycle of tightening its **monetary policy**, with its basic interest rates having been increased on five occasions in 2015, and continue this policy during the 1st semester of this year, making its policy more restrictive on three occasions. Specifically, in the last meeting of the semester (30 June), the BNA decided: *i*) increase its basic interest rate (BNA rate) from 14.00% to 16.00%; *ii*) increase the interest rate of the liquidity assignment facility from 16.00% to 20.00%; *iii*) increase the interest rate of the permanent liquidity absorption facility at seven days from 2.25% to 7.25%.

The economy of **Mozambique** started 2016 by slowing down, with **GDP** recording year-on-year growth of 5.2%, in decline from the 6.1% of the 4th quarter of 2015 had decelerated in the 2nd quarter to 3.7% . This slowdown reflected a series of one-off factors such as the political-military tension which directly affects various regions of the country, the impact of the floods and dry spell in the period, as well as the adverse evolution of the prices of the main export goods. In annual average terms, after GDP growth having slowed down by 0.8 p.p. in 2015 to 6.6%, the economy should once again slow down in 2016 with more intensity. IMF forecasts, made at the end of a visit of its technical staff to the country (24 June) point to growth of 4.5%, which is 2.5 p.p. below that admitted by the Government of Mozambique in the State Budget for 2016. However, the Government has also recently made a downward revision to 4.5%, in its Amending State Budget for 2016. **Inflation** (measured by the consumer price index (CPI) of Maputo), throughout the 1st semester continued the trend of strong acceleration initiated in mid 2015, having shifted from 11.10% recorded in December 2015 to 17.75% in June, corresponding to the highest value since March 2006 (+17.88%). In annual average terms, inflation is forecast to show a strong acceleration in 2016, to around 14.1%, corresponding to a peak level since 2002 (+16.8%). This heavy increase foreseen for 2016 (+2.39%) should reflect the effects of the strong currency depreciation observed from the end of 2015 onwards and the expected gradual increase of oil and food prices in the second half of the year. The aforesaid devaluation of the metical observed throughout 2015 was expressed in an acceleration of the inflation rate and led Banco de Moçambique (BM) to reverse the monetary policy cycle. The BM initiated a rapid tightening of its policy from October 2015 onwards, in an attempt to contain the effects of the strong depreciation of the metical on inflation. The BM's decisions endorsed during the 1st semester of this year (in the meetings of 15 February, 19 April and 13 June) and subsequently (21 July) continued to pursue this restrictive cycle of monetary policy. Notwithstanding the evident need to take additional measures throughout the years, through this attitude of rapid tightening of monetary policy, the BM aims to achieve the medium term target for inflation in 2016, which stipulates average growth of the CPI of Maputo between 5% and 6%.

In **Cape Verde**, the **GDP** growth rate has attenuated over the last four years (between +1.1% and +1.9%), with these figures being greatly below the rates between 6% and 7% recorded before the international crisis. In the 1st quarter, GDP recorded year-on-year growth of 5.8%, showing acceleration when compared to the 3.1% of the 4th quarter of 2015. For the entire year of 2016, in March, Banco de Cabo Verde (BCV) forecast GDP growth between 1.5% and 2,5%, although the buoyancy of the early year suggest that it may grow more than the upper limit of this range. In any case, the IMF forecasts growth of 2.9% in 2016. The BCV foresees a continued recovery of household purchasing power due to the positive expectations regarding the evolution of transfers from abroad for family support, although slowing down, the increased benefits and social support paid by the Government and some improvement in labour market conditions. The expected acceleration of various tourist projects and start-up of construction works of other enterprises financed by private foreign capital and the foreseen increased funding by the national banking system of business projects should sustain the recovery of the investments of other sectors (individuals and public and private companies). In June, **inflation**, measured by year-on-year growth of the consumer price index (CPI), fell from -1.0% to -2.3%, corresponding to the second consecutive decline and largest decrease since October 2009. As the year-on-year inflation in the 1st semester was -1.3%, the inflation for 2016 should be negative, but is expected to return to positive figures in 2017.

FINANCIAL MARKETS

Market sentiment tended to evolve negatively as a whole in the 1st semester of the year, although this development was marked by **three distinctive cycles** – an initial period of deterioration lasting until mid February, followed by a more favourable period until the last third of April, ending with a final period, up to the end of the semester, which was characterised by a renewed deterioration of sentiment, albeit less heavy than that observed in the beginning of the year.

In the **initial period of the semester** (from the beginning of the year until 11 February 2016), **adverse market performance** was observed. To a large extent, this evolution apparently reflected the greater importance given by investors to the risks of worldwide economic outlooks derived from the performance of China and other emerging economies. Thus, the factors that **penalised market sentiment** in this period include, in particular: *i*) the signs of cooling down in China, devaluation of the yuan and regulatory changes (associated to the implementation of mechanisms of automatic suspension of trading when the index falls by more than 7%, which were later withdrawn); *ii*) the increased geopolitical risk in the Middle East (Saudi Arabia announced the cutting of diplomatic relations with Iran, in reaction to the attack on Riyadh's embassy in Tehran by demonstrators) and in the Far East (North Korea stated having successfully conducted its first hydrogen nuclear test and made confrontational speeches against its neighbours of the South and the USA); *iii*) the downward revision in January of global economic growth projections by the World Bank and IMF; *iv*) the macroeconomic data, generally more adverse, which have progressively been disclosed, continuing to heighten concerns about the weak economic growth at a worldwide level and which, in the meantime, led the IMF to once again revise, both in April and July, its forecast for the world economic growth of this year; *v*) the effects of the consecutive declines of oil on companies and the economy of countries linked to the sector; *vi*) the fears in relation to the profitability of the European and Japanese system, in a context of negative interest rates.

This was later followed by a **second period** (between 12 February and the last third of April), when **favourable market performance** was observed, where the factors which most **influenced market sentiment** were: *i*) the new monetary stimulus by the ECB, with this authority having decided (11 March) to make its policy even more expansionary and more intensely than that expected by the market, in announcing a new reduction of its main interest rates. The market had only expected a reduction of the deposit rate, from -0.30% to -0.40% as indeed occurred. However, the ECB also cut the refi rate and the rate of the permanent liquidity assignment facility by 5 b.p., to 0.00% and 0.25% respectively, and made a new reinforcement of the expanded asset purchase programme (quantitative easing - QE). In the case of the QE programme, the ECB increased the average rate of monthly purchases of assets from the previous 60 thousand million euros (mM€) to 80 mM€. Here again, the market was surprised by the intensity of the measure, as it had expected increases between 70 mM€ and 75 mM€); *ii*) the fact that the Fed surprised the market (in its meeting of 16 March) with its downward revision of the number of interest rate increases for this year, from four to two; *iii*) the statements of the Chair of the Fed, returning to adopt a defensive attitude in declaring that the central bank should "proceed cautiously" in increasing interest, due to the risks to the global economy; *iv*) the expansionary adjustment of the monetary policy of the Bank of Japan and the fact that it continued open to new stimulus; *v*) the continuous signs of resilience of the labour market of the USA, even in view of the sluggish growth of the economy in the 1st quarter; *vi*) the Chinese authorities' support to economic activity, namely through liquidity injections and cuts in the rates of bank reserve requirements, already reflected in credit data; *vii*) the recovery of oil prices, with favourable impact on companies of the sector and oil exporting economies (even so, the financial rating agencies placed under revision the rating and outlook of various oil exporters, even downgrading on occasions due to the fall in oil prices); *viii*) the good kick-off of the Results Season in the USA relative to the 1st quarter of 2016, which surpassed the current expectations; *ix*) the economic data disclosed somewhat all over the world, which were generally more favourable than those reported throughout the first cycle of the semester, with the first signs of recovery of the confidence of economic agents having started to emerge, namely in Europe; *x*) due to the data on economic activity known up to this date, especially for China, which were revealed during this period, having been better than that expected, leading to a reduction of fears in relation to a hard-landing scenario in this country.

Finally, there was a **last period** (between the beginning of the last third of April and the end of the semester), when a **renewed deterioration of market sentiment** was observed, albeit less heavy than that observed in the beginning of the year. The main factors **penalising market sentiment** were: *i*) the generally adverse economic data, worse than expected for some of the main economies, in particular, in the case of the USA, the weak GDP data of the 1st quarter, despite suggesting an acceleration for the 2nd quarter and the poor employment report of May, and, in the case of China, the slowdown of the country, signalled by the data of May on industry, retail, investment and foreign trade; *ii*) the apparent renewal of fears regarding the slowdown of world growth, reflecting not only the aforesaid data which tended to be lower than that expected in most of the period, but also the downward revision of the European Commission's growth forecasts for the principal economies and economic blocks, as well as the IMF's more pessimistic statements regarding the performance of China and Japan during the next two years; *iii*) the fact that the Results Season in the USA for the 1st quarter of 2016, in spite of having continued to surpass expectations, actually revealed, during this period under review, less positive surprises than those presented in the previous period; *iv*) due to the victory of Brexit in the referendum on the leaving or permanence of the United Kingdom in the European Union (EU), countering the average probabilities implicit in the prizes paid by various online betting websites. It should be noted that, apart from reflecting the outcome of the referendum itself, which emerged only at the end of the period under review, the last two months of the semester were marked by opinion surveys that pointed, in majority, and during most of the period under analysis, to the victory of Brexit and to the multiplication of speeches and interventions by British and international politicians highlighting the serious consequences of the possible leaving of the EU by the United Kingdom- These consequences would be a possible recession, the sharp fall of the pound in the foreign exchange market (immediately visible after the outcome of the referendum was known) and higher funding costs for banks.

For the semester as a whole, and in terms of evolution of the main financial markets, the majority of the **equity market** indices show negative performance, with declines in Asia (except India) and most European indices, albeit with the main exceptions being the United Kingdom and some countries of the East (the Eurostoxx fell by 12.3% and the PSI-20 by 16.2%, while the FTSE 100 appreciated by 4.2%), mixed performance in the USA (3.3% decline in the Nasdaq, but increases of 2.7% and 2.9% in the S&P 500 and

Dow Jones) and increases in Latin America. The **spreads of the debt of the peripheral countries of the Euro Zone** showed an exacerbation, with the descending performance observed from mid February (which was slightly reversed towards the end of the semester) not managing to offset the strong aggravation recorded up to this date. The **spreads of the corporate credit market** revealed an ascending performance. The **yields of German and American debt** presented declines both in the short term (two years) and long term (10 years), and higher in the latter case, with German yields having closed the semester on negative ground (-0.130%). The **yields of Portuguese debt at 10 years** increased from 2.516% observed at the end of 2015 to 3.006% by the end of the 1st half of 2016, having, on 11 February, reached 4.107%, a maximum figure since March 2014, well above the historic minimum of 1.560% recorded in mid March 2015. The **Euribor** rates fell for all maturity periods, renewing historic peaks and also becoming negative at 12 months (having started the year on negative ground at three and six months, by early February the Euribor at 12 months entered negative ground), reflecting the increasingly more expansionary monetary policy of the ECB. The Euribor closed the 1st semester at -0.286% (three months), -0.179% (six months) and -0.051% (12 months). In turn, the **Libor of the dollar** advanced for most maturity periods, incorporating the probability that the Fed would continue to increase rates in 2016 (which, in the meanwhile, progressively lost strength over the semester). ***Commodities*** presented a positive performance in most categories, especially intense for previous metals (+25.7%) and energy (+30.0%). These developments followed after energy had been very penalised in 2015, while previous metals reflected their nature as safe haven assets, especially the case of gold (+24.6%), in a semester when investor sentiments tended to evolve negatively, as mentioned above. In the **foreign exchange market**, the euro appreciated in relation to the dollar (+1.9%) and pound (+13.2%) but depreciated in relation to the yen (-12.5%), with the nominal effective exchange rate of the euro having increased by 2.2% during the first half of the year.

STRATEGIC AND BUSINESS AREAS

STRATEGY

During the first six months of 2016, Montepio maintained its strategic focus on being a bank focused on improving the well-being of families, on the financial needs of Portuguese SMEs and on support to the Social Economy, as well as competitive, efficient and with a simple and trustworthy offer and service. Continuing along the path of strengthening its positioning based on the tradition, solidarity and solidity with which it was built and that have always defined in during its over 170 years of history, initiated and continued in the first half of 2016 , actions defined in the Strategic Plan 2016-2018 .

The scenario of action remained particularly challenging, at different levels, with sluggish macroeconomic recovery, the maintenance of historically low interest rates and the continued increasingly higher standards of prudential requirements determining the adoption of measures of action on different fronts.

In view of the circumstantial challenges, the priorities of action aimed to achieve balanced management between the volumes of the credit and resource portfolios, assuring the sustained growth of the business and alignment with the measures foreseen for the three-year period of 2016-2018:

1. Recovery of Core Net Banking Income
2. Redimensioning of the operating platform and improved efficiency
3. Strengthening of Risk Management
4. Liquidity Management
5. Management of Human Capital
6. Adjustment of Capital to Business Needs
7. Increased Robustness of the Institutional Model

The recovery of core net banking income is of increasing importance in the current macroeconomic scenario, along with structural redimensioning. In the first half of 2016, core net banking income, excluding the effect induced by the sale of the public debt portfolio, increased in relation to the value of the same period of 2015. Operating costs, excluding costs related to the redimensioning of the operating structure, decreased in relation to the same period of 2015.

The branch network optimisation programme constitutes one the main axes of the process of redimensioning of operating costs and enhancement of operating efficiency for the three-year period of 2016-2018. The optimisation of the network aims at the assertive selection of viable branches in view of the surrounding market and current challenges. In the first half of the year, 89 branches were closed in line with the plan's objectives. The results that are expected from the streamlining of the operating structure are a factor with impact in the medium term.

During the first semester, important initiatives were also developed to improve asset quality, via the sale of credit portfolios and deleveraging of real estate assets. Furthermore, projects to divest non-strategic equity stakes were also continued. These initiatives, among others, contributed to reduce the risk-weighted assets, enabling Montepio to surpass the capital ratios established by the regulator.

Due to the focus on the management of the credit portfolio, the cost of risk in the first semester recorded a favourable evolution when compared to the cost stated for the same period of the previous year.

Despite the continued challenges of improving the profitability of the core business and asset quality adjusting the capital in view of the regulatory requirements, the results achieved in the first half of 2016 confirm our commitment with the objectives defined in the Strategic Plan established for the three-year period of 2016-2018 and our dedication to accomplish the foreseen actions.

BUSINESS AREAS

COMMERCIAL BANKING

INDIVIDUALS

The strategy defined for the Private Customers segment has focused specifically on encouraging family savings, namely by attracting and retaining resources with different maturities and a wide range of features. New savings accounts were introduced in order to attract new customers (*Montepio Super Depósito 2016* e *Montepio Super Depósito 9 Meses*) (Montepio Super Deposit 2016 and Montepio Super Deposit 9 Months), increase customer loyalty (Montepio 4D) and encourage the use of digital documents (*Montepio Aforro Digital*) (Montepio Digital Savings).

CEMG continued to offer the Retirement Savings Plans managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A. over the first half of 2016. These plans aim to encourage customers to invest in their retirement by making occasional or periodical deposits into savings accounts opened exclusively for this purpose.

The bank's financial product portfolio continued to include the Investment Funds managed by Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A., as well as two Real-Estate Investment Funds, namely Finipredial e VIP, managed by two other Management Companies.

CEMG continued to offer four Global Montepio Solutions (Consigo, Valor, Runner and Viva) targeted at Private Customers with different banking needs. Montepio Solutions comprise several integrated product and service packages, at varying prices.

Mortgage Loans were reformulated following the observed growth in the real-estate sector, which resulted from an increase in customer confidence. Started in the first quarter of the current year, the Mortgage Loan reformulation process focused on customer needs (acquisition of first or second homes, renting of property, renovation works), with a view to making the bank's offer more attractive, as well as ensuring alignment with the practices adopted by Other Credit Institutions.

In addition to the aforementioned reformulation process, several measures were implemented in order to offer adequate service levels to Customers and ensure differentiation within the target market.

Regarding the information available on the Institutional Site, a few alterations were introduced into the Mortgage Loan Simulator, in order to simplify its use. In what concerns above-the-line marketing, an Institutional Campaign – We are a Different Bank – was developed and advertised in the media. The bank will continue investing in this campaign over the second half of 2016, by increasing its focus on promotional conditions.

In the Bancassurance area, CEMG continues to offer a wide range of products specifically developed for the private customer and business segments, in partnership with Lusitânia. The products offered include life and disability insurance, in the life/mixed segment, as well as motor, health, multi-risk occupational accident, civil liability and personal accident insurance, in the non-life segment. It should be stressed that Montepio has launched a new type of health insurance – Montepio Saúde Flex.

COMPANIES

The bank continued to focus on the strategy adopted in 2015, which aims to ensure the positioning of Caixa Económica Montepio Geral as a valuable partner in the business segment, increase the bank's market share and continue diversifying its activities.

The brand's strategic focus and positioning in 2016 reflected the guidelines defined for each major area:

1. Provision of support to the Business Segment and Internationalisation
2. Provision of support to Entrepreneurship and Microcredit

1. Provision of Support to the Business Segment and Internationalisation

Given the strategic importance of the Portugal 2020 agreement to the Portuguese Economy, particularly at a time when businesses are being encouraged to focus on quality and internationalisation, CEMG is strongly committed to funding and participating actively in the investment projects included within the scope of EU framework agreement in effect between 2014 and 2020.

Regarding International Business, CEMG introduced a new communication channel in the first half of the year. This channel was advertised at CEMG branches, in the Portuguese press and in several online media, as well as at the International Trade Fair for Portuguese Food and Beverages (*Salão Internacional do Sector Alimentar e Bebidas* – SISAB), which reflects CEMG's focus not only on existing exporting companies and prospective exporters, but also on clusters showing high potential for growth and the ability to boost the Portuguese economy.

CEMG also strengthened its positioning as a bank committed to providing support and meeting the financial needs of Portuguese SMEs over the first half of 2016, by adopting and promoting a strategy based on the establishment of close, dynamic partnerships with business associations and local business support entities.

Over the first half of 2016, CEMG remained actively involved in government initiatives aimed at facilitating business financing, through lines of credit governed by specific protocols:

- **Line of Credit aimed at Supporting Improvement and Renovation 2016 – Portuguese Tourism** – line of credit totalling 60 million euros, whose purpose is to grant medium- and long-term loans to investment projects submitted by Tourism sector companies, particularly projects involving the building and/or renovation of innovative tourist facilities, as well as cultural and/or entertainment and restaurant projects. Specific lines of credit may be created within the scope of this initiative, in order to meet specific needs.

- **Mezzanine Financing IFD 2015** – totalling 100 million euros, this line of credit aims to facilitate the funding of businesses that implement growth strategies, by offering mezzanine financing solutions, which ensure greater stability.

By introducing alterations that led to the improvement of the Fincresce Programme, CEMG continued to reward companies that stood out for their exceptional performance and contributed to driving growth in several activity sectors, by awarding them the Leading SME or SME of Excellence status.

It should also be stressed that CEMG applied to the InnoVFin SME Guarantee Facility, through which the EIF (European Investment Fund) provides guarantees and counter-guarantees on debt financing to Credit Institutions, in order to improve access to loan financing for innovative SMEs and/or Small-Caps.

National Agriculture Fair

For the second consecutive year, Montepio participated in the National Agriculture Fair, in Santarém, one of the largest agricultural events in Portugal. Firm in its belief that agriculture is a strategically relevant sector to the Portuguese economy, Montepio spares no effort to support farm and livestock enterprises, not only with a view to encouraging productivity, but also to promoting economic sustainability.

Real-Estate Sector

CEMG participated in several events targeted at the real-estate sector, having supported and encouraged discussion between participants. It should be stressed that CEMG participated in the III Urban Renewal Week, where a group of Portuguese specialists gathered in Lisbon to reflect upon, discuss and exchange ideas on the importance and value of urban renewal, during a series of conferences and exhibitions. In addition to organising the "Urban Renewal Promotion & Financing" conference, together with the Portuguese Association of Real-Estate Developers and Investors (*Associação Portuguesa de Promotores e Investidores Imobiliários* – APPII), Montepio participated in a round table entitled "Assessing urban renewal risks."

CEMG's participation in these events provided the bank with the opportunity to promote its offer for this business area, particularly the *www.montepioimoveis.pt* website, where the products and services specifically developed by the Montepio Group for the real-estate sector are presented.

2. Provision of Support to Entrepreneurship and Microcredit

At a time marked by continued social inequality, Microcredit remains extremely relevant, by supporting entrepreneurs capable of presenting sustainable business ideas, which only require a small amount of capital to become a reality and potentially lead to the creation of jobs and contribute to fighting social exclusion and boosting financial autonomy. CEMG supported Entrepreneurship by granting several lines of credit, namely Microcredit, in partnership with entities heavily concerned with fostering employment, namely the Lisbon City Council, through the "*Lisboa Empreende*" Programme; the European Anti-Poverty Network Portugal (EAPN); and, more recently, the Business Association of the Santarém Region (NERSANT) and the Business Association of the Sintra Region (AESintra).

Over the first half of 2016, CEMG continued to focus on the implementation of the **Entrepreneurship and Self-Employment Support Programme**, an agreement established with the Institute of Employment and Vocational Training (*Instituto de Emprego e Formação Profissional, IP* – IEFP) and Mutual Guarantee Companies, through the Microinvest and Invest+ lines of credit. Data disclosed in June 2016 placed Montepio in the third position in terms of market share, which stood at 16%, representing a total amount of over 640 thousand euros.

In line with the national and international guidelines for promoting intelligent growth and boosting an economy based on knowledge and innovation, Montepio has spared no effort to encourage the development of highly innovative, technology-based ideas, projects and businesses.

CEMG maintained its positioning within the entrepreneurship area over the first half of 2016, primarily by supporting innovative start-ups, in partnership with major national, regional and social technological and business support entities. Accordingly, the bank has developed an offer suited to the lifecycle of start-ups – Montepio Take Off – and adopted a support and sponsorship policy aimed at stimulating an enterprising spirit within the Portuguese society.

CEMG has focused on creating a stimulating environment, with a view to fostering entrepreneurship and business innovation, namely by seeking new forms of financing.

In this sense, Montepio is one of the founding partners of the **BOABOA Crowdfunding Platform**, the first crowdfunding platform to be created in a European capital. This platform complements the offer required to creating a favourable environment for driving entrepreneurship, by providing access to an alternative source of funding, as well as allowing new ideas and projects to be tested and made known to the general public.

Based on a collaborative financing model, the BOABOA platform focuses on four areas: Entrepreneurship; Science and R&D; Culture, Citizenship and Participation; and Business Innovation. Seeking to encourage citizens to support projects "from Lisbon to Lisbon", the Lisbon Crowdfunding Platform wishes to establish a network of business incubators, business accelerators, co-works, fab-labs, investors and creative hubs, with a view to strengthening Lisbon's status as a start-up city, committed to fostering creativity and the emergence of new ideas.

Start-Up Portugal Programme

CEMG has been the sole bank to become involved in this movement, whose purpose is to support entrepreneurship. Reflecting the bank's commitment to supporting and strengthening the Portuguese strategy for encouraging entrepreneurship, either by acting as a mentor, a client or a sponsor, this involvement is aligned with the strategy adopted by CEMG, which focuses not only on supporting SMEs and Individual Entrepreneurs, but also on encouraging the development of innovative, creative, enterprising business projects.

Created by the Portuguese Government, the Start-Up Portugal Programme recognises the importance of entrepreneurship for driving the country's economy and creating better jobs for qualified individuals. With a duration of four years, the Start-Up Portugal Programme focuses on three areas, namely the business environment, financing and internationalisation, including measures aimed at supporting start-ups, business incubators and Portuguese investors in international markets, as well as attracting international start-ups, business incubators, business accelerators, clients and investors to Portugal.

The role played by CEMG in fostering entrepreneurship has become increasingly relevant over the years. In this sense, the bank has established several partnerships, namely with the Portuguese Agency for Competitiveness and Innovation (IAPMEI) and the Lisbon City Council (CML), in order to support the Start-Up Lisbon Programme, as well as other think tanks and business incubator projects, in addition to signing several cooperation agreements with community support organisations, namely associations.

Entrepreneurship, a key aspect for driving economic growth, gained not only relevance but also a specific offer and an image of its own, adjusted to the needs of those wishing to develop business ideas – Montepio Take Off.

Raearding this area, Montepio participated in several initiatives, namely the following:

- ✓ **5th Lisbon Entrepreneurship Week**, which took place in May and gathered over 60 participants, including CEMG. This initiative, which included more than 30 events, namely talks, workshops, conferences and masterclasses, organised in partnership with several entities, sought to strengthen Lisbon's current status as one of the most important Start-Up Cities in Europe.

- ✓ **Entrepreneurship and Internationalisation Seminar**, an event organised by the Torres Vedras Municipality and supported by CEMG that focused on issues such as the economic potential of the Western Region and the importance of supporting business internationalisation and attracting investors to the region.

- **PEI Project – Promoting Entrepreneurship amongst Immigrants**, an initiative organised by the High Commission for Migration whose goal was to foster entrepreneurship within immigrant communities, particularly those residing in disadvantaged neighbourhoods. CEMG was a member of the jury that evaluated the projects submitted.

- **JENIAL 2016** – 7th Portuguese Meeting of Young Entrepreneurs and Portuguese University Initiatives, an event entitled "The Future Today" whose goals were to demystify the challenges presented by the future and the labour market, and to empower Young Entrepreneurs. Montepio participated in the organisation of the "Enterprising Solutions" workshop.

Regarding Microcredit, CEMG continued to promote and support innovative, promising projects, a role that has been widely recognised as a key factor for fighting unemployment, creating jobs and boosting productivity and economic growth. Nevertheless, it should be stressed that the Montepio Microcredit project would not be as successful if not for the important contribution given by third sector organisations, which constantly strive to solve social problems, acting as local partners. Montepio's Microcredit is an innovative solution based on partnerships with national, regional and local organisations that stand out for their vast experience in social entrepreneurship and risk sharing.

The Montepio Microcredit solution plays a key role within this scope, boasting two truly unique factors that make all the difference: specialised managers, who provide support to entrepreneurs at all stages, from the initial business idea; and tutors, who work closely with entrepreneurs to help them develop business plans and assist them with the first stage of project implementation. As such, the Montepio Microcredit solution focuses both on financial and solidary issues, providing support to entrepreneurs and fostering the building of close bonds and fruitful partnerships. More specifically, the recent creation of the Microcredit and Social Entrepreneurship Area has strengthened the bank's commitment to this project. The new area aims to promote the emergence of new ideas, encourage entrepreneurship and finance innovative projects, whether based on creative ideas or traditional values, deemed to be economically viable and able to create value for their promotors, by actively engaging in dialogue with external entities and joining integrated business incubator and enterprise support networks.

BANKING FOR THE SOCIAL ECONOMY

The Social Economy is considered a priority issue within the scope of CEMG's Strategic Plan for 2016-2018, in line with the course of action followed in previous years. This commitment allows us to provide support to an ever increasing number of social institutions, by helping them meet their needs, turn their enterprising projects into reality and forging strong bonds and partnerships, while seeking to build a strong network aimed at boosting growth and strengthening the Social Economy and its agents.

Based on a solid knowledge of the social sector and the vast experience of committed teams, specialised in the specific aspects that characterise Social Economy organisations, the strategy defined by CEMG seeks to forge strong bonds with clients, with a view to helping them find the best solutions; strengthen partnerships with a wide range of key stakeholders; and create products and services tailored to the needs of all organisations whose mission is to work with people to help people.

Viewing Social Economy as a key business segment has allowed CEMG to adopt a structured approach to the respective organisations, with a view to adjusting its solutions to client needs and mitigating operational risk, which ultimately translates into a win-win scenario for all parties involved.

CEMG's commitment to forging close relationships with social sector institutions is reflected in the number of Institutional Client and Social Economy Managers employed by the bank, which totalled 30 by the end of June. Present across the entire Portuguese territory, these highly qualified, experienced, knowledgeable and dedicated professionals allow CEMG to improve service quality and better meet the needs of its clients. Every day, CEMG wishes to be perceived as a strategic partner and an as institution committed to supporting the Social Economy, by engaging in dialogue with sector representatives and consulting with the various stakeholders involved. This role is reflected by the following initiatives, developed over the first half of the current year, which embody CEMG's mission to promote a more efficient, sustainable Social Economy, through an offer specifically designed to meet actual needs:

- ✓ **Portuguese Confederation of Solidary Institutions (*Confederação Nacional das Instituições de Solidariedade* – CNIS) and Union of Portuguese Holy Houses of Mercy (*União das Misericórdias Portuguesas* – UMP)** – renewal of the respective Commercial Agreements, which provide a wide range of associated organisations with access to banking products and services (treasury management and financing), at competitive prices, as well as access to a line of credit included within the scope of CEMG's Microcredit/Social Enterprise offer.
- ✓ **IT Solutions for the Social Sector –** renewal of the existing partnership with F3M – Information Systems, based on an improved offer and better financing conditions, with a view to providing adequate IT and software solutions to the Social Economy, for the ultimate purpose of modernising the respective organisations and increasing management efficiency.
- ✓ **Social Sector Auto Leasing –** renewal of the existing partnership with Renault, whose purpose is to facilitate the financing of selected vehicles, under favourable conditions, such as to allow Social Economy organisations to modernise their fleets. Auto insurance discounts are also offered, in partnership with Lusitânia.

CEMG's positioning as the Social Economy Bank results from a series of factors, including a competitive, robust offer, which allows CEMG to stand out from other financial entities operating in the Portuguese market.

The launching of the **Solutions Guide for Social Economy Organisations** in the first half of 2016 reflects the bank's knowledge of the social sector, in addition to describing the offer exclusively developed for Social Economy organisations, in a systemised manner. The aforementioned Guide provides detailed information, not only on the products and services offered by CEMG, but also on the Partnerships established and the development of a favourable environment for fostering Entrepreneurship and Social Innovation, in addition to including a series of accounts kindly provided by Social Economy Organisations and Entrepreneurs.

The partnership strategy for the Social Economy developed by CEMG also seeks to boost and promote the social sector, by stressing its importance to the Portuguese society, both on national and regional levels. In this sense, CEMG continued to sponsor and participate in events organised by Social Economy organisations, which seek to encourage participants to reflect upon and discuss relevant issues, for the ultimate purpose of finding adequate solutions to the challenges faced by the social sector. CEMG participated in the following events, amongst others:

- ✓ **XII National Congress of Holy Houses of Mercy**, which took place last June, in Fundão, under the motto "Holy Houses of Mercy – a Solidary Brand." CEMG participated in this event with an exhibition stand and a team of Social Economy Client Managers, having taken advantage of this opportunity to promote the products and services exclusively developed for Social Economy organisations.

  CONGRESSO NACIONAL DAS MISERICÓRDIAS
  FUNDÃO // 02-04 JUN 2016

- ✓ **Portugal, a Social Economy**, an event organised by the AIP (Portuguese Industrial Association) Foundation, which took place last May at the Lisbon International Fair (FIL), under the motto "Entrepreneurship and Innovation in the Social Economy." This major event, which sought to be the first to congregate social sector players and drive the Social Economy in Portugal, included a wide range of individual and corporate exhibition stands, discussion forums, workshops, conventions and seminars. CEMG participated actively with its own events area, the **Montepio Community**, which included areas specifically

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dedicated to the *Associação Mutualista* (Mutual Association), CEMG and the Montepio Foundation, amongst others, thus stressing the role of the Montepio Group as a major player in the Portuguese Social Economy. CEMG encouraged the discussion of various issues during the event, namely voluntary work, employment prospects, ageing, health and wellbeing, the challenges faced by the Social Economy, sustainability and the need to engage partners in the development of joint projects.

As an active partner, strongly committed to social issues and innovation, CEMG perceives the Social Economy and its stakeholders as extremely relevant agents of economic and social change, owing to their ability to act on an increasingly larger percentage of the Portuguese population. To finance the Social Economy is to drive economic and social development, by promoting job creation and encouraging the development of more and better solutions to the problems faced by communities and the Portuguese Economy, which will ultimately lead to the generation of wealth. This is the path we shall continue to follow with unflinching determination, in partnership with Social Economy Organisations, with a view to fostering sustainability and finding solutions better able to address social issues.

CEMG does its utmost to support and promote Social Economy institutions and their work. In this sense, the following efforts should be stressed:

- ✓ **+Vida Card** – The +Vida credit card allows customers to support a solidary institution every time it is used. Montepio is entrusted with selecting the institutions that will benefit from this initiative whenever customers do not choose a specific institution. Over the first half of 2016, the institutions selected were Operation Red Nose and the Portuguese Society for Multiple Sclerosis (SPEM).
- ✓ ***Montepio Social Sector+*** – Deposit account exclusively available to Social Economy Organisations, launched in the first half of the current year.

INVESTMENT BANKING

Throughout the first half of 2016, Montepio Investimento continued to assure a special intervention, aimed at meeting company needs in the areas of "Financial Advice" and "Corporate Finance".

As at 30 June 2016, the total net assets of Montepio Investimento S.A. stood at 287.1 million euros, corresponding to a reduction of 7.3 million euros (-2.5%) in relation to the value stated in December 2015. This evolution was decidedly influenced by the performance of the portfolio of net Loans to Customers which reached 62.1 million euros as at 30 June 2016, having decreased by 10.7% relative to the amount stated at the end of 2015, reflecting the repayments of the movable and immovable asset leasing portfolios. Financial assets available for sale stood at 151.9 million euros at the end of June 2016, compared to 180.1 million euros at the end of 2015 due to the reduction of variable yield securities, especially shares and participation units.

The main sources of asset funding continue to be based on Resources from central banks, Resources from other credit institutions and Equity capital. As at 30 June 2016, the resources of the European System of Central Banks maintained the value of 15 million euros recorded at the end of 2015, backed by securities of the portfolio of financial assets available for sale. Resources from other credit institutions amounted to 75.2 million euros as at 30 June 2016. At the end of the first half of 2016, Montepio Investimento's total Equity reached the total of 187.7 million euros, having decreased by 3.7% in relation to the value recorded at the end of 2015.

In the first six months of 2016 net interest income stood at 1.7 million euros, compared to 2.4 million euros recorded in the same period of 2015 (-31.2%), due to the lower contribution of income derived from securities classified as available for sale and loans, and increased cost of resources. Net commissioning stood at 0.5 million euros, having declined by -44.7% in relation to the same period of 2015, influenced by the reduction in commissions from banking services provided.

The Earnings from financial assets available for sale were negative by 6.0 million euros in the first six months of 2016, due to the divestment of Participation Units of CEMG's Participation Fund.

The operating costs of the first half of 2016 amounted to 1.0 million euros, having decreased in relation to the 1.1 million euros recorded in June 2015, due to the reduction recorded in the heading of general administrative expenses, derived from lower costs related to the assignment of CEMG employees.

In the first half of 2016, the total value of impairments reached 2.93 million euros, of which 1.67 million euros refer to the loan portfolio, 1.62 million euros to the securities portfolio and 0.36 million euros to adjustments to non-current assets held for sale. In the same semester of 2015, the total amount of impairments had reached 1.75 million euros.

Net income for the first six months of 2016 was negative at 9.54 million euros, compared to the positive net income of 7.08 million euros recorded in the same period of 2015.

SPECIALIZED CREDIT

Montepio Crédito - Instituição Financeira de Crédito, S.A. is the entity within the CEMG Group that offers specialised credit at Points of Sale of vehicles and equipment.

This institution has been repositioning itself within the CEMG Group, towards joining the core business of motor vehicle financing, the development of specialised financing in professional areas, through relations with business partners supplying light and heavy vehicles and industrial equipment.

According to data published by ACAP (Portuguese Automobile Trade Association), 137,751 new vehicles were sold in Portugal during the first semester of 2016, which represented a positive year-on-year increase of 17.9 %.

As at 30 June 2016, the net assets of Montepio Crédito reached 491.1 million euros, showing growth of 11.2 million euros (+2.3%) in relation to the value stated in December 2015. Total loans to customers varied by 3.3% from December 2015 to June 2016 (to a total of 353.3 million euros).

At the end of the first half of 2016, net banking income reached 7.5 million euros, corresponding to a year-on-year reduction of 63.0% (-12.7 million euros) in view of the recording in the same period of 2015 of earnings of 12.7 million euros due to an operation of assignment of rights. Net interest income grew by 53.3% in relation to the same period of 2015, as a result of the strategy to diversify funding sources and rigorous management of the price applied to new operations.

Structural costs increased by 1.3%, to stand at 5.1 million euros.

Considering the above, the net income achieved in the first half of 2016 stood at 1.5 million euros, compared to 5.0 million euros in June 2015.

INTERNATIONAL ACTIVITY

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

DEPOSITS AND LOANS

In June 2016, the customers' deposits attracted by the entities that develop the international activity of the CEMG Group, expressed in euros, reached 661.2 million euros, reflecting a year-on-year decrease of 33.3%.

The attraction of resources in the Angolan market, of the value of 364.9 million euros, represents 55.2% of the international activity, having declined by 19.7% in relation to the same period of the previous year, as a result of the 35.4% deterioration of the EUR/AOA exchange rate, as the performance in the presented currency is positive with a 8.8% increase of activity, based on the policy aimed at penetrating the Angolan market, with the opening of 2 new branches and 1 business centre in 2015 and consolidation of the branches opened in recent years.

In MGCV, customers' deposits decreased by 48.4%, having stood at 259.9 million euros, accounting for 39.3% of the total deposits of the international activity.

BTM made a more modest contribution, with a balance of deposits of 36.3 million euros, which is expected to increase under the current business plan, which foresees an increase of the bank's physical presence to take advantage of the identified market potential, through the opening of new business centres (branches and other customer support services) and expansion of the offer of products and services.

The loan portfolio of the CEMG Group's international activity fell by 26.3%, from 305.8 million euros in June 2015 to 225.4 million euros in June 2016.

EARNINGS

Banco MG Cabo Verde, Sociedade Unipessoal, S.A. recorded a negative net income of 41 thousand euros, compared to the positive net income of 513 million euros as at 30 June 2015. This outcome was derived from the reduction of 370 thousand euros of net banking income due to lower net interest income (-414 thousand euros), partially offset by the earnings arising from currency revaluation (+24 thousand euros), as well as the aggravation of 184 thousand euros in operating costs.

The activity developed by Finibanco Angola, S.A. achieved a positive net income of 6.2 million euros, compared to 4.1 million euros in the first half of 2015. This evolution was influenced by the growth of net banking income by 0.7 million euros, driven by the increase of 2.5 million euros in earnings arising from currency revaluation which attenuated the reduction of net interest income and commissioning level by 0.4 and 0.2 million euros respectively. The 1.5 million euros reduction of operating costs neutralised the year-on-year of impairments and provisions of 1.2 million euros.

BTM, S.A., which operates in Mozambique, presented a negative net income of 61 thousand euros in the 1st half of 2016, compared to the negative net income of 2.2 million euros in the 1st half of 2015. However, this demonstrates a trend of positive evolution, especially in the 39.8% increase in net banking income and 20.4% reduction in operating costs.

FINANCIAL ANALYSIS

CAPITAL

The Capital of Caixa Económica Montepio Geral (CEMG) reached a total of 2,170 million euros at the end of the 1st quarter of 2016. This figure includes the institutional capital increase of 270 million euros undertaken by Montepio Geral – Associação Mutualista (MGAM) in March 2016. Thus, as at 30 June 2016, CEMG's Capital was composed of 1,770 million euros of institutional capital, belonging to MGAM, and 400 million euros of Participation Units representing CEMG's Participation Fund, listed for trading on Euronext Lisbon Stock Exchange and included in the PSI20.

The prudential solvency indicators are based on the legislation of Basel III, composed of Directive 2013/36/EU and Regulation (EU) 575/2013, both of the European Parliament and Council, as well as Banco de Portugal Notice 6/2013. The full application of the new Basel III regulations will be introduced gradually over a period up to 2018, with this process usually being referred to as Phasing-in. The full application of the new regulations, without considering transitional plans, is referred to as Full Implementation.

In June 2016, the Common Equity Tier I ratio[4] stood at 10.3% and the Total Capital ratio[4] at 10.9%, representing growth of 145 b.p. and 120 b.p., respectively, in relation to the end of 2015. This increase was influenced by the 8.2% reinforcement of own funds as well as the 3.6% reduction of risk-weighted assets.[4]

CAPITAL AND CAPITAL REQUIREMENTS

(thousand euros)

	Jun 2015	Dec 2015	Jun 2016	YoY Change		YtD Change
				Amount	%	%
Total Capital	**1 599 891**	**1 360 224**	**1 471 930**	**(127 961)**	**(8.0)**	**8.2**
Elegible instruments to CET I	1 896 031	1 890 019	2 143 200	247 169	13.0	13.4
Reserves and Net Income	(419 849)	(561 214)	(634 048)	(214 199)	(51.0)	(13.0)
Regulatory deductions	40 370	97 897	127 662	87 292	>100	30.4
Common Equity Tier I Capital	**1 435 812**	**1 230 908**	**1 381 490**	**(54 322)**	**(3.8)**	**12.2**
Other equity instruments	4 964	0	0	(4 964)	-	-
Tier I deductions	4 964	0	0	(4 964)	-	-
Tier I Capital	**1 435 812**	**1 230 908**	**1 381 490**	**(54 322)**	**(3.8)**	**12.2**
Tier II capital	171 028	137 483	99 598	(71 430)	(41.8)	(27.6)
Other deductions	6 949	8 167	9 158	2 209	31.8	12.1
Minimum Own Funds Requirements	**1 205 240**	**1 116 988**	**1 076 576**	**(128 664)**	**(10.7)**	**(3.6)**
Risk-Weighted assets and equivalents	**15 065 497**	**13 962 350**	**13 457 194**	**(1 608 303)**	**(10.7)**	**(3.6)**
CRD IV Prudential Ratios - Phasing-in						
Common Equity Tier I	9.5%	8.8%	10.3%	74 pb		145 pb
Tier I	9.5%	8.8%	10.3%	74 pb		145 pb
Total Capital	10.6%	9.7%	10.9%	32 pb		120 pb
CRD IV Prudential Ratios - Full Implementation						
Common Equity Tier I	7.3%	6.7%	8.3%	101 pb		158 pb
Tier I	7.3%	6.7%	8.3%	103 pb		159 pb
Total Capital	8.4%	7.7%	9.1%	64 pb		135 pb
Leverage ratio - Phasing-in	6.3%	5.7%	6.4%	4 pb		64 pb
Leverage ratio - Full Implementation	4.9%	4.4%	5.2%	34 pb		81 pb

Calculations as per our interpretation to date.

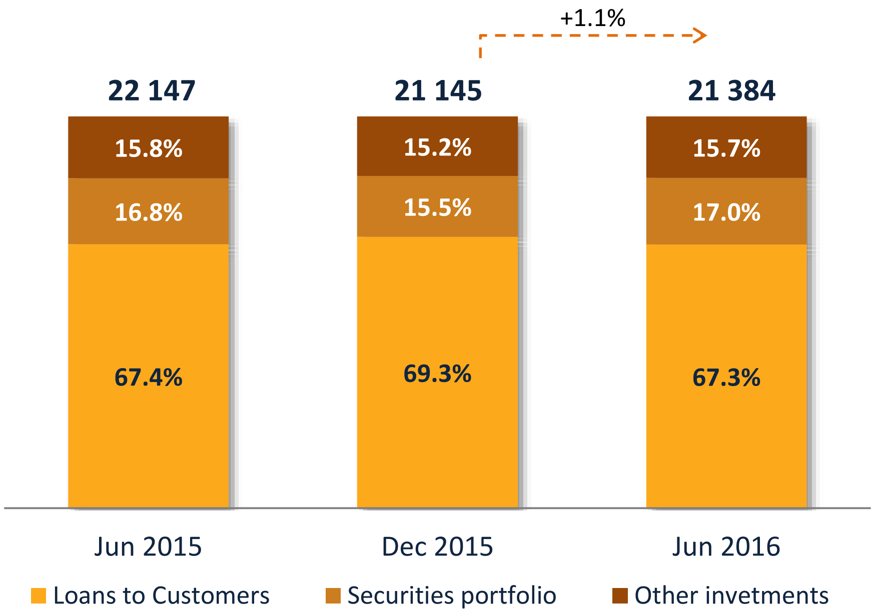
[4] Calculations pursuant to CRD IV / CRR, Phasing-in

BALANCE SHEET

ASSETS

Net assets amounted to 21,383.9 million euros at the end of the 1st half of 2016, having increased by 1.1% in relation to the value recorded as at 31 December 2015 (-3.4% year-on-year). This outcome was the result of the diversification of the balance sheet towards more profitable investments but was penalised by the still low demand for credit (-2.2% in relation to 31 December 2015).

NET ASSETS STRUCTURE (million euros)



LOANS TO CUSTOMERS

Gross loans to customers reached a total of 15,599.0 million euros, reflecting a decrease of 4.7% relative to the same period of the previous year and of 2.2% relative to the end of 2015. This was primarily due to the performance of domestic activity (-4.3%) as a result of the stringent policy in terms of risk management in loan concession and repricing adjusted to risk. It should be noted that domestic activity represents 98.3% of the total gross credit portfolio.

The performance of the credit portfolio, in relation to the same period of the previous year, continued to reflect the higher level of mortgage loan repayment in relation to new operations raised, giving rise to a year-on-year reduction of 4.8% (2.4% in relation to the end of 2015) and the reduction in the companies segment (-5.3%), especially the decrease in the construction segment (-24.3%).

As such, as at 30 June 2016, loans to companies (excluding construction) increased marginally in terms of weight in the total credit portfolio to 41.8% (-0.5 pp year-on-year, while mortgage loans maintained their representativeness with 46.9% (relative to 46.8% as at 30 June 2015) and the weight of construction loans in the total portfolio continued to fall, having reached 3.1% (compared to 3.8% in the same period of the previous year).

LOANS TO CUSTOMERS

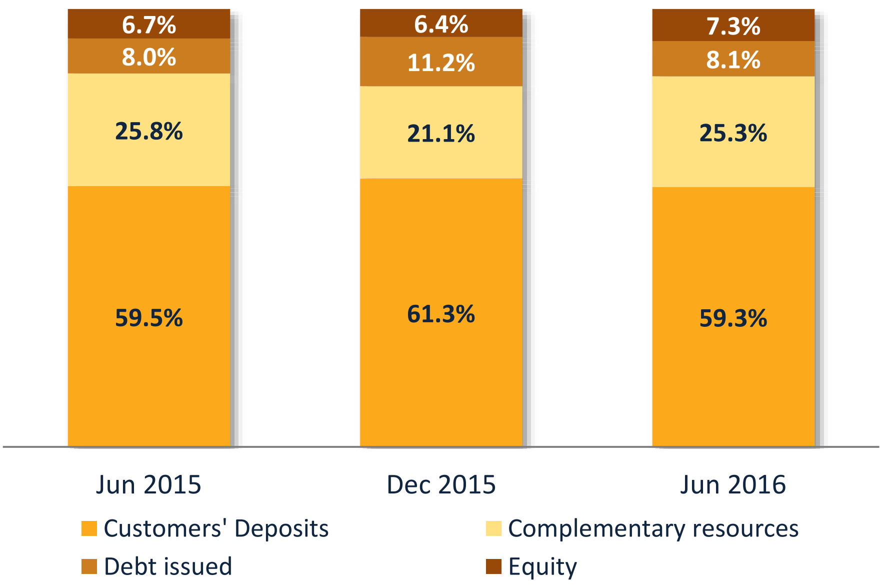
(thousand euros)

	Jun 2015	Dec 2015	Jun 2016	YoY CHg. Amount	%
Individuals	**8 981 597**	**8 790 208**	**8 603 262**	**(378 335)**	**(4.2)**
Housing	7 672 580	7 488 079	7 306 494	(366 086)	(4.8)
Consumption and other purposes	1 309 017	1 302 129	1 296 768	(12 249)	(0.9)
Companies	**7 384 168**	**7 153 807**	**6 995 887**	**(388 281)**	**(5.3)**
Construction	629 814	521 213	476 702	(153 112)	(24.3)
Other purposes	6 754 354	6 632 594	6 519 185	(235 169)	(3.5)
Total Loans (gross)	**16 365 765**	**15 944 015**	**15 599 149**	**(766 616)**	**(4.7)**
Distributed by:					
Domestic activity	16 028 389	15 611 547	15 336 466	(691 923)	(4.3)
International activity	337 376	332 468	262 683	(74 693)	(22.1)

LIABILITIES AND EQUITY

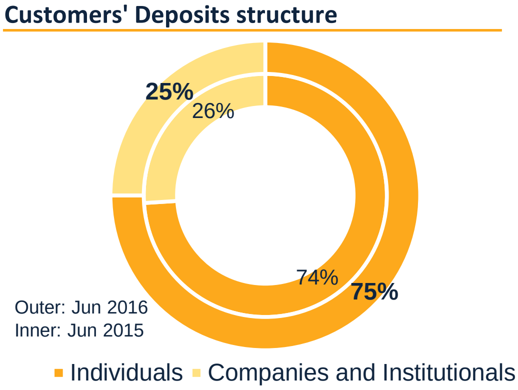
At the end of the 1st half of 2016, total liabilities stood at 19,818.7 million euros, compared to 19,801.1 million euros at the end of 2015. This corresponds to a year-on-year decrease of 4.1%, derived from the reduction of liabilities represented by securities and customer deposits, which continue to be the main source of financing of the activity, accounting for 59.3%, combined with the strengthening of equity.

LIABILITIES AND EQUTY STRUCTURE



CUSTOMERS' RESOURCES

Total customers' resources reached 14,751.4 million euros, which includes 13,998.4 million euros of balance sheet funds, of which 90.6% refer to customer deposits (88.4% in the same period of the previous year).



The portfolio of customers' deposits, which stood at 12,688.9 million euros, is essentially concentrated in individual customers, a segment that declined slightly in relation to the same period of the previous year, with a variation of -2.9%, albeit confirming its predominance by accounting for 75% of total deposits.

The portfolio of deposits showed a 3.7% year-on-year reduction (-2.2% since the end of 2015) as a result of the combined circumstances of interest rates at historically low levels and the continued deposit repricing policy applied by CEMG, with particular impact on the company and institutional segments that are most sensitive to the price variable.

However, a reversal of the trend occurred in the 2nd quarter of 2016, with customers' deposits having grown by 1.9% (+236.4 million euros), consolidating the base of individual customers, and with the company and institutional segment having recorded growth of 8.5% in the same period.

CUSTOMERS' RESOURCES

(thousand euros)

	Jun 2015	Dec 2015	Jun 2016	YoY Chg	
				Amount	%
Deposits from individuals	9 799 261	9 794 095	9 518 417	(280 844)	(2.9)
Deposits from companies and institutionals	3 371 400	3 175 336	3 170 506	(200 894)	(6.0)
Total Deposits	**13 170 661**	**12 969 431**	**12 688 923**	**(481 738)**	**(3.7)**
Sight deposits	3 110 113	2 831 931	3 238 955	128 842	4.1
Term deposits	10 060 548	10 137 500	9 449 968	(610 580)	(6.1)
Securities placed with customers	1 734 553	1 621 339	1 309 448	(425 105)	(24.5)
Total On-balance sheet resources	**14 905 214**	**14 590 770**	**13 998 371**	**(906 843)**	**(6.1)**
Off-balance sheet resources	903 185	809 944	753 026	(150 159)	(16.6)
Total customers' resources	**15 808 399**	**15 400 714**	**14 751 397**	**(1 057 002)**	**(6.7)**

In a perspective of active management of financing needs, the heading of securities placed with customers stood at 1,309.4 million euros as at 30 June 2016, compared to 1,734.6 million euros as at 30 June 2015, as a result of the securitized debt which had fallen due, and consequent replacement by less expensive market operations.

Off-balance sheet customer funds reached 753.0 million euros, compared to 903.2 million euros as at 30 June 2015. This was mainly due to the year-on-year decrease recorded in securities investment funds, namely treasury funds and capitalisation insurance.

LIQUIDITY

There was a gradual recovery of the economy during the 1st half of 2016, with CEMG having strengthened the liquidity position of its balance sheet, embodied in a balanced loan-to-deposit ratio, lower exposure to financial markets, the maintenance of a stable pool of eligible assets for refinancing operations at the European Central Bank (ECB) and a consistent liquidity coverage ratio (LCR) of 113.5%, well above the minimum requirement of 70%, compare to 111.4% as at 31 December 2015.

The evolution of customers' resources and loans granted led to a positive commercial gap of 19.1 million euros as at 30 June 2016, giving rise to a loan-to-deposit ratio of 99.9%, considering the entire amount of customers' resources on the balance sheet, and 116.4% considering only customers' deposits, complying with the maximum indicative level of 120%.

CTD RATIOS

(%)

	Jun 2015	Dec 2015	Jun 2016	YoY Chg.
Net loans to customers / Customers' deposits [a]	113.4	113.1	116.4	3.0p.p.
Net loans to customers / Total On-balance sheet customers' resources [b]	99.8	97.7	99.9	0.1p.p.

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

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

During the 1st half of 2016, 388.2 million euros of issued debt were repaid which, added to the repayments made between 2011 and 2015, amount to 7.9 thousand million euros over the last five and half years.

The medium and long term debt falling due up to the end of 2016 and during the next 5 years reaches 1,897.9 million euros. Of this total amount, 631.8 million euros refer to resources obtained from institutions in international debt market (wholesale), and the remaining 66.7% refer to the maturity of resources obtained in the retail network, the vast majority through individual offers.

At the end of the 1st half of 2016, the use of ECB resources stood at 2.9 thousand million euros, compared to 2.8 thousand million euros in the same period of the previous year and 2.3 thousand million at the end of 2015. This increased refinancing from the ECB was due to the use of the new series of Targeted Longer-Term Refinancing Operations (TLTRO II). Indeed, at the end of the 1st half of 2016, CEMG changed the profile of its liquidity operations conducted at the ECB, significantly reducing its raising of short term liquidity by partial repayment of the weekly operation, as well as the early payment of part of the TLTRO I amount and making the most of the more favourable conditions of rates and terms of TLTRO II.

Consistent with a policy of dynamic management of the bond portfolio, the portfolio of eligible assets to back Eurosystem Monetary Policy operations and for operations in the new Secured Interbank Market showed a reduction of 120.2 million euros as at 30 June 2016 in relation to the 1st half of the previous year, to stand at 3.9 million euros. One of the factors that most contributed to this reduction was the sale of mortgage covered bonds to the ECB, of the value of 400 million euros, under the Covered Bonds Purchase Programme

3 (CBPP3) and 200 million euros of the securitization Pelican SME no.2, class A, combined with the strengthening of the public debt portfolio during the first half of 2016.

Hence, the haircut liquid available asset pool shifted from 1.2 million euros at the end of June 2015 to 1.0 million euros at the end of the 1st half of 2015.

POOL OF ELIGIBLE ASSETS FOR REFINANCING OPERATIONS WITH THE ECB

(thousand euros)

	Jun 2015	Dec 2015	Jun 2016	YoY Chg.	
				Amount	%
Pool of eligible assets [(a)]	3 987 792	4 019 674	3 867 553	(120 239)	(3.0)
Use of the pool	2 777 391	2 277 258	2 870 709	93 318	3.4
Pool of available assets	**1 210 401**	**1 742 416**	**996 844**	**(213 557)**	**(17.6)**

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

Repurchase agreements (repos) recorded a stable performance, standing at approximately 1.1 thousand million euros, as at 30 June 2016, compared to 1.2 thousand million euros at the end of the 1st half of 2015, reflecting some stability in the financial markets around this instrument.

EARNINGS

The net income for the 1st half of 2016, excluding the specific impacts identified below, was 22.5 million euros. The net specific impacts, which amounted to a total of 90.1 million euros in the 1st half of 2016, are as follows:

- Costs related to the redimensioning of the resources allocated to banking activity of 32.0 million euros, incurred with the process of rationalising the operating structure, under the strategic plan in force.
- Contribution levied on the banking sector for the Single Resolution Fund and National Resolution Fund, amounting to 26.4 million euros, compared to 12.9 million euros in the same period of the previous year.
- Impact on specific financial investments of the value of 52.2 million euros.[5]
- Tax effect of 20.5 million euros relative to the specific impacts referred to above.

The net income for the 1st half of 2016, including these specific impacts, was -67.6 million euros, compared to -28.9 million euros in the same period of the previous year.

SUMMARIZED INCOME STATEMENT

(thousand euros)

	Jun 2015	Jun 2016	YoY Chg. Amount	YoY Chg. %
Net interest income	**126 022**	**127 295**	**1 273**	**1.0**
Commercial net interest income	*134 844*	*135 093*	*249*	*0.2*
Net interest income from securities and other	*(8 822)*	*(7 798)*	*1 024*	*11.6*
Net fees and commissions	49 196	49 336	140	0.3
Commercial Net banking income (Commercial NII + Commissions)	***184 040***	***184 429***	***389***	***0.2***
Dividends from equity instruments	1 400	2 711	1 311	93.6
Results from financial operations	101 856	21 095	(80 761)	(79.3)
Other operating income	6 946	(6 144)	(13 090)	(<100)
Net banking income	**285 420**	**194 293**	**(91 127)**	**(31.9)**
Staff costs	101 839	130 224	28 385	27.9
General administrative expenses	57 757	52 328	(5 429)	(9.4)
Depreciation and amortisation	13 846	13 394	(452)	(3.3)
Operating expenses	**173 442**	**195 946**	**22 504**	**13.0**
Operating expenses, excluding costs with the operational reorganisation programme	*173 442*	*163 924*	*(9 518)*	*(5.5)*
Net operating income	**111 978**	**(1 653)**	**(113 631)**	**(<100)**
Net provisions and impairments	165 144	132 954	(32 190)	(19.5)
Share of profit of associates under the equity method	(4 116)	19	4 135	>100
Earnings before tax and non-controlling interests	**(57 282)**	**(134 588)**	**(77 306)**	**(<100)**
Tax and non-controlling interests	28 373	66 961	38 588	>100
Net income for the period	**(28 909)**	**(67 627)**	**(38 718)**	**(<100)**

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

NET INTEREST INCOME

Net interest income recorded 1.0% year-on-year growth, having reached 127.3 million euros, compared to 126.0 million euros achieved at the end of the 1st half of 2015. This performance was influenced by the application of a continuous repricing policy and the reduction of issued debt, which was replaced by less expensive funding sources. These positive signs were confirmed in the 2nd quarter of 2016, with net interest income having amounted to 66.7 million euros, corresponding to a 9.9% increase in relation to the previous quarter. It should be noted that this growth occurred in a context of historically low interest rates, which continues to constrain the performance of financial intermediation.

NET INTEREST INCOME

(thousand euros)

	Jun 2015	Jun 2016	Change	
			Amount	%
Financial assets				
Loans to Customers	259 261	216 705	(42 556)	(16.4)
Securities portfolio	40 928	29 740	(11 188)	(27.3)
Derivative instruments	44 686	37 007	(7 679)	(17.2)
Other investments	4 154	1 112	(3 042)	(73.2)
Sub-total	**349 029**	**284 564**	**(64 465)**	**(18.5)**
Financial liabilities				
Customers' resources	124 417	81 612	(42 805)	(34.4)
Debt securities issued	40 302	28 539	(11 763)	(29.2)
Derivative instruments	46 074	35 584	(10 490)	(22.8)
Other liabilites	12 214	11 534	(680)	(5.6)
Sub-total	**223 007**	**157 269**	**(65 738)**	**(29.5)**
Net interest income	**126 022**	**127 295**	**1 273**	**1.0**
Commercial Net interest income	134 844	135 093	249	0.2
Net interest income from securities and other	(8 822)	(7 798)	1 024	11.6

OTHER OPERATING INCOME AND NET BANKING INCOME

Net commissions reached 49.3 million euros, 0.3% above the value recorded in the same period of the previous year, and having grown by 18.6% from the 1st to the 2nd quarter of 2016.

The results of financial operations reached 21.1 million euros, compared to 101.9 million euros in the same period of the previous year, which included 69.5 million euros derived from the divestment of Portuguese public debt securities, compared to 3.0 million euros recorded in the 1st half of 2016.

RESULTS FROM FINANCIAL OPERATIONS

(thousand euros)

	Jun 2015	Jun 2016	Change	
			Amount	%
Net gains/losses arising from assets and liabilities at fair value through profit or loss	11 199	(29 078)	(40 277)	(<100)
Net gains/losses arising from available for sale financial assets	83 418	40 204	(43 214)	(51.8)
Net gains/losses arising from foreign exchange differences	7 239	9 969	2 730	37.7
Results from financial operations	**101 856**	**21 095**	**(80 761)**	**(79.3)**
Results from the sale of Portuguese sovereign debt	*69 507*	*3 019*	*(66 488)*	*(95.7)*

Thus, the evolution of net banking income stood at 194.3 million euros for the first six months of 2016, compared to 285.4 million euros in the same period of the previous year, in view of the minor contribution of the aforesaid earnings from divestment of securities.

It should also be noted that commercial net banking income[6] grew by 6.9%, from the 1st to the 2nd quarter of 2016, as a result of the positive performance of commercial net interest income[7] and net commissions, which increased by 2.9% and 18.6%, respectively.

OPERATING EXPENSES

Consolidated operating costs, excluding costs incurred with the process to rationalise the operating structure of the value of 32.0 million euros, amounted to 163.9 million euros. This corresponds to a year-on-year decrease of 5.5%, which was influenced by the 4.5% reduction in terms of domestic activity and 15.4% reduction in international activity.

The aforesaid process of rationalisation of the operating structure aims to optimise the levels of operating efficiency, redimension the resources allocated to banking activity and adjust CEMG's offer to the needs of its Customers. Accordingly, 89 branches were closed during the 1st half of 2016 (-104 compared to 30 June 2015), with the number of CEMG Group employees having fallen from 4,404 at the end of 2015 to 4,182 employees, under a programme of early retirement and employment termination by mutual agreement.

After these impacts, operating costs stood at 195.9 million euros, compared to 173.4 million euros as at 30 June 2015, as a result of the combined effect of the increased staff costs (+28.4 million euros) and the 9.4% reduction in general administrative expenses (5.4 million euros) and 3.3% lower depreciation and amortisation (-0.5 million euros).

OPERATING EXPENSES

(thousand euros)

	Jun 2015	Jun 2016	Change	
			Amount	%
Staff costs	101 839	130 224	28 385	27.9
General administrative expenses	57 757	52 328	(5 429)	(9.4)
Functioning expenses	**159 596**	**182 552**	**22 956**	**14.4**
Depreciation and amortisation	13 846	13 394	(452)	(3.3)
Operating expenses	**173 442**	**195 946**	**22 504**	**13.0**
Domestic activity	158 398	183 216	24 818	15.7
Excluding costs with the operational reorganisation programme	*158 398*	*151 194*	*(7 204)*	*(4.5)*
International activity	15 044	12 730	(2 314)	(15.4)
Operating expenses, excluding costs with the operational reorganisation programme	***173 442***	***163 924***	***(9 518)***	***(5.5)***
Efficiency ratios				
Cost to Income (Operating Expenses / Net Banking Income) (a)	60.8%	100.9%		
Cost to Income, excluding results from financial operations and costs with the operational reorganisation programme	94.5%	94.6%		

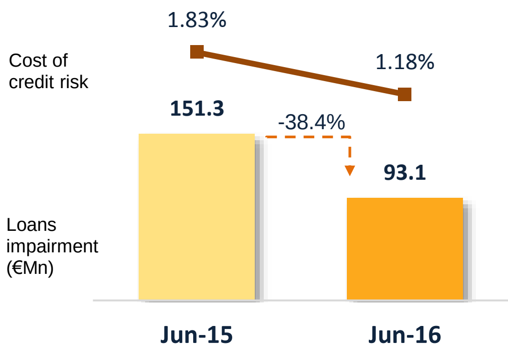
(a) In accordance with Banco de Portugal Instruction No. 16/2004, in its current version.

[6] Commercial net interest income + Net commissions
[7] Interest received on loans to customers – Interest paid on customers' resources

PROVISIONS AND IMPAIRMENTS

The prudent policy of assessment of the risk levels of the asset portfolio was reflected in the 19.5% year-on-year reduction of provisions and impairments (-32.2 million euros) to 133.0 million euros. This performance was particularly influenced by the 38.4% reduction in credit impairments to 93.1 million euros, reflecting the stringent policy of analysis of risk in credit concession. This prudent action led to a substantial reduction of the cost of credit risk from 1.83% in the 1st half of 2015 to 1.18% as at 30 June 2016, reflecting the improvement in impairment losses in credit.

Impairments and Cost of credit risk



Impairments constituted for securities showed an increase of 27.4 million euros, as a result of the devaluation of financial assets of the telecommunications sector, while impairments for other assets recorded a decrease of 1.4 million euros.

PROVISIONS AND IMPAIRMENTS

(thousand euros)

	Jun 2015	Jun 2016	Change	
			Amount	%
Loans impairment	151 286	93 137	(58 149)	(38.4)
Other financial assets impairment	10 667	38 060	27 393	>100
Other assets impairment and other provisions	3 191	1 757	(1 434)	(44.9)
Total provisions and impairments	**165 144**	**132 954**	**(32 190)**	**(19.5)**

RISK MANAGEMENT

During the 1st half of 2016, the development of methods and procedures in the area of risk identification, quantification of underlying potential losses and the implementation of measures towards their mitigation continued, with the following actions being especially noteworthy:

- Strengthening of the standardisation of risk control and management policies within the CEMG Group;
- Creation of the Model Validation Centre responsible for the independent validation of credit risk assessment models, namely their compliance with the applicable internal and external requirements in quantitative terms and back-testing;
- Implementation of new regulatory reporting on liquidity risk (Additional Liquidity Monitoring Metrics);
- Implementation of new regulatory reporting on real estate risk (Banco de Portugal Instruction 4/2016);
- Implementation of new measurements and controls on interest rate risk in the banking book;
- Strengthening of the credit decision-making process, with the integration of the Credit Analysis Department in the decision-making chain, embodying the principles of collegiate responsibility and separation of duties in the credit decision-making process;
- Improvement of capacity to analyse customer credit risk, with the implementation of a performance scoring model for the mortgage loan portfolio.

GOVERNANCE OF RISK MANAGEMENT

In performing its duties, the Executive Board of Directors is responsible for the strategy and policies to be adopted regarding risk management.

The mission of the General and Supervisory Board involves the follow-up and assessment of CEMG's activity in various areas including matters of risk monitoring and management policy.

During the 1st half of 2016, the Supporting Committees of the Executive Board of Directors continued. These structures are dependent on the Executive Board of Directors, without deliberative competencies, unless explicitly indicated otherwise, being forums of debate and support to decision-making, through formulation of proposals and recommendations to the Executive Board of Directors, in the areas of their scope of intervention. Each Supporting Committee includes members of the Executive Board of Directors, as well as heads of structural units of CEMG or of entities of the CEMG Group, according to the respective scope of intervention. The Supporting Committees are coordinated by a member of the Executive Board of Directors.

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, the adoption of recovery measures, taking into account the scenarios of activity expansion, macroeconomic context and indicators relative to the real and expected evolution of the different risks.

The scope of the Internal Control Committee involves 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 promoting 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 in force at any given time 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.

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 the optimised management of real estate risk in line with the overall objectives that have been defined.

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.

This Department assures the analysis and management of Market, Liquidity, Interest Rate, Credit, Real Estate and Operational risks, providing advice to the Executive Board of Directors, namely through proposed rules and management models for the different risks, and the preparation of management reports to substantiate the decisions taken and participation in Supporting Committees of the 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 and financing to related parties, 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, assured by the Audit and Inspection Department, is an integral part of the internal control system monitoring process, implementing supplementary autonomous assessments in the appraisal of all the strategies, systems, processes, policies and procedures comprising the internal control system. This function aims to assure the efficient and profitable performance of the business, and assure the existence of complete, relevant, reliable and timely financial and management information, as well as compliance with the applicable legal and regulatory provisions. Based on the audit results, measures are recommended and implemented, which are permanently monitored so as to assure that the necessary measures are taken and managed suitably.

In this regard, periodic meeting are held by the Internal Control Committee supporting the Executive Board of Directors. These meetings address pertinent issues of impact on the Internal Control System, which include the alterations in regulatory terms, and monitor the measures under implementation aimed at fostering an appropriate and effective control environment.

During the 1st half of 2016, a review was made of the Group's Internal Control Policy, which establishes the Corporate Model of the control functions (internal audit, risk management and compliance) for the CEMG Group. This review defined the mechanisms of exchange of information between the Group's companies.

The review also included the regulation of the internal audit function (Audit Charter), having established/strengthened its scope of action, reporting line, authority, responsibility, ethical standards and service levels in the context of relations with the audited area.

The duties of the Audit and Inspection Department include the conduct of audits to the Risk Management processes, following the guidelines given by the supervisory entities, including the independent review of the internal models of risk assessment (Independent Review Function) and calculation of the minimum own fund requirements to cover risks.

The primary responsibility of the compliance function ("control of compliance"), exercised by the Compliance Department under the dependence of the Executive Board of Directors, as an integral part of the internal control system, is the management of compliance risk. This risk reflects the risk of incurring legal or regulatory penalties, financial loss or undermining of reputation as a consequence of failure to comply with the applicable laws, regulations, code of conduct and good banking 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 also 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.

In the 1st half of 2016, the following initiatives are highlighted under the activities of the Compliance Department:

- Pursuit of 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 of detection and analysis of operations concerning prevention of money laundering and terrorist financing in constant alignment with the provisions of Banco de Portugal Notice 5/2013 ("Regulates the conditions, mechanisms and procedures required for effective compliance with the duties on prevention of money laundering and terrorist financing");
- Permanent collaboration and follow-up of the activities exercised by the compliance structures in the affiliates abroad;
- Analysis and monitoring of the process of transposition and implementation of a variety of legislation and regulations.

CREDIT RISK

In the 1st half of 2016, a project was continued aimed at the submission, in the short term, of an application for adoption of the Internal Ratings Based (IRB) Approach to calculate capital requirements for credit risk. This project is strategic for CEMG and, in view of its depth and coverage, involves various areas of the organisation and requires the review and possible developments with respect to the credit risk assessment models, process of assessment and decision-making regarding credit, and algorithm used for calculating capital requirements, among others.

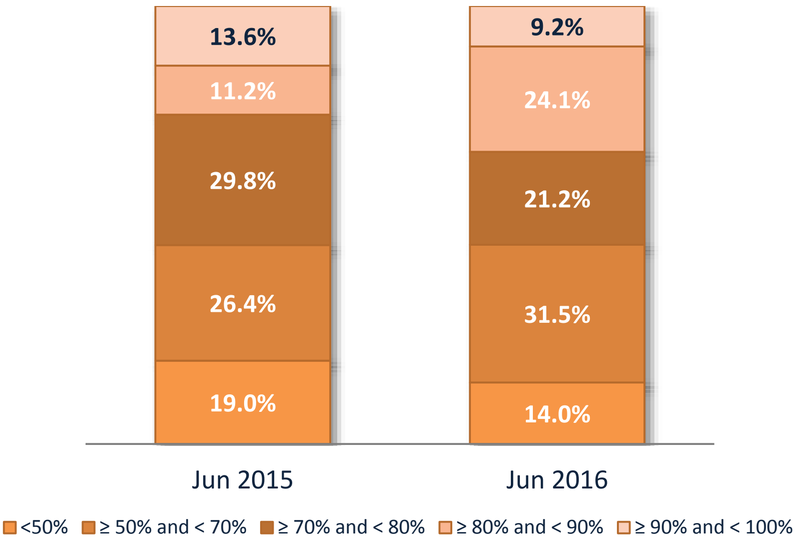
The decision-making process for credit operations is based on a series of policies using scoring models for the portfolios of individual and business customers and rating models for the company segment. The models, developed using internal historic data, enable obtaining an assessment which is reflected in the attribution of a risk category to the customer/operation. The project of application for the IRB approach to calculate capital requirements currently involves the ongoing review of CEMG's scoring and rating models that are associated to the most significant segments of the credit portfolio, which shall be reflected in the fine-tuning and improvement of the internal risk and governance models.

The internal risk classification, combined 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), in accordance with 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 regarding credit 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.

In the mortgage loan portfolio, the levels of the loan-to-value (LTV) ratio (funding value divided by the value of the guarantee) showed an increase, with the average LTV of the lending portfolio having increased to 69.4% in the 1st half of 2016, compared to 65% recorded in 2015. This was the result of the generalised improvement of the real estate market indicators and the increase of the reference maximum LTV threshold to 80%.

DISTRIBUTION OF THE MORTGAGE LOAN PORTFOLIO BY LTV LEVEL



The maintenance of economic circumstances of slow recovery continued to be reflected in the exacerbation of default and credit risk ratios, with the balance of overdue loans and interest having grown by 12.4%. This evolution led to the deterioration of some credit risk indicators, with the ratio of credit-at-risk standing at 15.4%.

CREDIT QUALITY INDICATORS

(thousand euros)

	Jun 2015	Dec 2015	Jun 2016	Change Amount	Change %
Gross Loans to Customers	16 365 765	15 944 015	15 599 149	(766 616)	(4.7)
Loans and Interest Overdue	1 406 126	1 358 250	1 581 169	175 043	12.4
Loans and Interest Overdue by more than 90 days	1 218 026	1 232 905	1 441 343	223 317	18.3
Loans impairment	1 445 610	1 281 738	1 206 873	(238 737)	(16.5)
Ratios (%)					
Loans and Interest Overdue by more than 90 days	7.4	7.7	9.2	1.8 p.p.	
Non-performing loans (a)	8.8	9.5	10.9	2.1 p.p.	
Net non-performing loans (a)	(0.04)	1.6	3.4	3.5 p.p.	
Credit-at-Risk (a)	13.4	14.3	15.4	2.0 p.p.	
Net Credit-at-Risk (a)	5.0	6.8	8.3	3.3 p.p.	
Restructured loans (b)	10.4	9.6	9.4	(1.1 p.p.)	
Restructured loans not included in Credit-at-Risk (b)	5.5	4.0	3.1	(2.4 p.p.)	
Coverage by Impairments (%)					
Loans and Interest Overdue by more than 90 days	118.7	104.0	83.7	(35.0 p.p.)	
Loans and Interest Overdue	102.8	94.4	76.3	(26.5 p.p.)	
Credit-at-Risk	66.0	56.1	50.2	(15.9 p.p.)	
Credit-at-Risk factoring in associated real estate collateral	130.7	126.9	120.5	(10.2 p.p.)	

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

(b) In accordance with Banco de Portugal Instruction No. 32/2013.

The total amount of impairments for credit risk reached 1,206.9 million euros at the end of the 1st half 2016, giving rise to a ratio of coverage of loans and interest overdue by more than 90 days of 83.7%. Furthermore, the coverage of credit-at-risk by impairments stood at 50.2%, while the coverage ratio considering total impairments and the associated real estate collateral reached 120.5%.

CONCENTRATION RISK

In order to minimise concentration risk, the CEMG Group 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. In particular, the concentration level of the largest depositors and, with respect to the credit portfolio, the degree of regional diversification, the level of individual concentration and degree of sectoral diversification of the company portfolio are monitored regularly.

MARKET RISKS

Market risks reflect the potential loss that may be recorded in a given portfolio as a consequence of changes in interest and exchange rates 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, those held to maturity and those in the 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 manuals, updated on an annual basis or whenever justified by alterations to market risk levels. The manuals 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 increase its exposure to national public debt securities against a reduction of exposure to Spanish and Italian public debt. This investment policy has led to variations in terms of the rating structure, namely in the BB+, BBB and BBB+ buckets. Hence, a reduction occurred in the weight of bonds classified as investment grade in the total bond portfolio in June 2016 compared to December 2015, with preponderance of Portuguese public debt in non-investment grade bonds.

STRUCTURE OF THE BOND PORTFOLIO BY RATING CLASS

(Excluding mortgage bonds and securitizations)

(thousand euros)

Rating	Dec 2015		Jun 2016		Change	
	Amount	%	Amount	%	Amount	%
AAA	-	0.0	9 133	0.3	9 133	-
AA+	-	0.0	2 125	0.1	2 125	-
AA	2 629	0.1	1 546	0.1	(1 083)	(41.2)
AA-	4 392	0.2	1 022	0.0	(3 370)	(76.7)
A+	1 688	0.1	4 643	0.2	2 955	>100
A	56 718	2.3	55 488	2.0	(1 230)	(2.2)
A-	43 629	1.7	28 950	1.0	(14 679)	(33.6)
BBB+	625 863	25.1	84 710	3.0	(541 153)	(86.5)
BBB	647 771	26.0	84 875	3.0	(562 896)	(86.9)
BBB-	28 042	1.1	21 637	0.8	(6 405)	(22.8)
BB+	1 038 118	41.6	2 505 256	88.4	1 467 138	>100
BB	24 391	1.0	-	0.0	(24 391)	-
BB-	-	0.0	-	0.0	-	-
B+	-	0.0	2 115	0.1	2 115	-
B	-	0.0	-	0.0	-	-
B-	-	0.0	-	0.0	-	-
CCC+	-	0.0	-	0.0	-	-
CCC	11 169	0.4	11 149	0.4	(20)	(0.2)
CCC-	-	0.0	-	0.0	-	-
C	-	0.0	8 007	0.3	8 007	-
NR	9 551	0.4	14 209	0.5	4 658	48.8
Total	**2 493 961**	**100.0**	**2 834 866**	**100.0**	**340 905**	**13.7**

The management of market risks of the portfolio also uses the Value at Risk (VaR) model, based on the historic 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 as at 31 December 2015 and 30 June 2016 is presented below:

VaR INDICATORS (10d, 99%)(1)

	Dec 2015		Jun 2016	
	Available for sale	Trading	Available for sale	Trading
Market VaR	0.80%	2.71%	0.38%	1.13%
Interest rate risk	0.79%	0.68%	0.33%	0.98%
Foreign exchange risk	0.11%	0.28%	0.11%	0.16%
Pricing risk	0.39%	0.47%	0.48%	0.54%
Spread risk (CDS)	0.00%	1.94%	0.05%	0.00%
Diversification effect	(0.49%)	(0.66%)	(0.59%)	(0.55%)
Loans VaR (2)	0.73%	0.23%	0.92%	0.32%
Total VaR	**1.53%**	**2.94%**	**1.30%**	**1.45%**

(1) - As a % of total assets portfolio. Includes the portfolios of CEMG and Montepio Investimento.
(2) - Also include positions held to maturity.

Analysis of Scenarios for the Trading Book

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. At the end of the 1st half of 2016, the following results were obtained from the analysis of scenarios:

STRESS TEST OF THE TRADING PORTFOLIO

(thousand euros)

Scenario	jun 2016
Rise of 100 bp in interest rates	(4 466)
25% drop of the equity market	(1 094)
Credit spreads increase by 100 bp (bonds)	(222)

EXCHANGE RATE RISK

Concerning exchange rate risk, as a rule, CEMG invests the resources attracted in different currencies through assets in the respective money market and for maturity periods that are not higher than those of the resources. In its international activity, CEMG, namely in Angola and Mozambique, the management of exchange rate risk is carried out by the corresponding institutions, although the Group's consolidated foreign exchange gaps are monitored and followed-up closely.

INTEREST RATE RISK IN THE BANKING PORTFOLIO

The interest rate risk caused by operations of the banking portfolio is assessed through risk-sensitivity analysis, on an individual and consolidated basis for the 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

(million euros)

	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	8 785	3 697	250	1 831	2 053
Off-Balance sheet	8 022	74	130	97	0
Total assets	**16 807**	**3 771**	**380**	**1 928**	**2 053**
Liabilities	5 123	1 633	2 365	8 930	302
Off-Balance sheet	8 071	103	31	118	0
Total liabilities	**13 194**	**1 736**	**2 396**	**9 048**	**302**
GAP (Assets - Liabilities) as at June 2016	**3 613**	**2 035**	**(2 016)**	**(7 120)**	**1 751**
GAP (Assets - Liabilities) as at December 2015	**4 328**	**1 567**	**(1 789)**	**(6 607)**	**1 192**

In view of the interest rate gaps observed, as at 30 June 2016, an instantaneous and parallel 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 -8,115 thousand euros (31 December 2015: +16,662 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 assuring 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

(million euros)

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	1 374	1 400	1 384	407	70

At the end of the 1st half of 2016, customers' resources continued to be the main source of funding, accounting for 64.0% of total funding sources:

Liabilities	%
Resources from central banks	14.48
Resources from other credit institutions	7.72
Resources from Customers	64.03
Debt securities issued	8.69
Other liabilities	5.08
Total	**100.00**

The liquidity coverage ratio (LCR) reached 113.5%, above the minimum requirement in force as at 1 January 2016, which was established at 70%. We also highlight the maintenance of the commercial balance sheet equilibrium with the loan-to-deposit or leverage ratio, taking into account total credit and customers' resources, standing at 99.9%, relative to 97.7% at the end of 2015.

REAL ESTATE RISK

Real estate risk arises from exposure in real estate properties, which may result from properties that are under credit recovery procedures or investment properties. Participation units of real estate investment funds held in the securities portfolio are also considered for this risk. These exposures are monitored regularly with analyses of scenarios being conducted which seek to estimate potential impacts of alterations in the real estate market on the portfolios of real estate investment funds, investment properties and real estate given in lieu of repayment of loans.

During the 1st half of 2016, CEMG's exposure to real estate risk, in the components described above, fell by approximately 82 million euros (from 1,652 million euros to 1,570 million euros).

PENSION FUND RISK

Pension Fund risk essentially arises from a possible reduction of the profitability of the Fund's assets, where this profitability could decline due to potential devaluation of the Fund's assets or as a result of the decreased expected returns of these assets. In view of scenarios of this kind, CEMG might have to consider paying in exceptional contributions to the Fund.

During the 1st half of 2016, the negative actuarial deviation of the fund remained unchanged at 130 million euros.

OPERATIONAL RISK

At the risk assessment level, major focus has been given to the prior identification of relevant operational risks whenever a product, process or system in the CEMG Group is implemented or reviewed.

With regard to the monitoring of operational risk, the activities of collection and analysis of loss events have been maintained.

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.

A time schedule of tests was defined last year for scenarios of incidents which imply the recovery of the critical business applications. The tests are included in the stage of monitoring the Management of Business Continuity methodology, in order to prepare Montepio to respond in an effective manner to an incident, identifying opportunities for improvement and showing the extent to which the implemented strategies and plans are effective, complete and up-to-date.

STRESS TESTS

Pursuant to the regulatory terms, CEMG conducted stress tests, under the Recovery Plan of the CEMG Group and the Internal Capital Adequacy Assessment Process (ICAAP) submitted to Banco de Portugal during the 1st half of 2016.

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

The Internal Capital Adequacy Assessment Process (ICAAP), so as to assess capital insufficiency during periods of stress, involved the definition of a series of stress tests (sensitivity and scenario analysis) on the risk quantification models. The outcome of these tests enables 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, refunding of deposits, margins of assessment of eligible assets applied by the European Central Bank (ECB), ratings (of the CEMG and counterparts), portfolio loss ratios, collateral, among others.

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

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.

This Public Subscription Offer, whose main purpose was to strengthen the institution's base own funds, proved to be successful with demand having surpassed supply by 10.2%.

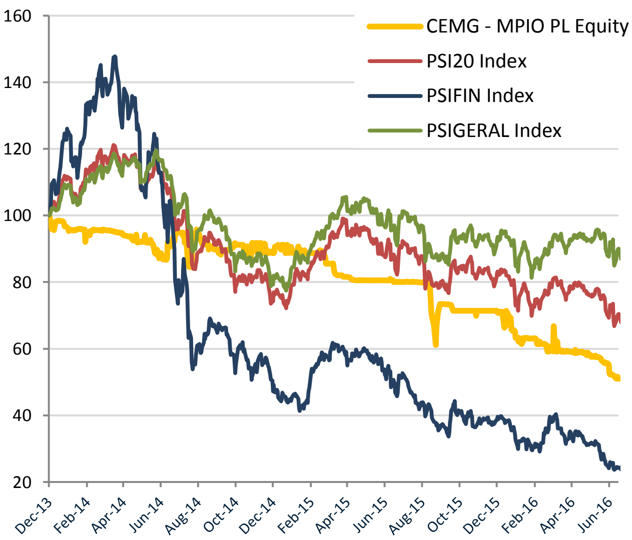
On 17 December 2013, the Participation Units were listed for trading on the stock exchange (NYSE Euronext Lisbon) after the Regulated Market Special Session (ISIN PTCMHUIM0015).

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 stock exchange indices "General PSI" and "Sectoral PSI (Financial)" since the end of 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)



KEY INDICATORS

	Unit	Dec 2015	Jun 2016
Adjusted prices			
Maximum price	eur	0.895	0.700
Minimum price	eur	0.790	0.501
Average price of the year	eur	0.809	0.584
Closing price	eur	0.790	0.506
Liquidity			
Turnover	eur	19 396 550	12 119 434
Average daily turnover	eur	158 988	96 186
Volume	unid	23 968 191	20 759 651
Average daily volume	unid	196 461	164 759

RATING

The long and short term ratings and respective outlooks attributed to CEMG are presented in the table below:

Rating Agencies	Long term	Short term	Outlook
Fitch Ratings	B	B	Stable
Moody's Investors Service	B3	NP	Stable
DBRS	BB (high)	R-3	Negative

Compared to the ratings presented at the end of 2015, there was a downgrade of the long term rating attributed by Fitch Ratings (from 'B+' to 'B') and Moody's (from 'B1' to 'B3'), with DBRS maintaining its assessment of CEMG in the first six months of 2016.

Also noteworthy was the upgrade of the Mortgage Covered Bonds issued by CEMG. Thus, on 14 January, Fitch Ratings made an upward revision of these Mortgage Bonds 'BB+' to 'BBB-', following the press release issued by Banco de Portugal, on 29 December 2015, which identified the institutions of systemic importance at a domestic level, that included CEMG.

However, during the 2nd half of 2016, following the implementation of the Conditional Pass-Through mechanism in the series issued under the Mortgage Covered Bond Programme, on 11 and 12 July, the three rating agencies upgraded their ratings of Mortgage Covered Bonds:

- Fitch Ratings: upgrade by 3 levels, from 'BBB-' to 'A-';
- Moody's Investor Service: upgrade by 1 level, from 'Baa1' to 'A3';
- DBRS: upgrade by 1 level, from 'A' to 'A(high)'.

We also highlight the confirmation, on 11 March 2016, of the rating attributed to class A of the credit securitization operation originated by CEMG "Pelican SME no. *2*" by Fitch Ratings at 'A+(sf)' and by DBRS at 'A(low)(sf)'. In a press release, Fitch Ratings highlighted the robustness of the portfolio's performance and positive selection of the credit comprising the securitized portfolio. In turn, DBRS stressed the timely payment of the interest and principal to this class A.

MAIN RISKS AND UNCERTAINTIES FOR THE 2ND HALF OF 2016

Regarding the **Portuguese economy**, our outlook of growth of economic activity for the 2nd half of the year and, consequently, for the entire year of 2016, remains veiled in risks both upwards and downwards, although higher in the latter case.

The low price of oil (lowest annual average value in over a decade), the weak euro (above the average of 2015, but historically low) and the ECB's new measures place **upward risks** on our forecast. This is further added by the possibility that the Spanish economy may continue to grow above the estimated rates, which is rather relevant in view of the high weight that Spain still has on trade exchange with our country. Notwithstanding the effort of diversification, exports are still greatly directed to our European partners (namely to Spain) which represented around a quarter of total exports of Portuguese goods in 2015.

The **downward risks** at a domestic level are related to the possible return of political instability (derived from the State Budget for 2017 and/or the drawing close of local government elections in 2017). Added to this is the persistently difficult situation of the labour market, the financial system, the objectives of additional consolidation of public finance and the pressure on Portuguese debt yields (Portugal's spread closed the 1st semester above the value of the end of 2015), due to market fears concerning the Government's budget strategy and, more recently, the increased risk aversion in most financial markets, mainly as a result of the Brexit victory in the United Kingdom's referendum. In spite of having attempted to incorporate the effects of the Brexit victory in the United Kingdom's referendum in our forecasts for the Portuguese economy, this event, due to its singularity, continues to carry risks to our forecast. It should be noted that Portugal is particularly vulnerable to the United Kingdom via the tourism sector, in view of the high contribution of British tourists to the tourism balance. Abroad, risks persist related to the geopolitical instability in the Middle East, Eastern Europe and Greece, and due to the slowdown of various emerging markets, such as China, Brazil and Angola. In 2015, Portuguese exports to Angola fell by a little over 1.0 thousand million euros, with their weight in total Portuguese exports having shifted from 6.6% in 2014 to 4.2% in 2015.

Concerning the **global economy**, in the updates of its economic forecasts in July, the IMF admitted that the Brexit victory, in the United Kingdom's referendum, caused a substantial increase of economic, political and institutional uncertainty, but stressed that its outlook for the evolution of the worldwide economy was dependent on the "benign" hypotheses that: *i*) the uncertainty that emerged with Brexit would gradually diminish; *ii*) the European Union (EU) and United Kingdom would manage to prevent a major increase of economic barriers; and *iii*) the volatility of the financial markets would be limited.

Even so, the IMF warned of the possibility that the outcome of Brexit could prove to be more negative than that considered in the most recent forecasts. This entity stressed that the real effects of Brexit shall be experienced over some time, adding elements of economic and political uncertainty to the global economic panorama. 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.

For this reason, and because the future impact of Brexit is clearly still very uncertain, the **IMF outlined two scenarios that could reduce world economic growth to below 3% this year and next year** (it should be recalled that, in its central scenario, the IMF forecast world economic growth of 3.1% for 2016 and 3.4% for 2017). In the **first scenario**, financial conditions would become tighter and consumer confidence would become weaker than that currently assumed, both in the United Kingdom and in the rest of the world, up to the 1st half of 2017, and part of the United Kingdom's financial services would migrate gradually to the Euro Zone. The outcome of this scenario, according to IMF estimates, would be a new slowdown of global economic growth, during this year and the following year. The **second scenario**, more severe, assumes an intensification of stress in the financial markets, particularly in Europe, a stronger squeezing of financial conditions and heavier fall of confidence. Furthermore, the trade agreements between the United Kingdom and the EU would be rolled back to the regulations and standards of the World Trade organisation (WTO). In this scenario, the IMF estimates that the global economy would actually experience a more significant economic slowdown up to 2017, which would be heavier in the advanced economies.

However, apart from the risks associated to Brexit, the **IMF highlights other risks to its forecasts**, which could be further exacerbated by Brexit. Among these other risks, the IMF notes that the legacy of problems to be resolved in the European banking system, in particular in Italian and Portuguese banks, constitutes one of the risks that the world economy will face in 2017. The IMF also warned that the prolonged turbulence in the financial markets and the overall increased risk aversion might have severe macroeconomic repercussions, including the intensification of the problems in the banks, especially in the more vulnerable economies. Moreover, the IMF warned that the political divisions within the advanced economies could hinder the efforts to resolve a series of structural challenges of economies, and likewise the current refugee problem, and that any change towards more protectionist policies would constitute a distinctive threat. The Fund also highlighted 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.

In this macroeconomic context, surplus liquidity in the market should continue to exert downward pressure on money market interest rates, which are negative in the different maturity periods. The Euribor rates should continue to portray this fact, due to the conventional, strongly expansionary monetary policy of the ECB combined with non-conventional measures, such as the quantitative easing (QE) programme, leading to a deterioration of the net interest income of credit institutions. Nonetheless, there are some visible signs of stabilisation of interest at current levels, indicating that the cycle of successive reductions recorded in the last few months has been broken. Unsecured operations in the money market (without collateral) should continue constrained.

The fact that the results of the stress tests were not precisely those desired by the prime banks, and with the situation concerning the banking sector in Italy still being an open question, this should hold back any return to normality of the money market in Europe. Under this scenario, it is not expected that the continuation of the second targeted longer-term refinancing operation programme by the ECB (TLTRO II) should place further pressure on interest rates in the money market or that it should have a significant impact on the liquidity exchanged between banking institutions. The expansion of the base of eligible assets and the increased amount of purchases, both under the ECB's quantitative easing programme, should continue to lead to increased liquidity in the economy in jurisdictions which have companies with eligible rating levels, releasing bank balances for new loans to small and medium-sized enterprises, a fact which does not appear particularly relevant in the Portuguese context. Nevertheless, the increased amounts of purchases could have a positive impact on the absorption of mortgage covered bonds issued by the banking sector.

Financial Statements, Explanatory Notes and Auditor's Reports

CONSOLIDATED FINANCIAL STATEMENTS AND EXPLANATORY NOTES

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

	Jun 2016			Dec 2015
(thousand euros)	Gross Assets	Impairment and Amortization	Net Assets	Net Assets
Cash and deposits at central banks	374 210	-	374 210	424 450
Loans and advances to credit institutions repayable on demand	239 798	-	239 798	238 007
Financial assets held for trading	34 263	-	34 263	51 093
Financial assets available for sale	2 433 001	99 944	2 333 057	3 068 501
Other loans and advances to credit institutions	165 967	0	165 967	172 044
Loans and advances to customers	15 599 149	1 206 873	14 392 276	14 662 277
Held to maturity instruments	1 267 975	-	1 267 975	161 540
Hedging derivatives	-	-	-	9
Non-current assets held for sale	854 642	128 080	726 562	754 898
Investment properties	639 968	-	639 968	692 485
Property and equipment	464 085	186 617	277 468	89 115
Intangible assets	158 571	99 279	59 292	65 862
Investments in associated companies and others	4 188	341	3 847	3 908
Current tax assets	23 481	-	23 481	27 861
Deferred tax assets	463 151	-	463 151	403 506
Other assets	412 865	30 252	382 613	329 660
TOTAL ASSETS	**23 135 314**	**1 751 386**	**21 383 928**	**21 145 216**
Deposits from central banks			2 870 709	2 277 258
Financial liabilities held for trading			82 626	70 289
Deposits from other financial institutions			1 530 570	1 573 131
Deposits from customers			12 688 923	12 969 431
Debt securities issued			1 722 450	2 031 165
Financial liabilities relating to transferred assets			375 630	323 037
Hedging derivatives			-	439
Provisions			27 577	16 587
Current tax liabilities			6 317	3 069
Other subordinated debt			250 481	333 039
Other liabilities			263 373	203 625
TOTAL LIABILITIES			**19 818 656**	**19 801 070**
Capital			2 170 000	1 900 000
Institutional Capital			1 770 000	1 500 000
Participation Fund			400 000	400 000
Other equity instruments			6 323	8 273
Treasury stock			(81)	(31 581)
Fair value reserves			23 206	646
Other reserves and retained earnings			(589 626)	(318 454)
Net income for the period			(67 627)	(243 407)
Non-controlling interests			23 077	28 669
TOTAL EQUITY			**1 565 272**	**1 344 146**
TOTAL LIABILITIES AND EQUITY			**21 383 928**	**21 145 216**

THE CHARTERED ACCOUNTANT

(Luís Miguel Lines Andrade)

THE EXECUTIVE BOARD OF DIRECTORS

(José Manuel Félix Morgado - CEO)

(João Carlos Martins da Cunha Neves)

(Luís Gabriel Moreira Maia Almeida)

(Fernando Ferreira Santo)

(João Belard da Fonseca Lopes Raimundo)

(Jorge Manuel Viana de Azevedo Pinto Bravo)

(Luís Miguel Resende de Jesus)

CONSOLIDATED INCOME STATEMENT AS AT 30 JUNE 2016 AND 2015

(thousand euros)	Jun 2016	Jun 2015
Interest and similar income	284 564	349 029
Interest and similar expense	157 269	223 007
NET INTEREST INCOME	**127 295**	**126 022**
Dividens from equity instruments	2 711	1 400
Fee and commission income	66 166	65 660
Fee and comission expense	16 830	16 464
Net gains/losses arising from assets and liabilities at fair value through profit or loss	(29 078)	11 199
Net gains/losses arising from available for sale financial assets	40 204	83 418
Net gains/losses arising from foreign exchange differences	9 969	7 239
Net gains/losses arising from sale of other assets	12 233	(7 821)
Other operating income	(18 377)	14 767
NET BANKING INCOME	**194 293**	**285 420**
Staff costs	130 224	101 839
General administrative expenses	52 328	57 757
Depreciation and amortisation	13 394	13 846
Loans impairment	93 137	151 286
Other financial assets impairment	38 060	10 667
Other assets impairment	12 726	8 417
Other provisions	(10 969)	(5 226)
Share of profit of associates under the equity method	19	(4 116)
EARNINGS BEFORE TAX AND NON-CONTROLLING INTERESTS	**(134 588)**	**(57 282)**
Tax		
Current	(3 702)	218
Deferred	71 774	27 670
Non-controlling interests	(1 111)	485
NET INCOME FOR THE PERIOD	**(67 627)**	**(28 909)**

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)

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(Jorge Manuel Viana de Azevedo Pinto Bravo)

(Luís Miguel Resende de Jesus)

Caixa Económica Montepio Geral

Consolidated Income Statement
for the six months period ended at 30 June 2016 and 2015

(Thousands of Euro)

	Notes	30 June 2016	30 June 2015
Interest and similar income	3	284 564	349 029
Interest and similar expense	3	157 269	223 007
Net interest income	3	127 295	126 022
Dividends from equity instruments	4	2 711	1 400
Fee and comission income	5	66 166	65 660
Fee and comission expense	5	(16 830)	(16 464)
Net gains / (losses) arising from financial assets and liabilities at fair value through profit or loss	6	(29 078)	11 199
Net gains/(losses) arising from available for sale financial assets	7	40 204	83 418
Net gains/ (losses) arising from foreign exchange differences	8	9 969	7 239
Net gains/ (losses) arising from sale of other financial assets	9	12 233	(7 821)
Other operating income	10	(18 377)	14 767
Total operating income		194 293	285 420
Staff costs	11	130 224	101 839
General and administrative expenses	12	52 328	57 757
Depreciation and amortisation	13	13 394	13 846
Total operating costs		195 946	173 442
Loans impairment	14	93 137	151 286
Other financial assets impairment	15	38 060	10 667
Other assets impairment	16	12 726	8 417
Other provisions	17	(10 969)	(5 226)
Operating profit		(134 607)	(53 166)
Share of profit of associates under the equity method	18	19	(4 116)
Profit before income tax		(134 588)	(57 282)
Tax			
Current	32	(3 702)	218
Deferred	32	71 774	27 670
Consolidated profit/ (loss) for the period		(66 516)	(29 394)
Consolidated profit/ (loss) for the period attributable to			
the holders of Institutional Capital and Participation Fund		(67 627)	(28 909)
Non-controlling interests	49	1 111	(485)
Consolidated profit/ (loss) for the period		(66 516)	(29 394)

CHIEF ACCOUNTANT

THE EXECUTIVE BOARD OF DIRECTORS

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

Caixa Económica Montepio Geral

Consolidated Statement of financial position as at 30 June 2016 and 31 December 2015

(Thousands of Euro)

	Notes	30 June 2016	31 December 2015
Assets			
Cash and deposits at central banks	19	374 210	424 450
Loans and advances to credit institutions repayable on demand	20	239 798	238 007
Other loans and advances to credit institutions	21	165 967	172 044
Loans and advances to customers	22	14 392 276	14 662 277
Financial assets held for trading	23	34 263	51 093
Financial assets available for sale	24	2 333 057	3 068 501
Hedging derivatives	25	-	9
Held-to-maturity investments	26	1 267 975	161 540
Investments in associated companies	27	3 847	3 908
Non-current assets held for sale	28	726 562	754 898
Investment properties	29	639 968	692 485
Property and equipment	30	277 468	89 115
Intangible assets	31	59 292	65 862
Current tax assets		23 481	27 861
Deferred tax assets	32	463 151	403 506
Other assets	33	382 613	329 660
Total Assets		21 383 928	21 145 216
Liabilities			
Deposits from central banks	34	2 870 709	2 277 258
Deposits from other financial institutions	35	1 530 570	1 573 131
Deposits from customers	36	12 688 923	12 969 431
Debt securities issued	37	1 722 450	2 031 165
Financial liabilities relating to transferred assets	38	375 630	323 037
Financial liabilities held for trading	23	82 626	70 289
Hedging derivatives	25	-	439
Provisions	39	27 577	16 587
Current tax liabilities		6 317	3 069
Other subordinated debt	40	250 481	333 039
Other liabilities	41	263 373	203 625
Total Liabilities		19 818 656	19 801 070
Equity			
Institutional capital	42	1 770 000	1 500 000
Participation fund	43	400 000	400 000
Other equity instruments	44	6 323	8 273
Treasury stock	45	(81)	(31 581)
Fair value reserves	47	23 206	646
Other reserves and retained earnings	46 e 47	(589 626)	(318 454)
Consolidated profit/ (loss) for the period attributable to the holders of Institutional Capital and Participation Fund		(67 627)	(243 407)
Total equity attributable to the holders of Institutional Capital and Participation Fund		1 542 195	1 315 477
Non-controlling interests	49	23 077	28 669
Total Equity		1 565 272	1 344 146
Total Liabilities and Equity		21 383 928	21 145 216

CHIEF ACCOUNTANT

THE EXECUTIVE BOARD OF DIRECTORS

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

Caixa Económica Montepio Geral

Consolidated Income Statement
for the three months period between 1 April and 30 June 2016 and 2015

(Thousands of Euro)

	2nd Quarter 2016	2nd Quarter 2015
Interest and similar income	141 036	158 314
Interest and similar expense	74 373	94 902
Net interest income	66 663	63 412
Dividends from equity instruments	2 697	1 399
Fee and comission income	35 731	33 750
Fee and comission expense	(8 965)	(9 155)
Net gains / (losses) arising from financial assets and liabilities at fair value through profit or loss	(12 619)	(2 033)
Net gains/(losses) arising from available for sale financial assets	30 098	11 440
Net gains/ (losses) arising from foreign exchange differences	2 063	7 324
Net gains/ (losses) arising from sale of other financial assets	12 990	(13 895)
Other operating income	(25 695)	10 190
Total operating income	102 963	102 432
Staff costs	71 313	51 095
General and administrative expenses	28 212	33 282
Depreciation and amortisation	7 312	6 887
Total operating costs	106 837	91 264
Loans impairment	64 431	83 689
Other financial assets impairment	37 173	7 278
Other assets impairment	9 241	5 373
Other provisions	(6 891)	(12 555)
Operating profit	(107 828)	(72 617)
Share of profit of associates under the equity method	121	(4 413)
Profit before income tax	(107 707)	(77 030)
Tax		
Current	(1 935)	9 259
Deferred	62 206	28 686
Consolidated profit/ (loss) for the period	(47 436)	(39 085)
Consolidated profit/ (loss) for the period attributable to		
the holders of Institutional Capital and Participation Fund	(47 867)	(38 669)
Non-controlling interests	431	(416)
Consolidated profit/ (loss) for the period	(47 436)	(39 085)

CHIEF ACCOUNTANT

THE EXECUTIVE BOARD OF DIRECTORS

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

Caixa Económica Montepio Geral

Consolidated Statement of Cash Flows
for the six months period ended at 30 June 2016 and 2015

(Thousands of Euro)

	30 June 2016	30 June 2015
Cash flows arising from operating activities		
Interest income received	264 455	364 393
Commissions income received	66 013	62 252
Interest expense paid	(175 043)	(267 762)
Commissions expense paid	(16 779)	(17 447)
Payments to employees and suppliers	(165 606)	(170 235)
Recoveries on loans previously written off	3 890	2 678
Other payments and receivables	44 057	(35 142)
Income tax payment	3 926	(17 794)
	24 913	(79 057)
(Increase) / decrease in operating assets		
Loans and advances to credit institutions and customers	174 246	339 839
Other assets	(97 868)	(157 464)
	76 378	182 375
Increase / (decrease) in operating liabilities		
Deposits from customers	(264 793)	(1 118 948)
Deposits from credit institutions	(42 254)	1 073 824
Deposits from central banks	594 010	300 814
	286 963	255 690
	388 254	359 008
Cash flows arising from investing activities		
Dividends received	2 711	1 400
(Acquisition) / sale of financial assets held for trading	(10 907)	15 897
(Acquisition) / sale of available for sale financial assets	767 710	20 692
Interests received arising from available for sale financial assets	19 845	42 801
(Acquisition) / sale of hedging derivatives	-	68
(Acquisition) / sale of held to maturity investments	(1 092 784)	(30 791)
(Acquisition) / sale of shares in associated companies	46 670	(215)
Deposits owned with the purpose of monetary control	23 478	(78 101)
(Acquisition) / sale of other fixed assets	(2 568)	(1 427)
Fixed assets and investment properties acquisition	(207 356)	(28 861)
Fixed assets and investment properties sale	38 183	(11 783)
	(415 018)	(70 320)
Cash flows arising from financing activities		
Own securities	49 852	(18 436)
Capital increase	270 000	200 000
Other equity instruments	(210)	-
Proceeds from issuance of bonds and subordinated debt	50 643	71 150
Reimbursement of bonds and subordinated debt	(405 414)	(465 287)
Increase / (decrease) in other sundry liabilities	26 954	(80 990)
	(8 175)	(293 563)
Exchange effects on cash and cash equivalents	9 969	7 238
Net changes in cash and cash equivalents	(24 970)	2 363
Cash and cash equivalents balance at the beginning of the period		
Net changes in cash and cash equivalents		
Cash (note 19)	208 037	189 348
Loans and advances to credit institutions repayable on demand (note 20)	238 007	217 043
Cash and cash equivalents balance at the end of the period	421 074	408 754
Cash and cash equivalents balance at the end of the period includes:		
Cash (note 19)	181 276	186 492
Loans and advances to credit institutions repayable on demand (note 20)	239 798	222 262
	421 074	408 754

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

Caixa Económica Montepio Geral

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

(Thousands of Euro)

	Institutional capital	Participation fund	Other equity instruments	Fair value reserves	Other reserves and retained earnings: General and special reserve	Other reserves and retained earnings: Other reserves	Total equity attributable to holders of institutional capital and participation fund	Non-controlling interests	Total Equity
Balance on 1 January, 2015	1 500 000	196 720	8 273	14 958	255 805	(587 672)	1 388 084	26 440	1 414 524
Other comprehensive income:									
Exchange difference arising from the consolidation	-	-	-	-	-	(7 820)	(7 820)	(2 361)	(10 181)
Deferred taxes related to balance sheet changes accounted for against reserves (note 32)	-	-	-	-	-	(482)	(482)	-	(482)
Fair value changes (note 47)	-	-	-	(102 970)	-	-	(102 970)	-	(102 970)
Deferred taxes related to fair value changes (note 32)	-	-	-	34 126	-	-	34 126	-	34 126
Consolidated profit / (loss) for the period	-	-	-	-	-	(28 909)	(28 909)	(485)	(29 394)
Total comprehensive income for the period	-	-	-	(68 844)	-	(37 211)	(106 055)	(2 846)	(108 901)
Increases in capital by subscription of participation fund (note 43)	-	200 000	-	-	-	-	200 000	-	200 000
Costs related to the issue of perpetual subordinated instruments	-	-	-	-	-	(379)	(379)	-	(379)
Acquisition of participation fund	-	(18 436)	-	-	-	-	(18 436)	-	(18 436)
Other consolidation reserves	-	-	-	-	-	3 493	3 493	-	3 493
Balance on 30 June, 2015	1 500 000	378 284	8 273	(53 886)	255 805	(621 769)	1 466 707	23 594	1 490 301
Other comprehensive income:									
Exchange difference arising from the consolidation	-	-	-	-	-	(13 651)	(13 651)	3 353	(10 298)
Acturial losses in the period	-	-	-	-	-	22 492	22 492	-	22 492
Deferred taxes related to balance sheet changes accounted for against reserves (note 32)	-	-	-	-	-	1 020	1 020	-	1 020
Fair value changes (note 47)	-	-	-	34 482	-	-	34 482	-	34 482
Deferred taxes related to fair value changes (note 32)	-	-	-	(11 929)	-	-	(11 929)	-	(11 929)
Disposal of the participation in Montepio Seguros, S.G.P.S., S.A. (note 27)	-	-	-	31 979	-	-	31 979	-	31 979
Consolidated profit / (loss) for the period	-	-	-	-	-	(214 498)	(214 498)	1 722	(212 776)
Total comprehensive income for the period	-	-	-	54 532	-	(204 637)	(150 105)	5 075	(145 030)
Own perpetual subordinated instruments (note 44)	-	-	-	-	-	(379)	(379)	-	(379)
Acquisition of participation fund	-	(9 865)	-	-	-	5 837	(4 028)	-	(4 028)
Other consolidation reserves	-	-	-	-	-	3 282	3 282	-	3 282
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 32)	-	-	-	-	-	(1 327)	(1 327)	-	(1 327)
Fair value changes (note 47)	-	-	-	32 171	-	-	32 171	-	32 171
Deferred taxes related to fair value changes (note 32)	-	-	-	(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)
Capital increase (note 42)	270 000	-	-	-	-	-	270 000	-	270 000
Own perpetual subordinated instruments (note 44)	-	-	(1 950)	-	-	-	(1 950)	-	(1 950)
Costs related to the issue of perpetual subordinated instruments (nota 44)	-	-	-	-	-	(210)	(210)	-	(210)
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

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

Caixa Económica Montepio Geral

Consolidated Statement of Comprehensive Income
for the six months period ended at 30 June 2016

(Thousands of Euro)

	Notes	30 June 2016 Total	Holders of institutional capital and participation fund	Non-controlling interests
Items that may be reclassified into the Income Statement				
Fair value reserve				
Available for sale financial assets	47	32 171	32 171	-
Taxes	32 and 47	(9 611)	(9 611)	-
Exchange difference arising from the consolidation		(21 823)	(15 120)	(6 703)
		737	7 440	(6 703)
Items that won't be reclassified into the Income Statement				
Deferred taxes		(1 327)	(1 327)	-
		(1 327)	(1 327)	-
Other comprehensive income for the period		(590)	6 113	(6 703)
Consolidated profit / (loss) for the period		(66 516)	(67 627)	1 111
Total comprehensive income for the period		(67 106)	(61 514)	(5 592)

Caixa Económica Montepio Geral

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

(Thousands of Euro)

	Notes	2nd Quarter 2016 Total	Holders of institutional capital and participation fund	Non-controlling interests
Items that may be reclassified into the Income Statement				
Fair value reserve				
Available for sale financial assets	47	44 830	44 830	-
Taxes	32 and 47	(10 676)	(10 676)	-
Exchange difference arising from the consolidation		(2 716)	281	(2 997)
		31 438	34 435	(2 997)
Items that won't be reclassified into the Income Statement				
Deferred taxes		(664)	(664)	-
		(664)	(664)	-
Other comprehensive income for the period		30 774	33 771	(2 997)
Consolidated profit / (loss) for the period		(47 436)	(47 867)	431
Total comprehensive income for the period		(16 662)	(14 096)	(2 566)

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

Caixa Económica Montepio Geral

Consolidated Statement of Comprehensive Income
for the six months period ended at 30 June 2015

(Thousands of Euro)

	Notes	30 June 2015 Total	Holders of institutional capital and participation fund	Non-controlling interests
Items that may be reclassified into the Income Statement				
Fair value reserve				
Available for sale financial assets	47	(102 970)	(102 970)	-
Taxes	32 and 47	34 126	34 126	-
Exchange difference arising from the consolidation		(10 181)	(7 820)	(2 361)
		(79 025)	(76 664)	(2 361)
Items that won't be reclassified into the Income Statement				
Deferred taxes		(482)	(482)	-
		(482)	(482)	-
Other comprehensive income for the period		(79 507)	(77 146)	(2 361)
Consolidated profit / (loss) for the period		(29 394)	(28 909)	(485)
Total other comprehensive income for the period		(108 901)	(106 055)	(2 846)

Caixa Económica Montepio Geral

Consolidated Statement of Comprehensive Income
for the three months period between 1 April and 30 June 2015

(Thousands of Euro)

	Notes	2nd Quarter 2015 Total	Holders of institutional capital and participation fund	Non-controlling interests
Items that may be reclassified into the Income Statement				
Fair value reserve				
Available for sale financial assets	47	(98 424)	(98 424)	-
Taxes	32 and 47	28 974	28 974	-
		(69 450)	(69 450)	-
Items that won't be reclassified into the Income Statement				
Actuarial losses for the period		(22 500)	(22 500)	-
Deferred taxes		(482)	(482)	-
		(22 982)	(22 982)	-
Other comprehensive income for the period		(92 432)	(92 432)	-
Consolidated profit / (loss) for the period		(39 085)	(38 669)	(416)
Total other comprehensive income for the period		(131 517)	(131 101)	(416)

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

1 Accounting policies

a) Basis of presentation

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

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

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

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

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

In accordance with Regulation (EC) no. 1606/2002 from the European Parliament and the Counsel, of 19 July, 2002 and Regulation no. 5/2015 of Bank of Portugal, from 7 December, Group's consolidated financial statements are required to be prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU"). IFRS comprise accounting standards issued by the International Accounting Standards Board ("IASB") and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body. The interim consolidated financial statements presented herein were approved by the Executive Board of Directors of CEMG on 24 August 2016. The financial statements are presented in Euro rounded to the nearest thousand.

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

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

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

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

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

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

b) Basis of consolidation

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

Investment in subsidiaries

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

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

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

Investments in associates

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

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

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

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

Goodwill – Differences arising from consolidation

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

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

The positive goodwill arising from the acquisitions, is recognised as an asset carried at acquisition cost and it is 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 not impact the control position of a subsidiary, are always recognised against reserves.

Loss of control

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

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

Investments in foreign subsidiaries and associates

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

Regarding the investments in foreign operations that are consolidated in the Group accounts under the full consolidation and equity methods, for exchange differences between the conversion to Euros of the 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 not fully effective, the ineffective portion is accounted in the income statement.

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

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

Transactions eliminated on consolidation

Intragroup balances and any unrealized gains and losses arising from intragroup transactions, are eliminated in the preparation of the consolidated 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 amortised cost using the effective interest method, less impairment losses.

Impairment

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

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

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

(i) Individually assessed loans

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

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

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

(ii) Collective assessment

Loans which have been individually assessed and for which no evidence of impairment has been identified, are grouped together based on similar credit risk characteristics for a collective assessment of impairment losses. This analysis allows the Group to recognize 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 carried out only for loans that are considered not to be recoverable and fully provided.

d) Financial instruments

(i) Classification, initial recognition and subsequent measurement

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

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

1a) Financial assets held for trading

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

The interest from debt instruments are recognised as interest margin.

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

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

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

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

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

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

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

2) Financial assets available for sale

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

3) Investments held-to-maturity

Held-to-maturity investments 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 amortised cost net of impairment. The incremental direct transaction costs are included in the effective interest rate for these financial instruments. The interest accounted based on the effective interest rate method are recognised in Net interest income.

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

5) Other financial liabilities

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

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

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

(ii) Impairment

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

If an available for sale asset is determined to be impaired, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit or loss) is removed from fair value reserves and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurred after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the income statement. Recovery of impairment losses on equity instruments classified as financial assets available for sale, is recognised as a gain in fair value reserves when it occurs (there is 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 derecognizes 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 derecognizes 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 formalised.

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

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

k) Finance lease transactions

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

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

l) Interest income and expense

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

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

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

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

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

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

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

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

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

n) Fee and commission income

Fees and commissions are recognised according to the following criteria:

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

o) Fiduciary activities

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

p) Property and equipment

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

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

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

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

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

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

q) Investment property

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

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

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

r) Intangible Assets

Software

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

s) Cash and cash equivalents

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

t) Offsetting

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

u) Foreign currency transactions

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

v) Employee benefits

Defined benefit plan

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Bonus to employees and to the Executive Board of Directors

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

w) Income taxes

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

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

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

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

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

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

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

The Group, as established in IAS 12, paragraph 74, compensates the deferred tax assets and liabilities if, and only if: (i) has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to 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, Cape Vert and Mozambique).

y) Provisions

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

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

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

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

z) Insurance and reinsurance brokerage services

The CEMG is duly 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 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.

Held-to-maturity investments

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

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

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

Entities included in the consolidation perimeter

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

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

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

Income taxes

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

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

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

Pension and other employees' benefits

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

Changes in these assumptions could materially affect these values.

Goodwill impairment

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

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

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

Provisions

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

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

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

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:

	Jun 2016	Jun 2015
	(Thousands of Euro)	
Net interest income	127 295	126 022
Net gains arising from assets and liabilities at fair value through profit and loss	(29 078)	11 199
Net gains arising from available-for-sale financial assets	40 204	83 418
	138 421	220 639

3 Net interest income

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016	Jun 2015
Interest and similar income		
Interest from loans to customers	210 792	251 834
Interest from deposits and other investments	1 106	4 150
Interest from available for sale financial assets	18 257	35 291
Interest from held for trading financial assets	37 095	45 729
Interest from held-to-maturity investments	11 088	4 507
Interest from hedging derivatives	307	87
Other interest and similar income	5 919	7 431
	284 564	349 029
Interest and similar expense		
Interest from deposits of customers	81 612	124 417
Interest from loans of Central Banks and other financial institutions	7 553	9 578
Interest from securities issued	26 098	36 306
Interest from subordinated liabilities	2 441	3 996
Interest from financial liabilities associated with transfered assets	919	112
Interest from held for trading financial liabilities	35 564	45 727
Interest from hedging derivatives	20	346
Other interest and similar expense	3 062	2 525
	157 269	223 007
Net interest income	127 295	126 022

The balances Interest from loans to customers and Other interest and similar expenses include, respectively, the positive amount of Euro 10,479 thousand and the negative amount of Euro 2,444 thousand (30 June 2015: the positive amount of Euro 11,805 thousand and the negative amount of Euro 2,469 thousand), related to commissions and other gains / losses which are accounted for under the effective interest rate method, as referred in the accounting policy, note 1 l).

4 Dividends from equity instruments

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

5 Net fee and commission income

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016	Jun 2015
Fee and commission income		
Banking services	44 575	45 063
Transactions order by third parties	10 541	10 839
Guarantees provided	4 090	4 065
Insurance activity	3 760	3 507
Commitments to third parties	1 273	1 345
Other fee and commision income	1 927	841
	66 166	65 660
Fee and commission expense		
Banking services rendered by third parties	9 324	10 206
Transactions with securities	243	273
Commitments from third parties	-	3
Other fee and commission expense	7 263	5 982
	16 830	16 464
Net fee and commission income	49 336	49 196

As at 30 June 2016 and 2015, commissions received on insurance brokerage services or reinsurance are presented as follows:

(Thousands of Euro)

	Jun 2016	Jun 2015
Life insurance		
Mortgage	549	577
Consumer	673	668
Other	751	778
	1 973	2 023
Non-life insurance		
Mortgage	995	898
Consumer	27	19
Outros	765	567
	1 787	1 484
	3 760	3 507

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. and 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 2016			Jun 2015		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Securities						
Bonds and other fixed income securities						
Issued by public entities	4 431	4 289	142	9 955	14 109	(4 154)
Issued by other entities	-	-	-	68	75	(7)
Shares	5 209	5 962	(753)	8 330	7 013	1 317
Investments units	295	324	(29)	44	48	(4)
	9 935	10 575	(640)	18 397	21 245	(2 848)
Derivative financial instruments						
Interest rate contracts	63 363	64 317	(954)	93 745	92 932	813
Exchange rate contracts	36 852	36 779	73	48 999	48 314	685
Futures contracts	3 290	3 051	239	2 046	2 112	(66)
Commodities contracts	7 751	7 716	35	66 617	66 676	(59)
Options contracts	4 548	4 567	(19)	10 583	10 661	(78)
Credit default contracts (CDS)	21 787	46 629	(24 842)	-	-	-
	137 591	163 059	(25 468)	221 990	220 695	1 295
Other financial assets	-	-	-	14 088	6	14 082
	-	-	-	14 088	6	14 082
Other financial assets at fair value through profit or loss						
Loans to customers	413	515	(102)	659	573	86
	413	515	(102)	659	573	86
Hedging derivatives						
Interest rate contracts	22	35	(13)	748	333	415
	22	35	(13)	748	333	415
Financial liabilities						
Deposits from other credit institutions	803	1 356	(553)	141	61	80
Deposits from customers	23	44	(21)	352	323	29
Debt securities issued	931	2 471	(1 540)	456	1 528	(1 072)
Other subordinated liabilities	-	586	(586)	447	1 616	(1 169)
	1 757	4 457	(2 700)	1 396	3 528	(2 132)
Other financial operations						
Loans to customers	-	543	(543)	-	543	(543)
Other	620	232	388	866	22	844
	620	775	(155)	866	565	301
	150 338	179 416	(29 078)	258 144	246 945	11 199

The balance Financial liabilities, includes fair value changes related with changes in the own credit risk (spread) of operations of Euro 3,894 thousand (30 June 2015: Euro 5,668 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 available for sale financial assets

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016			Jun 2015		
	Gains	Losses	Total	Gains	Losses	Total
Fixed income securities						
Bonds						
Issued by public entities	25 871	299	25 572	72 847	1 192	71 655
Issued by other entities	5 288	5 153	135	11 181	1 957	9 224
Shares	14 914	2 130	12 784	678	75	603
Other variable income securities	2 617	904	1 713	1 968	32	1 936
	48 690	8 486	40 204	86 674	3 256	83 418

As at 30 June 2016, the balance Fixed income securities – Bonds – Issued by public entities includes the amount of Euro 22,910 thousand related with gains generated with the sale of Spanish and Italian treasury bonds. As at 30 June 2015, this balance includes the amount of Euro 71,729 thousand, related with gains generated with the sale of treasury bonds of Portuguese domestic debt.

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

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

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016			Jun 2015		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differences	165 499	155 530	9 969	227 636	220 397	7 239

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 sale of other assets

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016	Jun 2015
Sale of investments in associates	1 490	-
Sale of other assets	(618)	(390)
Sale of loans and advances to customers	13 230	6 025
Sale of non-current assets held for sale	(1 869)	(13 456)
	12 233	(7 821)

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

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

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

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

10 Other operating income

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016	Jun 2015
Other operating income		
Profits arising from investment properties revaluation	25 314	11 110
Services rendered	14 006	23 442
Profits arising from investment properties rentals	8 571	8 974
Profits arising from deposits on demand management	6 104	4 597
Staff transfer	4 110	2 680
Reimbursement of expenses	3 759	4 022
Repurchase of own securities	333	103
Other	10 830	10 934
	73 027	65 862
Other operating expense		
Revaluation losses in investment properties	41 524	13 806
Contribution for the banking sector	13 226	10 666
Ex-ante contribution for the Resolution Fund	10 050	-
Contribution for the resolution fund	3 105	2 278
Taxes	1 206	2 852
Donations and membership	442	495
Deposit Guarantee Fund	10	655
Repurchase of own securities	-	4 355
Other	21 841	15 988
	91 404	51 095
Other net operating income	(18 377)	14 767

As at 30 June 2016, the balance Other operating income – Services rendered includes the amount of Euro 10,404 thousand (30 June 2015: Euro 20,000 thousand), referring to the income charged to Montepio Geral Associação Mutualista, as described in note 33.

As at 30 June 2016, the balance Other operating income – Staff transfer includes the amount of Euro 4,110 thousand (30 June 2015: Euro 2,680 thousand) referring to the staff transfers from CEMG to Montepio Geral Associação Mutualista and to entities under its control.

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

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

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

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

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

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

11 Staff costs

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016	Jun 2015
Remunerations	71 956	74 401
Mandatory social securities charges	17 961	18 865
Charges with the pension fund	25 086	6 153
Other staff costs	15 221	2 420
	130 224	101 839

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;
- Termination by Mutual Agreement ("TMA"), subject to approval by the Chief Officer; and
- Other situations, subjected to a case-by-case analysis.

As at 30 June 2016, the implementation of this program was almost completed, being recorded in the consolidated financial statements of the first semeste of 2016 a cost of Euro 32,022 thousand related to the charges that CEMG intends to incur in relation to the agreements signed with each of the involved employees. On this basis, as at 30 June 2016, 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, from which Euro 10,013 thousand are related to compensations paid during the first half of 2016.

Additionally, on 30 June 2016, the caption Charges with the pension fund includes the amount of Euro 5,801 thousand (30 June 2015: Euro 6,153 thousand) regarding the current service cost.

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

The balance Board of Directors includes the remuneration from 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, General and Supervisory Board members, Audit Committee, members and shareholder's General Meeting members from the several entities of the Group.

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.

At 30 June 2016 the Board of Directors and Other key management personnel did not receive any retributions of variable remunerations (30 June 2015: Euro 619 thousand).

During the first semester of 2016 were paid compensations for termination of service to key management elements in the amount of Euro 203 thousand.

The costs with salaries and other benefits attributed to the Board of Directors and Other key management personnel of the Group as at 30 June 2016 are presented as follows:

(Thousands of Euro)

	Board of Directors	Other key management personnel	Total
Salaries and short-term benefits	1 392	2 421	3 813
Pension costs	16	140	156
SAMS costs	12	74	86
Variable remunerations	-	-	-
	1 420	2 635	4 055
Social Security charges	315	522	837
Pension Fund charges	14	115	129
Ageing bonus	-	21	21
	329	658	987

The costs with salaries and other benefits attributed to the Group Board of Directors and key management personnel of the Group as at 30 June 2015 are presented as follows:

(Thousands of Euro)

	Board of Directors	Other key management personnel	Total
Salaries and short-term benefits	1 602	2 844	4 446
Pension costs	33	162	195
SAMS costs	8	90	98
Variable remunerations	408	211	619
	2 051	3 307	5 358
Social Security charges	239	497	736
Pension Fund charges	20	137	157
Ageing bonus	-	5	5
	259	639	898

As at 30 June 2016, the remuneration of the General and Supervisory Board, included in Other key management personnel amounted to Euro 455 thousand (30 June 2015: Euro 245 thousand).

As at 30 June 2016 and 2015, loans granted to key management personnel, amounted to Euro 4,055 thousand and Euro 4,385 thousand, respectively.

12 General and administrative expenses

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016	Jun 2015
Rental costs	8 306	14 217
Specialized services		
IT services	4 916	5 415
Independent work	1 387	1 254
Other specialized services	13 865	12 365
Communication costs	4 238	4 123
Advertising costs	3 254	3 115
Maintenance and related services	3 527	3 378
Water, energy and fuel	2 648	2 570
Insurance	1 547	1 524
Transportation	1 531	1 250
Travel, hotel and representation costs	932	1 321
Consumables	854	803
Training costs	272	201
Other	5 051	6 221
	52 328	57 757

The balance Rental costs, includes the amount of Euro 7,403 thousand (30 June 2015: Euro 12,853 thousand) related to rents paid regarding real estate properties 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 2016	Jun 2015
Up to 1 year	16	59
1 to 5 years	2 707	4 424
	2 723	4 483

The balance Other administrative costs includes the amount of Euro 1,798 thousand (30 June 2015: Euro 2,441 thousand) related with the 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 2016	Jun 2015
Intangible assets		
Software	6 431	7 316
Other tangible assets		
Real estate		
For own use	2 035	793
Leasehold improvements	1 305	1 442
Equipment		
IT	2 003	2 324
Interior installations	737	792
Furniture and material	370	459
Transportation	260	351
Security	163	203
Machinery and tools	25	41
Other	-	4
Operating lease	40	71
Other tangible assets	25	50
	6 963	6 530
	13 394	13 846

14 Loans impairment

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016	Jun 2015
Other loans and advances to credit institutions		
Charge for the period	-	1 140
Write-back for the period	-	(524)
	-	616
Loans and advances to customers		
Charge for the period net of reversals	97 027	153 348
Recovery of loans and interest charged-off	(3 890)	(2 678)
	93 137	150 670
	93 137	151 286

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

15 Other financial assets impairment

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016	Jun 2015
Impairment for available for sale financial assets		
Charge for the period	51 550	38 055
Write-back for the period	(13 490)	(27 388)
	38 060	10 667

As at 30 June 2016, the balance Impairment for available for sale financial assets – Charge for the period includes the amount of Euro 6,880 thousand (30 June 2015: Euro 36 thousand) that corresponds to the impairment recognised for investment units in a Fund specialised in the recovery of loans, acquired under the sale of loans and advances to customers, as described in notes 24 and 59.

As at 30 June 2016, this caption includes an impairment loss in the amount of Euro 31,926 thousand on the position held in Fixed income securities - Bonds issued by other entities - Foreign.

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

16 Other assets impairment

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016	Jun 2015
Impairment for non-current assets held for sale		
Charge for the period	14 861	9 466
Write-back for the period	(8 443)	(1 674)
	6 418	7 792
Impairment for intangible assets		
Charge for the period	5 966	-
Impairment for other assets		
Charge for the period	1 014	12 816
Write-back for the period	(672)	(12 191)
	342	625
	12 726	8 417

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

17 Other provisions

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016	Jun 2015
Provisions for guarantees and commitments		
Charge for the period	7 814	-
Write-back for the period	(15 367)	-
	(7 553)	-
Provisions for other liabilities and charges		
Charge for the period	11 255	1 636
Write-back for the period	(14 671)	(6 862)
	(3 416)	(5 226)
	(10 969)	(5 226)

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 2016	Jun 2015
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	19	(120)
Montepio Seguros, S.G.P.S., S.A.	-	(4 013)
Iberpartners Cafés, S.G.P.S., S.A.	-	17
	19	(4 116)

19 Cash and deposits at central banks

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Cash	181 276	208 037
Deposits at central banks		
Bank of Portugal	145 337	159 199
Other central banks	47 597	57 214
	374 210	424 450

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

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

As at 30 June 2016, deposits from Bank of Portugal are non-interest-bearing (31 December 2015: average rate of return: 0.05%), as well as deposits at Other central banks.

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

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

20 Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Credit institutions in Portugal	191 140	194 780
Credit institutions abroad	14 615	16 168
Amounts due for collection	34 043	27 059
	239 798	238 007

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

21 Other loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Loans and advances to credit institutions in Portugal		
Term Deposits	2 132	2 076
Other loans and advances	6 012	6 006
	8 144	8 082
Loans and advances to credit institutions abroad		
Purchase operations with resale agreement	67 470	63 193
CSA's	52 009	75 219
Term deposits	38 115	25 461
Subordinated investments	-	91
Other loans and advances	229	-
	157 823	163 964
	165 967	172 046
Impairment for loans and advances to credit institutions	-	(2)
	165 967	172 044

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

The Credit Support Annex (hereinafter referred to as “CSA’s”) are contracts that regulate the delivery, reception and monitoring of delivered/received collateral to cover the exposure of a counterparty to the other, as a result of open positions in over-the-counter derivatives. According to most CSA’s established 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 delivered in cash (collateral establishment or reinforcement) 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 52,009 thousand (31 December 2015: Euro 75,219 thousand) related to deposits in credit institutions given as collateral for the referred operations.

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

(Thousands of Euro)

	Jun 2016	Jun 2015
Balance on 1 January	2	313
Charge for the period	-	(524)
Transfers	(2)	-
Balance on 30 June	-	929

22 Loans and advances to customers

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Domestic loans		
Corporate		
Loans not represented by securities		
Loans	2 693 509	2 669 607
Commercial lines of credits	684 033	745 753
Finance lease	475 970	481 194
Discounted bills	93 758	94 817
Factoring	96 499	83 141
Overdrafts	6 310	33 412
Other loans	827 500	927 247
Loans represented by securities		
Commercial paper	244 098	339 054
Bonds	358 036	358 488
Retail		
Mortgage loans	7 198 039	7 391 219
Finance leases	67 060	70 232
Consumer and other loans	1 024 475	1 070 000
	13 769 287	14 264 164
Foreign loans		
Corporate	230 572	301 818
Retail	16 257	17 274
	14 016 116	14 583 256
Correction value of assets subject to hedge operations		
Other credits	1 864	2 509
Overdue loans and interest		
Less than 90 days	139 826	125 345
More than 90 days	1 441 343	1 232 905
	1 581 169	1 358 250
	15 599 149	15 944 015
Impairment for credit risks	(1 206 873)	(1 281 738)
	14 392 276	14 662 277

As at 30 June 2016, the balance Loans and advances to customers includes the amount of Euro 2,725,816 thousand (31 December 2015: Euro 2,727,400 thousand) related to the issue of covered bonds held by the Group, as described in note 37.

On 30 June 2016, the credit, guarantees and irrevocable credit lines (excluding interbank and money market transactions) that the Group granted to the holder of institutional capital and to its subsidiaries amount Euro 50,299 thousand (31 December 2015: Euro 40,648 thousand), as referred in note 55. The conclusion of businesses between the Group and the holders of institutional capital 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 appreciation of the Executive Board of Directors and the General and Supervisory Board, as proposed by the commercial network, supported by an analysis and assessment about the compliance with the limit established in article 109 of the Credit Institutions and Financial Companies General Regime issued by the Risk Department. The impairment amount (collective) for these contracts amounts to Euro 316 thousand in 30 June 2016 (31 December 2015: Euro 1,105 thousand).

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

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

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

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

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

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

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

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

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

As at 30 June 2016 and within the sale of credits and real estate properties performed, it is outstanding by SilverEquation the amount of Euro 164,883 thousand (31 December 2015: Euro 161,420 thousand), as described in note 33.

As described in notes 24 and 59, in the first half of 2016, the Group performed a sale operation of Loans and advances to customers to funds specialised in credit recovery. The global amount of credits sold in the first half of 2016 amounted to Euro 643 thousand, originating a gain of Euro 279 thousand.

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

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

Securitisation operations performed by the Group are related to mortgages credits, consumer credits, leasings and loans to firms realised through special purpose entities (SPE's). As referred in accounting policy described in note 1 b), the SPE's are consolidated by full method when the substance of the relation with the entities show that the Group has control over his activities. As at 30 June 2016, the value of loans and advances to customers (net of impairment), includes the amount of Euro 160,091 thousand (31 December 2015: Euro 170,819 thousand) related to securitisation transactions which, in accordance with the accounting policy described in note 1 b), are consolidated under the full method.

As at 30 June 2016, the balance Loans and advances to customers includes the amount of Euro 3,991,386 thousand (31 December 2015: Euro 4,086,815 thousand) related with loans object of securitisation that, in accordance with note 1 g), were not subject of derecogniton, as described in note 55.

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

The fair value of the portfolio of loans to customers is presented in note 51.

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

(Thousands of Euro)

	Jun 2016	**Dec 2015**
Variable interest rate contract	14 382 944	14 712 099
Fixed interest rate contract	1 216 205	1 231 916
	15 599 149	15 944 015

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

(Thousands of Euro)

	Jun 2016	Dec 2015
Asset-backed loans	1 038 258	838 063
Other guarantee loans	307 706	327 465
Financial leases	37 150	43 293
Secured loans	55 348	19 050
Other loans	142 707	130 379
	1 581 169	1 358 250

The analysis of Loans and advances to customers, by maturity and type of customer, for the period ended as at 30 June 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	324 198	789 041	9 323 485	1 038 258	11 474 982
Other guarantee loans	758 791	295 409	423 356	307 706	1 785 262
Financial leases	31 066	246 068	265 896	37 150	580 180
Secured loans	244 307	286 501	71 326	55 348	657 482
Other loans	390 381	201 340	366 815	142 707	1 101 243
	1 748 743	1 818 359	10 450 878	1 581 169	15 599 149

The balance Loans and advances to customers, by maturity and type of credit, for the period ended as at 31 December 2015, is analysed 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	371 562	919 961	9 503 622	838 063	11 633 208
Other guarantee loans	768 848	328 671	429 119	327 465	1 854 103
Financial leases	27 016	246 743	277 667	43 293	594 719
Secured loans	359 375	263 638	74 529	19 050	716 592
Other loans	418 064	190 858	406 092	130 379	1 145 393
	1 944 865	1 949 871	10 691 029	1 358 250	15 944 015

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

(Thousands of Euro)

	Financial leases			
	Due within 1 year	1 to 5 years	Over 5 years	Total
Outstanding rents	71 546	268 022	155 825	495 393
Outstanding interests	(13 657)	(47 263)	(28 778)	(89 698)
Residual values	14 714	69 967	52 654	137 335
	72 603	290 726	179 701	543 030

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

(Thousands of Euro)

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

In relation to the Operating leases, the Group does not present significant contracts as a Lessor.

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

(Thousands of Euro)

	Jun 2016	Dec 2015
Domestic loans		
Corporate		
Construction/Production	295 909	264 958
Investments	539 748	468 861
Treasury	370 366	298 540
Other loans	67 390	70 838
Retail		
Mortgage loans	108 455	96 860
Consumer credit	66 773	64 961
Other loans	116 084	77 123
	1 564 725	1 342 141
Foreign loans		
Corporate	14 114	13 570
Retail	2 330	2 539
	16 444	16 109
	1 581 169	1 358 250

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

(Thousands of Euro)

	Jun 2016	Jun 2015
Balance on 1 January	1 281 738	1 385 872
Charge for the period net of reversals	97 027	153 348
Impairment charged-off	(143 460)	(91 944)
Transfers	(22 737)	-
Exchange differences	(5 695)	(1 666)
Balance on 30 June	1 206 873	1 445 610

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

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

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

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

(Thousands of Euro)

	Jun 2016	Dec 2015
Asset-backed loans	743 718	743 332
Other guaranteed loans	301 604	345 022
Unsecured loans	161 551	193 384
	1 206 873	1 281 738

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

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

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

(Thousands of Euro)

	Jun 2016	Jun 2015
Asset-backed loans	24 452	25 699
Other guaranteed loans	68 762	12 774
Unsecured loans	50 246	53 471
	143 460	91 944

The total recovered loans and overdue interest, regarding the credit recovery with real guarantees, booked in the first half of 2016 and 2015 amounts to Euro 3,890 thousand and Euro 2,678 thousand, respectively, as described in note 14.

The Loans and advances to customers portfolio includes loans for which, towards the financial difficulties of the customer, initial conditions of the contract were amended in the amount of Euro 1,459,566 thousand (31 December 2015: Euro 1,518,194 thousand) which have an impairment of Euro 404,153 thousand (31 December 2015: Euro 399,409 thousand).

The Group has adopted forbearance measures and practices, according to the risk, in order to adjust the disposable income or the financial capacity of customers to its debt service. On this basis, 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, the Group adopted the ones included in Instruction No. 32/2013 of the Bank of Portugal from 15 January 2014, namely contractual amendments (lack of capital, extension of the final date, deferral of capital, etc.) and consolidation of debts in another contract, with conditions adjusted to the customer's current situation.

The restructuring operations that were performed in the first half of 2016 and during 2015, were positive allowing 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 financial capacity of customers.

Additionally, the loans portfolio includes contracts that resulted in a formal restructuring with the customers and the consequent establishment of a new funding to replace the previous. The restructuring may result in a reinforcement of guarantees and / or liquidation of part of the credit and involve an extension of maturities or a different interest rate. The analysis of restructured loans in the first half of 2016 and during 2015, by type of credit, is presented as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Domestic loans		
Corporate		
Loans not represented by securities		
Loans	57 022	137 176
Commercial lines of credit	762	7 014
Finance lease	-	1
Other loans	13 500	1 060
Retail		
Mortgage loans	8 091	36 899
Consumer credit and other loans	3 665	10 777
	83 040	192 927

Restructured loans are subject to an impairment analysis resulting from the revaluation of expectations to meet new cash flows inherent to the new contractual conditions, discounted at the original effective interest rate and considering new collaterals.

In respect of restructured loans, the impairment associated to these operations amounts to Euro 404,153 thousand (31 December 2015: Euro 399,409 thousand).

The Group's credit portfolio, which includes loans to customers and also guarantees and commitments granted to third parties, in the amount of Euro 495,512 thousand (31 December 2015: 500,144 thousand) and the irrevocable credit in the amount of Euro 509,875 thousand (31 December 2015: 628,956 thousand), divided between impaired and not impaired credit, is presented as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Total of loans	16 604 536	17 073 115
Individually significant		
Gross amount	5 376 449	5 486 149
Impairment	(660 518)	(704 392)
Net value	4 715 931	4 781 757
Collective analysis		
Loans with impairment triggers		
Gross amount	2 027 095	2 096 127
Impairment	(538 275)	(551 556)
Net value	1 488 820	1 544 571
Loans and advances to customers without impairment	9 200 992	9 490 839
Impairment (IBNR)	(23 025)	(25 790)
Net value	15 382 718	15 791 377

As at 30 June 2016 and 31 December 2015, the impairment determined according to note 1 c) described in the accounting policies, is as follows:

(Thousands of Euro)

	Jun 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	5 295 395	647 194	3 111 571	363 179	8 406 966	1 010 373	7 396 593
Retail – Mortgages	21 287	1 644	7 282 563	108 362	7 303 850	110 006	7 193 844
Retails – Others	59 768	11 680	833 952	89 759	893 720	101 439	792 281
	5 376 450	660 518	11 228 086	561 300	16 604 536	1 221 818	15 382 718

(Thousands of Euro)

	Dec 2015						
	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	5 395 033	680 219	3 293 700	383 846	8 688 733	1 064 065	7 624 668
Retail – Mortgages	18 295	1 949	7 461 582	105 200	7 479 877	107 149	7 372 728
Retails – Others	72 822	22 224	831 683	88 300	904 505	110 524	793 981
	5 486 150	704 392	11 586 965	577 346	17 073 115	1 281 738	15 791 377

The fair value of collaterals associated to the loans and advances to customers portfolio is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Loans with impairment:		
Securities and other financial assets	225 069	255 336
Residential real estate - Mortgage loans	32 553	28 191
Real estate - Construction and CRE	2 098 974	2 024 805
Other real estate	1 610 767	1 492 133
Other guarantees	439 593	376 369
	4 406 956	4 176 834
Parametric analysis:		
Securities and other financial assets	24 294	23 959
Residential real estate - Mortgage loans	1 469 700	1 475 782
Real estate - Construction and CRE	380 080	386 032
Other real estate	369 867	360 208
Other guarantees	50 033	28 608
	2 293 974	2 274 589
Loans without impairment:		
Securities and other financial assets	293 579	305 317
Residential real estate - Mortgage loans	12 310 920	12 590 298
Real estate - Construction and CRE	265 192	234 927
Other real estate	833 857	864 138
Other guarantees	456 661	278 357
	14 160 209	14 273 037
	20 861 139	20 724 460

The Group uses physical and financial collaterals as instruments to mitigate the credit risk. The physical collaterals are mainly mortgages on residential properties for the mortgage portfolio and mortgages on other types of properties 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 revaluated 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 revaluated at least once a year.

As at 30 June 2016 and 31 December 2015, the credit exposures by segment and impairment recorded are presented as follows:

(Thousands of Euro)

	Exposure Jun 2016					Impairment Jun 2016		
Segment	Total exposure	Credit in compliance	Reestructured credit in compliance	Default credit	Reestructured default credit	Total impairment	Credit in compliance	Default credit
Corporate	5 997 600	5 083 529	126 404	914 071	266 028	508 131	123 688	384 443
Construction and CRE	2 409 366	1 273 217	137 508	1 136 149	561 855	502 242	41 273	460 969
Retail - mortgages	7 303 850	6 919 238	183 289	384 612	131 246	110 006	10 111	99 895
Retail - others	893 720	730 938	25 004	162 782	28 232	101 439	6 412	95 027
	16 604 536	14 006 922	472 205	2 597 614	987 361	1 221 818	181 484	1 040 334

(Thousands of Euro)

	Exposure Dec 2015					Impairment Dec 2015		
Segment	Total exposure	Credit in compliance	Reestructured credit in compliance	Default credit	Reestructured default credit	Total impairment	Credit in compliance	Default credit
Corporate	6 203 617	5 337 548	126 631	866 069	263 649	554 171	146 711	407 460
Construction and CRE	2 485 116	1 356 297	170 977	1 128 819	560 189	509 894	56 727	453 167
Retail - mortgages	7 479 877	7 098 477	214 505	381 400	127 288	107 149	11 017	96 132
Retail - others	904 505	727 817	28 098	176 688	26 857	110 524	6 061	104 463
	17 073 115	14 520 139	540 211	2 552 976	977 983	1 281 738	220 516	1 061 222

(Thousands of Euro)

	Total exposure Jun 2016						Total impairment Jun 2016				
		Credit in compliance			Credit in default			Credit in compliance		Credit in default	
Segment	Total exposure Jun-16	Without signs	Overdue days <30 with signs	Sub-total	Overdue days <= 90*	Overdue days > 90 days	Total impairment Jun-16	Overdue days < 30	Overdue days between 30 - 90	Overdue days <= 90*	Overdue days > 90 dias
Corporate	5 997 600	4 505 511	458 639	5 083 529	127 724	786 347	508 131	65 337	58 351	41 182	343 261
Construction and CRE	2 409 366	938 277	249 095	1 273 217	182 236	953 913	502 242	27 708	13 565	45 565	415 404
Retail - mortgage	7 303 850	6 295 133	541 629	6 919 238	25 246	359 366	110 006	7 429	2 682	4 171	95 724
Retail - Other	893 720	603 244	110 681	730 938	5 620	157 162	101 439	4 890	1 522	1 382	93 645
	16 604 536	12 342 165	1 360 044	14 006 922	340 826	2 256 788	1 221 818	105 364	76 120	92 300	948 034

(Thousands of Euro)

	Total exposure Dec 2015						Total impairment Dec 2015				
		Credit in compliance			Credit in default			Credit in compliance		Credit in default	
Segment	Total exposure Dec 15	Without signs	Overdue days <30 with signs	Sub-total	Overdue days <= 90*	Overdue days > 90 days	Total impairment Dec 15	Overdue days < 30	Overdue days between 30 - 90	Overdue days <= 90*	Overdue days > 90 dias
Corporate	6 203 617	4 599 799	573 718	5 337 548	158 990	707 079	554 171	119 877	26 834	61 190	346 270
Construction and CRE	2 485 116	1 018 330	314 103	1 356 297	227 706	901 113	509 894	54 246	2 481	62 365	390 802
Retail - mortgage	7 479 877	6 446 462	565 366	7 098 477	25 843	355 557	107 149	7 885	3 132	3 822	92 310
Retail - Other	904 505	600 626	112 818	727 817	6 034	170 654	110 524	4 455	1 606	1 514	102 949
	17 073 115	12 665 217	1 566 005	14 520 139	418 573	2 134 403	1 281 738	186 463	34 053	128 891	932 331

As at 30 June 2016, the credit portfolio by segment and production year 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	2 385	142 588	23 407	1 676	328 365	136 339	63 348	2 391 651	38 002	41 429	35 405	8 169
2005	750	39 141	7 249	471	106 064	37 648	14 595	832 762	13 270	5 039	11 292	2 156
2006	1 082	76 562	9 550	633	123 527	36 718	17 469	1 010 781	18 129	7 598	44 370	4 603
2007	2 026	120 218	20 459	1 025	161 144	44 954	17 732	1 013 241	18 653	41 601	48 935	15 268
2008	7 449	122 213	27 351	2 145	124 232	27 064	9 249	528 545	9 334	57 141	45 722	9 970
2009	9 411	214 919	38 671	2 952	163 629	45 937	5 120	335 576	5 211	43 174	50 384	11 745
2010	8 986	321 254	72 317	1 922	133 574	35 804	5 304	375 675	3 897	22 511	56 962	14 267
2011	12 470	320 002	49 740	2 810	125 541	26 551	2 044	144 907	1 191	23 862	50 753	11 318
2012	9 059	374 308	42 603	1 772	103 319	21 504	1 373	97 845	1 026	14 530	45 283	7 310
2013	20 019	894 492	75 702	2 382	229 271	42 597	1 736	128 452	826	21 147	74 407	6 891
2014	25 342	1 220 494	46 680	4 048	318 814	32 048	2 017	152 099	271	32 006	138 755	5 939
2015	21 061	1 257 434	78 708	3 379	259 464	10 965	2 323	185 546	136	37 823	172 584	2 961
2016	17 492	893 975	15 694	2 868	232 422	4 113	1 262	106 770	60	26 382	118 868	842
	137 532	5 997 600	508 131	28 083	2 409 366	502 242	143 572	7 303 850	110 006	374 243	893 720	101 439

As at 31 December 2015, the credit portfolio by segment and production year 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	2 433	161 259	28 918	1 798	351 226	142 781	64 670	2 507 776	38 032	42 385	37 635	8 075
2005	783	44 357	8 904	498	113 905	37 892	14 821	861 619	12 602	5 048	12 360	2 302
2006	1 186	82 089	10 607	685	140 522	35 828	17 771	1 044 654	17 477	7 795	58 404	15 344
2007	2 277	133 542	21 795	1 170	189 668	46 704	17 965	1 044 838	18 048	42 634	53 019	16 664
2008	8 663	156 839	36 743	2 381	150 678	28 879	9 414	547 539	9 277	60 340	51 978	10 657
2009	10 169	234 160	44 261	3 247	199 547	53 573	5 216	348 211	4 753	44 601	57 956	12 293
2010	10 051	349 737	74 528	2 171	153 938	35 619	5 417	389 930	3 752	23 714	67 008	14 063
2011	13 892	353 952	48 435	3 160	138 393	28 586	2 095	151 081	1 111	25 544	60 201	11 074
2012	10 154	416 468	42 182	1 877	133 417	21 676	1 409	102 689	903	15 356	57 948	6 819
2013	21 429	842 594	82 981	2 492	250 418	41 267	1 786	135 412	775	22 309	85 507	5 996
2014	26 780	1 355 141	50 873	4 449	336 490	28 826	2 069	157 612	225	33 855	161 530	4 631
2015	28 570	2 073 479	103 944	5 051	326 914	8 263	2 359	188 516	194	40 773	200 959	2 606
	136 387	6 203 617	554 171	28 979	2 485 116	509 894	144 992	7 479 877	107 149	364 354	904 505	110 524

As at 30 June 2016 and 31 December 2015, the gross credit exposure and individual/collective impairment by segment are presented as follows:

(Thousands of Euro)

	Jun 2016									
	Corporate		Construction and CRE		Retail - Mortgages		Retail - Others		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation										
Individual	3 470 890	258 873	1 824 504	388 321	21 287	1 644	59 768	11 680	5 376 449	660 518
Collective	2 526 710	249 258	584 862	113 921	7 282 563	108 362	833 952	89 759	11 228 087	561 300
	5 997 600	508 131	2 409 366	502 242	7 303 850	110 006	893 720	101 439	16 604 536	1 221 818

(Thousands of Euro)

	Dec 2015									
	Corporate		Construction and CRE		Retail - Mortgages		Retail - Others		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation										
Individual	3 526 676	293 508	1 868 356	386 711	18 295	1 949	72 822	22 224	5 486 149	704 392
Collective	2 676 941	260 663	616 760	123 183	7 461 582	105 200	831 683	88 300	11 586 966	577 346
	6 203 617	554 171	2 485 116	509 894	7 479 877	107 149	904 505	110 524	17 073 115	1 281 738

As at 30 June 2016 and 31 December 2015, the gross credit exposure and individual/collective impairment by activity sector are presented as follows:

(Thousands of Euro)

	Jun 2016											
	Construction		Industry		Commerce		Real Estate Activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation												
Individual	1 052 295	257 406	678 255	38 529	471 129	42 364	610 752	117 651	2 482 963	191 244	5 295 394	647 194
Collective	307 294	74 229	859 612	73 350	895 177	112 221	119 829	17 698	929 660	85 681	3 111 572	363 179
	1 359 589	331 635	1 537 867	111 879	1 366 306	154 585	730 581	135 349	3 412 623	276 925	8 406 966	1 010 373

(Thousands of Euro)

	Dec 2015											
	Construction		Industry		Commerce		Real Estate Activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation												
Individual	1 112 932	255 219	699 855	43 122	467 187	42 736	582 682	117 735	2 532 376	221 407	5 395 032	680 219
Collective	330 022	81 670	954 127	78 941	912 657	119 835	125 708	17 319	971 187	86 081	3 293 701	383 846
	1 442 954	336 889	1 653 982	122 063	1 379 844	162 571	708 390	135 054	3 503 563	307 488	8 688 733	1 064 065

As at 30 June 2016 and 31 December 2015, the gross credit exposure and individual/collective impairment by geography are presented as follows:

(Thousands of Euro)

	Jun 2016							
	Portugal		Angola		International (others)		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation								
Individual	5 376 449	660 518	-	-	-	-	5 376 449	660 518
Collective	10 895 823	537 909	293 038	20 776	39 226	2 615	11 228 087	561 300
	16 272 272	1 198 427	293 038	20 776	39 226	2 615	16 604 536	1 221 818

(Thousands of Euro)

	Dec 2015							
	Portugal		Angola		International (others)		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation								
Individual	5 486 149	704 392					5 486 149	704 392
Collective	11 148 875	549 740	396 749	24 231	41 342	3 375	11 586 966	577 346
	16 635 024	1 254 132	396 749	24 231	41 342	3 375	17 073 115	1 281 738

As at 30 June 2016 and 31 December 2015, the restructured credit portfolio by restructuration measure is presented as follows:

(Thousands of Euro)

	Jun 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	936	88 209	9 666	520	62 096	13 875	1 456	150 305	23 541
Shortage period	2 507	298 382	21 173	2 306	647 614	235 865	4 813	945 996	257 038
New operation with settlement	898	38 905	2 453	691	43 925	15 422	1 589	82 830	17 875
Interest rate decrease	8	614	17	115	12 522	5 039	123	13 136	5 056
Others	597	46 095	1 289	642	221 204	99 354	1 239	267 299	100 643
	4 946	472 205	34 598	4 274	987 361	369 555	9 220	1 459 566	404 153

(Thousands of Euro)

	Dec 2015								
	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	1 014	86 727	4 052	495	64 146	19 050	1 509	150 873	23 102
Shortage period	2 970	368 167	38 270	2 217	635 189	216 994	5 187	1 003 356	255 264
New operation with settlement	1 072	44 843	1 607	616	39 040	13 468	1 688	83 883	15 075
Interest rate decrease	11	972	12	122	13 037	5 300	133	14 009	5 312
Others	621	39 503	1 020	626	226 572	99 636	1 247	266 075	100 656
	5 688	540 212	44 961	4 076	977 984	354 448	9 764	1 518 196	399 409

The inflows and outflows in the restructured credit portfolio are presented as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Opening balance of the restructured portfolio (gross of impairment)	1 518 194	1 706 235
Restructured credit in the period	83 040	192 927
Accrued interest of the restructured portfolio	242	2 329
Settlement of restructured loans (partial or total)	(111 161)	(302 147)
Loans reclassified from "restructured" to "normal"	(30 749)	(81 150)
Closing balance of the restructured portfolio (gross of impairment)	1 459 566	1 518 194

As at 30 June 2016, the fair value of collateral underlying to credit portfolio of Corporate, Construction and Commercial Real Estate (CRE) and Retail - Mortgages segments 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€	5 207	634 430	1 801	72 498	111 536	13 503 229	331	12 945
>= 0.5 M€ and <1M€	287	201 118	46	28 408	348	215 379	1	500
>= 1 M€ and <5M€	329	696 042	24	38 744	38	57 065	-	-
>= 5 M€ and <10M€	37	268 187	3	19 115	-	-	-	-
>= 10 M€ and <20M€	26	373 361	1	12 609	2	37 500	-	-
>= 20 M€ and <50M€	10	294 689	-	-	-	-	-	-
>= 50M€	3	276 419	-	-	-	-	-	-
	5 899	2 744 246	1 875	171 374	111 924	13 813 173	332	13 445

As at 31 December 2015, the fair value of collateral underlying to credit portfolio of Corporate, Construction and Commercial Real Estate (CRE) and Retail - Mortgages segments 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€	5 306	659 519	1 845	73 497	112 560	13 828 632	332	12 268
>= 0.5 M€ and <1M€	329	229 271	56	34 782	328	205 256	2	1 216
>= 1 M€ and <5M€	339	705 733	27	45 755	30	41 883	-	-
>= 5 M€ and <10M€	37	268 235	3	19 115	-	-	-	-
>= 10 M€ and <20M€	24	314 966	1	12 609	1	18 500	-	-
>= 20 M€ and <50M€	9	266 706	-	-	-	-	-	-
>= 50M€	2	201 334	-	-	-	-	-	-
	6 046	2 645 764	1 932	185 758	112 919	14 094 271	334	13 484

As at 30 June 2016 and 31 December 2015, the LTV ratio of Corporate, Construction and CRE and Retail - Mortgages segments is presented as follows:

(Thousands of Euro)

Segment/ Ratio	Jun 2016			
	Number of real estate	Credit in compliance	Credit in default	Impairment
Corporate				
Without real estate (*)	-	4 241 723	604 432	393 319
< 60%	2 274	261 247	106 517	35 218
>= 60% and < 80%	995	248 560	71 784	24 204
>= 80% and < 100%	959	251 092	69 259	19 707
>= 100%	266	80 907	62 079	35 683
Construction and CRE				
Without real estate (*)	-	726 314	363 967	164 723
< 60%	1 855	199 767	177 157	65 891
>= 60% and < 80%	927	131 678	147 825	53 909
>= 80% and < 100%	1 739	164 767	138 320	47 321
>= 100%	1 378	50 691	308 880	170 398
Retail - Mortgage				
Without real estate (*)	-	574 504	60 112	17 003
< 60%	63 634	2 532 511	42 849	10 920
>= 60% and < 80%	29 450	2 291 858	61 193	15 407
>= 80% and < 100%	16 332	1 422 539	90 428	24 403
>= 100%	2 508	97 826	130 030	42 273

(*) Includes operations with other types of associated collaterals, namely, financial collaterals.

(Thousands of Euro)

Segment/ Ratio	Dec 2015			
	Number of real estate	Credit in compliance	Credit in default	Impairment
Corporate				
Without real estate (*)	-	4 501 832	575 369	430 838
< 60%	2 264	304 703	69 579	30 007
>= 60% and < 80%	987	206 482	92 929	25 915
>= 80% and < 100%	958	254 134	48 879	19 187
>= 100%	280	70 397	79 313	48 224
Construction and CRE				
Without real estate (*)	-	815 995	344 935	177 067
< 60%	1 921	205 199	185 236	67 123
>= 60% and < 80%	939	82 298	166 947	60 523
>= 80% and < 100%	1 849	179 978	159 228	47 942
>= 100%	1 337	72 827	272 473	157 239
Retail - Mortgage				
Without real estate (*)	-	595 279	58 632	16 137
< 60%	63 357	2 517 929	46 009	11 456
>= 60% and < 80%	26 566	2 057 541	54 291	13 564
>= 80% and < 100%	19 023	1 674 802	87 926	24 247
>= 100%	3 964	252 926	134 542	41 745

(*) Includes operations with other types of associated collaterals, namely, financial collaterals.

As at 30 June 2016 and 31 December 2015, the fair value and net value of real estate received as default payments, by asset type and ageing, are presented as follows:

(Thousands of Euro)

Asset	Jun 2016		
	Number of real estate	Asset fair value	Accounting value
Property	**1 810**	**317 321**	**286 287**
Urban	1 596	234 898	210 540
Rural	214	82 423	75 747
Buildings in development	**501**	**108 353**	**102 106**
Commercials	54	5 044	3 818
Housing	433	103 136	98 117
Others	14	173	171
Developed buildings	**3 150**	**382 264**	**337 529**
Commercials	970	143 185	121 956
Housing	1 646	221 244	199 965
Others	534	17 835	15 608
	5 461	807 938	725 922

(Thousands of Euro)

Asset	Dec 2015		
	Number of real estate	Asset fair value	Accounting value
Property	**1 774**	**320 237**	**287 079**
Urban	1 565	274 635	247 657
Rural	209	45 602	39 422
Buildings in development	**485**	**123 601**	**111 586**
Commercials	39	3 532	2 437
Housing	444	119 916	108 997
Others	2	153	152
Developed buildings	**3 437**	**419 561**	**355 728**
Commercials	908	125 500	95 795
Housing	2 029	282 861	250 151
Others	500	11 200	9 782
	5 696	863 399	754 393

As at 30 June 2016 and 31 December 2015, the elapsed time since the recovery/execution of real estate received is presented as follows:

(Thousands of Euro)

Elapsed time since the recovery/execution	Jun 2016 < 1 year	Jun 2016 >= 1 year and < 2.5 years	Jun 2016 >= 2.5 years and < 5 years	Jun 2016 >= 5 years	Jun 2016 Total
Property	**34 840**	**102 639**	**146 098**	**2 710**	**286 287**
Urban	27 298	76 073	105 400	1 769	210 540
Rural	7 542	26 566	40 698	941	75 747
Buildings in development	**15 166**	**41 537**	**43 743**	**1 660**	**102 106**
Commercials	198	805	2 815	-	3 818
Housing	14 968	40 732	40 757	1 660	98 117
Others	-	-	171	-	171
Developed buildings	**61 911**	**138 580**	**126 491**	**10 547**	**337 529**
Commercials	13 430	52 489	52 338	3 699	121 956
Housing	42 670	79 917	71 242	6 136	199 965
Others	5 811	6 174	2 911	712	15 608
	111 917	282 756	316 332	14 917	725 922

(Thousands of Euro)

Elapsed time since the recovery/execution	Dec 2015 < 1 year	Dec 2015 >= 1 year and < 2.5 years	Dec 2015 >= 2.5 years and < 5 years	Dec 2015 >= 5 years	Dec 2015 Total
Property	**58 924**	**108 327**	**117 576**	**2 252**	**287 079**
Urban	51 554	97 179	97 259	1 665	247 657
Rural	7 370	11 148	20 317	587	39 422
Buildings in development	**33 680**	**36 603**	**40 260**	**1 043**	**111 586**
Commercials	134	347	1 956	-	2 437
Housing	33 546	36 256	38 152	1 043	108 997
Others	-	-	152	-	152
Developed buildings	**93 609**	**161 905**	**93 787**	**6 427**	**355 728**
Commercials	17 219	48 485	28 772	1 319	95 795
Housing	72 628	109 760	62 904	4 859	250 151
Others	3 762	3 660	2 111	249	9 782
	186 213	306 835	251 623	9 722	754 393

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 2016	Dec 2015
Financial assets held for trading		
Securities		
Shares	6 398	7 363
Bonds	10 913	12 435
Investment fund units	584	-
	17 895	19 798
Derivatives		
Derivatives financial instruments with positive fair value	16 368	31 295
	34 263	51 093
Financial liabilities held for trading		
Securities		
Short sales	1 992	1 896
Derivatives		
Derivatives financial instruments with negative fair value	80 634	68 393
	82 626	70 289

The balance Derivatives financial instruments with positive fair value, includes as at 30 June 2016 the amount of Euro 4,735 thousand (31 December 2015: 7,921 thousand) referred to instruments associated to assets or liabilities at fair value through profit or loss.

The balance Derivatives financial instruments with negative fair value, includes as at 30 June 2016 the valuation of the embedded derivatives separated from the host contract in accordance with the accounting policy described in Note 1 c), in the amount of Euro 60,000 thousand (31 December 2015: Euro 35,166 thousand).

The balance Derivatives financial instruments with negative fair value, also includes as at 30 June 2016 the amount of Euro 7,525 thousand (31 December 2015: Euro 8,394 thousand) referred to instruments associated to assets or liabilities at fair value through profit or loss, with the exception of loans and advances to customers in the amount of Euro 1,476 thousand (31 December 2015: Euro 1,449 thousand).

As referred in IFRS 13, financial instruments are measured in accordance with the following levels of valuation described in note 51, as follows:

(Thousands of Euro)

	Jun 2016		
	Level 1	Level 2	Total
Financial assets held for trading			
Securities			
Shares	6 398	-	6 398
Bonds	10 913	-	10 913
Investment fund units	584	-	584
	17 895	-	17 895
Derivatives			
Derivatives financial instruments with positive fair value	-	16 368	16 368
	17 895	16 368	34 263
Financial liabilities held for trading			
Securities			
Short sales	1 992	-	1 992
Derivatives			
Derivatives financial instruments with negative fair value	-	80 634	80 634
	1 992	80 634	82 626

(Thousands of Euro)

	Dec 2015		
	Level 1	Level 2	Total
Financial assets held for trading			
Securities			
Shares	7 363	-	7 363
Bonds	12 435	-	12 435
	19 798	-	19 798
Derivatives			
Derivatives financial instruments with positive fair value	-	31 295	31 295
	19 798	31 295	51 093
Financial liabilities held for trading			
Securities			
Short sales	1 896	-	1 896
Derivatives			
Derivatives financial instruments with negative fair value	-	68 393	68 393
	1 896	68 393	70 289

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

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

(Thousands of Euro)

Derivative	Related financial asset/liability	Jun 2016 Derivative Notional	Fair value	Fair value changes in the period	Related asset/liability Fair value	Fair value changes in the period	Book value	Reimbursement amount at maturity date
Interest rate swap	Debt securities issued and other subordinated debt	87 656	410	(407)	(1 902)	(234)	94 697	94 469
Interest rate swap	Deposits from customers	39 550	(192)	299	29	21	38 739	38 739
Interest rate swap	Deposits from financial institutions	54 594	3 962	(2 575)	1 074	553	73 265	60 000
Interest rate swap	Covered bonds	5 413 257	(1 869)	1 166				
Interest rate swap	Loans	44 794	(1 476)	(27)	1 231	(102)	43 505	43 340
Interest rate swap	Others	2 688 044	(5 416)	(551)	-	-	-	-
Currency swap	-	84 174	351	(185)	-	-	-	-
Futures (Short)	-	11 235	-	-	-	-	-	-
Forwards	-	28 769	(48)	(45)	-	-	-	-
Options	-	87 781	12	(19)	-	-	-	-
Credit Default Swaps	-	75 000	(60 000)	(24 824)	-	-	-	-
		8 614 854	(64 266)	(27 168)	432	238	250 206	236 548

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

(Thousands of Euro)

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

The fair value component of financial liabilities recognised at fair value through profit or loss attributable to the Group's credit risk is negative and the respective accumulated value amounts to Euro 3,001 thousand at 30 June 2016 (31 December 2015: Euro 7,458 thousand), as described in note 6.

24 Financial assets available for sale

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016				
	Cost (1)	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Issued by public entities					
Domestic	1 402 972	7 140	(33 062)	-	1 377 050
Foreign	166 709	1 632	(10)	(7 094)	161 237
Issued by other entities					
Domestic	64 980	809	(1 119)	(27 444)	37 226
Foreign	215 702	2 049	(2 243)	(38 926)	176 582
Commercial paper	998	-	-	(998)	-
Variable income securities					
Shares					
Domestic	78 494	25 861	(1 625)	(3 577)	99 153
Foreign	72 534	14 045	(1 722)	(309)	84 548
Investment fund units	401 314	18 245	(702)	(21 596)	397 261
	2 403 703	69 781	(40 483)	(99 944)	2 333 057

(1) Acquisition cost relating to shares and amortized cost by debt securities.

(Thousands of Euro)

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

(1) Acquisition cost relating to shares and amortized cost by debt securities.

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

As referred in note 59, the balance Variable income securities – Investment fund units includes, as at 30 June 2016, the amount of Euro 105,873 thousand (31 December 2015: Euro 113,482 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 2016 and 31 December 2015, this amount includes Euro 6,153 thousand engaged to "junior" securities (investment fund units with a more subordinated character), which are fully provided, as described in notes 22 and 59.

As at 30 June 2016 an impairment loss in the amount of Euro 6,880 thousand was recognised referring to the position held in specialized credit funds, as described in notes 15 and 59.

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, being 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 conducted at the fair value of the debt instrument at the date of reclassification;
- The fair value of securities at the reclassification date will become the new cost;
- As at the date of reclassification a new effective interest rate is determined as the basis of calculation and recognition of interest and amortised cost from that moment;
- The new effective interest rate is the rate that exactly discounts estimated future cash flows over the remaining expected life of the instruments fair value at the date of reclassification;
- A subsequent change in the fair value of the debt instrument over its new amortised cost is not recognised;
- It's performed a review of subsequent impairment taking into consideration the new amortised cost, the new effective interest rate and the expected future cash flows; 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, the Group reclassified securities portfolio from financial Assets available for sale to loans and advances to customers, in the amount of Euro 358,488 thousand and impairment in the amount of Euro 1,565 thousand, as described in note 22. The fair value reserve of the securities transferred amounted, at the date of reclassification, to Euro 3,858 thousand, as described in note 47.

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

(Thousands of Euro)

	At the reclassification date		Jun 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	358 036	368 368	10 332
	358 488	358 488	358 036	368 368	10 332

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

(Thousands of Euro)

	Profit / (loss) in the period	Variation	
	Interests	Fair value reserves	Equity
Financial assets available for sale to:			
Loans and advances to customers	6 632	(228)	(228)
	6 632	(228)	(228)

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

(Thousands of Euro)

	Profit / (loss) in the period			
	Fair value variation	Retained earnings	Fair value reserves	Equity
Financial assets available for sale to:				
Loans and advances to customers	10 332	-	10 560	10 560
	10 332	-	10 560	10 560

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

(Thousands of Euro)

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

As at 30 June 2016 and 31 December 2015, the analysis of financial assets available for sale net of impairment, by valuation levels, is presented as follows:

(Thousands of Euro)

	Jun 2016				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Issued by public entities					
Domestic	1 377 050	-	-	-	1 377 050
Foreign	157 615	65	-	3 557	161 237
Issued by other entities					
Domestic	-	31 277	5 949	-	37 226
Foreign	88 985	87 597	-	-	176 582
	1 623 650	118 939	5 949	3 557	1 752 095
Variable income securities					
Shares					
Domestic	525	-	93 451	5 177	99 153
Foreign	3 691	-	80 369	488	84 548
Investment fund units	141 710	-	255 551	-	397 261
	145 926	-	429 371	5 665	580 962
	1 769 576	118 939	435 320	9 222	2 333 057

(Thousands of Euro)

	Dec 2015				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Issued by public entities					
Domestic	1 013 935	-	-	-	1 013 935
Foreign	1 243 427	8 965	-	-	1 252 392
Issued by other entities					
Domestic	5 909	31 990	1 203	-	39 102
Foreign	98 347	105 931	-	-	204 278
	2 361 618	146 886	1 203	-	2 509 707
Variable income securities					
Shares					
Domestic	1 008	-	77 016	4 884	82 908
Foreign	6 551	-	69 836	527	76 914
Investment fund units	142 961	-	256 011	-	398 972
	150 520	-	402 863	5 411	558 794
	2 512 138	146 886	404 066	5 411	3 068 501

As referred on IFRS 13, the financial instruments are measured according to the valuation levels described in note 51.

The balance Variable income securities – Investment fund units includes in level 3 an amount of Euro 255,551 thousand (31 December 2015: Euro 256,011 thousand), corresponding to investment units in closed investment funds whose value resulted from the disclosure of the Net Asset Value of the Fund (NAV) determined by the management entity, in accordance with the respective funds accounts. The assets of these funds result from a diverse set of assets and liabilities valued, in the respective accounts, at fair value, by internal methodologies used by the management company. It is not practicable to provide a sensitivity analysis of the different components of assumptions used by entities in the presentation of NAV of funds, nevertheless it should be noted that a variation of +/- 10% in NAV has an impact of Euro 25,555 thousand (31 December 2015: Euro 25,601 thousand) in equity.

The instruments classified as level 3 have associated unrealised gains and losses in the positive amount of Euro 52,703 thousand (31 December 2015: positive amount of Euro 22,976 thousand) recognised in fair value reserves.

The impairment amount registered in these securities amounts to Euro 57,038 thousand at 30 June 2016 (31 December 2015: Euro 51,658 thousand).

There were no transfers from and to this level.

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

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

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

(Thousands of Euro)

	Jun 2016	Jun 2015
Balance on 1 January	67 309	55 763
Charge for the period	51 550	38 055
Write-back for the period	(13 490)	(27 388)
Charge-off	(5 424)	(1 863)
Exchange differences	(1)	-
Balance on 30 June	99 944	64 567

The evolution of the debt crisis of the Euro countries associated with the deterioration of economic and financial situation of the Greek State and the inability to access markets determined that the Greek economy remains dependent on continued support from EU and the IMF. At 30 June 2016, impairment losses recognised in relation to the sovereign debt of Greece amounts to Euro 7,092 thousand (31 December 2015: Euro 7,343 thousand), as referred in note 58.

The 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 3,856 million at 30 June 2016 (31 December 2015: Euro 3,758 million);
- The securities pledged as collateral to the Portuguese Securities Market Commission under the Investors' Compensation Fund amounts to Euro 1,750 million at 30 June 2016 and at 31 December 2015;
- The amount of the EIB loan obtained is collateralised by Portuguese and Greek states' securities with a nominal amount of Euro 695,986 thousand (31 December 2015: Euro 706,638 thousand), registered in the balance Available for sale financial assets; and
- Securities pledged as collateral to the Deposit Guarantee Fund with a nominal amount of Euro 25,000 thousand at 30 June 2016 and at 31 December 2015.

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

25 Hedging derivatives

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Asset		
Interest rate swap	-	9
Liability		
Interest rate swap	-	439

Hedging derivatives are measured according to internal valuation techniques based on observable market data. Therefore, in accordance with the hierarquisation of the valuation sources, and as referred in IFRS 13, these instruments are classified as level 2, as described in note 51.

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

The Group performs periodical effectiveness tests of the hedging relationships.

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

(Thousands of Euro)

	Jun 2016	Dec 2015
Financial assets available for sale	-	286

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

(Thousands of Euro)

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

As at 30 June 2016, the fair value hedge operations can be analysed as follows:

(Thousands of Euro)

	Jun 2016						
Derivative	Hedged item	Hedged risk	Notional	Fair value derivative[1]	Changes in the fair value of the derivative in the period	Fair value of the hedged item[2]	Changes in the fair value of the hedged item in the period[2]
Interest rate swap	Financial assets available for sale	Interest rate	-	-	430	-	(286)
			-	-	430	-	(286)

[1] Includes the accrued interest.
[2] Attributable to the hedged risk.

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

(Thousands of Euro)

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

[1] Includes the accrued interest.
[2] Attributable to the hedged risk.

26 Held-to-maturity investments

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Fixed income securities		
Bonds issued by portuguese public entities	1 125 798	26 130
Bonds issued by foreign public entities	142 177	135 410
	1 267 975	161 540

The fair value of held-to-maturity investments portfolio is presented in note 51.

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

The held-to-maturity investments, as at 30 June 2016, can be 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%	36 606
OT 4.450% 15-June-2018	March, 2008	June, 2018	Fixed rate of 4.450%	216 190
OT 2.200% 17-October-2022	September, 2015	October, 2022	Fixed rate of 2.200%	91 242
OT 3.850% 15-April-2021	February, 2005	April, 2021	Fixed rate of 3.850%	254 079
OT 4.950% 25-October-2023	June, 2008	October, 2023	Fixed rate of 4.950%	102 480
OT 5.650% 15-February-2024	May, 2013	February, 2024	Fixed rate of 5.650%	97 383
OT 2.875% 21-July-2026	January, 2016	July, 2026	Fixed rate of 2.875%	327 818
OT Angola 14/09-07-2016	July, 2014	July, 2016	Fixed rate of 7.00%	1 228
OT Angola 14/16-07-2016	July, 2014	July, 2016	Fixed rate of 7.00%	1 229
OT Angola 14/23-07-2016	July, 2014	July, 2016	Fixed rate of 7.00%	1 232
OT Angola 14/30-07-2016	July, 2014	July, 2016	Fixed rate of 7.00%	615
OT Angola 13/15-11-2016	November, 2013	November, 2016	Fixed rate of 5.00%	24 217
OT Angola 13/04-12-2016	December, 2013	December, 2016	Fixed rate of 7.25%	4 569
OT Angola 14/16-07-2017	July, 2014	July, 2017	Fixed rate of 7.25%	923
OT Angola 14/23-07-2017	July, 2014	July, 2017	Fixed rate of 7.25%	924
OT Angola 14/30-07-2017	July, 2014	July, 2017	Fixed rate of 7.25%	923
OT Angola 14/06-08-2017	August, 2014	August, 2017	Fixed rate of 7.25%	576
OT Angola 14/13-08-2017	August, 2014	August, 2017	Fixed rate of 7.25%	3 157
OT Angola 13/15-11-2017	November, 2013	November, 2017	Fixed rate of 5.00%	5 281
OT Angola 14/23-07-2018	July, 2014	July, 2018	Fixed rate of 7.50%	463
OT Angola 14/30-07-2018	July, 2014	July, 2018	Fixed rate of 7.50%	462
OT Angola 14/06-08-2018	August, 2014	August, 2018	Fixed rate of 7.50%	1 152
OT Angola 14/13-08-2018	August, 2014	August, 2018	Fixed rate of 7.50%	1 579
OT Angola 14/16-09-2018	September, 2014	September, 2018	Fixed rate of 7.50%	1 570
OT Angola 14/01-10-2018	October, 2014	October, 2018	Fixed rate of 7.50%	2 197
OT Angola 14/08-10-2018	October, 2014	October, 2018	Fixed rate of 7.50%	2 192
OT Angola 14/22-10-2018	October, 2014	October, 2018	Fixed rate of 7.50%	2 176
OT Angola 14/29-10-2018	October, 2014	October, 2018	Fixed rate of 7.50%	2 170
OT Angola 14/26-11-2018	November, 2014	November, 2018	Fixed rate of 7.50%	3 033
OT Angola 15/19-02-2019	February, 2015	February, 2019	Fixed rate of 7.50%	5 263
OT Angola 15/07-04-2019	April, 2015	April, 2019	Fixed rate of 7.50%	1 361
OT Angola 15/14-04-2019	April, 2015	April, 2019	Fixed rate of 7.50%	1 346
OT Angola 15/21-04-2019	April, 2015	April, 2019	Fixed rate of 7.50%	1 885
OT Angola 15/28-04-2019	April, 2015	April, 2019	Fixed rate of 7.50%	1 527
OT Angola 14/23-07-2019	July, 2014	July, 2019	Fixed rate of 7.75%	463
OT Angola 14/30-07-2019	July, 2014	July, 2019	Fixed rate of 7.75%	462
OT Angola 14/06-08-2019	August, 2014	August, 2019	Fixed rate of 7.75%	577
OT Angola 14/13-08-2019	August, 2014	August, 2019	Fixed rate of 7.75%	1 581
OT Angola 14/16-09-2019	September, 2014	September, 2019	Fixed rate of 7.75%	1 571
OT Angola 14/01-10-2019	October, 2014	October, 2019	Fixed rate of 7.75%	2 198
OT Angola 14/08-10-2019	October, 2014	October, 2019	Fixed rate of 7.75%	2 194
OT Angola 14/22-10-2019	October, 2014	October, 2019	Fixed rate of 7.75%	2 177
OT Angola 14/29-10-2019	October, 2014	October, 2019	Fixed rate of 7.75%	2 170
OT Angola 14/26-11-2019	November, 2014	November, 2019	Fixed rate of 7.75%	3 034
OT Angola 15/07-04-2020	April, 2015	April, 2020	Fixed rate of 7.5%	1 361
OT Angola 15/14-04-2020	April, 2015	April, 2020	Fixed rate of 7.5%	673
OT Angola 15/21-04-2020	April, 2015	April, 2020	Fixed rate of 7.5%	1 885
OT Angola 15/28-04-2020	April, 2015	April, 2020	Fixed rate of 7.50%	1 527
OT Angola 15/16-06-2020	June, 2015	June, 2020	Fixed rate of 7.77%	3 791
OT Angola 15/23-06-2020	June, 2015	June, 2020	Fixed rate of 7.77%	2 992
OT Angola 15/07-07-2020	July, 2015	July, 2020	Fixed rate of 7.77%	1 887
OT Angola 15/14-07-2020	July, 2015	July, 2020	Fixed rate of 7.77%	1 490
OT Angola 15/21-07-2020	July, 2015	July, 2020	Fixed rate of 7.77%	1 474
OT Angola 15/28-07-2020	July, 2015	July, 2020	Fixed rate of 7.77%	735
OT Angola 15/04-08-2020	August, 2015	August, 2020	Fixed rate of 7.77%	735
OT Angola 15/11-08-2020	August, 2015	August, 2020	Fixed rate of 7.77%	738
OT Angola 15/25-08-2020	August, 2015	August, 2020	Fixed rate of 7.77%	732
OT Angola 15/03-09-2020	September, 2015	September, 2020	Fixed rate of 7.77%	736
OT Angola 15/10-09-2020	September, 2015	September, 2020	Fixed rate of 7.77%	712
OT Angola 15/24-11-2020	November, 2015	November, 2020	Fixed rate of 7.77%	1 667
OT Angola 15/03-12-2020	December, 2015	December, 2020	Fixed rate of 7.77%	1 663
OT Angola 15/08-12-2020	December, 2015	December, 2020	Fixed rate of 7.77%	3 323
OT Angola 15/15-12-2020	December, 2015	December, 2020	Fixed rate of 7.77%	1 659
OT Angola 16/19-04-2021	April, 2016	April, 2021	Fixed rate of 7.75%	2 740
OT Angola 16/10-05-2021	May, 2016	May, 2021	Fixed rate of 7.75%	1 364
OT Angola 16/24-05-2021	May, 2016	May, 2021	Fixed rate of 7.75%	4 079
OT Angola 16/19-04-2021	April, 2016	April, 2021	Fixed rate of 7.75%	14 537
				1 267 975

The held-to-maturity investments, as at 31 December 2015 can be analysed as follows:

(Thousands of Euro)

Issue	Issue date	Maturity	Interest date	Book value
OT 2.875% 15-Oct-2025	January, 2015	October, 2025	Fixed rate of 2.875%	26 130
OT Cabo Verde 13/28-04-2016	April, 2013	April, 2016	Fixed rate of 5.50%	50
OT Angola 13/15-11-2016	November, 2013	November, 2016	Fixed rate of 5.00%	23 519
OT Angola 13/15-11-2017	November, 2013	November, 2017	Fixed rate of 5.00%	5 368
OT Angola 13/04-12-2016	December, 2013	December, 2016	Fixed rate of 7.25%	4 706
OT Angola 14/09-07-2016	July, 2014	July, 2016	Fixed rate of 7.00%	1 256
OT Angola 14/16-07-2016	July, 2014	July, 2016	Fixed rate of 7.00%	1 257
OT Angola 14/23-07-2016	July, 2014	July, 2016	Fixed rate of 7.00%	1 260
OT Angola 14/30-07-2016	July, 2014	July, 2016	Fixed rate of 7.00%	629
OT Angola 14/16-07-2017	July, 2014	July, 2017	Fixed rate of 7.25%	944
OT Angola 14/23-07-2017	July, 2014	July, 2017	Fixed rate of 7.25%	945
OT Angola 14/30-07-2017	July, 2014	July, 2017	Fixed rate of 7.25%	944
OT Angola 14/23-07-2018	July, 2014	July, 2018	Fixed rate of 7.50%	473
OT Angola 14/30-07-2018	July, 2014	July, 2018	Fixed rate of 7.50%	473
OT Angola 14/23-07-2019	July, 2014	July, 2019	Fixed rate of 7.75%	474
OT Angola 14/30-07-2019	July, 2014	July, 2019	Fixed rate of 7.75%	473
OT Angola 14/06-08-2017	August, 2014	August, 2017	Fixed rate of 7.25%	589
OT Angola 14/13-08-2017	August, 2014	August, 2017	Fixed rate of 7.25%	3 230
OT Angola 14/06-08-2018	August, 2014	August, 2018	Fixed rate of 7.50%	1 179
OT Angola 14/13-08-2018	August, 2014	August, 2018	Fixed rate of 7.50%	1 616
OT Angola 14/06-08-2019	August, 2014	August, 2019	Fixed rate of 7.75%	590
OT Angola 14/13-08-2019	August, 2014	August, 2019	Fixed rate of 7.75%	1 617
OT Angola 14/16-09-2018	September, 2014	September, 2018	Fixed rate of 7.50%	1 606
OT Angola 14/16-09-2019	September, 2014	September, 2019	Fixed rate of 7.75%	1 607
OT Angola 14/01-10-2018	October, 2014	October, 2018	Fixed rate of 7.50%	2 247
OT Angola 14/08-10-2018	October, 2014	October, 2018	Fixed rate of 7.50%	2 243
OT Angola 14/22-10-2018	October, 2014	October, 2018	Fixed rate of 7.50%	2 226
OT Angola 14/29-10-2018	October, 2014	October, 2018	Fixed rate of 7.50%	2 219
OT Angola 14/01-10-2019	October, 2014	October, 2019	Fixed rate of 7.75%	2 249
OT Angola 14/08-10-2019	October, 2014	October, 2019	Fixed rate of 7.75%	2 244
OT Angola 14/22-10-2019	October, 2014	October, 2019	Fixed rate of 7.75%	2 227
OT Angola 14/29-10-2019	October, 2014	October, 2019	Fixed rate of 7.75%	2 220
OT Angola 14/26-11-2018	November, 2014	November, 2018	Fixed rate of 7.50%	3 102
OT Angola 14/26-11-2019	November, 2014	November, 2019	Fixed rate of 7.75%	3 103
OT Angola 15/19-02-2019	February, 2015	February, 2019	Fixed rate of 7.5%	5 385
OT Angola 15/07-04-2019	April, 2015	April, 2019	Fixed rate of 7.5%	1 392
OT Angola 15/14-04-2019	April, 2015	April, 2019	Fixed rate of 7.5%	1 377
OT Angola 15/21-04-2019	April, 2015	April, 2019	Fixed rate of 7.5%	1 929
OT Angola 15/28-04-2019	April, 2015	April, 2019	Fixed rate of 7.5%	1 562
OT Angola 15/14-04-2020	April, 2015	April, 2020	Fixed rate of 7.5%	1 392
OT Angola 15/14-04-2020	April, 2015	April, 2020	Fixed rate of 7.5%	688
OT Angola 15/21-04-2020	April, 2015	April, 2020	Fixed rate of 7.5%	1 929
OT Angola 15/28-04-2020	April, 2015	April, 2020	Fixed rate of 7.5%	1 562
OT Angola 15/16-06-2020	June, 2015	June, 2020	Fixed rate of 7.77%	3 878
OT Angola 15/23-06-2020	June, 2015	June, 2020	Fixed rate of 7.77%	3 060
OT Angola 15/07-07-2020	July, 2015	July, 2020	Fixed rate of 7.77%	1 931
OT Angola 15/14-07-2020	July, 2015	July, 2020	Fixed rate of 7.77%	1 525
OT Angola 15/21-07-2020	July, 2015	July, 2020	Fixed rate of 7.77%	1 508
OT Angola 15/21-07-2020	July, 2015	July, 2020	Fixed rate of 7.77%	752
OT Angola 15/04-08-2020	August, 2015	August, 2020	Fixed rate of 7.77%	752
OT Angola 15/11-08-2020	August, 2015	August, 2020	Fixed rate of 7.77%	756
OT Angola 15/25-08-2020	August, 2015	August, 2020	Fixed rate of 7.77%	749
OT Angola 15/01-09-2020	September, 2015	September, 2020	Fixed rate of 7.77%	753
OT Angola 15/08-09-2020	September, 2015	September, 2020	Fixed rate of 7.77%	729
OT Angola 15/24-11-2020	November, 2015	November, 2020	Fixed rate of 7.77%	1 705
OT Angola 15/01-12-2020	December, 2015	December, 2020	Fixed rate of 7.77%	1 702
OT Angola 15/08-12-2020	December, 2015	December, 2020	Fixed rate of 7.77%	3 400
OT Angola 15/15-12-2020	December, 2015	December, 2020	Fixed rate of 7.77%	1 697
OT Angola 15/10-12-2022	December, 2015	December, 2022	Fixed rate of 5%	14 412
				161 540

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

During the first half of 2016 and during 2015, the Group did not transfer from or to this assets category.

27 Investments in associated companies

This balance is analysed as follows:

		(Thousands of Euro)
	Jun 2016	**Dec 2015**
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3 149	3 210
Iberpartners Cafés, S.G.P.S., S.A.	-	1 107
Montepio - Gestão de Activos Imobiliários, ACE	698	698
Pinto & Bulhosa, S.A.	191	191
Naviser – Transportes Marítimos Internacionais, S.A.	150	150
	4 188	5 356
Impairment for investments in associated companies	(341)	(1 448)
	3 847	3 908

The subsidiaries and associates included in the consolidation perimeter are presented in note 61.

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

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

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

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

(Thousands of Euro)

	Assets	Liabilities	Equity	Income	Profit/(Loss) for the period	Acquisition cost
30 June 2016						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	40 034	24 288	15 746	4 167	94	3 200
Montepio - Gestão de Ativos Imobiliários, ACE	3 739	1 289	2 450	2 441	-	698
31 December 2015						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	40 685	24 635	16 050	7 934	327	3 200
Iberpartners Cafés S.G.P.S., S.A.	5 571	1 807	3 764	194	127	1 000
Montepio - Gestão de Ativos Imobiliários, ACE	3 762	1 312	2 450	4 489	-	698

(Thousands of Euro)

	Percentage held		Book value		Associated companies net profit	
	Jun-16 %	Dec-15 %	Jun-16	Dec-15	Jun-16	Dec-15
Montepio Seguros, S.G.P.S., S.A.	-	-	-	-	-	(4 013)
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	20%	20%	3 149	3 210	19	66
Iberpartners Cafés S.G.P.S., S.A.	-	29.41%	-	-	-	37
Montepio - Gestão de Activos Imobiliários, ACE	28.50%	28.50%	698	698	-	-
Pinto & Bulhosa, S.A.	16%	16%	-	-	-	-
Naviser - Transportes Marítimos Internacionais, S.A.	20%	20%	-	-	-	-

The movement for this balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Balance on 1 January	5 356	24 991
Disposals	(1 107)	(15 725)
Share of profit of associates	19	(3 910)
Other reserves and retained earnings	(80)	-
Balance on 30 June	4 188	5 356

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

(Thousands of Euro)

	Jun 2016	Jun 2015
Balance on 1 January	1 448	341
Charge-off	(1 107)	-
Balance on 30 June	341	341

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

28 Non-current assets held for sale

This balance is analysed as follows:

	(Thousands of Euro)	
	Jun 2016	**Dec 2015**
Investments arising from recovered loans	854 642	892 163
Impairment for non-current assets held for sale	(128 080)	(137 265)
	726 562	754 898

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

The balance Investments arising from recovered loans includes the amount of Euro 2,067 thousand (31 December 2015: Euro 2,098 thousand) related with other non-current assets held for sale resulting from the foreclosure of loans to customers contracts, which have an associated impairment in the amount of Euro 1,427 thousand (31 December 2015: Euro 1,593 thousand).

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

The Group has implemented a plan to sale immediately the non-current assets held for sale. According to Group's expectation, it is intended that 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 properties buildings and other assets for which the Group has already established promissory sale contracts in the amount of Euro 17,264 thousand (31 December 2015: Euro 18,980 thousand).

The movements, for the six months period ended on 30 June 2016 and during 2015, for non-current assets held for sale are analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Balance at the beginning of the period	892 163	934 230
Acquisitions	42 582	212 976
Disposals	(79 806)	(255 071)
Exchange differences	(214)	(26)
Other movements	(83)	54
Balance at the end of the period	854 642	892 163

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

(Thousands of Euro)

	Jun 2016	Jun 2015
Balance on 1 January	137 265	134 491
Charge for the period	14 861	9 466
Write-back for the period	(8 443)	(1 674)
Charge-off	(15 603)	(583)
Balance on 31 June	128 080	141 700

In addition to the impairment losses, the Group recognised in the period losses in the amount of Euro 4,771 thousand (30 June 2015: Euro 12,897 thousand), arising from the sale of real estate properties and gains in the amount of Euro 3,398 thousand (30 June 2015: Euro 1,052 thousand), as mentioned in note 9.

29 Investment properties

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

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

The amount of income received related to properties amounts to Euro 8,571 thousand (31 December 2015: Euro 15,183 thousand) and maintenance costs of leased and not leased properties amounts to Euro 4,329 thousand (31 December 2015: Euro 7,570 thousand).

The movements in this balance are analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Balance at the beginning of the period	692 485	715 737
Acquisitions	887	28 709
Revaluations	(15 075)	(30 206)
Disposals	(38 679)	(58 488)
Transfers	350	36 733
Balance at the end of the period	639 968	692 485

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

30 Property and equipment

This balance is analysed as follows:

	(Thousands of Euro)	
	Jun 2016	**Dec 2015**
Investment		
Real estate		
For own use	235 347	39 266
Leasehold improvements in rented buildings	53 843	54 170
Construction in progress	14 188	17 671
Equipment		
IT equipment	91 775	90 053
Interior installations	22 031	22 303
Furniture and materials	21 370	22 239
Security equipment	7 844	8 086
Transport equipment	4 661	5 302
Office equipment	3 117	3 396
Other equipment	26	34
Assets in finance lease	38	38
Assets in operational lease	602	656
Works of art	2 870	2 870
Other tangible assets	2 253	2 405
Work in progress	4 120	4 114
	464 085	272 603
Accumulated depreciation		
Charge for the period	(6 963)	(12 693)
Accumulated charge in previous periods	(179 654)	(170 795)
	(186 617)	(183 488)
	277 468	89 115

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 54 and 62.

31 Intangible assets

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Investment		
Software	94 655	88 856
Goodwill	56 304	56 304
Other intangible assets	384	409
Work in progress	7 226	8 073
	158 569	153 642
Accumulated depreciation		
Charge for the period	(6 431)	(13 902)
Accumulated charge in previous periods	(60 308)	(47 306)
	(66 739)	(61 208)
Impairment for intangible assets	(32 538)	(26 572)
	59 292	65 862

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

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

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

(i) an estimate of future cash flows generated;

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

(iii) the time value of money;

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

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

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

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

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

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

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

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

(Thousands of Euro)

	Jun 2016	Jun 2015
Balance on 1 January	26 572	26 512
Charge for the period	5 966	-
Balance on 30 June	32 538	26 512

32 Taxes

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

(Thousands of Euro)

	Assets		Liabilities		Net	
	Jun 2016	Dec 2015	Jun 2016	Dec 2015	Jun 2016	Dec 2015
Financial instruments	15 678	24 284	(25 400)	(24 392)	(9 722)	(108)
Other tangible assets	323	433	-	-	323	433
Provisions / Impairment						
Impairment on loans granted	192 201	168 255	-	-	192 201	168 255
Other risks and charges	7 954	9 470	-	-	7 954	9 470
Impairment on securities, non-financial assets	45 056	2 039	-	-	45 056	2 039
Benefits to employees	44 931	41 201	-	-	44 931	41 201
Others	(4 679)	1 286	(116)	(117)	(4 795)	1 169
Tax losses carried forward	187 203	181 047	-	-	187 203	181 047
Net deferred tax assets/(liabilities)	488 667	428 015	(25 516)	(24 509)	463 151	403 506

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

The balance Benefits to employees includes the amount of Euro 14,593 thousand (31 December 2015: Euro 15,919 thousand) related to deferred taxes of actuarial losses recognised against reserves as a result of the change in the accounting policy. This balance also includes the amount of Euro 3,518 thousand (31 December 2015: Euro 3,633 thousand) related to deferred taxes associated with the expense generated with the transfer of liabilities with pensioners to the general social security scheme.

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

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

The deferred tax rate is analysed as follows:

	Jun 2016 %	Dec 2015 %
Income tax [a]	21.0%	21.0%
Municipal surcharge rate	1.5%	1.5%
State surcharge rate	7.0%	7.0%
Total [b]	29.5%	29.5%

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

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

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

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

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

(i) evolution of net interest income and commissions;

(ii) decrease of operating costs; and

(iii) sale of assets.

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

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

(Thousands of Euro)

Expire date	Jun 2016	Dec 2015
2016	-	821
2017	30 567	33 315
2018	48 558	47 805
2019 and following	108 078	99 106
	187 203	181 047

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

(Thousands of Euro)

	Jun 2016		Dec 2015	
	Charged to net (loss)/income	Charged to reserves and retained earnings	Charged to net (loss)/income	Charged to reserves and retained earnings
Financial instruments	-	(9 611)	-	22 197
Other tangible assets	(110)	-	423	-
Provisions / Impairment	64 420	-	(80 897)	-
Employees benefits	5 057	(1 327)	4 977	324
Others	(4 938)	(1 189)	(3 519)	214
Tax losses carried forward	7 345	-	103 906	-
Deferred tax charged to profit / (loss)	71 774	(12 127)	24 890	22 735
Current taxes	(3 702)	-	1 490	-
	68 072	(12 127)	26 380	22 735

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

(Thousands of Euro)

	Jun 2016		Jun 2015	
	%	Value	%	Value
Profit before taxes		(134 588)		(57 282)
Income tax based on the current nominal tax rate	21.0	(28 263)	21.0	(12 029)
Impact of municipal and state surcharge	(0.6)	867	(0.7)	406
Extraordinary contribution for the banking sector	(2.1)	2 778	(3.8)	2 166
Post-employment benefits and Pension fund	(0.8)	1 115	(2.2)	1 265
Charge/reversal of taxable provisions/impairment	(4.1)	5 500	(9.5)	5 422
Autonomous taxation	(0.5)	662	(0.9)	495
Previous periods adjustments	0.4	(599)	13.1	(7 508)
Impact on tax rate differences	17.2	(23 136)	8.0	(4 597)
Consolidation adjustments (*)	32.7	(44 064)	-	-
Others	(12.7)	17 068	23.6	(13 508)
Income tax for the period	50.6	(68 072)	48.7	(27 888)

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

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

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

On this basis, CEMG did not recognise any asset regarding any potential tax recovery.

33 Other assets

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Other debtors	255 089	271 233
Sundry debtors	110 281	49 870
Other accrued income	39 140	30 213
Recoverable subsidies from Portuguese Government	5 202	5 241
Prepayments and deferred costs	3 153	2 639
	412 865	359 196
Impairment for other assets	(30 252)	(29 536)
	382 613	329 660

As at 30 June 2016, the balance Sundry debtors includes the earn-out (deferred cash: shall be paid shortly after the 3rd year of the transaction's conclusion) of Visa Inc., in the amount of Euro 704 thousand, as described in note 24.

As at 30 June 2016, the balance Other accrued income includes the amount of Euro 36,404 thousand (31 December 2015: Euro 26,000 thousand) referring to Montepio Geral Associação Mutualista, as described in note 10.

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

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

(Thousands of Euro)

	Jun 2016	Dec 2015
Overdue subsidies unclaimed	3 200	3 283
Recoverable subsidies from the Portuguese Government unliquidate	1 882	1 768
Subsidies unclaimed	120	190
	5 202	5 241

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

(Thousands of Euro)

	Jun 2016	Dec 2015
SilverEquation	164 883	161 420
Supplementary capital contributions	14 910	14 910
Public entities	12 468	14 198
Real estate	7 115	7 115
Montepio Geral Associação Mutualista	-	45 100
Others	55 713	28 490
	255 089	271 233

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

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

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

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

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

As at 30 June 2016 and 31 December 2015, the balance Real Estate includes the amount of Euro 7,115 thousand related with the receivable amounts from the sale of properties classified as non-current assets held for sale.

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

(Thousands of Euro)

	Jun 2016	Jun 2015
Balance on 1 January	29 536	16 240
Charge for the period	1 014	12 816
Write-back for the period	(672)	(12 191)
Charge-off	(23)	-
Transfers	397	1 234
Balance on 30 June	30 252	18 099

The balance Transfers refers to the impairment associated to the renting, which is now recorded in the balance Other assets, as described in note 22.

34 Deposits from central banks

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

35 Deposits from other financial institutions

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016			Dec 2015		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from credit institutions in Portugal						
Money Markets	-	-	-	-	17 856	17 856
Deposits repayable on demand	2 610	-	2 610	3 899	-	3 899
Term deposits	-	36 423	36 423	-	25 042	25 042
Other deposits	441	323	764	-	-	-
	3 051	36 746	39 797	3 899	42 898	46 797
Deposits from credit institutions abroad						
BEI loan	-	520 562	520 562	-	560 644	560 644
Loans	-	1 144	1 144	-	1 668	1 668
Money Markets	-	2 208	2 208	-	2 264	2 264
Deposits repayable on demand	70 625	-	70 625	9 535	-	9 535
Term deposits	-	10 852	10 852	-	3 670	3 670
Sales operations with repurchase agreement	-	760 989	760 989	-	860 210	860 210
CSA's	6 380	-	6 380	10 530	-	10 530
Repos	-	822	822	-	48	48
Other deposits	3 057	113 060	116 117	4 966	72 278	77 244
	80 062	1 409 637	1 489 699	25 031	1 500 782	1 525 813
Adjustments to hedge operations value	1 074	-	1 074	521	-	521
	84 187	1 446 383	1 530 570	29 451	1 543 680	1 573 131

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

The balance Deposits from credit institutions abroad – Other deposits includes issuances at fair value according to internal valuation methodologies, considering mainly market's observed data, in the amount of

Euro 73.265 thousand (31 December 2015: Euro 71.065 thousand). So, in accordance with the hierarchy of the valuation sources, as referred in IFRS 13, these instruments are categorized in Level 2. Financial liabilities included in this balance are revaluated against results, according with the accounting policy described in note 1 d).

The amount of the EIB loan is collateralised by Portuguese and Greek states securities in the amount of Euro 695,986 thousand (31 December 2015: Euro 706,638 thousand), registered in the balance Financial assets available for sale, as described in note 24.

The balance Deposits from other financial institutions also includes issues subject to hedging operations, whose impact on the book value amounts to Euro 1,074 thousand (31 December 2015: Euro 521 thousand). Financial liabilities included in this balance are revaluated against results, according with the accounting policy described in note 1 d). At 30 June 2016 it was recognised a loss in the amount of Euro 553 thousand (31 December 2015: gain in the amount of Euro 1,321 thousand), related with changes in the hedge amount, as referred in notes 6 and 23.

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

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

36 Deposits from customers

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016			Dec 2015		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits repayable on demand	3 115 758	123 197	3 238 955	2 650 825	181 105	2 831 930
Term deposits	-	9 015 622	9 015 622	-	10 021 093	10 021 093
Saving accounts	-	113 139	113 139	-	106 359	106 359
Other resources	15 007	306 171	321 178	10 041	-	10 041
Adjustments arising from hedging operations	29	-	29	8	-	8
	3 130 794	9 558 129	12 688 923	2 660 874	10 308 557	12 969 431

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

The caption Term deposits includes deposits at fair value, measured in accordance with internal evaluation techniques considering, mainly, observable market inputs, in the amount of Euro 38,739 thousand (31 December 2015: Euro 54,654 thousand). According with the hierarchy of the evaluation sources, as referred in IFRS 13, these instruments are classified in level 2. The financial liabilities included in this balance are revalued against income statement, as referred in the accounting policy presented in note 1 d), having recognised as at 30 June 2016, a loss in the amount of Euro 21 thousand (31 December 2015: Euro 12 thousand), regarding the fair value variations resulting from the Group's credit risk, as described in notes 6 and 23.

37 Debt securities issued

The balance Debt securities issued is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Bonds	1 050 938	1 340 138
Covered bonds	520 080	520 113
Securitizations	99 806	107 256
Euro Medium Term Notes (EMTN)	51 579	61 138
Commercial paper	47	2 520
	1 722 450	2 031 165

The fair value of the debt securities issued is presented in note 51.

The balance Debt securities issued includes issues at fair value in the amount of Euro 79,012 thousand (31 December 2015: Euro 98,167 thousand), according with internal valuation techniques and considering, mainly, observable market data. According with the hierarchy of the valuation sources, as referred in IFRS 13, these instruments are classified in level 2. Financial liabilities are revalued against income statement, as referred in the accounting policy presented in note 1 d). As at 30 June 2016, a loss of Euro 1,540 thousand (31 December 2015: a loss of Euro 1,131 thousand) was recognised regarding the fair value variations resulting from the Group's credit risk, as described in notes 6 and 23.

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

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

(Thousands of Euro)

Description	Nominal value	Book value	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody´s/Fitch/Dbrs)
Covered bonds - 2S	1 000 000	1 000 190	December 2009	December 2016	Quarterly	Euribor 3M + 0.75%	Baa1/BBB-/A
Covered bonds - 4S	500 000	500 049	May 2013	May 2017	Monthly	Euribor 1M + 0.75%	Baa1/BBB-/A
Covered bonds - 5S	500 000	500 157	December 2015	December 2020	Quarterly	Euribor 3M + 0.80%	Baa1/BBB-/A
	2 000 000	2 000 396					

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

(Thousands of Euro)

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

The operations carried out by the Group under the Issuance of Covered Bonds CEMG Programme are presented as follows:

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

The 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 2016, the amount of credits that collateralise these issues amounts to Euro 2,725,816 thousand (31 December 2015: Euro 2,727,400 thousand), as referred in note 22.

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

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

(Thousands of Euro)

	Balance on 1 January	Repayments	Net purchases	Other movements (a)	Balance on 30 June
Bonds	1 340 138	(75 248)	(204 070)	(9 882)	1 050 938
Covered bonds	520 113	-	-	(33)	520 080
Securitizations	107 256	-	(7 450)	-	99 806
Euro Medium Term Notes (EMTN)	61 138	-	-	(9 559)	51 579
Commercial paper	2 520	(2 520)	-	47	47
	2 031 165	(77 768)	(211 520)	(19 427)	1 722 450

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

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

In the first half of 2016, the Group performed the reimbursement of Euro 77,768 thousand of covered bonds (31 December 2015: Euro 920,677 thousand).

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

(Thousands of Euro)

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

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

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

In accordance with the note 1 d), debt issued repurchased by the Group is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement. As a result of the purchases made during the first half of 2016 and during 2015, the Group recognised a gain of Euro 333 thousand and a loss of Euro 4,252 thousand, respectively.

As at 30 June 2016, bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 0.39% and 13.61% (31 December 2015: 0.55% and 13.39%).

38 Financial liabilities related to transferred assets

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Pelican Mortgages No. 3	127 886	134 130
Pelican Mortgages No. 6	4 572	4 352
Pelican SME No. 2	243 172	184 555
	375 630	323 037

39 Provisions

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Provisions for guarantees and commitments	14 945	-
Provisions for other liabilities and charges	12 632	16 587
	27 577	16 587

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

(Thousands of Euro)

	Jun 2016	Jun 2015
Balance on 1 January	-	418
Charge for the period	7 814	30
Write-back for the period	(15 367)	(107)
Transfers	22 592	-
Exchange differences	(94)	(13)
Balance on 30 June	14 945	328

The balance Transfers refers to the impairment associated with off balance sheet credit exposure which, in 2016, are registered in the balance Provisions, as described in note 22.

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

(Thousands of Euro)

	Jun 2016	Jun 2015
Balance on 1 January	16 587	19 911
Charge for the period	11 255	1 606
Write-back for the period	(14 671)	(6 755)
Charge-off	(129)	(822)
Transfers	(252)	-
Exchange differences	(158)	(22)
Balance on 30 June	12 632	13 918

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

40 Other subordinated debt

As at 30 June 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 1.ª série	Feb 2008	Feb 2018	150 000	Euribor 6 months+1.5%	111 364
CEMG/08 2.ª série	Jun 2008	Jun 2018	28 000	Euribor 12 months+1.5%	113 260
CEMG/08 3.ª série	Jul 2008	Jul 2018	150 000	Euribor 6 months+1.5%	4 171
FNB 08/18 1ª/2ª Série	Dec 2008	Dec 2018	10 363	Euribor 6 months+0.15% (i)	7 706
Ob. Cx Subordinadas Finicrédito	Nov 2007	Nov 2017	16 550	Base rate+0.90% (barrier level)	15 754
					252 255
				Adjustments arising from hedging operations	(1 774)
					250 481

As at 31 December 2015, 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/06	Apr 2006	Apr 2016	50 000	Euribor 3 months+0.95%	26 148
CEMG/08 1.ª série	Feb 2008	Feb 2018	150 000	Euribor 6 months+1.5%	121 232
CEMG/08 2.ª série	Jun 2008	Jun 2018	28 000	Euribor 12 months+1.5%	18 177
CEMG/08 3.ª série	Jul 2008	Jul 2018	150 000	Euribor 6 months+1.5%	120 894
FNB 08/18 1ª/2ª Série	Dec 2008	Dec 2018	10 363	Euribor 6 months+0.15% (i)	9 589
FNB Grandes empresas 07/16_ 1ª série	May 2007	May 2016	6 450	Máx (6.0%*(1-n/8)) (ii)	4 753
FNB Grandes empresas 07/16 2ª/3ª série	Jun 2011	Jun 2016	22 602	Máx (6.0%*(1-n/8)) (ii)	18 922
Ob. Cx Subordinadas Finicrédito	Nov 2007	Nov 2017	16 550	Base rate+0.90% (barrier level)	15 684
					335 399
				Adjustments arising from hedging operations	(2 360)
					333 039

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

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

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

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

Notes:

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

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

During the six-month period ended at 30 June 2016 and during the period ended at 31 December 2015, the movement occurred in the balance Other subordinated debt was as follows:

(Thousands of Euro)

	Balance on 1 January 2016	Reimbursements	Net purchases	Other movements (a)	Balance on 30 June 2016
CEMG/06	26 148	(19 498)	(6 650)	-	-
CEMG/08 1.ª série	121 232	-	(9 740)	(128)	111 364
CEMG/08 2.ª série	120 894	-	(7 507)	(127)	113 260
CEMG/08 3.ª série	18 177	-	(13 808)	(198)	4 171
FNB 08/18 1ª/2ª Série	9 589	-	(2 042)	159	7 706
FNB Grandes empresas 07/16_ 1ª série	4 753	(3 731)	(1 022)	-	-
FNB Grandes empresas 07/16 2ª/3ª série	18 922	(16 450)	(2 472)	-	-
Ob. Cx Subordinadas Finicrédito	15 684	-	-	70	15 754
	335 399	(39 679)	(43 241)	(224)	252 255

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

(Thousands of Euro)

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

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

The financial assets included in this balance were revaluated through the income statement in accordance with the accounting policy described in note 1 d). As at 30 June 2016 was recognised a negative amount of Euro 586 thousand (31 December 2015: negative amount of Euro 2,786 thousand) related with the variations in fair value associated with the Group's credit risk.

As at 30 June 2016 and 31 December 2015, the subordinated debt bears postponed interest every three and six months and its effective interest rate range is set between 1.37% and 1.59% (31 December 2015: 0.8% and 2.03%).

The fair value of the debts securities issued is presented in note 51.

41 Other liabilities

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Creditors		
Suppliers	7 657	12 510
Other creditors	133 495	96 765
Administrative public sector	14 575	15 213
Holiday pay and subsidies	57 570	36 039
Other administrative costs payable	13 797	8 517
Deferred income	4 090	4 245
Other sundry liabilities	32 189	30 336
	263 373	203 625

As at 30 June 2016, the balance Other sundry liabilities includes the amount of Euro 20,566 thousand (31 December de 2015: Euro 14,765 thousand), related with net liabilities recognised in the balance sheet, which represent the difference between the costs with pensions, health benefits and death subsidy and the assets.

As at 30 June 2016 and 31 December 2015, the balance Holiday pay and subsidies includes the amount of Euro 14,549 thousand, related with the seniority premium.

Additionally, as at 30 June 2016, this balance includes the amount of Euro 21,330 thousand (31 December 2016: Euro 21,490 thousand) related to the specialization of holidays and holidays and Christmas allowance.

As at 30 June 2016, the balance Holiday pay and subsidies registers an amount of Euro 22,006 thousand regarding the costs to be paid within the current Active Retirement Scheme, as described in note 11.

42 Institutional capital

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

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

The referred capital increase was materialized by MGAM through the realization of institutional capital fully paid-up in cash in the amount of Euro 270,000,000.

43 Participation fund

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

As a consequence of the Executive Board of Directors decision on 29 April 2015, the resolution of the General Assembly on 30 April 2015 and the resolution of the Assembly of the Participation Units holders of CEMG Participation Funds, where was considered the withdrawal of the preference right attributed to the participation units holders of the CEMG Participation Fund held in 5 June 2015, at 26 June 2015 the entity issued representative units of CEMG Participation Fund, with a total nominative value of Euro 200.000 thousand, in cash, through a private offer, fully subscribed by Montepio Geral Associação Mutualista.

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

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

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

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

	Jun 2016		Dec 2015	
	Number of Investment Fund Units held	Percentage	Number of Investment Fund Units held	Percentage
Related parties				
Montepio Geral Associação Mutualista	254 443 246	63.61%	207 260 984	51.81%
Montepio Investimento S.A.	80 918	0.02%	31 580 918	7.90%
	254 524 164	63.63%	238 841 902	59.71%

44 Other equity instruments

This caption includes the issuance of Euro 15.000 thousand occurred in the first quarter of 2010 of Perpetual Subordinated Securities Interest conditioners made by Montepio Investimento, S.A. (previously designated as Finibanco, S.A.), and in connection with the acquisition of Montepio Holding, S.G.P.S., S.A. (previously designated as Finibanco Holding, S.G.P.S., S.A.), and its subsidiaries, was integrated in CEMG equity, as described in note 1 a).

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

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

Payment

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

During the first half of 2016, CEMG proceeded to the interest payment for this emission in the amount of Euro 210 thousand (31 December 2015: Euro 758 thousand).

Reimbursement

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

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

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

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

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

45 Treasury stock

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

As at 30 June 2016, the Group owned 80,918 units (31 December 2015: 31,580,918 units), with an average unit cost of Euro 0.501 (31 December 2015: Euro 0.809) and a nominal value of Euro 81 thousand (31 December 2015: Euro 31,581 thousand).

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

46 General and special reserves

The general and special reserves 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 47.

47 Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Fair value reserves		
Fair value reserves		
Available for sale financial assets	29 298	(3 101)
Loans and advances to customers	3 630	3 858
	32 928	757
Taxes		
Available for sale financial assets	(8 651)	1 027
Loans and advances to customers	(1 071)	(1 138)
	(9 722)	(111)
Fair value reserve net of taxes	23 206	646
Other reserve and retained earnings		
General reserve	187 532	187 532
Special reserve	68 273	68 273
Deferred tax reserve	41 175	42 502
Consolidation exchange reserves	(41 657)	(19 452)
Other reserves and retained earnings	(844 949)	(597 309)
	(589 626)	(318 454)

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

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

The movements in the fair value reserve on financial assets available for sale during the first half of 2016 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	(16 967)	(10 657)	6 684	(4 982)	-	(25 922)
Bonds issued by public foreign entities	7 853	691	528	(7 699)	249	1 622
Bonds issued by other entities:						
Domestic	186	(7)	230	(719)	-	(310)
Foreign	(21 756)	53 434	718	(2 373)	(30 217)	(194)
Commercial paper	-					-
	(30 684)	43 461	8 160	(15 773)	(29 968)	(24 804)
Variable income securities						
Shares						
Domestic	7 900	14 093	-	(164)	2 407	24 236
Foreign	3 697	16 056	433	(9 668)	1 805	12 323
Investment fund units	15 986	8 592	2	(158)	(6 879)	17 543
	27 583	38 741	435	(9 990)	(2 667)	54 102
	(3 101)	82 202	8 595	(25 763)	(32 635)	29 298

The movements in the fair value reserve on financial assets available for sale during 2015 in this balance 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	56 612	2 190	(20 435)	(55 334)	-	(16 967)
Bonds issued by public foreign entities	3 699	(1 472)	4 692	(557)	1 491	7 853
Bonds issued by other entities:						
Domestic	(12 291)	7 576	(15)	12 670	(7 754)	186
Foreign	13 206	(21 080)	(2 378)	(11 073)	(431)	(21 756)
Commercial paper	409	-	-	(409)		-
	61 635	(12 786)	(18 136)	(54 703)	(6 694)	(30 684)
Variable income securities						
Shares						
Domestic	92	(745)	7 708	54	791	7 900
Foreign	1 332	(251)	1 710	(10)	916	3 697
Investment fund units	6 550	15 655	123	217	(6 559)	15 986
	7 974	14 659	9 541	261	(4 852)	27 583
	69 609	1 873	(8 595)	(54 442)	(11 546)	(3 101)

The fair value reserves can be analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Amortised cost of available-for-sale financial assets	2 403 703	3 138 911
Accumulated impairment recognized	(99 944)	(67 309)
Amortised cost of available-for-sale financial assets, net of impairment	2 303 759	3 071 602
Market value of available-for-sale financial assets	2 333 057	3 068 501
Unrealised gains/(losses) recognized in the fair value reserve	29 298	(3 101)

48 Distribution of profit

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

49 Non-controlling interests

This balance is analysed as follow:

(Thousands of Euro)

	Statement of Financial Position		Income Statement	
	Jun 2016	Dec 2015	Jun 2016	Jun 2015
Finibanco Angola, S.A.	11 332	12 853	1 144	747
Banco Terra, S.A.	11 745	15 816	(33)	(1 232)
	23 077	28 669	1 111	(485)

The movements of this balance are analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Opening balance	28 669	26 440
Exchange differences	(6 703)	992
	21 966	27 432
Net income attributable to non-controlling interests	1 111	1 237
Closing balance	23 077	28 669

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

50 Obligations and other commitments

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Guarantees granted	495 941	500 573
Commitments to third parties	1 291 445	1 398 196
Assets transferred in securitized operations	160 091	170 819
Securities and other items held for safekeeping on behalf of cutomers	7 051 954	7 449 316
	8 999 431	9 518 904

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

(Thousands of Euro)

	Jun 2016	Dec 2015
Guarantees granted		
Guarantees	440 694	444 669
Open documentary credits	54 818	55 475
Guarantees and indemnities (counter)	429	429
	495 941	500 573
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit lines	509 875	628 956
Annual contribution to the Guarantee Deposit Fund	22 768	22 768
Potential obligation with the Investor's Indemnity System	1 689	1 689
Revocable commitments		
Revocable credit lines	757 113	744 783
	1 291 445	1 398 196

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

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

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

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

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

As at 30 June 2016 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 25,000 thousand, as described in note 24.

As at 30 June 2016 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.

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

Assets under management and custody are analysed as follows:

	(Thousands of Euro)	
	Jun 2016	**Dec 2015**
Deposit and custody of securities	7 051 954	7 449 316

51 Fair value

Fair value is based on market prices, whenever these are available. If market prices are not available, as it happens regarding many products sold to clients, fair value is estimated through internal models based on cash flow discounting techniques. Cash flows for the different instruments sold are calculated according to its financial characteristics and the discount rates used include both the interest rate curve and the current conditions of the Group's pricing policy.

Therefore, the fair value obtained is influenced by the parameters used in the valuation 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 assets and liabilities of the Group are presented as follows:

- *Cash and deposits at central banks, Loans and advances to credit institutions and Deposits from other 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 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 short-term. The rate of return of funding with the European Central Bank is 0.022% (31 December 2015: 0.07%).

Regarding loans and advances, 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 date (rates from the monetary market or from the interest rate swap market, at the end of the period). For 30 June 2016, the average discount rate was -0.15% for Repos and 0.06% for the remaining resources. As at 31 December 2015 they were of -0.205%, 0.36% and 0.02%, 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, 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 content - 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 calibrated with the values of interest rate short-term futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are 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 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 flows 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.

- *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", apply the numerical methods based on techniques of discounted cash flow valuation models and considering options including changing market interest rates applicable to the instruments concerned, and where necessary, their volatility.

Interest rates are determined based on information disseminated by the suppliers of content financial - 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 calibrated with the values of interest rate short-term futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The interest rate curves are 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 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 date (rates from the monetary market or from the interest rate swap market, at the end of the period) and the spread used at the date of the report, which was calculated from the average production of the first half of 2016. The average discount rate was 2.46% for housing loans (31 December 2015: 3.43%), 5.60% to individual credit (31 December 2015: 5.90%) to treasury loans is 3.01% (31 December 2015: 4.49%) and 3.65% to remaining loans (31 December 2015: 4.48%), 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*

Considering the short maturity of these financial instruments, the conditions of the existing portfolio are similar to current conditions used by the Group. 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 date (rates of monetary market or the interest rate swap market, at the end of the period) and the spread of the Group at the date of the report, which was calculated from the average production of the last semester month of 2016. The average discount rate in the first half of 2016 was of 0.84% (31 December 2015: 1.04%).

- *Debt securities issued and Subordinated debt*

For these financial instruments, fair value was calculated for the components that are not yet reflected on the Group's balance sheet. For the fixed interest rate instruments for which the Group applies a hedge-note, the fair value regarding the interest rate risk is already accounted for.

In fair value calculation, the other risk components were also considered, apart from the interest rate risk. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash flow discounting techniques, using the interest rate curve adjusted by associated factors, predominantly the credit risk and trading margin, the latter only in the case of issues placed for non-institutional customers of the Group.

As original reference, the Group applies the curves resulting from the interest rate swaps markets for each specific currency. The credit risk (credit spread) is represented by an excess from the curve of interest rate swaps established specifically for each term and class of instruments based on the market prices on equivalent instruments.

In 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 3.77% (31 December 2015: 5.80%). The average discount rate calculated for senior issues placed on the retail market was 0.92% (31 December 2015: 1.28%). The senior issue placed on the institutional market is valued at fair value through profit or loss.

As at 30 June 2016, the following table presents the values of the interest rate used in the calculation of the interest rate curve of the main 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	-0.3370%	0.4051%	0.5200%	-1.2250%	-0.0567%
7 days	-0.3710%	0.4404%	0.5200%	-1.2750%	-0.0670%
1 month	-0.3640%	0.8000%	0.6200%	-1.1300%	-0.4600%
2 months	-0.3210%	0.5400%	0.6000%	-1.0200%	-0.4000%
3 months	-0.2860%	1.0600%	0.6500%	-0.9500%	-0.4600%
6 months	-0.1790%	1.1900%	0.7250%	-0.8750%	-0.3400%
9 months	-0.1160%	1.2800%	0.6300%	-0.8200%	-0.2800%
1 year	-0.0510%	1.3450%	0.6600%	-0.7200%	-0.2300%
2 years	-0.2160%	0.7470%	0.5630%	-0.8710%	-0.1675%
3 years	-0.2070%	0.8170%	0.5590%	-0.8660%	-0.1900%
5 years	-0.1065%	0.9780%	0.6380%	-0.7650%	-0.1825%
7 years	0.0680%	1.1420%	0.7870%	-0.6170%	-0.1350%
10 years	0.3540%	1.3460%	1.0000%	-0.3880%	-0.0600%
15 years	0.6620%	1.5690%	1.1900%	-0.1630%	0.0450%
20 years	0.7710%	1.6820%	1.1900%	-0.1630%	0.0450%
30 years	0.7840%	1.7780%	1.1900%	-0.1630%	0.0450%

As at 31 December 2015, the following table presents the values of the interest rate used in the calculation of the interest rate curve of the main 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	-0.2490%	0.5500%	0.3200%	-0.8700%	0.0364%
7 days	-0.2490%	0.3920%	0.4800%	-0.8100%	0.0393%
1 month	-0.2050%	0.6100%	0.5750%	-0.8700%	-0.1200%
2 months	-0.1650%	0.6700%	0.6200%	-0.8250%	-0.1600%
3 months	-0.1310%	0.7550%	0.6900%	-0.8200%	-0.0500%
6 months	-0.0400%	0.9400%	0.8450%	-0.7450%	-0.2100%
9 months	0.0040%	1.1200%	0.9700%	-0.7200%	-0.1500%
1 year	0.0600%	1.1150%	1.1250%	-0.6100%	-0.1200%
2 years	-0.0325%	1.1870%	1.0930%	-0.6430%	0.0775%
3 years	0.0590%	1.4340%	1.3020%	-0.5600%	0.0825%
5 years	0.3280%	1.7720%	1.5880%	-0.3050%	0.1375%
7 years	0.6210%	2.0040%	1.7920%	-0.0430%	0.2275%
10 years	1.0000%	2.2360%	1.9940%	0.2500%	0.3925%
15 years	1.3990%	2.4640%	2.1600%	0.5570%	0.7025%
20 years	1.5670%	2.5180%	2.1600%	0.5570%	0.7025%
30 years	1.6100%	2.6070%	2.1600%	0.5570%	0.7025%

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 rate	Jun 2016	Dec 2015	1 month	3 months	6 months	9 months	1 year
EUR/USD	1.1102	1.0887	9.775	9.750	9.825	9.925	9.938
EUR/GBP	0.8265	0.7340	14.825	13.550	12.800	12.625	12.175
EUR/CHF	1.0867	1.0835	7.925	7.775	7.725	7.800	7.825
EUR/JPY	114.05	131.07	14.830	13.825	13.575	13.300	13.125

Concerning the exchange rates, the Group uses in the valuation models the spot rate observed in the market at the time of the valuation.

The fair value for each group of assets and liabilities at 30 June 2016 and 31 December 2015 is presented as follows:

(Thousands of Euro)

	Jun 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	-	-	374 210	374 210	374 210
Loans and advances to credit institutions repayable on demand	-	-	239 798	239 798	239 798
Loans and advances to credit institutions	-	-	165 967	165 967	166 017
Loans and advances to customers	43 505	-	14 348 771	14 392 276	14 509 192
Financial assets held for trading	34 263	-	-	34 263	34 263
Financial assets available for sale	-	2 333 057	-	2 333 057	2 333 057
Held-to-maturity investments	-	-	1 267 975	1 267 975	1 272 273
	77 768	2 333 057	16 396 721	18 807 546	18 928 810
Financial liabilities					
Deposits from central banks	-	-	2 870 709	2 870 709	2 870 709
Deposits from other credit institutions	73 265	-	1 457 305	1 530 570	1 541 051
Deposits from customers	38 739	-	12 650 184	12 688 923	12 653 529
Debt securities issued	79 012	-	1 643 438	1 722 450	1 802 014
Financial liabilities relating to transferred assets	-	-	375 630	375 630	320 557
Financial liabilities held for trading	82 626	-	-	82 626	82 626
Other subordinated debt	15 685	-	234 796	250 481	240 266
	289 327	-	19 232 062	19 521 389	19 510 752

(Thousands of Euro)

	Dec 2015				
	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	-	-	424 450	424 450	424 450
Loans and advances to credit institutions repayable on demand	-	-	238 007	238 007	238 007
Loans and advances to credit institutions	-	-	172 044	172 044	172 073
Loans and advances to customers	44 825	-	14 617 452	14 662 277	13 942 127
Financial assets held for trading	51 093	-	-	51 093	51 093
Financial assets available for sale	-	3 068 501	-	3 068 501	3 068 501
Hedging derivatives	9	-	-	9	9
Held-to-maturity investments	-	-	161 540	161 540	157 245
	95 927	3 068 501	15 613 493	18 777 921	18 053 505
Financial liabilities					
Deposits from central banks	-	-	2 277 258	2 277 258	2 277 258
Deposits from other credit institutions	71 065	-	1 502 066	1 573 131	1 573 072
Deposits from customers	54 654	-	12 914 777	12 969 431	13 017 763
Debt securities issued	98 167	-	1 932 998	2 031 165	2 144 239
Financial liabilities relating to transferred assets	-	-	323 037	323 037	288 950
Financial liabilities held for trading	70 289	-	-	70 289	70 289
Hedging derivatives	439	-	-	439	439
Other subordinated debt	15 684	-	317 355	333 039	308 057
	310 298	-	19 267 491	19 577 789	19 680 067

The following table summarizes, by valuation levels, the fair value of CEMG's financial assets and liabilities, as at 30 June 2016:

(Thousands of Euro)

	Jun 2016				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Fair value**
Financial assets					
Cash and deposits at central banks	374 210	-	-	-	374 210
Loans and advances to credit institutions repayable on demand	239 798	-	-	-	239 798
Loans and advances to credit institutions	-	-	166 017	-	166 017
Loans and advances to customers	-	43 505	14 465 687	-	14 509 192
Financial assets held for trading	17 895	16 368	-	-	34 263
Financial assets available for sale	1 769 576	118 939	435 320	9 222	2 333 057
Held-to-maturity investments	1 128 503	143 770	-	-	1 272 273
	3 529 982	322 582	15 067 024	9 222	18 928 810
Financial liabilities					
Deposits from central banks	2 870 709	-	-	-	2 870 709
Deposits from other credit institutions	-	73 265	1 467 786	-	1 541 051
Deposits from customers	-	38 739	12 614 790	-	12 653 529
			1 723 002		
Debt securities issued	-	79 012		-	1 802 014
Financial liabilities relating to transferred assets	-	-	320 557	-	320 557
Financial liabilities held for trading	1 992	80 634	-	-	82 626
Other subordinated debt	-	15 684	224 582	-	240 266
	2 872 701	287 334	16 350 717	-	19 510 752

The following table summarizes, by valuation levels, the fair value of CEMG's financial assets and liabilities, as at 31 December 2015:

(Thousands of Euro)

	Dec 2015				
	Level 1	**Level 2**	**Level 3**	**Financial instruments at cost**	**Fair value**
Financial assets					
Cash and deposits at central banks	424 450	-	-	-	424 450
Loans and advances to credit institutions repayable on demand	238 007	-	-	-	238 007
Loans and advances to credit institutions	-	-	172 073	-	172 073
Loans and advances to customers	-	44 825	13 890 111	-	13 934 936
Financial assets held for trading	19 798	31 295	-	-	51 093
Financial assets available for sale	2 512 138	146 886	404 066	5 411	3 068 501
Hedging derivatives	-	9	-	-	9
Held-to-maturity investments	157 245	-	-	-	157 245
	3 351 638	223 015	14 466 250	5 411	18 046 314
Financial liabilities					
Deposits from central banks	2 277 258	-	-	-	2 277 258
Deposits from other credit institutions	-	71 065	1 502 007	-	1 573 072
Deposits from customers	-	54 654	12 963 109	-	13 017 763
Debt securities issued	-	98 167	2 046 072	-	2 144 239
Financial liabilities relating to transferred assets	-	-	288 950	-	288 950
Financial liabilities held for trading	1 896	68 393	-	-	70 289
Hedging derivatives	-	439	-	-	439
Other subordinated debt	-	15 684	292 373	-	308 057
	2 279 154	308 402	17 092 511	-	19 680 067

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 valuation techniques supported by observable inputs in active markets, being direct data (prices, rates, spreads, etc.) or indirect data (derivatives), and evaluation assumptions similar to what an unrelated party would use in estimating the fair value of that financial instrument.

- Level 3: Fair value is determined based on unobservable inputs in active markets, using techniques and assumptions that market participants would use do evaluate the same instruments, including assumptions about the inherent risks, the valuation technique used and inputs used and review processes to test the accuracy of the values obtained.

The Group considers an active market in which occur transactions of financial instruments with sufficient frequency and volume to continuously provide information on prices, therefore, the following minimum conditions shall be verified:

- Existence of frequent daily prices trading in the last year;
- The above quotations are exchanged regularly; and
- There are executable quotes from more than one entity.

A parameter used in an evaluation 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.

52 Assets under management

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

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

(Thousands of Euro)

	Jun 2016	Dec 2015
Securities investment fund	181 405	219 207
Real estate investment fund	329 490	333 773
Pension fund	195 155	196 786
Bancassurance	46 976	60 178
	753 026	809 944

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

53 Employee benefits

The Group assumed the responsibility to pay to their employees, seniority retirement and disability pensions and other benefits, in accordance with the accounting policy described in note 1 u). Additionally, and according to the same policy, the Group calculates, on an annually basis, on 31 December of each year, the liabilities with pensions and other benefits. Thus, the values presented in this note reflect only the current service cost.

The key actuarial assumptions used to calculate pension liabilities are as follows:

	Assumptions	Checked
	Dec 2015	**Dec 2015**
Financial assumptions		
Salaries increase rate	0.75%	1.30%
Pensions increase rate	0.25%	0.05%
Projected rate of return of Fund assets	2.75%	2.30%
Discount rate	2.75%	-
Demographic assumptions and valuation methods		
Mortality table		
Men	TV 88/90	
Women	TV 88/90	
Actuarial method	UCP	

The assumptions used in the present value calculation of the liabilities are in accordance with the requirements of IAS 19. The determination of the discount rate took into account: (i) developments in the major indexes, for high quality corporate brands and (ii) duration of liabilities.

As at 31 December 2015, duration of liabilities amounts to 23.20 years (2014: 22.30 years).

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.

Risks

Considering the provisions of Montepio Geral Pension Fund's investment policy regarding exposure to different risks and different legal provisions, the control of these limits is daily monitored through a detailed analysis of the "legal limits and exceeded investments". There is also a set of procedures that are carried out if the limits are exceeded.

Subsequently, the Risk Management controls the effect of the measures and their impact on investment policy. At the same time, the levels of exposure to legal and prudential limits governing the Montepio Pension Fund are also controlled.

In addition to the verification of compliance with the investment policy and the legal and prudential limits, the management company (Futuro) decided to reinforce the control and monitoring using different risk measures and a set of internal procedures to maintain the prudent management of risk. On this basis, it is used a reasoned risk management model in the technical perspective of the studies "QIS Pension Funds" of EIOPA. The development of tolerance indicators for this model allows monitoring the variations of these indicators, according to the defined investment policy for the pension fund.

The monitoring of market risk is based on the calculation of VaR, with a 99.5% confidence interval for one year. The VaR does not constitute a full guarantee that the risks do not exceed the probability used, therefore Stress Tests are also conducted, in order to calculate the impact of various extreme scenarios on the value of the portfolio.

The assessment of the level of liquidity of the stock and bond component of the fund is made through a liquidity test. For actions, this analysis is done in number of days to settle, considering the assets in the portfolio. This test consists in verify the degree of equity segment liquidity, assessing how many days are required for its settlement in the market, taking into account the costs associated with these transactions and the historical average volume of transactions in the various markets. In addition, the bond segment is made the calculation of receipts (positive cash flows) arising from coupon payments (interest) bonds and amortization or any Call exercises for the period of one month. These tests allow to assess the degree of short-term liquidity and monitor or act against the possible shortage of liquidity in a timely basis.

The number of persons covered by the plan is as follows:

	Dec 2015
Actives	3 845
Retirees and survivors	1 027
	4 872

Based on the accounting policy described in note 1 u), the responsibilities with pensions and other benefits and their coverage levels reportable as at 31 December 2015, are analysed as follows:

	(Thousands of Euro)
	Dec 2015
Assets/(Liabilities) recognized in the balance sheet	
Responsabilities with retirement benefits	
Pensioners	(138 388)
Employees	(472 879)
	(611 267)
Resposnabilities with healthcare benefits	
Pensioners	(19 211)
Employees	(36 380)
	(55 591)
Resposnabilities with death subsidy	
Pensioners	(700)
Employees	(911)
	(1 611)
Total	(668 469)
Coverages	
Value of the fund	653 704
Net assets in the balance sheet (see note 41)	(14 765)
Accumulated actuarial differences recognized in other comprehensive income	130 613

The evolution of responsibilities with retirement pensions, healthcare and death benefits can be analysed as follows:

(Thousands of Euro)

	Dec 2015			
	Retirement pensions	Healthcare benefits	Death subsidy	Total
Responsabilities in the beginning of the period	615 805	55 354	1 564	672 723
Current service cost	10 606	1 723	44	12 373
Interest cost	15 403	1 384	39	16 826
Actuarial gains/(losses)				
- Changes in the assumptions	(14 063)	(1 289)	(52)	(15 404)
- Not related to change assumptions	(8 192)	(348)	36	(8 504)
Pensions paid by the fund	(8 972)	(1 233)	(20)	(10 225)
Early retirement	680	-	-	680
Responsabilities in the end of the period	611 267	55 591	1 611	668 469

The pension funds are managed by "Futuro Sociedade Gestora de Fundos de Pensões, S.A.", on which CEMG participates with 97.2% at 31 December 2015.

The evolution on the pensions fund value in the period ended at 31 December 2015, is analysed as follows:

(Thousands of Euro)

	Dec 2015
Balance of the fund in the beginning of the period	583 670
Return on plan assets	13 176
Group contributions	64 739
Participant contributions	2 344
Pensions paid by the fund	(10 225)
Balance of the fund in the end of the period	653 704

The balance Group's Contributions relates to the contribution made by the Group in 2015, regarding the year of 2014.

On 31 December 2015, the Pensions Funds' assets are analysed as follows:

	(Thousands of Euro)
	Dec 2015
Bonds	427 438
Other variable income securities	135 830
Shares	46 994
Investment in banks and other	35 596
Real estate	7 846
	653 704

The assets of pension funds used by the Group or representative of securities issued by other Group entities are analysed as follows:

	(Thousands of Euro)
	Dec 2015
Investments in banks and others	30 063
Real Estate	7 846
Bonds	86
Others	1 937
	39 932

As at 31 December 2015, the assets of the pension fund, divided between assets with and assets without market price, can be analysed as follows:

(Thousands of Euro)

	Dec 2015		
	Assets of the Fund	**With market price**	**Without market price**
Variable income security			
Shares	46 994	46 994	-
Shares investment funds	96 460	3 244	93 216
Equity shares	1 937	1 937	-
Bonds	427 438	427 438	-
Real estate	7 846	-	7 846
Real estate investment funds	26 885	522	26 363
Venture capital funds	10 523	-	10 523
Hedge funds - Uncorrelated Investments	25	-	25
Investment in banks and others	35 596	-	35 596
Total	653 704	480 135	173 569

The costs of the period with reform pensions, healthcare benefits and death subsidies are analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Current service cost	5 801	12 373
Net interest costs/(Income) in the responsabilities hedging balance	-	2 234
Early retirement cost	-	680
Participant contributions	-	(2 344)
Staff costs	5 801	12 943

The actuarial assumptions have a significant impact in the pension and other benefits liabilities. Considering, this impact, the Group 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 2015	
	Liabilities	
	Increase	Decrease
Discount rate (0.25% change)	(34 557)	35 111
Wage growth rate (0.25% change)	21 961	(20 017)
Pension growth rate (0.25% change)	21 529	(20 192)
SAMS contribution (0.25% change)	3 048	(2 982)
Future death (1 year change)	(17 370)	17 195

54 Related parties transactions

As defined in IAS 24, are considered related parties of the Group the companies detailed in note 62, the Pension Fund, the members of the Executive Board of Directors and the key management elements. The key management elements are the first line directors. 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 the 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 first-line managers with relevant roles are included in Other key management personnel.

On this basis, the list of related parties considered by the Group is presented as follows:

Institutional Capital Owner
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 from other Related Parties
Alberto Carlos Nogueira Fernandes da Silva
Aldina Antónia da Costa Romaneiro
Amândio Manuel Carrilho Coelho
Ana Lúcia Louro Palhares
Ana Maria G Almeida
António Francisco de Araújo Pontes
António Paulo da Silva Gonçalves Raimundo
António Sezões Almeida Porto
António Tomás Correia
Artur Luís Martins
Bernard J. Christiaanse
Carlos Morais Beato
Eduardo José da Silva Farinha
Fernando Dias Nogueira
Fernando Jorge Lopes Centeno Amaro
Fernando Paulo Pereira Magalhães
Fernando Ribeiro Mendes

Board of Directors from other Related Parties (cont.)
Fernão Vasco de Almeida Bezerra Fernandes Thomaz
Francisco António Laranjeira Souto
Isabel Maria Loureiro Alves Brito
João Filipe Milhinhos Roque
João Francisco Mendes Almeida de Gouveia
Joaquim de Campos Afonso
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 Carlos Sequeira Mateus
José de Almeida Serra
José Joaquim Fragoso
José Luís Esparteiro da Silva Leitão
José Manuel Rodriguez Garcia
Luís Filipe dos Santos Costa
Luís Miguel Marques Ferreira Cardoso
Luís Soares dos Santos
Manuel Aranda da Silva
Manuel de Pinho Baptista
Margarida Maria Pinto Rodrigues Duarte
Maria Manuela Traquina Rodrigues
Mário José Brandão Ferreira
Mário José Matos Valadas
Miguel Alexandre Teixeira Coelho
Norberto da Cunha Junqueira F. Félix Pilar
Nuno Henrique Serra Mendes
Paula Alexandra Gonçalves de Oliveira Guimarães
Pedro António Castro Nunes Coelho
Pedro Jorge Gouveia Alves
Pedro Miguel de Almeida Alves Ribeiro
Pedro Miguel Moura Líbano Monteiro
Pedro Nuno Coelho Pires
Ricardo Canhoto de Carvalho
Rosa Maria Parra Sevilla
Rui Jorge da Costa Martins
Tereza de Jesus Teixeira Barbosa Amado
Virgílio Manuel Boavista Lima
Vitor Guilherme de Matos Filipe

Other key management elements

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
Finibanco Vida – Companhia de Seguros de Vida, 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, Limitada
Lestinvest, S.G.P.S., S.A. *
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 - S.G.F.I., S.A.
Montepio Gestão de Activos Imobiliários, A.C.E.
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.
Nova Câmbio - Instituição de Pagamento, S.A.
Pinto & Bulhosa, 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.

* Entity settled during the first half of 2016.

As at 30 June 2016, the assets held by the Group regarding related parties, represented or not by securities, included in the 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 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.	17	-	-	17
Board of Directors from other related parties	1 382	-	-	1 382
Executive Board of Directors	150	-	-	150
General and Supervisory Board	687	-	-	687
Germont – Empreendimentos Imobiliários, S.A.	13 228	-	5 831	19 059
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	2 546	-	2 453	4 999
Lusitania Vida, Companhia de Seguros, S.A.	1	-	-	1
Lusitania, Companhia de Seguros, S.A.	103	188	6 479	6 770
Montepio Geral Associação Mutualista	4	36 888	177	37 069
Montepio Gestão de Activos Imobiliários, ACE	-	590	-	590
Montepio Imóveis – Soc Imobiliária de Serviços Auxilares, S.A.	13 717	-	-	13 717
Nova Câmbio - Instituição de Pagamento, S.A.	951	-	1 577	2 528
Other key management elements	3 030	-	8	3 038
Residências Montepio, Serviços de Saúde, S.A.	1 107	-	-	1 107
	36 924	37 666	16 525	91 115

As at 31 December 2015, the assets held by the Group regarding related parties, represented or not by securities, included in the 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 2015			
Companies	Loans and advances to customers	Other assets	Guarantees and commitments provided to third parties	Total
Clínica de Serviços Médicos Computorizados de Belém, S.A.	22	-	-	22
Current Executive Board of Directors	155	-	-	155
Previous Executive Board of Directors	228	-	-	228
Current General and Supervisory Board	844	-	-	844
Previous General and Supervisory Board	361	-	-	361
Members of the Board of Directors from other related parties	366	-	-	366
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	1	-	-	1
Germont – Empreendimentos Imobiliários, S.A.	16 118	-	8 768	24 886
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	4 412	-	547	4 959
Iberpartners Cafés, SGPS, S.A.	1 496	-	-	1 496
Lestinvest, SGPS, S.A.	36 635	-	-	36 635
Lusitania Vida, Companhia de Seguros, S.A.	1	-	-	1
Lusitania, Companhia de Seguros, S.A.	2	620	6 324	6 946
Montepio Geral Associação Mutualista	4	75 066	1 124	76 194
Montepio Gestão de Activos Imobiliários, ACE	-	678	-	678
Montepio Imóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	13 069	-	-	13 069
NovaCâmbios, Instituição de Pagamento, S.A.	979	-	1 535	2 514
Other key management elements	3 814	-	8	3 822
Residências Montepio, Serviços de Saúde, S.A.	980	-	-	980
	79 487	76 364	18 306	174 157

As at 30 June 2016, the liabilities held by the Group regarding related parties, included in the balances Participation Fund, Deposits from customers, Debt securities issued, Other subordinated debt and Other liabilities are analysed as follows:

(Thousands of Euro)

Companies	Participation Fund	Deposits from customers	Other subordinated debt	Total
		Jun 2016		
Bolsimo - Gestão de Activos, S.A.	-	2 495	-	2 495
Clínica CUF Belém, S.A.	-	8	-	8
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	4	-	4
Board of Directors from other related parties	77	3 221	130	3 428
Executive Board of Directors	45	1 854	-	1 899
General and Supervisory Board	55	1 898	-	1 953
Empresa Gestora de Imóveis da Rua do Prior S.A	-	72	-	72
Finibanco Vida – Companhia de Seguros de Vida, S.A.	-	2 236	1 000	3 236
Fundação Montepio Geral	-	1 784	-	1 784
Fundo de Pensões - Montepio Geral	2 998	29 348	50	32 396
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	1 961	-	1 961
Germont – Empreendimentos Imobiliários, S.A.	-	416	-	416
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	30	-	30
Lusitania Vida, Companhia de Seguros, S.A.	-	22 859	21 250	44 109
Lusitania, Companhia de Seguros, S.A.	499	3 030	13 000	16 529
Montepio Geral Associação Mutualista	254 443	238 296	1 003 762	1 496 501
Montepio Gestão de Activos - Soc Gestora Fundos de Investimento, S.A.	-	872	-	872
Montepio Gestão de Activos Imobiliários, ACE	-	2 479	-	2 479
Montepio Imóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	-	105	-	105
Montepio Seguros, S.G.P.S., S.A.	-	2 554	-	2 554
N Seguros, S.A.	220	3 866	-	4 086
Nova Câmbio - Instituição de Pagamento, S.A.	302	1 116	-	1 418
Other key management elements	39	1 221	20	1 280
Residências Montepio, Serviços de Saúde, S.A.	-	74	-	74
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	47	-	47
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	1 389	-	1 389
Sociedade Portuguesa de Administrações, S.A.	-	245	-	245
	258 678	323 480	1 039 212	1 621 370

As at 31 December 2015, the liabilities held by the Group regarding related parties, included in the balances Participation Fund, Deposits from customers, Debt securities issued and Other subordinated debt and Other liabilities are analysed as follows:

(Thousands of Euro)

Companies	Dec 2015				
	Participation Fund	Deposits from customers	Debt securities issued and Other subordinated debt	Other liabilities	Total
Bolsimo – Gestão de Activos, S.A.	-	3 696	-	-	3 696
Clínica CUF Belém, S.A.	-	17	-	-	17
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	6	-	-	6
Current Executive Board of Directors	-	2 320	45	-	2 365
Previous Executive Board of Directors	-	155	-	-	155
Current General and Supervisory Board	-	1 749	-	-	1 749
Previous General and Supervisory Board	-	2 018	5	-	2 023
Members of the Board of Directors from other related parties	-	741	139	-	880
Empresa Gestora de Imóveis da Rua do Prior S.A	-	2	-	-	2
Finibanco Vida – Companhia de Seguros de Vida, S.A.	-	4 463	1 000	-	5 463
Fundação Montepio Geral	-	913	-	-	913
Fundo de Pensões Montepio Geral	-	30 063	86	1 937	32 086
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	1 770	-	-	1 770
Germont – Empreendimentos Imobiliários, S.A.	-	537	-	-	537
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	-	19	-	-	19
Lestinvest, SGPS, S.A.	-	1 433	-	-	1 433
Lusitania Vida, Companhia de Seguros, S.A.	-	19 159	21 250	-	40 409
Lusitania, Companhia de Seguros, S.A.	-	15 944	13 749	-	29 693
Montepio Geral Associação Mutualista	207 261	168 054	1 529 148	-	1 904 463
Montepio Gestão de Activos – S.G.F.I., S.A.	-	2 042	-	-	2 042
Montepio Gestão de Activos Imobiliários, ACE	-	2 189	-	-	2 189
Montepio Seguros, SGPS, S.A.	-	868	-	-	868
N Seguros, S.A.	-	1 251	220	-	1 471
NovaCâmbios, Instituição de Pagamento, S.A.	-	1 801	-	-	1 801
Other key management elements	-	2 168	66	-	2 234
Residências Montepio, Serviços de Saúde, S.A.	-	113	-	-	113
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	294	-	-	294
SILVIP - Soc. Gestora Fundos Investimento Imobiliarios, S.A.	-	1 634	-	-	1 634
Sociedade Portuguesa de Administrações, S.A.	-	282	-	-	282
	207 261	265 701	1 565 708	1 937	2 040 607

As at 30 June 2016, income and expenses of the Group regarding related parties, included in the balances Interest and similar income, Interest and similar expenses, Net commission and other income, Other operating income and General and administrative expenses are analysed as follows:

(Thousands of Euro)

	Jun 2016				
Companies	Interest and similar income	Interest and similar expenses	Net commission and other income	Other operating income	General and administrative expenses
Board of Directors from other related parties	1	17	1	-	-
Executive Board of Directors	-	6	-	-	-
General and Supervisory Board	5	10	-	-	-
Finibanco Vida – Companhia de Seguros de Vida, S.A.	-	34	5	-	-
Fundo de Pensões - Montepio Geral	-	1	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	10	3	-	-
Germont – Empreendimentos Imobiliários, S.A.	200	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	75	-	-	-	-
Lestinvest, S.G.P.S., S.A.	373	-	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	216	2	-	-
Lusitania, Companhia de Seguros, S.A.	4	104	78	190	-
Montepio Geral Associação Mutualista	-	30 939	3	12 994	4 583
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S	-	7	2	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	1 324	1 798
Montepio Imóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	551	-	-	-	-
Montepio Seguros, S.G.P.S., S.A.	-	-	40	-	-
N Seguros, S.A.	-	4	3	-	-
Nova Câmbio - Instituição de Pagamento, S.A.	18	-	23	-	-
Other key management elements	6	7	1	-	-
Residências Montepio, Serviços de Saúde, S.A.	10	-	15	12	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	6	-	-	-
	1 243	31 361	176	14 520	6 381

As at 31 December 2015, income and expenses of the Group with related parties, included in the balances Interest and similar income, Interest and similar expenses, Net commission and other income, Other operating income and General and administrative expenses, are analysed as follows:

(Thousands of Euro)

	Dec 2015				
Companies	Interest and similar income	Interest and similar expenses	Net commission and other income	Other operating income	General and administrative expenses
Clínica CUF de Belém, S.A.	-	-	2	-	-
Clínica de Serviços Médicos Computorizados de Belém, S.A.	1	-	-	-	-
Current Executive Board of Directors	-	19	-	-	-
Previous Executive Board of Directors	-	4	-	-	-
Current General and Supervisory Board	13	46	1	-	-
Previous General and Supervisory Board	4	13	-	-	-
Members of the Board of Directors from other related parties	2	11	2	-	-
Empresa Gestora de Imóveis da Rua do Prior S.A	-	2	2	-	-
Finibanco Vida – Companhia de Seguros de Vida, S.A.	-	74	29	-	-
Fundação Montepio Geral	-	1	-	-	-
Fundo de Pensões Montepio Geral	-	288	1	-	369
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	36	9	1	-
Germont – Empreendimentos Imobiliários, S.A.	410	-	-	-	-
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	55	-	-	-	-
Lestinvest, SGPS, S.A.	1 797	-	12	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	2 121	4 917	-	-
Lusitania, Companhia de Seguros, S.A.	14	440	3 391	621	-
Montepio Geral Associação Mutualista	-	73 907	5	33 312	16 535
Montepio Gestão de Activos – S.G.F.I., S.A.	-	25	5	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	2 482	2 441
Montepio Imóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	156	-	-	-	-
Montepio Seguros, SGPS, S.A.	-	-	48	-	-
N Seguros, S.A.	-	91	9	-	-
NovaCâmbios, Instituição de Pagamento, S.A.	74	-	111	1	-
Other key management elements	14	34	2	-	-
Residências Montepio, Serviços de Saúde, S.A.	21	-	37	30	-
SILVIP - Soc. Gestora Fundos Investimento Imobiliarios, S.A.	-	16	-	-	-
	2 561	77 128	8 583	36 447	19 345

Salaries and other costs with the Executive Board of Directors, with the General and Supervisory Board and Other key management personnel are detailed in note 11.

During the first half of 2016, as described in note 63, the following significant transactions with third parties were performed:

- Acquisition of Real Estate Property for own use from Montepio Geral Associação Mutualista, in the total amount of Euro 199,444 thousand, as described in note 30;

- Acquisition of subordinated and perpetual debt securities in the global amout of Euro 45,191 thousand, from Montepio Geral Associação Mutualista;

- Acquisition of 2,868,092 of investment fund units of the Finipredial Fund, in the total amount of Euro 24,738 thousand, from Montepio Geral Associação Mutualista; and

- Acquisition of 31,500,000 investment fund units of the Montepio Geral Associação Mutualista Participation Fund, in the global amount of Euro 18,302 thousand.

During the first half of 2016 and during 2015, there were no transactions with the pension's fund of the Group.

55 Securitisation transactions

As at 30 June 2016, there are nine securitisation transactions, eight 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, SGPS, S.A.) and transmission of almost all assets and liabilities for the Group, as described in note 1 a).

The following paragraphs present some additional details of these securitisation 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 650,000 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 29 September, 2003, Caixa Económica Montepio Geral had settled a securitisation operation with a Special Purpose Vehicle («SPV») – Pelican Mortgages no. 2 PLC, established in Dublin. The referred agreement consists in a mortgage credit transfer for a period of 33 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 700,000 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0286% 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 750,000 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 1,000,000 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 233,000 thousand (Aqua Mortgage 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 1,000,000 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 1,040,200 thousand. The sale was made at their nominal value with the cost of initial sale process represented 0.1083% of Assets Backed Note.

As at 7 May, 2014, Caixa Económica Montepio Geral and Montepio Crédito settled with Tagus – Sociedade de Titularização de Créditos, S.A. a contract for consumer credit transfer originated by itself for an operation of credit securitisation (Pelican Finance No. 1). The total period of this operation is 14 years, with an initial 18 months revolving period, amended to 42 months on November 2015 and an Aggregate Principal Amount Outstanding (APAO) of Euro 294,000 thousand. The sale was made at their nominal value, and the cost for the initial selling process represented 0.1871% of the 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 the 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 Credit Titularization Fund's Management Companies (Pelican Mortgages No. 1 PLC, Pelican Mortgages No. 2 PLC) and to Credit Titularization Companies (Pelican Mortgages No. 3, Pelican Mortgages No. 4, Pelican Mortgages No. 5, Pelican Mortgages No. 6 and Aqua Mortgages No. 1, Pelican Finance No. 1 and Pelican SME no.2). Montepio Crédito – Instituição Financeira de Crédito, S.A. provides the same functions for operation Pelican Finance No. 1.

As at 30 June 2016, the securitization transactions performed by the Group are as follows:

(Thousands of Euro)

Issue	Settlement date	Currency	Asset transferred	Credit Initial amount	Credit Current amount	Liabilities Initial amount	Liabilities Current amount
Pelican Mortgages No. 1	December 2002	Euro	Mortgage credit	653 250	52 148	653 250	41 203
Pelican Mortgages No. 2	September 2003	Euro	Mortgage credit	705 600	107 943	705 600	58 603
Pelican Mortgages No. 3	March 2007	Euro	Mortgage credit	762 375	262 851	762 375	127 886
Pelican Mortgages No. 4	May 2008	Euro	Mortgage credit	1 028 600	692 433	1 028 600	-
Aqua Mortgage No. 1	December 2008	Euro	Mortgage credit	236 500	146 094	236 500	-
Pelican Mortgages No. 5	March 2009	Euro	Mortgage credit	1 027 500	692 582	1 027 500	-
Pelican Mortgages No. 6	February 2012	Euro	Mortgage credit	1 107 000	892 073	1 107 000	4 572
Pelican Finance No. 1	May 2014	Euro	Consumer credit	308 700	292 368	308 700	-
Pelican SME No. 2	March 2015	Euro	Small companies	1 124 300	1 012 985	1 124 300	243 172
				6 953 825	4 151 477	6 953 825	475 436

At 31 December 2015, the securitization transactions made by the Group are as follows:

(Thousands of Euro)

Issue	Settlement date	Currency	Asset transferred	Credit Initial amount	Credit Current amount	Liabilities Initial amount	Liabilities Current amount
Pelican Mortgages No. 1	December 2002	Euro	Mortgage credit	653 250	55 538	653 250	43 234
Pelican Mortgages No. 2	September 2003	Euro	Mortgage credit	705 600	111 281	705 600	64 022
Pelican Mortgages No. 3	March 2007	Euro	Mortgage credit	762 375	275 641	762 375	134 130
Pelican Mortgages No. 4	May 2008	Euro	Mortgage credit	1 028 600	714 376	1 028 600	-
Aqua Mortgage No. 1	December 2008	Euro	Mortgage credit	236 500	153 294	236 500	-
Pelican Mortgages No. 5	March 2009	Euro	Mortgage credit	1 027 500	717 038	1 027 500	-
Pelican Mortgages No. 6	February 2012	Euro	Mortgage credit	1 107 000	914 815	1 107 000	4 352
Pelican Finance No. 1	May 2014	Euro	Consumer credit	308 700	291 298	308 700	-
Pelican SME No. 2	March 2015	Euro	Small companies	1 124 300	1 020 353	1 124 300	184 555
				6 953 825	4 253 634	6 953 825	430 293

Additionally, the detail of securitized loans not derecognised, by securitisation operation and nature of the contracts at 30 June 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	-	-	-	-	-	-	686 355	686 355
Pledged current account	-	-	-	-	-	-	155 172	155 172
Other credits	-	-	-	-	-	-	82 138	82 138
Private								
Mortgage	261 842	689 379	142 057	689 585	883 871	-	-	2 666 734
Consumer and other	-	-	-	-	-	289 602	76 232	365 834
	261 842	689 379	142 057	689 585	883 871	289 602	999 897	3 956 233
Credit and overdue interest								
Less than 90 days	142	623	603	360	1 601	493	1 530	5 352
More than 90 days	867	2 431	3 434	2 637	6 601	2 273	11 558	29 801
	1 009	3 054	4 037	2 997	8 202	2 766	13 088	35 153
	262 851	692 433	146 094	692 582	892 073	292 368	1 012 985	3 991 386

Additionally, the detail of securitized loans not derecognised, by securitisation operation and nature of the contracts at 31 December 2015, 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	-	-	-	-	-	-	664 074	664 074
Pledged current account	-	-	-	-	-	-	158 078	158 078
Other credits	-	-	-	-	-	8	108 218	108 226
Private								
Mortgage	274 602	711 137	149 604	714 842	908 047	-	-	2 758 232
Consumer and other	-	-	-	-	-	289 340	83 350	372 690
	274 602	711 137	149 604	714 842	908 047	289 348	1 013 720	4 061 300
Credit and overdue interest								
Less than 90 days	28	368	381	256	1 248	356	1 335	3 972
More than 90 days	1 011	2 871	3 309	1 940	5 520	1 594	5 298	21 543
	1 039	3 239	3 690	2 196	6 768	1 950	6 633	25 515
	275 641	714 376	153 294	717 038	914 815	291 298	1 020 353	4 086 815

As at 30 June 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	12 352 295	4 699 735	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 2	Class A	659 750 000	73 499 090	30 799 864	2036	AAA	Aaa	AAA	n.a.	A+	A1	A+	n.a.
	Class B	17 500 000	17 500 000	10 360 000	2036	AA+	A1	AA-	n.a.	A+	A1	A-	n.a.
	Class C	22 750 000	22 750 000	8 600 000	2036	A-	Baa2	BBB	n.a.	BBB+	Ba2	BB+	n.a.
	Class D	5 600 000	5 600 000	5 600 000	2036	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	260 265 950	126 212 701	2054	AAA	Aaa	AAA	n.a.	BBB+	Baa3	BB+	n.a.
	Class B	14 250 000	6 719 698	6 719 698	2054	AA-	Aa2	AA-	n.a.	BBB-	B2	B-	n.a.
	Class C	12 000 000	5 658 693	5 658 693	2054	A	A3	A	n.a.	BB	Caa1	B-	n.a.
	Class D	6 375 000	3 006 181	3 006 181	2054	BBB	Baa3	BBB	n.a.	B	Caa3	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	561 384 441	561 384 441	2056	AAA	n.a.	n.a.	AAA	A	n.a.	n.a.	A
	Class B	55 500 000	49 695 853	49 695 853	2056	AA	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	60 000 000	53 725 247	53 725 247	2056	A-	n.a.	n.a.	n.a.	BB	n.a.	n.a.	n.a.
	Class D	25 000 000	22 385 519	22 385 519	2056	BBB	n.a.	n.a.	n.a.	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	24 624 071	24 624 071	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.
Aqua Mortgage No 1	Class A	203 176 000	111 973 138	111 973 138	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 Mortgages No 5	Class A	750 000 000	494 125 730	494 125 730	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	173 061 188	173 061 188	2061	BBB-	n.a.	n.a.	n.a.	BBB+	n.a.	n.a.	n.a.
	Class C	27 500 000	24 406 065	24 406 065	2061	B	n.a.	n.a.	n.a.	BB+	n.a.	n.a.	n.a.
	Class D	27 500 000	24 406 065	24 406 065	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	620 579 757	620 579 757	2063	A	n.a.	A-	AA	A+	n.a.	A-	AA
	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.
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	545 900 000	2043	A+	n.a.	n.a.	A (lo)	A+	n.a.	n.a.	A (lo)
	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 2015, 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	12 352 295	4 699 735	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 2	Class A	659 750 000	73 499 090	30 799 864	2036	AAA	Aaa	AAA	n.a.	A+	A1	A+	n.a.
	Class B	17 500 000	17 500 000	10 360 000	2036	AA+	A1	AA-	n.a.	A+	A1	A-	n.a.
	Class C	22 750 000	22 750 000	8 600 000	2036	A-	Baa2	BBB	n.a.	BBB+	Ba2	BB+	n.a.
	Class D	5 600 000	5 600 000	5 600 000	2036	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	260 265 950	126 212 701	2054	AAA	Aaa	AAA	n.a.	BBB+	Baa3	BB+	n.a.
	Class B	14 250 000	6 719 698	6 719 698	2054	AA-	Aa2	AA-	n.a.	BBB-	B2	B-	n.a.
	Class C	12 000 000	5 658 693	5 658 693	2054	A	A3	A	n.a.	BB	Caa1	B-	n.a.
	Class D	6 375 000	3 006 181	3 006 181	2054	BBB	Baa3	BBB	n.a.	B	Caa3	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	561 384 441	561 384 441	2056	AAA	n.a.	n.a.	AAA	A	n.a.	n.a.	A
	Class B	55 500 000	49 695 853	49 695 853	2056	AA	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	60 000 000	53 725 247	53 725 247	2056	A-	n.a.	n.a.	n.a.	BB	n.a.	n.a.	n.a.
	Class D	25 000 000	22 385 519	22 385 519	2056	BBB	n.a.	n.a.	n.a.	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	24 624 071	24 624 071	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.
Aqua Mortgage No 1	Class A	203 176 000	111 973 138	111 973 138	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 Mortgages No 5	Class A	750 000 000	494 125 730	494 125 730	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	173 061 188	173 061 188	2061	BBB-	n.a.	n.a.	n.a.	BBB+	n.a.	n.a.	n.a.
	Class C	27 500 000	24 406 065	24 406 065	2061	B	n.a.	n.a.	n.a.	BB+	n.a.	n.a.	n.a.
	Class D	27 500 000	24 406 065	24 406 065	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	620 579 757	620 579 757	2063	A	n.a.	A-	AA	A+	n.a.	A-	AA
	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.
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	545 900 000	2043	A+	n.a.	n.a.	A (lo)	A+	n.a.	n.a.	A (lo)
	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.

56 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 correspond to the segments used for management purposes by the Executive Board of Directors. The Group develops banking activities and financial services in Portugal and abroad, with a special focus in Retail Banking, Corporate and Institutional Banking businesses.

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

Products and services include the entire offer implicit to financial activity, such as deposit captation, credit concession and financial services to companies and private and also the custody, the managing investment funds and life insurances. Additionally, the Group executes short 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 2016, the Group had a network of 333 branches in Portugal and a local bank in Cabo Verde, one financial institution in Angola with 21 branches and one financial institution in Mozambique with 9 branches.

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

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

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

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

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

Segments description

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

Retail Bank

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

In Angola, Mozambique and Cabo Verde the Group is represented by local financial institutions which offer 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 are also included the impacts of the strategic decisions, the investments in minority strategic participations, the activity related to interest and exchange rate risk management, management of short and long positions of financial investments which favourites the changes in market prices, and the public or private preparation and availability of the issue of stocks, bonds and other debt instruments.

Allocation criteria of the activity and results to the operating segments

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

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

Measurement of profit or loss from operating segments

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

Autonomous Operating Segments

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

Group structures dedicated to the segment

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

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

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

Non-current assets

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

Post Employment Benefits

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

Domestic and International Areas

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

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

The report by operating segments as at 30 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: Other operating segments	Total
Interest and similar income	139 013	47 507	66 747	-	31 297	284 564
Interest and similar expense	75 201	14 156	52 354	-	15 558	157 269
Net interest income	63 812	33 351	14 393	-	15 739	127 295
Dividends from equity instruments	-	-	2 711	-	-	2 711
Fees and commissions income	50 394	11 673	2 760	-	1 339	66 166
Fees and commissions expense	(173)	-	(2 270)	-	(14 387)	(16 830)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	(22)	-	(29 078)	-	22	(29 078)
Net gains/(losses) arising from financial assets available for sale	-	-	40 204	-	-	40 204
Net gains arising from foreign exchange differences	8 310	-	1 659	-	-	9 969
Net gains/(losses) arising from sale of other financial assets	13 455	-	1 490	(1 893)	(819)	12 233
Other operating income	10 024	573	333	(12 950)	(16 357)	(18 377)
Total operating income	145 800	45 597	32 202	(14 843)	(14 463)	194 293
Staff costs	54 128	9 762	1 061	664	64 609	130 224
General and administrative expenses	35 949	12 933	923	953	1 570	52 328
Depreciation and amortisation	1 176	-	-	-	12 218	13 394
	91 253	22 695	1 984	1 617	78 397	195 946
Total provisions and impairment	66 562	23 228	38 022	9 668	(4 526)	132 954
Total operating profit	(12 015)	(326)	(7 804)	(26 128)	(88 334)	(134 607)
Share of profits of associates under equity method	-	-	-	-	19	19
Income before taxes and non-controlling interests	(12 015)	(326)	(7 804)	(26 128)	(88 315)	(134 588)
Current and deferred taxes	4 564	96	2 302	7 708	53 402	68 072
Non-controlling interests	(1 111)	-	-	-	-	(1 111)
Consolidated net profit for the period attributable to the institutional capital and the participation fund holders	(8 562)	(230)	(5 502)	(18 420)	(34 913)	(67 627)
Net assets	11 550 704	3 419 000	3 635 295	1 366 530	1 412 399	21 383 928
Liabilities	10 673 819	1 576 000	2 431 188	-	5 137 649	19 818 656
Investment in associates	-	-	3 847	-	-	3 847

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

(Thousands of Euro)

Income Statement	Retail	Corporate and Institutional	Markets	Other segments: Non core assets (Real estate)	Other segments: Other operating segments	Total
Interest and similar income	142 667	109 167	85 614	-	11 581	349 029
Interest and similar expense	104 237	29 757	63 256	-	25 757	223 007
Net interest income	38 430	79 410	22 358	-	(14 176)	126 022
Dividends from equity instruments	-	-	1 400	-	-	1 400
Fees and commissions income	48 455	11 440	3 052	-	2 713	65 660
Fees and commissions expense	-	-	(2 410)	-	(14 054)	(16 464)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	-	-	11 199	-	-	11 199
Net gains/(losses) arising from financial assets available for sale	-	-	83 418	-	-	83 418
Net gains arising from foreign exchange differences	-	-	7 239	-	-	7 239
Net gains/(losses) arising from sale of other financial assets	-	-	-	(11 787)	3 966	(7 821)
Other operating income	8 196	423	(4 252)	(2 696)	13 096	14 767
Total operating income	95 081	91 273	122 004	(14 483)	(8 455)	285 420
Staff costs	52 762	9 908	1 136	560	37 473	101 839
General and administrative expenses	32 026	13 155	1 987	993	9 596	57 757
Depreciation and amortisation	-	-	-	-	13 846	13 846
	84 788	23 063	3 123	1 553	60 915	173 442
Total provisions and impairment	44 259	107 027	10 667	7 791	(4 600)	165 144
Total operating profit	(33 966)	(38 817)	108 214	(23 827)	(64 770)	(53 166)
Share of profits of associates under equity method	-	-	-	-	(4 116)	(4 116)
Income before taxes and non-controlling interests	(33 966)	(38 817)	108 214	(23 827)	(68 886)	(57 282)
Current and deferred taxes	10 020	11 451	(31 923)	7 029	31 311	27 888
Non-controlling interests	485	-	-	-	-	485
Consolidated net profit for the period attributable to the institutional capital and the participation fund holders	(23 461)	(27 366)	76 291	(16 798)	(37 575)	(28 909)
Net assets	8 771 812	6 148 343	3 726 736	1 593 721	1 906 233	22 146 845
Liabilities	9 799 261	3 371 400	2 283 545	-	5 202 338	20 656 544
Investment in associates	-	-	20 749	-	-	20 749

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

(Thousands of Euro)

Income Statement	Domestic	International	Total
Interest and similar income	255 242	29 322	284 564
Interest and similar expense	143 958	13 311	157 269
Net interest income	111 284	16 011	127 295
Dividends from equity instruments	2 711	-	2 711
Fees and commissions income	62 874	3 292	66 166
Fees and commissions expense	(16 657)	(173)	(16 830)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	(29 056)	(22)	(29 078)
Net gains/(losses) arising from financial assets available for sale	40 204	-	40 204
Net gains arising from foreign exchange differences	1 659	8 310	9 969
Net gains from sale of other financial assets	12 233	-	12 233
Other operating income	(19 111)	734	(18 377)
Total operating income	166 141	28 152	194 293
Staff costs	124 898	5 326	130 224
General and administrative expenses	46 100	6 228	52 328
Depreciation and amortisation	12 218	1 176	13 394
	183 216	12 730	195 946
Loans impairment	85 779	7 358	93 137
Other financial assets impairment	38 056	4	38 060
Other assets impairment	12 726	-	12 726
Other provisions	(11 815)	846	(10 969)
Total operating profit	(141 821)	7 214	(134 607)
Share of profits of associates under equity method	19	-	19
Income before taxes and non-controlling interests	(141 802)	7 214	(134 588)
Current taxes	(2 593)	(1 109)	(3 702)
Deferred taxes	71 774	-	71 774
Non-controlling interests	-	1 111	1 111
Consolidated net profit for the period attributable to the institutional capital and the participation fund holders	(72 621)	4 994	(67 627)

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

(Thousands of Euro)

Statement of Financial Position	Domestic	International	Total
Cash and deposits at credit institutions	401 160	378 815	779 975
Loans and advances to customers	14 152 256	240 020	14 392 276
Investments in financial assets and associated companies	3 493 258	145 884	3 639 142
Non-current assets held-for-sale	725 947	615	726 562
Investment properties	639 968	-	639 968
Other assets	1 160 635	45 370	1 206 005
Total Assets	20 573 224	810 704	21 383 928
Deposits from central banks and credit institutions	4 372 749	28 530	4 401 279
Deposits from customers	12 042 351	646 572	12 688 923
Debt securities and subordinated liabilities issued	1 945 613	27 318	1 972 931
Other liabilities	741 124	14 399	755 523
Total Liabilities	19 101 837	716 819	19 818 656
Total Equity	1 471 387	93 885	1 565 272
Total Liabilities and Equity	20 573 224	810 704	21 383 928

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

(Thousands of Euro)

Income Statement	**Domestic**	**International**	**Total**
Interest and similar income	310 441	38 588	349 029
Interest and similar expense	200 989	22 018	223 007
Net interest income	109 452	16 570	126 022
Dividends from equity instruments	1 400	-	1 400
Fees and commissions income	61 855	3 805	65 660
Fees and commissions expense	(16 291)	(173)	(16 464)
Net gains/(losses) arising from assets and liabilities at fair value through profit and loss	10 367	832	11 199
Net gains/(losses) arising from financial assets available for sale	83 418	-	83 418
Net gains arising from foreign exchange differences	1 285	5 954	7 239
Net gains from sale of other financial assets	(7 822)	1	(7 821)
Other operating income	14 800	(33)	14 767
Total operating income	258 464	26 956	285 420
Staff costs	95 350	6 489	101 839
General and administrative expenses	50 616	7 141	57 757
Depreciation and amortisation	12 432	1 414	13 846
	158 398	15 044	173 442
Loans impairment	144 150	7 136	151 286
Other financial assets impairment	10 667	-	10 667
Other assets impairment	8 484	(67)	8 417
Other provisions	(5 149)	(77)	(5 226)
Total operating profit	(58 086)	4 920	(53 166)
Share of profits of associates under the equity method	(4 116)	-	(4 116)
Income before taxes and non-controlling interests	(62 202)	4 920	(57 282)
Current taxes	1 327	(1 109)	218
Deferred taxes	27 670	-	27 670
Non-controlling interests	-	(485)	(485)
Consolidated net profit for the period attributable to the institutional capital and the participation fund holders	(33 205)	4 296	(28 909)

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

(Thousands of Euro)

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

57 Risk management

General Risk Profile

The risk appetite is based on certain principles – namely strength, sustainability and profitability – and defined according to the strategic plan and positioning in the intended market. CEMG Group analyses the risks of its activities and identifies the material ones. For these, are set objectives according to the desired level of return and strategy, tolerance levels, (the risk ranges that can lead to discussions and decisions on corrective measures) and limits, which, if exceeded, may originate immediate corrective measures.

The main concern of the Executive Board of Directors (EBD) in the definition of risk appetite is its alignment with other organisational components (business strategy and global vectors of risk strategy). Additionally, EBD intends to ensure that the risk appetite is well understood throughout the organisation, especially by the business units responsible for decision making, which may affect the risk exposure and its monitoring.

The EBD determines the maintenance of solid balance sheet ratios through a strong capital position and a stable and secure liquidity profile, which allow to address stress situations. EBD intends to ensure sufficient capital to meet regulatory needs, to cover potential losses, with an optimized balance structure to maintain a stable funding capacity and strong liquidity reserves, limiting the risk of potential liquidity problems and ensuring the continuity of its operations without the intervention of supervisory entities, and the protection of its depositors and non subordinated debt holders.

In particular, CEMG has clear objectives, established in its strategic plan for the capital ratios, deposit transformation ratio in credit and liquidity coverage ratio (LCR), as well as a model of viable and sustainable business in line with the risk appetite.

Strategies and processes

CEMG Group is subject to several risks during the course of its business. The risk management of the CEMG Group’s companies is carried out centrally in coordination with the local departments and considering the specific risks of each business.

The Group'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 and operational – to which the Group's business is subject are of particular importance.

The EBD is responsible for the overall management of CEMG Group’s risks, defining the tolerance levels and the maximum risk limits that they are willing to globally assume, for each specific risk considered as materially significant, according to the strategic objectives and defined business plans. This policy is reviewed on a regular basis, depending on the results achieved and the levels specified for indicators and risk limits.

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 different types of risk, progressively adopting consistent methodologies and principles;
- Continuous contribution to improve the support tools of transactions' structuring and development of internal techniques to assess performance and optimization of the capital base; and
- Monitoring of CEMG internationalisation strategy, collaborating in the design of organizational solutions and monitoring and reporting of the risk assumed by the different international units.

Structure and organization

The EBD, 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.

Were constituted Support Committees to the EBD, which are dependent structures of the EBD, being as forums for discussion and support decision-making, through the formulation of proposals and recommendations to the EBD, 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 EBD, in order to update the CEMG's risk profile, setting limits for risk-taking, management of liquidity and equity positions, the adoption of recovery measures, taking into account the activity expansion 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 EBD 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 EBD 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, to elaborate proposals or recommendations to the EBD 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 in force at the time and to the regulatory framework.

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. Additionally, CEMG integrates the Futuro Investment Committee, which is the body that takes management decisions about the Pension Fund of Montepio.

The Real Estate Risk Committee monitors the management of property risk by elaborate proposals or issuing recommendations to the EBD in order to promote an optimized management of property risk in line with the defined objectives.

The Department of Risk ("DRI") is responsible for supporting the EBD in making decisions related to the management of different types of risk inherent to the business, within the Group.

DRI ensures the analysis and management of the Market, Liquidity, Interest Rate, Credit, Real Estate and operational risks, providing advice to EBD, 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 EBD.

DRI equally assures the following of a set of prudential reports to the supervision authority, particularly with the own funds requisites, control of high risks and related parts funding, liquidity risk, interest rate risk, country risk, counterparty risk, self-valuation of Equity's adequacy, Market Discipline, Recovery Plan and Resolving Plan.

Additionally, for credit risk management, Credit Analysis Department ("DAC") ensures the assessment of credit proposals from companies and individuals.

The Internal Auditing function is ensured by the Internal Audit Department ("DAI") and integrates the internal control monitorisation 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.

DAI 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 (Independent Review Function) 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 is performed by the Compliance Office that reports directly to the Executive Board of Directors, and 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 banking practices.

The compliance risk is mitigated by encouraging a culture of compliance, fostering 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 to define the procedures and mechanisms of compliance control, and their monitoring, reporting immediately to the Executive Board of Directors information about any possible violation of statutory obligations, rules of conduct and client relationship or other duties that can lead the institution or the employees in penalties.

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.

Risk Measurement Systems

CEMG Group is exposed to several risks – equity, credit, concentration, market, interest rate, liquidity, real estate and operational. All the risks identified as materials are subject to regular monitoring and mitigation measures, in order to reduce potential losses to CEMG Group. The monitoring of these risks is centralized in the DRI, which informs the EBD of its development and suggests action measures when needed.

Equity risk

Equity risk is the possibility of occurrence of potential unexpected losses that compromise the ability of the institution to meet the capital requirements established by prudential regulation. In this context, the objective of CEMG Group is to maintain a sufficient level of capital which allows to obtain equity ratios at least equal to prudent limits and which can provide a strong resilience against adverse scenarios, allowing to cover unexpected losses and maintain the institution in the market, in sustainable and competitive conditions.

With this objective, CEMG establishes metrics to control this risk, such as prudential equity ratios CET1, Tier 1 and Total Equity and the leverage ratio, on an individual and consolidated basis and in phasing-in and full implementation. Additionally, internal equity ratios (Pillar II) obtained in the ICAAP, in a baseline scenario and in stress scenarios are also analysed.

For these ratios there is a monthly control in order to take corrective measures, in case of depart from the objectives and limits.

Credit risk

Credit risk is associated with the uncertainty degree of expected returns, disability either of the borrower (and its guarantor, if any) or of the issuer of a security or the counterparty of a contract to comply with their obligations.

The fundamental principle of credit risk analysis is the independence from business decisions, with direct reporting to EBD. In this analysis are used instruments and established rules, according to the materiality of the exposure, familiarity with the types of risk involved (e.g. modeling capacity of those 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 analytical methodologies, under the credit risk, the techniques and risk control models are based on econometric modeling, according to the experience of the institution in granting various types of credit and also, whenever possible, in terms of 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, distinguishing construction sector and third sector from the other activity sectors, while for customers «Empresários em nome individual» and micro business is applied the scoring model business.

The internal rating models classify companies in 7 classes: 6 in performing risk classes and 1 in default.

The reactive scoring model of mortgages loans has a scale that includes 8 classes and the individual credit incorporates 10 classes for each of those portfolios, aggregating in both cases customers and non-customers. The reactive credit card scoring classifies credit proposals in 4 classes of risk.

The principle of involvement of credit risk analysis is based on the materiality of transactions. There are limits established for companies, by transaction amounts, risk classification and overall exposure, to the mandatory opinion by independent credit analysts of business decision.

Opinions include the exposure limit assigned to the term of the transaction, considering the ability of cash flow generation by the company and its financial charges.

The strategies implemented in the institution's risk management consider the capital requirements associated with the transactions, by defining the decision rules and credit pricing.

The pricing of active operations reflects their expected loss, as well as the cost of debt capital and equity and also administrative costs. The quantification of that expected loss, consider the marginal probabilities of default for the term of the transaction, associated with internal classes of risk and the severity of the loss, quantified through market estimates, considering the types of credit and collaterals. The pricing reflects also the level of business relationship with customers.

The override of the response of scoring systems, internal ratings and internal pricing tables is allowed, only by higher decision levels, in accordance with established principles of delegation of competences. Rejection situations are defined in order to minimize the risk of adverse selection and there is always, at least, one risk of rejection class.

Credit rejections are thus determined by the occurrence of credit events in the financial system, breach of credit rules (e.g. effort rate) and where the incorporation of risk in pricing significantly aggravate the risk of adverse selection.

There are also defined limits of intervention of several levels of decision-making, by transaction amount and global exposure of client, type of transaction/collateral and pricing/ROE (Return on Equity). In this context, we highlight the principle that the highest hierarchical levels are empowered to approve transactions with lower ROE adjusted risk or larger exposures. These limits are approved by the EBD, and the level of highest decision corresponds to the EBD, which exercises this power in the Credit Committee. This Board includes the first line directors responsible for the Commercial Divisions and DRI.

The risk analysis also involves regular internal reporting on the major types of risk, to the EBD and to the business areas involved. Within the credit risk, there are internal reports prepared in a monthly basis, with the main risk indicators of credit portfolios and metrics on the use of rating/scoring models. In terms of preventive monitoring, there are an early warning system for the key indicators of deterioration of credit risk, as well as watchlist monitoring of the largest exposures of corporate loans portfolio. It is also prepared a weekly report of risk exposure to Counterparties.

The Group's credit risk exposure can be analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Deposits with other credit institutions	239 798	238 007
Deposits with banks	165 967	172 044
Loans and advances to customers	14 392 276	14 662 277
Financial assets held for trading	27 281	43 730
Financial assets available for sale	1 752 095	2 509 707
Hedging derivatives	-	9
Held-to-maturity investments	1 267 975	161 540
Investments in associated companies and others	3 847	3 908
Other assets	364 917	314 404
Guarantees	440 694	444 669
Open documentary credits	54 818	55 475
Irrevocable credit lines	509 875	628 956
Credit default swaps (notionals)	75 000	85 000
	19 294 543	19 319 726

The credit risk exposure by sector of activity, as at 30 June 2016, can be analysed as follows:

(Thousands of Euro)

Activity sector	Jun 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	Book value	Book value
Agriculture	178 978	(13 499)	-	-	-	-	863	(27)
Mining	18 229	(1 785)	-	-	-	-	1 667	(74)
Food, beverage and tobacco	254 646	(15 734)	-	-	-	-	2 829	(214)
Textiles	92 006	(9 568)	-	-	-	-	1 516	(25)
Shoes	48 230	(3 621)	-	-	-	-	658	(30)
Wood and cork	39 771	(4 884)	-	-	-	-	798	(33)
Printing and publishing	105 799	(7 538)	-	-	-	-	442	(53)
Petroleum refining	366	(39)	-	-	-	-	-	-
Chemicals and rubber	128 523	(12 806)	-	25 345	-	-	3 078	(104)
Non-metallic minerals	136 790	(4 974)	-	-	-	-	2 238	(290)
Basis metallurgic industries and metallic products	181 488	(19 881)	-	-	-	-	5 740	(175)
Production of machinery	42 410	(3 024)	-	-	-	-	765	(67)
Production of transport material	37 973	(1 573)	-	-	-	-	4 729	(169)
Other transforming industries	82 402	(9 963)	-	-	-	-	6 272	(81)
Electricity, gas and water	131 819	(875)	-	11 836	-	-	977	(57)
Construction	1 372 497	(341 008)	-	998	(998)	-	132 776	(4 977)
Wholesale and retail	1 317 200	(161 072)	-	8 030	-	-	65 449	(2 867)
Tourism	451 819	(29 639)	-	-	-	-	9 816	(314)
Transports	394 577	(49 798)	-	-	-	-	9 077	(1 103)
Communication and information activities	105 990	(7 928)	-	45 080	(31 925)	-	25 548	(147)
Financial activities	823 304	(99 253)	16 368	124 783	(8 647)	-	119 285	(1 273)
Real estate activities	702 822	(135 697)	-	-	-	-	14 837	(999)
Services provided to companies	732 378	(52 467)	-	-	-	-	71 092	(470)
Public services	138 748	(3 955)	10 913	1 541 822	(7 092)	1 267 975	462	(17)
Other activities of collective services	471 660	(25 832)	-	-	-	-	7 432	(503)
Mortgage loans	7 358 638	(170 593)	-	33 044	(25 800)	-	6 436	(152)
Other	250 086	(19 867)	-	35 619	-	-	730	(16)
Total	15 599 149	(1 206 873)	27 281	1 826 557	(74 462)	1 267 975	495 512	(14 237)

The credit risk exposure by sector of activity, for the period ended in 2015, can be analysed as follows:

(Thousands of Euro)

Activity sector	Dec 2015							
	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	Book value	Book value
Agriculture	176 948	(6 784)	-	2 138	-	-	2 355	(34)
Mining	19 790	(3 399)	-	-	-	-	1 692	(209)
Food, beverage and tobacco	246 369	(15 214)	-	981	-	-	2 732	(184)
Textiles	91 314	(9 424)	-	-	-	-	2 327	(41)
Shoes	45 604	(4 221)	-	-	-	-	489	(13)
Wood and cork	44 978	(7 751)	-	-	-	-	1 115	(43)
Printing and publishing	106 894	(9 259)	-	-	-	-	437	(62)
Petroleum refining	398	(38)	-	14 011	-	-	-	-
Chemicals and rubber	136 135	(12 465)	-	-	-	-	2 533	(108)
Non-metallic minerals	132 221	(4 784)	-	-	-	-	6 144	(501)
Basis metallurgic industries and metallic products	170 454	(21 329)	-	-	-	-	9 051	(620)
Production of machinery	40 332	(2 905)	-	-	-	-	871	(115)
Production of transport material	38 198	(1 644)	-	1 083	-	-	678	(66)
Other transforming industries	82 473	(6 590)	-	-	-	-	8 752	(111)
Electricity, gas and water	135 368	(790)	-	30 544	-	-	998	(36)
Construction	1 459 798	(335 042)	-	998	(998)		160 373	(11 367)
Wholesale and retail	1 324 939	(167 416)	-	7 064	-	-	66 023	(3 414)
Tourism	411 508	(25 040)	-	-	-	-	8 021	(451)
Transports	461 671	(67 449)	-	-	-	-	9 762	(1 187)
Communication and information activities	81 205	(7 144)	-	22 675	-	-	3 521	(192)
Financial activities	1 055 989	(116 106)	31 295	127 473	(10 353)	-	93 003	(1 139)
Real estate activities	671 082	(135 137)	-	-	-	-	14 866	(1 050)
Services provided to companies	599 857	(43 489)	-	-	-	-	80 063	(448)
Public services	137 932	(2 714)	12 435	2 275 879	(7 343)	161 540	1 158	(18)
Other activities of collective services	476 972	(23 295)	-	-	-	-	7 790	(833)
Mortgage loans	7 548 270	(224 823)	-	39 518	-	-	4 446	(329)
Other	247 316	(4 902)	-	31 837	(25 800)	-	10 944	(11)
Total	15 944 015	(1 259 156)	43 730	2 554 201	(44 494)	161 540	500 144	(22 582)

With regard to credit risk, the financial assets portfolio predominantly maintains its position in bonds of sovereign issuers, mainly from Portuguese Republic.

With regard to credit derivatives, the Group held, as at 30 June 2016, a short position of credit default swaps of Euro 75 million, nominal value (31 December 2015: Euro 85 million – nominal value).

Regarding the level of credit quality of debt securities, the major changes were the result of exposure to Portugal, partly attenuated by the decrease of exposure of sovereigns Italy and Spain:

(Thousands of Euro)

Rating	Jun 2016		Dec 2015		Change	
	Value	%	Value	%	Value	%
AAA	9 133	0.3	-	-	9 133	(100.0)
AA+	2 125	0.1	-	-	2 125	-
AA	1 546	0.1	2 629	0.1	(1 083)	(41.2)
AA-	1 022	-	4 392	0.2	(3 370)	(76.7)
A+	5 665	0.2	2 696	0.1	2 969	110.1
A	55 488	1.8	56 718	2.1	(1 230)	(2.2)
A-	30 190	1.0	44 845	1.7	(14 655)	(32.7)
BBB+	87 026	2.9	628 206	23.4	(541 180)	(86.1)
BBB	86 035	2.8	648 967	24.2	(562 932)	(86.7)
BBB-	23 752	0.8	30 152	1.1	(6 400)	(21.2)
BB+	2 515 978	83.0	1 048 980	39.1	1 466 998	139.8
BB	-	-	24 391	0.9	(24 391)	(100.0)
BB-	-	-	-	-	-	-
B+	144 292	4.8	135 359	5.0	8 933	6.6
B	-	-	3 837	0.1	(3 837)	(100.0)
B-	-	-	-	-	-	-
CCC+	3 557	0.1	-	-	3 557	-
CCC	11 149	0.4	11 169	0.4	(20)	(0.2)
CCC-	-	-	-	-	-	-
C	8 007	0.3	-	-	8 007	-
NR	46 018	1.4	41 341	1.6	4 677	11.3
Total	3 030 983	100.0	2 683 682	100.0	347 301	12.9

Note: excludes securities arising from own securitisations belonging to the consolidation perimeter.

Concentration risk

In order to minimize the concentration risk, CEMG Group seeks to diversify as much as possible, its activity areas and sources of income as well as diversify their exposures and financing sources.

Concentration risk is analysed at the level of individual concentration and sector concentration, in order to reflect any diversification shortcomings.

The concentration risk management is centrally performed by DRI, with regular monitoring of the levels of concentration. In particular, the level of concentration of the largest depositors and, regarding the credit portfolio, the degree of regional diversification, the level of individual concentration and the degree of sectorial diversification of the corporate portfolio are monitored regularly by DRI.

There are established maximum exposure limits established per customer/group of related customers, for each entity of the CEMG Group, as well as limits on the concentration of the largest depositors. Exceeding any of these limits, even if temporarily, requires the approval of the EBD.

Market Risk

Market risk reflects the potential loss that may be incurred by a particular portfolio as a result of rate changes (interest and exchange rates) and/or of prices of the several financial instruments that compose it, considering both the existing correlations between them and their volatilities.

Concerning market risk information and 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 also defined using the "VaR" method. There are also different exposure limits such as global "VaR" limits, by issuer, by asset type/class and quality credit rate (rating). There are also limits of Stop Loss and Trigger Loss to the positions held for negotiation and available for sale. Investment portfolio is mainly concentrated in bonds, which as at 30 June 2016 represented 75.1% (31 December 2015: 81.8%) of the total's portfolio.

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.

The following table presents the main indicators of these measures for trading portfolio:

	Jun 2016	Average	Minimum	Maximum
Market VaR	555	688	528	1 285
Interest rate risk	483	496	520	496
Exchange risk	77	106	163	95
Price risk	288	372	226	964
Diversification effect	(293)	(286)	(381)	(270)
Credit VaR	159	139	124	146
VaR Total	**714**	**827**	**652**	**1 431**

In the produced reports it is performed the control of the various exposure limits, analysing the risk of concentration, credit, interest rate and change in asset prices, among others. These analysis include scenario analysis, namely the sensitivities of the securities portfolio to interest rate changes, spreads, unfavourable exchange rate developments and changes in the market prices of shares and real estate.

Within the market risk, in addition to the report of the CEMG's portfolio global risk, specific risk reports for the trading portfolio and to the portfolios of assets available for sale and monthly reports of the Pension funds portfolios are also performed.

The assessment of interest rate risk caused by banking portfolio operations is performed by sensitivity analysis to the risk at the consolidated level for the entities that comprise the consolidated balance sheet of the Group.

The risk of interest rate is measured according to the impacts on the net interest income, in net position and equity, caused by changes in market interest rates. The main risk factors derive from periods of mismatch for re-fixing rates and/or residual maturities between assets and liabilities (repricing risk), from non-parallel changes in interest rate curves (yield curve risk), from the lack of perfect correlation between different indexes with the same repricing period (basis risk) and from options associated to instruments that allow a diverse action of the actors dependent on the level of contracted and practiced rates (option risk).

Based on the financial characteristics of each contract, the respective projection of expected cash flows is made, according to the dates of rate reset and behavioural assumptions considered.

Aggregation for each analysed currency, of expected cash flows in each one of the time intervals allows to determine the gaps of interest rate by repricing period.

Following the recommendations of Basel and Instruction of Bank of Portugal No. 19/2005, from 15 June, the Group calculates its exposure to interest rate risk based on the methodology of the Bank of International Settlements («BIS») which requires the classification of non-trading balances and off balance positions by repricing intervals.

(Thousands of Euro)

	Within 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years
30 June 2016					
Assets	8 785 016	3 697 322	250 739	1 831 198	2 052 922
Off balance sheet	8 022 062	74 308	129 694	96 976	-
Total	16 807 078	3 771 630	380 433	1 928 174	2 052 922
Liabilities	5 122 877	1 633 489	2 365 031	8 930 455	302 365
Off balance sheet	8 071 022	102 861	31 294	117 864	-
Total	13 193 899	1 736 350	2 396 325	9 048 319	302 365
GAP (Assets - Liabilities)	3 613 179	2 035 280	(2 015 892)	(7 120 145)	1 750 557
31 December 2015					
Assets	9 516 898	3 878 544	391 417	1 684 343	1 499 154
Off balance sheet	8 217 800	18 502	67 556	141 297	-
Total	17 734 698	3 897 046	458 973	1 825 640	1 499 154
Liabilities	5 178 793	2 232 291	2 227 600	8 334 392	307 270
Off balance sheet	8 227 811	98 735	20 000	98 429	-
Total	13 406 604	2 331 026	2 247 600	8 432 821	307 270
GAP (Assets - Liabilities)	4 328 094	1 566 020	(1 788 627)	(6 607 181)	1 191 884

The gaps of interest rate during the six-month period ended at 30 June 2016 are presented as follows:

(Thousands of Euro)

	Jun 2016				Dec 2015			
	June	Average	Maximum	Minimum	December	Average	Maximum	Minimum
Interest rate Gap	(1 737 019)	(1 523 414)	(1 309 808)	(1 737 019)	(1 309 808)	(1 836 514)	(1 309 808)	(2 485 967)

Sensitivity to the balance sheet's interest rate risk, by currency, 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 2016, based on the interest rate gaps observed, an instantaneous positive variation in the interest rates by 100 bp would cause a decrease in the income statement in Euro 8,115 thousand (31 December 2015: increase of Euro 16,662 thousand).

The following table presents the average interests, in relation to the Group major assets and liabilities categories for the period ended at 30 June 2016 and for the period ended at 31 December 2015, as well as the average balances and income and expense for the period:

(Thousands of Euro)

Products	Jun 2016			Dec 2015		
	Average balance for the period	Average interest rate (%)	Income / Expense	Average balance for the period	Average interest rate (%)	Income / Expense
Assets						
Loans and advances to customers	15 724 374	2.73	213 656	16 228 378	2.93	476 115
Deposits	201 213	-	5	231 540	0.01	14
Securities portfolio	3 367 727	1.78	29 740	3 508 556	2.08	73 093
Interbank loans and advances	159 536	1.39	1 101	289 462	0.63	1 820
Swaps	-		37 007	-		87 238
Total Assets	19 452 850		281 509	20 257 936		638 280
Liabilities						
Deposits from customers	12 506 139	1.31	81 603	13 359 225	1.73	231 341
Securities deposits	2 650 174	2.37	31 244	2 719 642	2.82	76 804
Interbank deposits	4 361 477	0.27	5 774	4 099 580	0.37	15 065
Other liabilities	2 156	0.84	9	1 682	0.00	-
Swaps	-		35 584	-		87 551
Total Liabilities	19 519 946		154 214	20 180 129		410 761

Regarding the currency risk, the procedure is the application of funds raised in various currencies through assets in the respective money market and for periods not exceeding those of the resources so the existing exchange gaps are mainly the result from possible mismatches between the timing of applications and resources, as well as the international business of CEMG, namely in Angola and Mozambique.

The breakdown of assets and liabilities, by currency, as at 30 June 2016 and 31 December 2015 is analysed as follows:

(Thousands of Euro)

	Jun 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	355 548	11 455	-	2 463	1 202	377	3 165	374 210
Loans and advances to credit institutions repayable on demand	171 839	17 498	47 051	21	747	-	2 642	239 798
Loans and advance to credit institutions	26 344	87 595	13 582	-	4 138	-	34 308	165 967
Loans and advances to customers	14 013 181	148 922	197 884	31 573	-	-	716	14 392 276
Financial assets held for trading	31 465	2 475	-	-	-	-	323	34 263
Financial assets available for sale	2 264 577	763	-	3 553	-	64 164	-	2 333 057
Held-to-maturity investments	1 124 855	143 120	-	-	-	-	-	1 267 975
Investments in associated companies and others	3 825	-	-	22	-	-	-	3 847
Non-current assets held for sale	725 948	-	-	614	-	-	-	726 562
Investment properties	639 968	-	-	-	-	-	-	639 968
Other tangible assets	242 008	-	34 449	1 011	-	-	-	277 468
Intangible assets	59 070	-	-	222	-	-	-	59 292
Current tax assets	23 151	-	-	330	-	-	-	23 481
Deferred tax assets	459 612	-	-	3 539	-	-	-	463 151
Other assets	374 726	613	5 204	1 257	329	-	484	382 613
Total Assets	**20 516 117**	**412 441**	**298 170**	**44 605**	**6 416**	**64 541**	**41 638**	**21 383 928**
Liabilities by currency								
Deposits from central banks	2 870 709	-	-	-	-	-	-	2 870 709
Deposits from other credit institutions	1 403 557	82 994	-	5 191	4 260	-	34 568	1 530 570
Deposits from customers	12 159 388	193 396	252 364	20 178	12 341	-	51 256	12 688 923
Debt securities issued	1 670 212	52 238	-	-	-	-	-	1 722 450
Financial liabilities associated to transferred assets	375 630	-	-	-	-	-	-	375 630
Financial liabilities held for trading	82 182	444	-	-	-	-	-	82 626
Non-current liabilities held for sale	26 313	-	958	306	-	-	-	27 577
Provisions	6 317	-	-	-	-	-	-	6 317
Other subordinated debt	222 982	27 499	-	-	-	-	-	250 481
Other liabilities	247 281	5 235	8 955	826	2	-	1 074	263 373
Total Liabilities	**19 064 571**	**361 806**	**262 277**	**26 501**	**16 603**	**-**	**86 898**	**19 818 656**
Exchange forward transactions	(7 515)	(53 852)	-	-	12 354	-	47 341	-
Exchange Gap	-	(415 658)	(262 277)	(26 501)	(4 249)	-	(39 557)	-
Stress Test	-	**1 194**	**(7 179)**	**(4 276)**	**(433)**	**(12 908)**	**3 914**	-

(Thousands of Euro)

	Dec 2015							
	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	403 480	9 111	-	4 250	1 246	7	6 356	424 450
Loans and advances to credit institutions repayable on de	127 214	51 674	54 612	21	2 055	-	2 431	238 007
Loans and advance to credit institutions	36 989	94 081	-	-	6 411	-	34 563	172 044
Loans and advances to customers	14 212 179	153 666	260 410	35 405	-	-	617	14 662 277
Financial assets held for trading	47 605	2 753	-	-	-	-	735	51 093
Financial assets available for sale	3 010 867	268	-	3 837	105	53 216	208	3 068 501
Hedging derivatives	9	-	-	-	-	-	-	9
Held-to-maturity investments	25 364	136 176	-	-	-	-	-	161 540
Investments in associated companies and others	3 879	-	-	29	-	-	-	3 908
Non-current assets held for sale	754 069	-	-	829	-	-	-	754 898
Investment properties	692 485	-	-	-	-	-	-	692 485
Other tangible assets	45 709	-	42 556	850	-	-	-	89 115
Intangible assets	65 381	-	-	481	-	-	-	65 862
Current tax assets	27 460	-	-	401	-	-	-	27 861
Deferred tax assets	398 732	-	-	4 774	-	-	-	403 506
Other assets	322 677	741	5 542	601	3	-	96	329 660
Total Assets	**20 174 099**	**448 470**	**363 120**	**51 478**	**9 820**	**53 223**	**45 006**	**21 145 216**
Liabilities by currency								
Deposits from central banks	2 277 258	-	-	-	-	-	-	2 277 258
Deposits from other credit institutions	1 404 775	103 611	18 040	5 454	6 562	-	34 689	1 573 131
Deposits from customers	12 366 258	218 494	298 772	20 200	16 742	-	48 965	12 969 431
Debt securities issued	1 976 396	54 769	-	-	-	-	-	2 031 165
Financial liabilities associated to transferred assets	323 037	-	-	-	-	-	-	323 037
Financial liabilities held for trading	69 813	476	-	-	-	-	-	70 289
Hedging derivatives	439	-	-	-	-	-	-	439
Provisions	15 693	-	521	373	-	-	-	16 587
Current tax liabilities	3 069	-	-	-	-	-	-	3 069
Other subordinated debt	304 924	28 115	-	-	-	-	-	333 039
Other liabilities	182 214	5 952	9 334	1 272	2 015	-	2 838	203 625
Total Liabilities	**18 923 876**	**411 417**	**326 667**	**27 299**	**25 319**	**-**	**86 492**	**19 801 070**
Exchange forward transactions		(29 609)	-	-	16 896	-	47 070	-
Exchange Gap		**7 444**	**36 453**	**24 179**	**1 397**	**53 223**	**5 584**	-
Stress Test		**(1 489)**	**(7 291)**	**(4 836)**	**(279)**	**(10 645)**	**(551)**	-

The result of the stress test performed corresponds to the estimate impact (before tax) in equity, including minority interests, due to a devaluation of 20% in exchange rate of each currency against Euro.

Regarding the risk of interest rate and risk exchange of the banking portfolio, there are established limits for exposure to these risks, which are monitored by ALCO. Any override of these limits, even if temporarily, requires the approval of EBD or application of hedge exposure measures.

Liquidity risk

Liquidity risk reflects the Group's inability to comply with their obligations at maturity, without incurring in significant losses resulting from the deterioration of funding conditions (funding risk) and/or sale of its assets below market rates (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 exposure limits are also defined. This control is reinforced with stress tests executed at a monthly basis, in order to characterize the risk profile of CEMG and ensure that the Group fulfils 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 prepared several reports for the purpose of control and monitoring and support to the decision taking in place of ALCO Committee.

The evolution of the liquidity situation is carried out 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) and Net Stable Funding Ratio (NSFR), and internal ratios, e.g. transformation of deposits in credit, concentration of funding sources, short-term financing and eligible assets.

There are established limits for various indicators of liquidity risk, which are monitored through weekly and monthly reports. The value of LCR, as at 30 June 2016 was 113.50% (31 December 2015: 111.36%).

As at 30 June 2016, Group financing was as follows:

(Millions of Euro)

Liabilities	Jun 2016	<1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	> 12 months
Deposits from central banks	2 870 709	920 709	-	-	-	-	1 950 000
Deposits from other credit institutions	1 530 570	386 718	-	144 814	-	72 363	926 675
Deposits from customers	12 688 923	4 629 295	1 304 605	1 482 438	1 066 895	1 202 001	3 003 689
Debt securities issued	1 722 450	-	4 200	326 500	97 550	264 700	1 029 500
Financial liabilities associated to transferred assets	375 630	-	-	-	-	-	375 630
Financial liabilities held for trading	82 626	-	-	-	-	-	82 626
Other subordinated debt	250 481	-	-	-	-	-	250 481
Other liabilities	263 266	-	-	-	-	-	263 266
Total liabilities	**19 784 655**	**5 936 722**	**1 308 805**	**1 953 752**	**1 164 445**	**1 539 064**	**7 881 867**

As at 31 December 2015, Group financing was as follows:

(Thousands of Euro)

Liabilities	Dec 2015	<1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	> 12 months
Deposits from central banks	2 277 300	551 300	-	-	-	-	1 726 000
Deposits from other credit institutions	1 573 100	160 800	40 000	180 200	-	144 800	1 047 300
Deposits from customers	12 969 400	4 335 700	1 690 300	1 940 300	1 165 400	947 300	2 890 400
Debt securities issued	2 031 300	17 100	25 800	45 800	19 800	326 500	1 596 300
Financial liabilities associated to transferred assets	323 000	-	-	-	-	-	323 000
Financial liabilities held for trading	70 300	-	-	-	-	-	70 300
Other subordinated debt	333 100	-	-	49 200	-	-	283 900
Other liabilities	203 600	-	-	26 100	-	-	177 500
Total liabilities	**19 781 100**	**5 064 900**	**1 756 100**	**2 241 600**	**1 185 200**	**1 418 600**	**8 114 700**

Within the instruction of Bank of Portugal No. 28/2014 from 15 January 2015, which focuses on the guidance of the European Banking Authority in relation to the disclosure of encumbered and unencumbered assets (EBA/GL/2014/3) and taking into consideration the recommendation by the European Systemic Risk Committee, we present the following information, as at 30 June 2016 and 31 December 2015, on the assets and collaterals:

(Thousands of Euro)

	Jun 2016			
Assets	**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	6 188 672	-	15 195 256	-
Equity instruments	-	-	587 943	1 160 366
Debt securities	1 656 672	1 634 424	1 981 790	3 319 912
Other assets	-	-	2 909 618	-

(Thousands of Euro)

	Dec 2015			
Assets	**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	1 190 357	-	19 954 859	-
Equity instruments	-	-	566 157	325 505
Debt securities	1 126 434	1 106 022	2 211 878	3 534 847
Other assets	-	-	2 765 830	-

(Thousands of Euro)

Collateral received	Jun 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	**81 114**	**-**
Equity instruments	-	-
Debt securities	81 114	-
Other collateral received	-	-
Own securities issued that are not own covered bonds or ABS	-	-

(Thousands of Euro)

Collateral received	Dec 2015	
	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	**3 643 951**	-
Equity instruments	-	-
Debt securities	3 643 951	-
Other collateral received	-	-
Own securities issued that are not own covered bonds or ABS	-	-

(Thousands of Euro)

Encumbered assets, encumbered collateral received and associated liabilities	Jun 2016
	Carrying amount of selected financial liabilities
Associated liabilities, contingent liabilities and securities borrowed	4 628 503
Assets, collateral received and own debt securities issued other than covered bons and encumbered ABS	6 240 867

(Thousands of Euro)

Encumbered assets, encumbered collateral received and associated liabilities	Dec 2015
	Carrying amount of selected financial liabilities
Associated liabilities, contingent liabilities and securities borrowed	3 766 301
Assets, collateral received and own debt securities issued other than covered bons and encumbered ABS	4 805 294

The encumbered assets are mostly related to collateralised financing, in particular the ECB's, repo transactions, issuance of covered bonds and securitisation programs. The types of assets used as collateral of these financing transactions are divided into portfolios of loans to clients, supporting securitisation programs and covered bonds issues, whether placed outside the Group, whether to improve the pool of collateral with the ECB, and Portuguese, Italian and Spanish sovereign debt, which collateralize repo transactions in the money market.

The amounts presented previously correspond to the position as at 30 June 2016 and 31 December 2015 and reflect the high level of collateralisation of the wholesale funding of the Group. The buffer of eligible assets for the ECB, after haircuts, less net borrowing at the ECB, as at 30 June 2016 amounts to Euro 985,479 thousand (31 December 2015: Euro 1,750,398 thousand).

It should be noted that the global amount of available collateral at the European Central Bank (ECB), as at 30 June 2016 amounts to Euro 3,885,930 thousand (31 December 2015: Euro 3,723,310 thousand) with a use of Euro 2,870,451 thousand (31 December 2015: Euro 2,277,258 thousand):

(Thousands of Euro)

	Jun 2016	Dec 2015
Total collateral eligible	**5 445 693**	**5 327 550**
Total collateral in the "pool"	3 855 930	3 723 310
Collateral outside the "pool"	1 589 763	1 604 240
Collateral used	**4 437 214**	**3 577 152**
Collateral used for ECB	2 870 451	2 277 258
Collateral commited to other financing operations	1 566 763	1 299 894
Collateral available for ECB	**985 479**	**1 446 052**
Total collateral available	**1 008 479**	**1 750 398**

Note: collateral value takes into account the applied haircut

Real Estate Risk

The real estate risk results from possible negative impacts on the results or level of CEMG equity, due to fluctuations in the market price of real estate.

The real estate risk results from exposure in real estate (whether from credit recovery processes, whether investment properties) as well as real estate fund units held in securities portfolio. These exposures are monitored on a monthly basis and scenario analyses are performed on a monthly basis that attempt to estimate potential impacts of changes in real estate markets in portfolios of real estate funds, investment real estate and real estate received as loan guarantee.

As at 30 June 2016 and 31 December 2015, exposure to real estate and investments real estate fund units presented the following value:

		(Thousands of Euro)
	Jun 2016	**Dec 2015**
Real estate received as loan guarantee	725 922	754 393
Investment properties	639 968	692 485
Real estate investment fund units	212 647	211 373
	1 578 537	1 658 251
Stress test	(157 036)	(165 227)

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 Group has implanted an integrated continued business plan, which allows to ensure the continuity of the operations in a case of a rupture in the activity. DRI 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 Montepio Group operational risk management.

The operational risk profile assessment for new products, processes and systems and the consequent follow-up has allowed the early identification and mitigation of operational risk situations.

Regarding the risk monitoring, the main activities performed consisted in the process of collection and analysis of operational risk loss events, analysis of Key Risk Indicators, assessment of exposure to operational risk and the preparation of periodic reports on the operational risk profile of the institution. In particular, quarterly monitoring reports of operational risk loss events and implemented mitigation measures are developed. There are also an annual report which includes the analysis of all operational risk management tools.

Under the mitigation phase, were suggested action plans for the most significant risks identified, based on the operational risk management tools mentioned above.

Additionally, CEMG has implemented a management process of business continuity, supported by a set of assessment, design, implementation and monitoring activities, integrated in a continuous improvement cycle.

This process is critical as mitigation instrument risk, making the business processes more resilient and allowing to ensure the continuity of operations in case of occurrence of events that cause the termination of the activity, considering the Recovery Time Objective (RTO) defined.

Other risks

Other risks - pension fund, reputation, strategy and business - are also monitored by EBD. These risks are controlled and there are corrective measures implemented depending on the results achieved against the objectives/limits in risk appetite.

Capital management and Solvency Ratio

The own funds of the Group 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 past corresponding to the risk of the institution's own credit. Non-controlling interests are only eligible to the necessary extent 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 Group’s 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. Between the implementation of this new prudential regulation 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. This exclusion will end after the adoption, by the European Committee, of a regulation based on Regulation (CE) No. 1606/2002 that approves the International Financial Report Standard, that will replace IAS 39.

– **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-controlling interests are also eligible in relation to the minimum requirements of additional own funds of institutions for which the Group does not hold 100% of the share capital. 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 equivalents instruments, whose conditions are in accordance with the article 63º from Regulation No.575/2013 and approved by the Bank of Portugal. Non-controlling interests are also eligible in relation to the minimum requirements of additional own funds of institutions for which the Group does not hold 100% of the share capital. 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. The CVA requirement is also calculated.

As previously referred, until 2018 the effects of Basel III's new regulation will gradually be 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, the regulatory minimums indicated by CRD IV/CRR are 4.5% for CET1, 6% for Tier 1 and 8% for Total Capital. However, on these regulatory minimums are applied equity reserves (such as the the Conservation Reserve, the Anticyclical Reserve and the Reserve for Other Systemic Institutions), whose value is set by the Bank of Portugal. In 2016, the Bank of Portugal has established an Anticyclical Reserve of 0%. Regarding the Conservation Reserve, Bank of Portugal, in its Regulation No. 6/2016, defines its implementation in accordance with the transitional plan defined in Article 160 of the CRD IV and therefore the amount of this reserve is 0.625% in 2016, 1.250% in 2017, 1.875% in 2018 and 2.5% after 1 January 2019. In accordance with these provisions, as at 30 June 2016, the CEMG Group shall present Common Equity Tier 1, Tier 1 and Total ratios not inferior to 5.125%, 6.625% and 8.625%, respectively, including the Equity Reserves already defined by Bank of Portugal.

The resume of the calculation for the Group's capital requirements at 30 June 2016 and 31 December 2015, is presented as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Capital Common Equity Tier 1		
Paid-up capital	2 170 000	1 900 000
Net profit, reserves and retained earnings	(634 048)	(561 214)
Other regulatory adjustments	(154 462)	(107 878)
	1 381 490	1 230 908
Capital Tier 1		
Other equity instruments	-	-
Regulatory adjustments	-	-
	1 381 490	1 230 908
Capital Tier 2		
Subordinated loans	99 598	137 483
Regulatory adjustments	(9 158)	(8 167)
	90 440	129 316
Total own funds	1 471 930	1 360 224
Own funds requirements		
Credit risk	971 902	1 010 644
Market risk	13 020	18 665
Operational risk	61 424	61 301
Other requirements	30 230	26 378
	1 076 576	1 116 988
Prutential Ratio		
Ratio Common Equity Tier 1	10.27%	8.82%
Ratio Tier 1	10.27%	8.82%
Total Capital Ratio	10.94%	9.74%

Policies for hedging and mitigating risk

For reducing the credit risk, are relevant the real mortgage guarantees and financial collateral which allow the direct reduction in the value of the position. Guarantees of personal protection with replacement effect on exposure are also considered.

The imposition of collaterals depends on the size of the unexpected loss, typically occurring in high volume transactions, especially in financing the construction and purchase of housing.

Risk mitigation through the collateralisation of transactions is considered in its pricing, either through the borrower's credit risk (e.g. in cases of real collateral), either by the reduction of the exposed value, especially with financial collateral (in this case the market risk of the assets involved is considered).

The requirement of personal guarantees is generally associated with retail credit whenever the customer does not have financial conditions to bear the financing costs. In loans to companies, personal guarantees are normally associated with higher value transactions involving smaller companies and when it is intended to mitigate the risk, given the collateralisation level of transactions.

In terms of direct reduction, the collateralised transactions by Financial Collateral, namely, time deposits, bonds and shares included in a main stock index, as established by Section 4, Chapter 4, Title II, Part III of Capital Requirements Regulation No. 575/2013 (CRR).

The Group does not usually uses netting and does not create credit derivatives on its portfolio.

With regard to mortgage guarantees, the evaluations of the assets are performed by independent evaluators or by an internal Unit structure, regardless of commercial area. The revaluation of assets is performed through on-site assessments by a technical evaluator, in accordance with the conditions set out in the CRR, being the same checked periodically through real estate variation rates.

The Model of Calculation of Impairment Losses of the Group’s Credit Portfolio is in force since June 2006, being periodically updated (the last update was in 2015) 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 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 subjected 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.
- 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 in an Individual Basis or Analysis in a Collective Basis.

For each 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 reestructured credit is an impairment sign and, therefore, the reestructured 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 the credits to customers of homogeneous populations is the result of 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.

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 mitigation techniques of trading portfolio's market risk consist, essentially, in hedging risk positions with financial products with symmetrical risk, in order to reduce the transaction's overall risk in the partial or total sale of positions at risk to reduce the exposure or completely eliminate it, and setting limits that control exposure to market risk.

Regarding the banking portfolio, the mitigating techniques for interest and exchange rate risk are the negotiation of hedging derivatives and closing of positions through the sale of open positions at risk (feasible in the case of medium and long term public debt portfolios and corporate bonds).

58 Sovereign debt of European Union countries subject to bailout

As at 30 June 2016, the exposure of Group to sovereign debt of European Union countries subject to bailout is as follows:

(Thousands of Euro)

	Jun 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	11 149	11 149	-	(7 092)	3.00%	16.16	1

The securities value includes the respective accrued interests in the amount of Euro 188 thousand.

As at 31 December 2015, the exposure of Group to sovereign debt of European Union countries subject to bailout is as follows:

(Thousands of Euro)

	Dec 2015						
Issuer / portfolio	Book value	Fair value	Fair value reserve	Impairment	Average interest rate	Average maturity (years)	Measurement level
Greece							
Financial assets available for sale	11 169	11 169	-	(7 343)	3.00	16.66	1

The securities value includes the respective accrued interests in the amount of Euro 460 thousand.

59 Transfer of assets

The Group performed a set of transactions of sale of financial assets (namely loans and advances to customers) for 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 Fund.

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 Fund.

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 Fund.

The management structure of the Fund has as main responsibilities:

- determine the objective of the Fund; and
- manage exclusively the Fund, determining the objectives and investment policy and the conduct in management and business of the Fund.

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.

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 the Group has clearly a minority interest). These securities are booked in the available for sale portfolio and are accounted 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 held by the funds and which are fully provided to reflect the best estimate of impairment of the financial assets transferred.

Within this context, not withholding control but maintaining an exposure to certain risks and rewards, the Group, in accordance with IAS 39.21 performed an analysis of the exposure to the variability of risks and rewards in the assets transferred, before and after the transaction, having concluded that it does not hold substantially all the risks and rewards.

Considering that it does not hold control and does not exercise significant influence on the funds or companies management, the Group performed the derecognition of the assets transferred under the scope of IAS 39.20 c (i) and the recognition of the assets received as follows:

(Thousands of Euro)

	Until Jun 2016			Until Dec 2015		
	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	27 717	43 124	15 407	27 074	42 202	15 128
Vallis Construction Sector Fund	18 794	20 889	2 095	18 794	20 889	2 095
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
	118 618	138 422	19 804	117 975	137 500	19 525

As at 30 June 2016 and 31 December 2015, the assets received under these transactions are as follows:

(Thousands of Euro)

	Jun 2016				
	Senior Securities	Junior Securities	Total	Impairment	Net value
Fundo de Reestruturação Empresarial, FCR	43 675	-	43 675	(773)	42 902
Fundo Vega, FCR	28 435	-	28 435	-	28 435
Vallis Construction Sector Fund	14 929	6 153	21 082	(12 994)	8 088
Fundo Aquarius, FCR	13 800	-	13 800	(563)	13 237
Discovery Portugal Real Estate Fund	13 210	-	13 210	-	13 210
	114 049	6 153	120 202	(14 330)	105 872

(Thousands of Euro)

	Dec 2015				
	Senior Securities	Junior Securities	Total	Impairment	Net value
Fundo de Reestruturação Empresarial, FCR	43 544	-	43 544	(773)	42 771
Fundo Vega, FCR	27 292	-	27 292	-	27 292
Vallis Construction Sector Fund	16 991	6 153	23 144	(6 153)	16 991
Fundo Aquarius, FCR	13 801	-	13 801	(524)	13 277
Discovery Portugal Real Estate Fund	13 151	-	13 151	-	13 151
	114 779	6 153	120 932	(7 450)	113 482

As at 30 June 2016, was recorded an impairment in the amount of Euro 6,841 thousand on the devaluation of the participation units in the Vallis Construction Sector Fund, as described in notes 15 and 24.

As at 30 June 2016, the junior securities correspond to participation units in the amount of Euro 6,153 thousand, as described in note 24, which are fully provided for.

In 2015, the Group acquired 27,292 investment units in the Fund Vega FCR in the amount of Euro 27,292 thousand. In addition, subscribed supplementary capital contributions in the amount of Euro 14,910 thousand, as described in note 33. It should be noted that the supplementary capital contributions are fully provided. Additionally, during the first half of 2016, the Group acquired participation units in Fund Veja in the amount of Euro 922 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).

60 Contingencies

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

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

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

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

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

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

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

61 Subsidiary and associated companies

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

Subsidiary Company	Head of Office	Share Capital	Currency	Activity	% of control	% of effective part.
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	Praia	8 996 000	Escudo Cabo Verdiano	Banking	100.00%	100.00%
Montepio Holding, S.G.P.S., S.A.	Oporto	175 000 000	Euro	Holding company	100.00%	100.00%
Montepio Investimento, S.A.	Oporto	180 000 000	Euro	Banking	100.00%	100.00%
Montepio Crédito - Instituição Financeira de Crédito, S.A.	Oporto	30 000 000	Euro	Finance lease	100.00%	100.00%
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	Oporto	1 550 000	Euro	Investment fund management	100.00%	100.00%
Finibanco Angola, S.A.	Luanda	4 182 000 000	Kwanza	Banking	81.57%	81.57%
Banco Terra, S.A.	Maputo	2 686 458 998	Metical	Banking	45.78%	45.78%
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.	Lisbon	50 000	Euro	Real estate management	100.00%	100.00%

As at June 2016, 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	Euros 10 000 000	Tourism	20.00%
Montepio Gestão de Activos Imobiliários, A.C.E.	Lisbon	Euros 2 449 707	Real estates holding company	28.50%

The presented percentage reflects the economic interest of the Group.

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

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

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

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

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

In 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 half of 2016.

62 Relevant Facts

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

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

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

63 Subsequent events

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

AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL INFORMATION

KPMG

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LIMITED REVIEW REPORT
ON INTERIM CONSOLIDATED FINANCIAL INFORMATION

(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

1 In accordance with the requirements of "Código dos Valores Mobiliários" (CVM), we hereby present our limited review report, on the interim consolidated financial information for the six months period ended 30 June 2016, of **Caixa Económica Montepio Geral**, which includes the consolidated statement of financial position (which shows a total of Euro 21,383,928 thousands and total equity attributable to equity and participation fund holders of Euro 1,542,195 thousands, including a consolidated net loss attributable to equity and participation fund holders of 67,627 thousands of Euro), the consolidated statements of income, comprehensive income, changes in equity and cash flows, for the six months period then ended and the corresponding notes to the financial statements.

2 The amounts included in the consolidated financial statements and in the additional financial information were extracted from the accounting records.

Responsabilities

3 The Executive Board of Directors is responsible for:

a) the preparation of consolidated financial information that present fairly the financial position of all the group companies included in the consolidation, the consolidated result of its operations, the consolidated comprehensive income, the consolidated changes in equity and the consolidated cash flows;

b) the historical financial information prepared in accordance with the IAS 34 – Interim Financial Reporting and that is complete, true, current, clear, objective and lawful as established by the Stock Exchange Code ('CVM');

c) the adoption of adequate accounting policies and criteria;

d) the maintenance of an appropriate internal control system; and

e) the communication of any relevant matter that may have influenced the activity, financial position or results.

KPMG

4 Our responsibility is to verify the consolidated financial information included in the above mentioned documents, namely if it is complete, true, current, clear, objective and lawful as required by the CVM, in order to issue a professional and independent report based on our work.

Scope

5 The work that we have performed was conducted with the objective of obtaining a moderate level of assurance about whether the consolidated financial information mentioned above is free of material misstatements. Our work was performed based on the Technical Standards and Review/Audit Guidelines issued by the "Ordem dos Revisores Oficiais de Contas", and planned in accordance with that objective and included the following procedures:

a) mainly, inquiries and analytical procedures performed to review:

- the reliability of the assertions included in the consolidated financial information;
- the adequacy of the accounting policies adopted, considering the circumstances and the consistency of their application;
- the application, or not, of the going concern principle;
- the presentation of the consolidated financial information;
- if the consolidated financial information is complete, true, current, clear, objective and lawful; and

b) substantive tests on material non usual significant transactions.

6 Our work also included the verification that the consolidated financial information included in the Executive Board of Directors report is consistent with the remaining above mentioned documents.

7 We believe that our work provides a reasonable basis to issue the report on the interim consolidated financial information.

KPMG

Conclusion

8 Based on our review, which was performed with the objective of obtaining moderate assurance, nothing has come to our attention that causes us to believe that the interim consolidated financial information for the six month period ended 30 June 2016, is not free of material misstatements that affect its compliance with IAS 34 - Interim Financial Reporting and that is not complete, true, current, clear, objective and lawful.

Lisbon, 30 August 2016

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (no. 189)
Represented by
Ana Cristina Soares Valente Dourado (ROC nº 1011)

INDIVIDUAL FINANCIAL STATEMENTS AND EXPLANATORY NOTES

INDIVIDUAL BALANCE SHEET AS AT 30 JUNE 2016 AND 31 DECEMBER 2015

(thousand euros)	Jun 2016 Gross Assets	Jun 2016 Impairment and Amortization	Jun 2016 Net Assets	Dec 2015 Net Assets
				restated
Cash and deposits at central banks	319 549	-	319 549	358 125
Loans and advances to credit institutions repayable on demand	55 283	-	55 283	50 617
Financial assets held for trading	31 639	-	31 639	33 825
Financial assets available for sale	6 779 128	197 170	6 581 958	7 487 759
Other loans and advances to credit institutions	353 947	0	353 947	373 277
Loans and advances to customers	15 128 076	1 149 217	13 978 859	14 165 460
Held to maturity instruments	1 125 798	-	1 125 798	26 130
Hedging derivatives	-	-	-	9
Non-current assets held for sale	831 831	123 797	708 034	733 865
Property and equipment	394 446	-	228 388	31 255
Intangible assets	178 066	148 570	29 496	30 229
Investments in associated companies and others	354 083	149 368	204 715	354 083
Current tax assets	18 380	0	18 380	19 676
Deferred tax assets	456 199	-	456 199	389 571
Other assets	374 074	-	355 741	318 462
TOTAL ASSETS	**26 400 499**	**1 952 513**	**24 447 986**	**24 372 343**
Deposits from central banks			2 855 709	2 262 258
Financial liabilities held for trading			77 497	51 550
Deposits from other financial institutions			1 879 703	2 028 314
Deposits from customers			12 149 060	12 207 740
Debt securities issued			1 622 598	1 921 389
Financial liabilities relating to transferred assets			3 929 843	4 021 351
Hedging derivatives			-	439
Provisions			26 013	15 509
Other subordinated debt			237 123	333 686
Other liabilities			186 306	106 958
TOTAL LIABILITIES			**22 963 852**	**22 949 194**
Capital			2 170 000	1 900 000
Institutional Capital			1 770 000	1 500 000
Participation Fund			400 000	400 000
Other equity instruments			6 323	8 273
Fair value reserves			29 827	6 866
Other reserves and retained earnings			(493 528)	(160 994)
Net income for the period			(228 488)	(330 996)
TOTAL EQUITY			**1 484 134**	**1 423 149**
TOTAL LIABILITIES AND EQUITY			**24 447 986**	**24 372 343**

THE CHARTERED ACCOUNTANT

(Luís Miguel Lines Andrade)

THE EXECUTIVE BOARD OF DIRECTORS

(José Manuel Félix Morgado - CEO)

(João Carlos Martins da Cunha Neves)

(Luís Gabriel Moreira Maia Almeida)

(Fernando Ferreira Santo)

(João Belard da Fonseca Lopes Raimundo)

(Jorge Manuel Viana de Azevedo Pinto Bravo)

(Luís Miguel Resende de Jesus)

INDIVIDUAL INCOME STATEMENT AS AT 30 JUNE 2016 AND 2015

(thousand euros)	Jun 2016	Jun 2015
		restated
Interest and similar income	284 052	336 625
Interest and similar expense	178 936	232 555
NET INTEREST INCOME	**105 116**	**104 070**
Dividens from equity instruments	2 711	1 594
Fee and commission income	62 648	62 454
Fee and comission expense	12 691	13 244
Net gains/losses arising from assets and liabilities at fair value through profit or loss	(27 035)	8 157
Net gains/losses arising from available for sale financial assets	43 824	75 150
Net gains/losses arising from foreign exchange differences	1 161	3 171
Net gains/losses arising from sale of other assets	12 430	(11 706)
Other operating income	(9 257)	13 842
NET BANKING INCOME	**178 907**	**243 488**
Staff costs	120 862	91 573
General administrative expenses	47 403	48 880
Depreciation and amortisation	11 257	11 805
Loans impairment	83 737	137 286
Other financial assets impairment	75 906	21 458
Other assets impairment	156 112	7 527
Other provisions	(11 836)	(3 202)
EARNINGS BEFORE TAX	**(304 534)**	**(71 839)**
Tax		
Current	(1 517)	6 668
Deferred	77 563	13 156
NET INCOME FOR THE PERIOD	**(228 488)**	**(52 015)**

THE CHARTERED ACCOUNTANT

(Luís Miguel Lines Andrade)

THE EXECUTIVE BOARD OF DIRECTORS

(José Manuel Félix Morgado - CEO)

(João Carlos Martins da Cunha Neves)

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(João Belard da Fonseca Lopes Raimundo)

(Jorge Manuel Viana de Azevedo Pinto Bravo)

(Luís Miguel Resende de Jesus)

Caixa Económica Montepio Geral

Income Statement
for the six months period ended at 30 June 2016 and 2015

(Thousands of Euro)

	Notes	30 June 2016	30 June 2015 restated
Interest and similar income	3	284 052	336 625
Interest and similar expense	3	178 936	232 555
Net interest income		105 116	104 070
Dividends from equity instruments	4	2 711	1 594
Fee and comission income	5	62 648	62 454
Fee and comission expense	5	(12 691)	(13 244)
Net gains / (losses) arising from financial assets at fair value through profit or loss	6	(27 035)	8 157
Net gains / (losses) arising from available for sale financial assets	7	43 824	75 150
Net gains / (losses) arising from foreign exchange diferences	8	1 161	3 171
Net gains / (losses) arising from sale of other financial assets	9	12 430	(11 706)
Other operating income	10	(9 257)	13 842
Total operating income		178 907	243 488
Staff costs	11	120 862	91 573
General and administrative expenses	12	47 403	48 880
Depreciation and amortisation	13	11 257	11 805
		179 522	152 258
Loans impairment	14	83 737	137 286
Other financial assets impairment	15	75 906	21 458
Other assets impairment	16	156 112	7 527
Other provisions	17	(11 836)	(3 202)
Operating profit / (loss)		(304 534)	(71 839)
Tax			
Current	30	(1 517)	6 668
Deferred	30	77 563	13 156
Profit / (loss) for the period		(228 488)	(52 015)

CHIEF ACCOUNTANT

THE EXECUTIVE BOARD OF DIRECTORS

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

Caixa Económica Montepio Geral

Statement of Financial Position as at 30 June 2016 and 31 December 2015

(Thousands of Euro)

	Notes	30 June 2016	31 December 2015 restated	1 January 2015 restated
Assets				
Cash and deposits at central banks	18	319 549	358 125	203 338
Loans and advances to credit institutions repayable on demand	19	55 283	50 617	54 868
Other loans and advances to credit institutions	20	353 947	373 277	781 233
Loans and advances to customers	21	13 978 859	14 165 460	14 681 417
Financial assets held for trading	22	31 639	33 825	83 553
Financial assets available for sale	23	6 581 958	7 487 759	7 391 496
Hedging derivatives	24	-	9	60
Held-to-maturity investments	25	1 125 798	26 130	17 333
Investments in subsidiaries and associated companies	26	204 715	354 083	419 183
Non-current assets held for sale	27	708 034	733 865	779 504
Property and equipment	28	228 388	31 255	36 924
Intangible assets	29	29 496	30 229	117 297
Current tax assets		18 380	19 676	-
Deferred tax assets	30	456 199	389 571	301 353
Other assets	31	355 741	318 462	235 088
Total Assets		24 447 986	24 372 343	25 102 647
Liabilities				
Deposits from central banks	32	2 855 709	2 262 258	2 496 886
Deposits from other financial institutions	33	1 879 703	2 028 314	1 638 075
Deposits from customers	34	12 149 060	12 207 740	13 609 144
Debt securities issued	35	1 622 598	1 921 389	1 936 472
Financial liabilities relating to transferred assets	36	3 929 843	4 021 351	3 075 080
Financial liabilities held for trading	22	77 497	51 550	85 300
Hedging derivatives	24	-	439	1 494
Provisions	37	26 013	15 509	16 151
Current tax liabilities		-	-	12 026
Other subordinated debt	38	237 123	333 686	388 118
Other liabilities	39	186 306	106 958	279 460
Total Liabilities		22 963 852	22 949 194	23 538 206
Equity				
Institutional capital	40	1 770 000	1 500 000	1 500 000
Participation fund	41	400 000	400 000	200 000
Other equity instruments	42	6 323	8 273	8 273
Fair value reserves	44	29 827	6 866	39 232
Other reserves and retained earnings	43 and 44	(493 528)	(160 994)	(41 659)
Profit / (loss) for the period		(228 488)	(330 996)	(141 405)
Total Equity		1 484 134	1 423 149	1 564 441
Total Liabilities and Equity		24 447 986	24 372 343	25 102 647

CHIEF ACCOUNTANT

THE EXECUTIVE BOARD OF DIRECTORS

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

Caixa Económica Montepio Geral

Income Statement
for the three months period ended at 30 June 2016 and 2015

(Thousands of Euro)

	2nd quarter 2016	2nd quarter 2015 restated
Interest and similar income	140 819	167 144
Interest and similar expense	84 384	113 999
Net interest income	56 435	53 145
Dividends from equity instruments	2 696	1 593
Fee and comission income	33 824	31 637
Fee and comission expense	(6 988)	(7 394)
Net gains / (losses) arising from financial assets at fair value through profit or loss	(11 662)	(3 001)
Net gains / (losses) arising from available for sale financial assets	33 396	10 541
Net gains / (losses) arising from foreign exchange differences	679	1 278
Net gains / (losses) arising from sale of other financial assets	12 201	(10 121)
Other operating income	(24 196)	11 981
Total operating income	96 385	89 659
Staff costs	66 481	45 760
General and administrative expenses	26 785	26 997
Depreciation and amortisations	5 904	5 669
	99 170	78 426
Loans impairment	60 251	77 719
Other financial assets impairment	58 114	18 069
Other assets impairment	151 841	4 484
Other provisions	(7 430)	(3 202)
Operating profit / (loss)	(265 561)	(85 837)
Tax		
Current	(1 116)	11 575
Deferred	67 772	16 393
Profit / (loss) for the period	(198 905)	(57 869)

CHIEF ACCOUNTANT

THE EXECUTIVE BOARD OF DIRECTORS

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

Caixa Económica Montepio Geral

Statement of Cash Flows
for the six months period ended at 30 june 2016 and 2015

(Thousands of Euro)

	30 June 2016	30 June 2015
Cash flows arising from operating activities		
Interest income received	224 761	349 065
Commissions income received	62 629	61 630
Interest expense paid	(189 402)	(275 851)
Commissions expense paid	(11 782)	(12 477)
Payments to employees and suppliers	(151 447)	(150 573)
Recoveries on loans previously written off	3 200	2 086
Other payments and receivables	20 331	(94 042)
Payment of income tax	(151)	(5 358)
	(41 861)	(125 520)
(Increase) / decrease in operating assets		
Loans and advances to credit institutions and customers	135 754	376 505
Other assets	26 952	(143 074)
	162 706	233 431
(Increase) / decrease in operating liabilities		
Deposits from customers	(49 758)	(1 008 952)
Deposits from credit institutions	(147 859)	1 038 572
Deposits from central banks	594 010	300 000
	396 393	329 620
	517 238	437 531
Cash flows arising from investing activities		
Dividends received	2 711	1 594
(Acquisition) / sale of financial assets for trading	(24 520)	10 481
(Acquisition) / sale of available for sale financial assets	906 419	(1 234 479)
Interest income received from available for sale financial assets	52 763	42 801
(Acquisition) / sale of hedging derivatives	270	-
(Acquisition) / sale of held-to-maturity investments	(1 086 394)	(63)
Deposits owned with the purpose of monetary control	13 862	(58 502)
(Acquisition) / sale of other financial assets	(1 510)	2 071
Acquisition of fixed assets	(207 930)	(11 783)
	(344 329)	(1 247 880)
Cash flows arising from financing activities		
Capital increase	270 000	200 000
Other instruments and capital	(2 160)	-
Proceeds from issuance of bonds and subordinated debt	-	71 150
Reimbursement of bonds and subordinated debt	(386 425)	(448 933)
Increase / (decrease) in other sundry liabilities	(74 932)	994 001
	(193 517)	816 218
Effect of changes in exchange rate on cash and cash equivalents	560	2 123
Net changes in cash and equivalents	(20 048)	7 992
Cash and equivalents balance at the beginning of the period	249 543	225 003
Net changes in cash and equivalents	(20 048)	7 992
Cash and equivalents balance at the end of the period	229 495	232 995
Cash and equivalents balance at the end of the period includes:		
Cash (note 18)	174 212	174 109
Loans and advances to credit institutions repayable on demand (note 19)	55 283	58 886
Total	229 495	232 995

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

Caixa Económica Montepio Geral

Statement of Changes in Equity
for the six months period ended at 30 june 2016 and 2015

(Thousand of Euro)

	Total Equity	Institutional capital	Participation fund	Other equity instruments	General and special reserve	Fair value reserves	Retained Earnings
Balance at 31 December 2014	1 466 362	1 500 000	200 000	8 273	254 273	39 232	(535 416)
Revocation of the Regulation of *Banco de Portugal* No. 3/95 (note 56)	98 079	-	-	-	-	-	98 079
Balance at 1 January 2015 (restated)	1 564 441	1 500 000	200 000	8 273	254 273	39 232	(437 337)
Other comprehensive income:							
Deferred taxes related to balance sheet changes accounted for against reserves (note 30)	(1 326)	-	-	-	-	-	(1 326)
Fair value changes (note 44)	(99 314)	-	-	-	-	(99 314)	-
Deferred taxes related to fair value changes (note 30)	32 261	-	-	-	-	32 261	-
Profit / (loss) for the period	(52 015)	-	-	-	-	-	(52 015)
Total comprehensive income for the period	(120 394)	-	-	-	-	(67 053)	(53 341)
Costs related to the issue of perpetual subordinated instruments (note 42)	(379)	-	-	-	-	-	(379)
Issuance and subscription of participation units in CEMG's participation fund	200 000	-	200 000	-	-	-	-
Balance at 30 june 2015 (restated)	1 643 668	1 500 000	400 000	8 273	254 273	(27 821)	(491 057)
Other comprehensive income:							
Actuarial gains / (losses) for the period	22 503	-	-	-	-	-	22 503
Deferred taxes related to balance sheet changes accounted for against reserves (note 30)	1 651	-	-	-	-	-	1 651
Fair value changes (note 44)	49 202	-	-	-	-	49 202	-
Deferred taxes related to fair value changes (note 30)	(14 515)	-	-	-	-	(14 515)	-
Profit / (loss) for the period	(278 981)	-	-	-	-	-	(278 981)
Total comprehensive income for the period	(220 140)	-	-	-	-	34 687	(254 827)
Costs related to the issue of perpetual subordinated instruments (note 42)	(379)	-	-	-	-	-	(379)
Balance at 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 against reserves (note 30)	(1 328)	-	-	-	-	-	(1 328)
Fair value changes (note 44)	32 568	-	-	-	-	32 568	-
Deferred taxes related to fair value changes (note 30)	(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 42)	(210)	-	-	-	-	-	(210)
Own perpetual subordinated instruments (note 42)	(1 950)	-	-	(1 950)	-	-	-
Institutional Capital Increase (note 40)	270 000	270 000	-	-	-	-	-
Balance at 30 June 2016	1 484 134	1 770 000	400 000	6 323	254 273	29 827	(976 289)

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

Caixa Económica Montepio Geral

Statement of Comprehensive income
for the six months period ended at 30 june 2016 and 2015

(Thousands of Euro)

	Notas	30 June 2016	30 June 2015 restated
Items that may be reclassified into the Income Statement			
Fair value reserves			
Available-for-sale financial assets	44	32 568	(99 314)
Taxes	30 and 44	(9 607)	32 261
		22 961	(67 053)
Items that won't be reclassified into the Income Statement			
Deferred taxes	30	(1 328)	(1 326)
		(1 328)	(1 326)
Other comprehensive income for the period		21 633	(68 379)
Profit / (loss) for the period		(228 488)	(52 015)
Total comprehensive income for the period		(206 855)	(120 394)

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

Caixa Económica Montepio Geral

Statement of Comprehensive income
for the three months period ended at 30 june 2016

(Thousands of Euro)

	2nd quarter 2016	2nd quarter 2015 restated
Items that may be reclassified into the Income Statement		
Fair value reserves		
Available-for-sale financial assets	(12 500)	(97 759)
Taxes	948	28 839
	(11 552)	(68 920)
Items that won't be reclassified into the Income Statement		
Deferred taxes	(663)	(1 326)
	(663)	(1 326)
Other comprehensive income for the period	(12 215)	(70 246)
Profit / (loss) for the period	(198 905)	(57 869)
Total comprehensive income for the period	(211 120)	(128 115)

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

1 Accounting policies

a) Basis of presentation

Caixa Económica Montepio Geral ("CEMG") is a credit institution held by Montepio Geral – Associação Mutualista, established on 24 March, 1844, and authorised to operate in accordance with Decree-Laws No. 298/92 of 31 December, and No. 136/79 of 18 May, which regulate the activity of savings banks and establish some restrictions to their activities. However, CEMG is authorised to carry out banking operations in addition to those mentioned in its by-laws, if previously authorised by 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 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 recovered loans and a leasing portfolio (equipment 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 from the Counsel, from 19 July 2002, and Regulation of Bank of Portugal No. 5/2015, from 7 December, CEMG's financial statements are required to be prepared in accordance with International Financial Reporting Standards ("IFRS"), as endorsed by the European Union (EU), after the period of 2005. 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 financial statements presented herein were approved by the Executive Board of Directors of CEMG on 24 August 2016. 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 financial statements for the six-month period ended at 30 June 2016 have been prepared in accordance with the IFRS, as adopted by the European Union and effective at that date considering the disclosures required by the standards defined in IAS 34. These financial statements also present the income statement for the second quarter of 2016 compared with the same period of the previous year. The financial statements for the six-month period ended at 30 June 2016 do not include all the information required to be disclosed in the annual financial statements.

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

The accounting policies presented in this note were applied consistently with those used in the preparation of the financial statements of the previous period, being introduced the amendments from the adoption of Regulation of Bank of Portugal No. 5/2015, from 7 December 2015, which establishes that all the entities subject to its supervision shall prepare the individual financial statements in accordance with the International Financial Reporting Standards ("IFRS"), as adopted by EU Regulation and thus revoking the Regulation of Bank of Portugal No. 1/2005, which established that CEMG's individual financial statements should be prepared in accordance with the Adjusted Accounting Standards ("NCA's").

The new Regulation entered into force on 1 January 2016. The impacts of this Regulation in the opening financial statements of 2016 are mainly due to the revocation of Regulation of Bank of Portugal No. 3/95 regarding the registration of impairment on the loans portfolio.

According to IAS 8, this change of policy is presented for comparative purposes after 1 January 2015, in accordance with the accounting policy described in note 56.

The financial statements are 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 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 financial statements in accordance with IFRS requires the Executive Committee 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 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

The CEMG's policy consists in a regular assessment of the existence of objective evidence of impairment in the loans portfolio. The identified impairment losses are recorded in the income statement, being subsequently reversed, if there is a reduction of the estimated 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 resulting from one or more events and when these have an impact on the estimated future cash flows of the loan or loans portfolio, which can be reliably estimated.

According to IAS 39 there are two methods for calculating impairment losses: (i) individual analysis; and (ii) collective analysis.

(i) Individual analysis

The assessment of the existence of impairment losses on an individual basis is determined by an analysis case-by-case of the total credit exposure. For each loan considered individually significant, CEMG assesses, at each balance sheet date, whether there is objective evidence of impairment. The determination of impairment losses on an individual basis is based on the following factors:

- CEMG's total exposure to each customer and the existence of overdue loans;
- the viability of the customer's business and its ability to generate sufficient cash-flow to cover future debt service;
- the existence, nature and estimated value of collateral associated with each loan;
- significant downgrading in the client's rating;
- the assets available on liquidation or insolvency;
- the existence of privileged creditors; and
- the amount and timing of expected receipts and recoveries.

Impairment losses are calculated by comparing the present value of expected future cash flows, discounted at the original effective interest rate of each contract with its current carrying value. The losses are registered 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, applicable in the period in which the impairment was determined.

(ii) Collective analysis

Loans for which no evidence of impairment has been identified are grouped, based on the similar credit risk characteristics, for a collective assessment of impairment losses. This analysis allows CEMG to recognise losses whose individual identification will only occur in future periods.

Impairment losses based on collective analysis can be calculated through two perspectives:

- For homogeneous groups of loans that are not considered individually significant; or
- Regarding the losses incurred but not identified ("IBNR") in loans for which there is no objective evidence of impairment (see section (i) above).

Collective impairment losses are determined considering the following aspects:

- Historical loss experience in portfolios of similar risk characteristics;
- Knowledge of current economic and credit conditions and its influence on the historical losses level; and
- Estimated period between the loss occurrence and its identification.

The methodology and assumptions used for estimating future cash flows are regularly reviewed by CEMG, in order to monitor the differences between estimated and real losses.

In accordance with "Carta-Circular" No. 15/2009 of 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, by using impairment losses corresponding to 100% of the value of loans considered as not 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 acquiring the asset and are classified considering its underlying purpose, as follows:

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")

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 can be 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 at 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) Investments held-to-maturity

Held-to-maturity investments 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, the Bank 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 amortised cost. The related transaction costs are included in the effective interest rate. The interest calculated at the effective interest rate is recognised in net interest income.

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

(ii) Impairment

At each balance sheet date, an assessment of the existence of objective evidence of impairment is made. A financial asset or group of financial assets are impaired when there is objective evidence of impairment resulting from one or more events that occurred after its initial recognition, such as: (i) for listed securities, a prolonged devaluation or a significant decrease in its quotation price, and (ii) for unlisted securities, when that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be estimated reasonably. According to 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 (there is 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 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, CEMG performs prospective tests at the beginning date of the initial hedge, if applicable and retrospective tests in order to demonstrate at each reporting period the effectiveness of the hedging relationships, showing that the changes in the fair value of the hedging instrument are hedged by the changes in the hedged item for the risk being covered. Any ineffectiveness is recognised immediately in profit and loss when incurred.

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 year, to transfer Financial assets from Financial assets at fair value through profit and loss – trading to Financial assets available for sale, to Loans and Receivables - Loans represented by securities or to 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 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 CEMG.

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) 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 year end.

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

l) Interest income and expense

Interest income and expense for financial instruments measured at amortised cost are recognised in the interests and similar income or interests and similar expenses (net interest income) through the effective interest rate method. The interest related to 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 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 CEMG financial statements. Fees and commissions arising from this activity are recognised in the income statement in the year 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 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 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 or six years. CEMG does not capitalise internal costs arising from software development.

Other intangible assets

The recoverable amount of intangible assets without finite useful life recorded as an asset is reviewed annually, regardless of the existence of signs of impairment. Any determined impairment losses are recognised in the income statement.

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 loans and advances to credit institutions.

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) Employee benefits

Defined benefit plans

Arising from the signing of *Acordo Colectivo de Trabalho (ACT)* and subsequent amendments, CEMG sets up pension funds to cover the liabilities with pensions on retirement and disability, widows' pension, health-care benefits and death subsidy.

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

The contribution rate is 26.6% in which 23.6% belongs to the employer, and 3% to employees, replacing the Caixa de Abono de Familia dos Empregados Bancários (CAFEB) extinguished by the same Decree-Law. As a result, the pension rights of the active employees started to be covered by the terms defined by Social Security System, considering the period of service rendered since 1 January 2011 until the retirement age. The difference to the minimum pension guaranteed is supported by the banks, in accordance with the terms defined in Collective Labor Agreement ("Acordo Colectivo de Trabalho").

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

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

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

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

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

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

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

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

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

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

Payments to the Fund 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.

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 free 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 on the 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 profit and loss in the year the results that originated the deferred taxes are recognised.

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

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

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

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

As established in IAS 12, paragraph 74, CEMG compensates the deferred tax assets and liabilities if, and only if: (i) has a legally enforceable right to set off current tax assets against current tax liabilities; and (ii) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future year 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 operational segments. An operating segment is a Group's component: (i) that engages in business activities from which it may earn revenues or incur expenses; (ii) whose operational results are regularly reviewed by the main responsible for the Group operational decisions about allocating resources to the segment and assess its performance; and (iii) for which distinct financial information is available.

Taking into consideration that the individual 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) Provisions

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

The provision measurement is according with the principles defined in IAS 37 in respect of the best estimate of expected cost, the more likely result for the ongoing processes, considering the risk and uncertainties related to the process. On the cases that 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 reinsurance 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;

- 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.

Held-to-maturity investments

CEMG follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment.

In making this judgment, CEMG evaluates its intention and ability to hold such fixed assets to maturity.

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

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

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 for the period.

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

Pension and other employees benefits

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

Changes in these assumptions could materially affect these values.

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.

Provisions

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

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

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

2 Net interest income and net gains arising from assets and liabilities at fair value through profit or loss and 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 does not highlight 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 2016	Jun 2015
Net interest income	105 116	104 070
Net gains arising from assets and liabilities at fair value through profit and loss	(27 035)	8 157
Net gains arising from available-for-sale financial assets	43 824	75 150
	121 905	187 377

3 Net interest income

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016	Jun 2015
Interest and similar income		
Interest from loans to customers	184 940	220 793
Interest from deposits and other investments	1 371	751
Interest from available-for-sale finacial assets	48 474	59 425
Interest from held for trading financial assets	36 945	47 738
Interest from held-to-maturity financial assets	6 094	400
Interest from hedging derivatives	307	87
Other interest and similar income	5 921	7 431
	284 052	336 625
Interest and similar expense		
Interest from deposits of customers	70 295	105 459
Interest from loans of Central Banks and other financial institutions	11 219	17 557
Interest from securities issued	26 098	35 179
Interest from subordinated liabilities	2 328	2 825
Interest from financial liabilities associated with transfered assets	32 115	24 743
Interest from held for trading financial liabilities	35 564	45 281
Interest from hedging derivatives	20	346
Other interest and similar expense	1 297	1 165
	178 936	232 555
Net interest income	105 116	104 070

The balances Interest from loans to customers and Other interest and similar expenses include, the positive amount of Euro 9,996 thousand and the negative amount of Euro 1,295 thousand (30 June 2015: the positive amount of Euro 11,021 thousand and the negative amount of Euro 1,164 thousand), respectively, related to commissions and other gains / losses which are accounted for under the effective interest rate method, as referred in the accounting policy, note 1 l).

4 Dividends from equity instruments

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016	Jun 2015
Dividends from available for sale financial assets	2 711	1 400
Dividends from associated companies	-	194
	2 711	1 594

The balance Dividends from available for sale financial assets include dividends and income from investment fund units received during the period.

5 Net fee and commissions income

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016	Jun 2015
Fee and commission income		
From banking services	43 273	43 789
From transactions order by third parties	10 524	10 762
From insurance activity	3 760	3 507
From commitments to third parties	3 257	3 540
Other fee and commission income	1 834	856
	62 648	62 454
Fee and commission expenses		
From banking services rendered by third parties	7 055	7 628
From transactions with securities	243	273
Other fee and commission expense	5 393	5 343
	12 691	13 244
Net fee and commission income	49 957	49 210

As at 30 June 2016 and 2015, commissions received on insurance brokerage services are presented as follows:

	(Thousands of Euro)	
	Jun 2016	Jun 2015
Life insurance		
Mortgage	549	577
Consumer	673	668
Other	751	778
	1 973	2 023
Non-life insurance		
Mortgage	995	898
Consumer	27	19
Other	765	567
	1 787	1 484
	3 760	3 507

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. and Lusitania Vida, Companhia de Seguros, S.A.

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

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016			Jun 2015		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Securities						
Bonds and other fixed income securities						
Issued by public entities	4 431	4 289	142	9 955	14 109	(4 154)
Issued by other entities	-	-	-	67	75	(8)
Shares	5 209	5 962	(753)	8 330	7 013	1 317
Investment units	295	324	(29)	44	48	(4)
	9 935	10 575	(640)	18 396	21 245	(2 849)
Derivative financial instruments						
Interest rate contracts	63 172	63 090	82	92 943	95 200	(2 257)
Exchange rate contracts	36 852	36 779	73	48 008	48 314	(306)
Futures contracts	3 290	3 051	239	2 046	1 953	93
Options contracts	5 025	4 777	248	10 738	10 683	55
Commodities contracts	7 750	7 716	34	66 616	66 676	(60)
Credit default contracts (CDS)	21 787	46 629	(24 842)	-	-	-
	137 876	162 042	(24 166)	220 351	222 826	(2 475)
Other financial assets	-	-	-	14 088	6	14 082
	-	-	-	14 088	6	14 082
Other financial assets at fair value through profit or loss						
Loans to customers	413	515	(102)	659	573	86
	413	515	(102)	659	573	86
Hedging derivatives						
Interest rate contracts	22	35	(13)	748	333	415
	22	35	(13)	748	333	415
Financial liabilities						
Deposits from other credit institutions	803	1 356	(553)	141	61	80
Deposits from customers	23	44	(21)	352	323	29
Debt securities issued	931	2 471	(1 540)	456	1 528	(1 072)
Other subordinated liabilities	-	-	-	-	139	(139)
	1 757	3 871	(2 114)	949	2 051	(1 102)
	150 003	177 038	(27 035)	255 191	247 034	8 157

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 (30 June 2015: Euro 5,668 thousand) in accordance with note 22.

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

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

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

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016			Jun 2015		
	Gains	Losses	Total	Gains	Losses	Total
Fixed income securities						
Bonds						
Issued by public entities	25 871	299	25 572	63 896	1 192	62 704
Issued by other entities	4 883	1 124	3 759	11 181	1 273	9 908
Shares	14 911	2 130	12 781	677	75	602
Other variable income securities	2 615	903	1 712	1 968	32	1 936
	48 280	4 456	43 824	77 722	2 572	75 150

As at 30 June 2016, the balance Fixed income securities – Bonds – Issued by public entities includes the amount of Euro 22,910 thousand related with gains generated with the sale of Spanish and Italian treasury bonds. As at 30 June 2015, this balance includes the amount of Euro 62,778 thousand, related with gains generated with the sale of treasury bonds of Portuguese domestic debt.

The balance Shares includes the amount of Euro 11,294 thousand related with capital gain generated with the sale of Visa Europe Limited shares: (i) Euro 8,421 thousand regarding the up-front consideration; (ii) Euro 2,169 thousand regarding the received preference shares; and (iii) Euro 704 thousand regarding a deferred payment to be paid in 2019, as described in notes 23 and 31.

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

The balance is comprised of:

	Jun 2016			Jun 2015		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differences	33 688	32 527	1 161	88 424	85 253	3 171

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 sale of other financial assets

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016	Jun 2015
Sale of other assets	83	(21)
Sale of loans and advances to customers	13 455	-
Sale of non-current assets held for sale	(1 108)	(11 685)
	12 430	(11 706)

As at 30 June 2016, the balance Sale of loans and advances to customers includes the amount of Euro 13,455 thousand, obtained through the sale of a portfolio of loans to customers which were in default. The nominal value of the loans sold amounted to Euro 380,726 thousand, as described in note 21.

The balance Sale of non-current assets held for sale is basically the result of real estate properties sales, as described in note 27.

10 Other operating income

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016	Jun 2015
Other operating income		
Services rendered	14 028	23 225
Staff transfer	8 594	8 503
Profits arising from deposits on demand management	6 041	4 546
Reimbursement of expenses	849	859
Repurchase of own securities	333	103
Other	4 807	2 724
	34 652	39 960
Other operating expense		
Contribution for the banking Sector	12 793	10 191
Ex-ante contribution for the Resolution Fund	10 050	-
Expenses with trading real estate	3 885	3 504
Contribution for the Resolution Fund	2 907	2 176
Donations and membership	394	375
Taxes	137	107
Deposit Guarantee Fund	10	649
Repurchase of own securities	-	4 355
Other	13 733	4 761
	43 909	26 118
Other net operating income	(9 257)	13 842

As at 30 June 2016, the balance Other operating income – Services rendered includes the amount of Euro 10,404 thousand (30 June 2015: Euro 20,000 thousand), referring to the income charged to Montepio Geral Associação Mutualista, as described in note 31.

As at 30 June 2016, the balance Other operating income – Staff transfer includes the amount of Euro 8,020 thousand (30 June 2015: Euro 8,103 thousand) referring to the staff transfers from CEMG to Montepio Geral Associação Mutualista and entities under its control.

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

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

The item Ex-ante Contribution to the Resolution Fund corresponds to the annual contribution collected in 2016 by the Resolution Fund, in accordance with paragraph 1, article 153-H of the Legal Framework of Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras – RGICSF*), which transposed the articles 100 (4) (a) and 103 (1) of the Directive 2015/59/EU of the European Parliament and of the Council of 15 May 2014, and article 20 of the Delegated Regulation (EU) No. 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 Bank of Portugal, in its quality of National Resolution Authority, based in the methodology defined in accordance with articles 4, 13 and 20 of Delegated Regulation. Under the Single Resolution Mechanism this contribution must be transferred to the Single Resolution Fund until 30 June 2016, in accordance with the Agreement for the Transfer and Mutualisation of the contributions to the Single Resolution Fund signed in Brussels on 21 May 2014 and approved by Resolution No. 129/2015 of the Assembly of the Republic, from 3 September, according to paragraph 4 of Article 67 of Regulation (EU) No. 806/2014 of the European Parliament and of the Council, from 15 July 2014 ("Regulation MUR ").

Additionally, the Single Resolution Board ("SRB"), in close cooperation with Bank of Portugal, as a national resolution authority, is responsible for the calculation of these contributions on an annual basis, according to and for the purposes of paragraph 2, Article 70, of Regulation MUR. In 2016, CEMG decided to use irrevocable payment commitments in the proportion of 15% of the contribution amount, in accordance with paragraph 3, Article 8, of the Implementing Regulation. On this basis, CEMG opted for the settlement of Euro 1,774 thousand, in the form of irrevocable payment commitments booked in the caption Loans and advances to credit institutions abroad - term deposits, as described in note 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 Instruction of Bank of Portugal, to be applied in each year and which may be adjusted to the credit institution's risk profile. The period contributions focus on the liabilities of the member credit institutions, in accordance with article 10 of the referred Decree-Law, deducted from the liability elements that are part of the Tier 1 and Tier 2 capital and from the deposits covered by the Deposit Guarantee Fund.

11 Staff costs

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016	Jun 2015
Remunerations	63 881	65 593
Mandatory social security charges	17 284	17 811
Charges with the pensions fund	24 926	6 025
Other staff costs	14 771	2 144
	120 862	91 573

Within the strategic plan of CEMG para 2016-2018 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;
- Terminations by Mutual Agreement ("TMA"), subject to approval by the Chief Officer; and
- Other situations, subjected to a case-by-case analysis.

As at 30 June 2016, the implementation of this program was almost completed, being recorded in the consolidated financial statements of the first semester of 2016 a cost of Euro 32,022 thousand related to the charges that CEMG intends to incur in relation to the agreements signed with each of the involved employees. On this basis, as at 30 June 2016, 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, from which Euro 10,013 thousand are related to compensations paid during the first half of 2016.

Additionally, on 30 June 2016, the caption Charges with the pension fund includes the amount of Euro 5,641 thousand (30 June 2015: Euro 6,025 thousand) regarding the current service cost.

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

Other key management personnel are considered first-line managers, General and Supervisory Board members and Shareholder's General Meeting members.

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 2016 and 30 June 2015, the Executive Board of Directors and Other key management personell did not receive any retribution of variable remuneration.

During the first half of 2016 and 2015, no compensations were paid for termination of service to key management elements.

The costs with salaries and other benefits attributed to the Executive Board of Directors and Other CEMG key management personnel during the first half of 2016 are presented as follows:

(Thousands of Euro)

	Executive Board of Directors	Other key management personnel	Total
Salaries and other short-term benefits	963	2 010	2 973
Pension costs	13	121	134
Costs with healthcare benefits ("SAMS")	9	51	60
	985	2 182	3 167
Social Security charges	225	430	655
Charges with the pensions fund	12	109	121
Seniority bonuses	-	21	21
	237	560	797

The costs with salaries and other benefits attributed to the Executive Board of Directors and Other CEMG key management personnel during the first half of 2015 are presented as follows:

(Thousands of Euro)

	Executive Board of Directors	Other key management personnel	Total
Salaries and other short-term benefits	508	1 726	2 234
Pension costs	20	143	163
Costs with healthcare benefits ("SAMS")	5	67	72
	533	1 936	2 469
Social Security charges	115	380	495
Charges with the pensions fund	18	132	150
Seniority bonuses	-	5	5
	133	517	650

As at 30 June 2016, the remuneration of the General and Supervisory Board, included in Other key management personnel amounted to Euro 455 thousand (30 June 2015: Euro 245 thousand).

As at 30 June 2016 and 2015, loans granted by CEMG to Other key management personnel amounted to Euro 3,889 thousand and Euro 4,177 thousand, respectively, as described in note 49.

12 General and administrative expenses

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016	Jun 2015
Rental costs	8 225	13 526
Specialised services		
IT services	7 960	4 742
Independent work	1 767	2 127
Other specialised services	9 685	7 895
Communication costs	3 446	3 248
Water, energy and fuel	2 213	2 199
Advertising costs	2 266	2 035
Maintenance and related services	1 892	1 861
Insurance	1 226	1 155
Transportation	1 463	1 112
Consumables	746	680
Travel, hotel and representation costs	483	596
Training costs	74	128
Other supplies and services	5 957	7 576
	47 403	48 880

The balance Rental costs, includes the amount of Euro 6,945 thousand (30 June 2015: Euro 12,165 thousand) related to rents paid regarding real estate properties 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 2016	Jun 2015
Until 1 year	16	57
1 to 5 years	2 698	4 410
	2 714	4 467

The balance Other administrative costs includes the amount of Euro 3,413 thousand (30 June 2015: Euro 4,954 thousand) related with the services rendered by Montepio Gestão de Activos Imobiliários, A.C.E. Additionally, this balance includes the amount of Euro 1,508 thousand (30 June 2015: Euro 1,319 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 2016	Jun 2015
Intangible assets		
Software	6 059	6 925
Other tangible assets		
Land and buildings	2 321	1 430
For own use	1 078	133
Leasehold improvements in rented buildings	1 243	1 297
Equipment		
Computer equipment	1 731	2 054
Interior installations	673	723
Furniture	261	332
Security equipment	139	172
Office equipment	9	24
Motor vehicles	5	33
Operacional lease - Renting	40	71
Other tangible assets	19	41
	5 198	4 880
	11 257	11 805

14 Loans impairment

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016	Jun 2015
Loans and advances to customers		
Charge for the period net of reversals	86 937	139 372
Recovery of loans and interest charged-off	(3 200)	(2 086)
	83 737	137 286

The caption Loans and advances to customers related to the estimate of losses incurred, determined according with the assessment of objective evidence of impairment, as referred in the accounting policy described in note 1 c).

15 Other financial assets impairment

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016	Jun 2015
Impairment for available for sale financial assets		
Charge for the period	89 384	48 845
Write-back for the period	(13 478)	(27 387)
	75 906	21 458

As at 30 June 2016, the balance Impairment for available for sale financial assets – Charge for the period includes the amount of Euro 6,841 thousand (30 June 2015: Euro 36 thousand) that corresponds to the impairment for investment units in a Fund specialized in the recovery of loans, acquired under the sale of loans and advances to customers, as referred in notes 23 and 53.

Additionally, this caption includes, as at 30 June 2015, the amount of Euro 34,588 thousand (30 June 2015: Euro 10,633 thousand) related to impairment recognised for investment units in Real Estate Funds, as mentioned in note 23.

As at 30 June 2016, this balance includes an impairment loss in the amount of Euro 31,926 thousand on the position held in Fixed-income securities – Bonds issued by other entities – Foreign.

As at 30 June 2016, the caption Impairment for available for sale financial assets – Write-back for the period includes the amount of Euro 251 thousand (30 June 2015: included on the balance Impairment for available for sale financial assets – charge for the period, the amount of Euro 2,338 thousand) that corresponds to the impairment recognised for sovereign debt of Greece, as referred in notes 23 and 52.

16 Other assets impairment

The amount of this account is comprised of:

(Thousands of Euro)	Jun 2016	Jun 2015
Impairment for non-current assets held for sale		
Charge for the period	13 560	8 748
Write-back for the period	(6 778)	(1 221)
	6 782	7 527
Impairment in subsidiaries and associated companies		
Charge for the period	149 368	-
	149 368	-
Impairment for other assets		
Charge for the period	15	-
Write-back for the period	(53)	-
	(38)	-
	156 112	7 527

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 26.

17 Other provisions

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2016	Jun 2015
Provisions for guarantees and commitments		
Charge for the period	6 798	-
Write-back for the period	(14 936)	-
	(8 138)	-
Provision for other liabilities and charges		
Charge for the period	1 635	-
Write-back for the period	(5 333)	(3 202)
	(3 698)	(3 202)
	(11 836)	(3 202)

18 Cash and deposits at central banks

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Cash	174 212	198 926
Central bank	145 337	159 199
	319 549	358 125

The caption Central bank, is related to the deposits within the 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 December 30 June 2016 these deposits are non-interest-bearing (31 December 2015: average interest rate of 0.05%).

19 Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Credit institutions in Portugal	774	924
Credit institutions abroad	19 788	22 088
Amounts due for collection	34 721	27 605
	55 283	50 617

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 2016	Dec 2015
Loans and advances to credit institutions in Portugal		
Deposits	2 132	2 076
Loans	103 051	102 566
Other loans and advances	81 236	81 167
	186 419	185 809
Loans and advances to credit institutions abroad		
Term deposits	24 620	25 461
Subordinate deposits	1 701	3 700
Buy back operations	67 470	61 043
CSA's	52 009	75 219
Other loans and advances	21 728	22 045
	167 528	187 468
	353 947	373 277

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

The caption Other loans and advances includes, as at 30 June 2016, the amount of Euro 21,497 thousand and, as at 30 December 2015, the amount of Euro 22,045 thousand, regarding the loans and advances performed in Finibanco Angola, S.A.

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

Collaterals delivered in cash (collateral establishment or reinforcement) 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 the Group exposure towards the counterparty.

In operations of derivative financial instruments with institutional counterparties, and as defined in the respective contracts, CEMG holds an amount of Euro 52,009 thousand (31 December 2015: Euro 75,219 thousand) related to deposits in credit institutions given as collateral for the referred operations.

21 Loans and advances to customers

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Domestic loans		
Corporate		
Loans not represented by securities		
Loans	2 693 508	2 669 607
Commercial lines of credits	880 347	930 854
Finance leases	294 589	303 452
Discounted bills	93 770	94 831
Factoring	96 189	82 831
Overdrafts	6 310	33 412
Other loans	846 011	944 647
Loans represented by securities		
Commercial paper	393 674	488 085
Bonds	358 036	358 488
Retail		
Mortgage Loans	7 043 406	7 225 047
Finance leases	31 863	31 298
Consumer and other loans	861 021	915 198
	13 598 724	14 077 750
Foreign loans		
Corporate		
Overdrafts	449	2 688
	13 599 173	14 080 438
Correction value of assets subject to hedge operations	1 231	1 333
Overdue loans and interest		
Less than 90 days	185 368	123 067
More than 90 days	1 342 304	1 179 932
	1 527 672	1 302 999
	15 128 076	15 384 770
Impairment for credit risks	(1 149 217)	(1 219 310)
	13 978 859	14 165 460

As at 30 June 2016, the balance Loans and advances to customers includes de amount of Euro 2,725,816 thousand (31 December 2015: Euro 2,727,400 thousand) related to the issue of covered bonds held by CEMG, as referred in note 35.

As at 30 June 2016, 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 amount to Euro 422,179 thousand (31 December 2015: 572.944 thousand), as described in note 49. The conclusion of businesses between CEMG and the holders of institutional capital or individual or collective entities related to them, according to article 20 of the Portuguese Securities Code, regardless the value, it's always submitted to examination and deliberation of the Executive Board of Directors and the General and Supervisory Board, as proposed by the commercial network, supported by analysis and assessment 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 Department. As at 30 June 2016, the impairment amount for credit risks related with these contracts amounts to Euro 316 thousand (31 December 2015: Euro 1,105 thousand).

As at 30 June 2016, CEMG performed loans and advances to customers sale operation which were in default and off-balance. The total amount of loans and advances sold amounted to Euro 380,726 thousand and generated a capital gain of Euro 13,455 thousand, as described in notes 9 and 31.

As at 30 June 2016 and within the sale of credits and real estate properties performed, it is outstanding by SilverEquation the amount of Euro 164,883 thousand (31 December 2015: Euro 161,420 thousand), as described in note 31.

As referred in notes 15, 23 e 53, in the first half of 2016, CEMG performed sales of loans and advances to customers to funds specialized in credit recovery. The global amount of credits sold at 30 June 2016 amounted to Euro 643 thousand, originating a gain of Euro 279 thousand.

As at 31 December 2015, CEMG reclassified bonds from available for sale financial assets to loans and advances to customers, in the amount of Euro 358,488 thousand with an associated fair value reserve of Euro 3,858 thousand, as described in note 44. In relation to this transfer, CEMG recorded impairment for general banking risks in the amount of Euro 1,565 thousand, as described in notes 23.

As at 30 June 2016, the balance Loans and advances to customers includes the amount of Euro 3,871,899 thousand (31 December 2015: 3,968,160 thousand) related with loans object of securitization that, in accordance with note 1 f), were not subject of derecognition, as described in note 50. Additionally, the securities linked to these transactions are recorded as a liability, as described in note 36.

In the balance Correction value of assets subject to hedge operations is accounted the fair value of portfolio that is hedge. 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 43,505 thousand (31 December 2015: 44,825 thousand). The fair value correction amounted to Euro 1,231 thousand (31 December 2015: Euro 1,333 thousand), as described in note 22 and the impact on results was negative in the amount of Euro 102 thousand (31 December 2015: negative in Euro 519 thousand).

The fair value of the portfolio of loans to customers is presented in note 47.

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

(Thousands of Euro)

	Jun 2016	Dec 2015
Variable interest rate contract	14 176 610	14 436 176
Fixed interest rate contract	951 466	948 594
	15 128 076	15 384 770

The analysis of loans and advances to customers, by maturity and by type of credit, as at 30 June 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	305 825	680 548	9 074 215	1 028 326	11 088 914
Other guarantee loans	622 785	262 961	408 022	296 772	1 590 540
Financial leases	9 144	104 709	212 599	14 454	340 906
Loans represented by securities	393 883	286 501	71 326	55 348	807 058
Other credits	615 827	185 717	366 342	132 772	1 300 658
	1 947 464	1 520 436	10 132 504	1 527 672	15 128 076

The analysis of loans and advances to customers, by maturity and by type of credit, as at 31 December 2015, 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	347 902	811 519	9 247 990	828 945	11 236 356
Other guarantee loans	600 667	267 130	401 278	308 813	1 577 888
Financial leases	5 358	109 951	219 441	18 378	353 128
Loans represented by securities	508 406	263 638	74 529	19 050	865 623
Other credits	633 468	185 153	405 341	127 813	1 351 775
	2 095 801	1 637 391	10 348 579	1 302 999	15 384 770

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

(Thousands of Euro)

	Financial Leases			
	Due within 1 year	1 to 5 years	Over 5 years	Total
Outstanding rents	56 116	142 156	119 606	317 878
Outstanding interest	(11 209)	(28 382)	(20 091)	(59 682)
Residual values	3 328	24 369	40 559	68 256
	48 235	138 143	140 074	326 452

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

(Thousands of Euro)

	Financial Leases			
	Due within 1 year	1 to 5 years	Over 5 years	Total
Outstanding rents	55 687	149 241	123 350	328 278
Outstanding interest	(7 328)	(17 141)	(23 790)	(48 259)
Residual values	1 534	26 538	26 659	54 731
	49 893	158 638	126 219	334 750

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, is as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Asset-backed loans	1 028 326	828 945
Other guaranteed loans	296 772	308 813
Finance leases	55 348	18 378
Loans represented by securities	14 454	19 050
Other credits	132 772	127 813
	1 527 672	1 302 999

The analysis of Overdue loans and interests, by type of customer, is as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Corporate		
Construction/Production	295 909	264 987
Investment	526 616	453 776
Treasury	370 366	298 540
Other loans	58 582	62 316
Retail		
Mortgage loans	106 309	94 336
Consumer credit	54 518	52 995
Other loans	115 372	76 049
	1 527 672	1 302 999

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

(Thousands of Euro)

	Jun 2016	Jun 2015
Balance on 1 January	1 219 310	1 312 167
Charge for the period net of reversals	86 937	139 372
Impairment charged-off	(134 293)	(64 661)
Transfers	(22 737)	-
Balance on 30 June	1 149 217	1 386 878

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 37 and to the impairment associated with renting, which began to be registered in the balance Other assets, as described in note 31, in the amounts of Euro 22,340 thousand and Euro 397 thousand, respectively.

In compliance with 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.

With the publication of the Regulation of Bank of Portugal No. 5/2015, which entered into force at 1 January 2016, impairment for credit risks has become integrated in the credit impairment model, as described in Note 56.

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

(Thousands of Euro)

	Jun 2016	Dec 2015
Asset-backed loans	722 096	790 099
Other guaranteed loans	277 960	296 550
Unsecured loans	149 161	132 661
	1 149 217	1 219 310

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

(Thousands of Euro)

	Jun 2016	Jun 2015
Asset-backed loans	22 229	25 476
Other guaranteed loans	62 499	12 719
Unsecured loans	49 565	26 466
	134 293	64 661

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 2016 and 2015, amounted to Euro 3,200 thousand and 2,086 thousand euros, respectively.

CEMG's customer loan portfolio includes loans for which, towards the financial difficulties of the customer, initial conditions of the contract were amended in the amount of Euro 1,447,531 thousand (31 December 2015: Euro 1,516,320 thousand) which have an impairment of Euro 402,397 thousand (31 December 2015: Euro 398,957 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.

During the first half of 2016 and during 2015, the restructuring operations that were performed 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 financial capacity of customers.

Additionally, the loans portfolio includes contracts that resulted in a formal restructuring with the customers and the consequent establishment of a new funding to replace the previous. The restructuring may result in a reinforcement of guarantees and / or liquidation of part of the credit and involve an extension of maturities or a different interest rate. The analysis of restructured loans performed during the first half of 2016 and during 2015, by type of credit, is as follows:

	(Thousands of Euro)	
	Jun 2016	**Dec 2015**
Domestic loans		
Corporate		
Loans not represented by securities		
Loans	57 022	137 176
Commercial lines of credits	762	7 014
Financial leases	-	1
Other loans	3 235	611
Retail		
Mortgage Loans	7 979	36 887
Consumer and other loans	3 219	10 027
	72 217	191 716

Restructured loans are subject to an impairment analysis resulting from the revaluation of expectations to meet the new cash flows inherent to the new contractual conditions, discounted at the original effective interest rate and considering the new collaterals.

In respect of restructured loans, the impairment associated to these operations amounts to Euro 402,397 thousand (31 December 2015: 398,957 thousand).

Given the present time of real estate and financial markets, CEMG continued to negotiate the strengthening of financial and physical collaterals with its clients.

CEMG uses physical and financial collaterals as instruments for mitigating credit risk. The physical collaterals correspond mainly to mortgages on residential properties for the mortgage portfolio and mortgages on other types of properties in other types of loans. In order to reflect the market value, these collaterals are reviewed regularly based on evaluations conducted by certified and independent entities 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 revaluated based on market values of the respective assets, when available, and certain haircuts are applied to reflect its volatility.

Most of the physical collaterals are revaluated at least once a year.

CEMG's credit portfolio, which includes loans to customers and also guarantees and commitments granted, in the amount of Euro 455,956 thousand (31 December 2015: 448,720 thousand) and the irrevocable credit in the amount of Euro 575,727 thousand (31 December 2015: 681,632 thousand), divided between impaired and not impaired credit, is analysed as follows:

(Thousand of Euro)

	Jun 2016	Dec 2015
Total credit	16 159 759	16 515 122
Individually significant		
Gross value	5 763 964	5 898 911
Impairment	(653 357)	(698 476)
Net value	5 110 607	5 200 435
Collective analysis		
Credit with impairment triggers		
Gross value	1 927 051	1 982 872
Impairment	(495 650)	(505 760)
Net value	1 431 401	1 477 112
Credit without impairment	8 468 744	8 633 339
Impairment (IBNR)	(14 412)	(15 074)
Net value	14 996 340	15 295 812

As at 30 June 2016 and 31 December 2015, the impairment determined according to note 1 b) described in the accounting policy, is as follows:

(Thousands of Euro)

	Jun 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 loans	5 684 188	640 392	2 650 028	327 929	8 334 216	968 321	7 365 895
Retail loans – Real estate	20 120	1 286	7 099 788	103 865	7 119 908	105 151	7 014 757
Retail loans – Others	59 656	11 679	645 979	78 268	705 635	89 947	615 688
	5 763 964	653 357	10 395 795	510 062	16 159 759	1 163 419	14 996 340

(Thousands of Euro)

	Dec 2015						
	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 loans	5 808 027	674 306	2 699 119	343 499	8 507 146	1 017 805	7 489 341
Retail loans – Real estate	18 136	1 948	7 271 184	100 364	7 289 320	102 312	7 187 008
Retail loans – Others	72 748	22 222	645 908	76 971	718 656	99 193	619 463
	5 898 911	698 476	10 616 211	520 834	16 515 122	1 219 310	15 295 812

The analysis of the fair value of collaterals associated with the loans and advances to customers portfolio is presented as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Loans with impairment:		
Securities and other financial assets	225 069	255 336
Residential real estate - House mortgages	32 194	28 098
Real estate - Construction and CRE	2 097 787	2 023 908
Other real estate	1 610 482	1 492 133
Other guarantees	424 533	357 590
	4 390 065	4 157 065
Parametric analysis:		
Securities and other financial assets	24 294	23 958
Residential real estate - House mortgages	1 432 521	1 437 661
Real estate - Construction and CRE	380 255	386 217
Other real estate	372 667	362 558
Other guarantees	7 554	7 395
	2 217 291	2 217 789
Loans without impairment:		
Securities and other financial assets	293 549	305 287
Residential real estate - House mortgages	11 828 863	12 033 566
Real estate - Construction and CRE	260 956	229 822
Other real estate	835 773	866 613
Other guarantees	31 756	33 767
	13 250 897	13 469 055
	19 858 253	19 843 909

As at 30 June 2016 and 31 December 2015, the credit exposures by segment and impairment recorded are presented as follows:

(Thousands of Euro)

Segment	Exposure Jun 2016					Impairment Jun 2016		
	Total exposure	Credit in compliance	Restructured credit in compliance	Default credit	Restructured	Total impairment	Credit in compliance	Default credit
Corporate	5 965 362	5 095 812	125 945	869 550	256 148	470 822	107 973	362 849
Construction and CRE	2 368 854	1 240 378	137 507	1 128 476	561 629	497 499	40 708	456 791
Retail - House	7 119 908	6 748 603	182 844	371 305	131 158	105 151	9 652	95 499
Retail - Others	705 635	554 482	24 475	151 153	27 825	89 947	4 149	85 798
	16 159 759	13 639 275	470 771	2 520 484	976 760	1 163 419	162 482	1 000 937

(Thousands of Euro)

Segment	Exposure Dec 2015					Impairment Dec 2015		
	Total exposure	Credit in compliance	Restructured credit in compliance	Default credit	Restructured credit in compliance	Total impairment	Credit in compliance	Default credit
Corporate	6 068 778	5 248 352	126 433	820 426	263 424	512 769	126 307	386 462
Construction and CRE	2 438 368	1 318 248	170 974	1 120 120	560 173	505 036	56 120	448 916
Retail - House	7 289 320	6 921 830	214 135	367 490	127 199	102 312	10 390	91 922
Retail - Others	718 656	553 592	27 478	165 064	26 504	99 193	3 862	95 331
	16 515 122	14 042 022	539 020	2 473 100	977 300	1 219 310	196 679	1 022 631

(Thousands of Euro)

Segment	Total exposure Jun 2016							Total impairment Jun 2016			
		Credit in compliance			Default credit			Credit in compliance		Default credit	
	Total exposure Jun-16	Without signs	Default days <30 With signs	Sub-total	Default days <= 90*	Default days > 90 dias	Total impairment Jun-16	Default days < 30	Default days between 30 - 90	Default days <= 90*	Default days > 90 days
Corporate	5 965 362	4 542 774	448 124	5 095 812	126 888	742 662	470 822	57 587	50 386	41 037	321 812
Construction and CRE	2 368 854	912 627	247 832	1 240 378	182 087	946 389	497 499	27 352	13 356	45 542	411 249
Retail - House	7 119 908	6 134 867	532 646	6 748 603	24 907	346 398	105 151	7 009	2 643	4 137	91 362
Retail - Others	705 635	439 074	104 315	554 482	5 525	145 628	89 947	3 255	894	1 346	84 452
	16 159 759	12 029 342	1 332 917	13 639 275	339 407	2 181 077	1 163 419	95 203	67 279	92 062	908 875

(Thousands of Euro)

Segment	Total exposure Dec 2015							Total impairment Dec 2015			
		Credit in compliance			Default credit			Credit in compliance		Default credit	
	Total exposure Dec-15	Without signs	Default days <30 With signs	Sub-total	Default days <= 90*	Default days > 90 dias	Total impairment Dez-15	Default days < 30	Default days between 30 - 90	Default days <= 90*	Default days > 90 days
Corporate	6 068 778	4 586 397	563 256	5 248 352	158 153	662 273	512 769	110 481	15 826	61 025	325 437
Construction and CRE	2 438 368	985 706	309 693	1 318 248	227 684	892 436	505 036	53 705	2 415	62 358	386 558
Retail - House	7 289 320	6 280 604	556 333	6 921 830	25 270	342 220	102 312	7 343	3 047	3 728	88 194
Retail - Others	718 656	435 845	106 855	553 592	5 917	159 147	99 193	2 854	1 008	1 471	93 860
	16 515 122	12 288 552	1 536 137	14 042 022	417 024	2 056 076	1 219 310	174 383	22 296	128 582	894 049

As at 30 June 2016, the credit portfolio by segment and production year is presented as follows:

(Thousands of Euro)

	Corporate			Construction and CRE			Retail - Mortgages			Retail - Others		
Production year	Number of transactions	Amount	Impairment	Number of transactions	Amount	Impairment	Number of transactions	Amount	Impairment	Number of transactions	Amount	Impairment
2004 and before	2 057	106 319	20 488	1 611	325 211	135 512	57 880	2 221 713	34 307	40 611	35 330	8 106
2005	621	36 532	6 790	432	105 102	37 454	14 538	830 555	13 105	4 718	11 089	1 978
2006	885	83 517	8 643	556	122 283	36 391	17 420	1 008 562	17 989	6 894	43 478	3 792
2007	1 721	113 570	18 814	924	159 089	44 539	17 696	1 011 084	18 486	40 449	46 714	13 339
2008	7 137	115 349	25 710	2 071	122 704	26 578	9 218	526 388	9 192	55 963	43 683	8 322
2009	9 019	208 614	37 128	2 865	157 878	45 281	5 109	334 464	4 839	42 170	48 278	11 012
2010	8 150	309 508	69 128	1 734	129 165	34 853	5 288	374 709	3 751	20 138	49 351	13 240
2011	11 359	309 389	48 065	2 601	123 968	26 103	2 037	144 644	1 191	21 278	39 503	10 408
2012	8 030	347 101	41 305	1 658	98 513	21 367	1 369	97 646	1 024	12 110	34 260	6 666
2013	18 456	1 145 600	73 490	2 224	222 150	42 403	1 730	128 081	822	17 780	57 014	6 356
2014	23 474	1 163 991	42 250	3 851	316 599	32 014	2 015	151 992	270	26 943	103 851	5 132
2015	18 715	1 061 214	71 279	3 132	255 253	10 907	2 317	184 881	131	26 789	115 728	1 246
2016	16 056	964 658	7 732	2 779	230 939	4 097	1 253	105 189	44	17 883	77 356	350
	125 680	5 965 362	470 822	26 438	2 368 854	497 499	137 870	7 119 908	105 151	333 726	705 635	89 947

As at 31 December 2015, the credit portfolio by segment and production year is presented as follows:

(Thousands of Euro)

	Corporate			Construction and CRE			Retail - Mortgages			Retail - Others		
Production year	Number of transactions	Amount	Impairment	Number of transactions	Amount	Impairment	Number of transactions	Amount	Impairment	Number of transactions	Amount	Impairment
2004 and before	2 202	117 889	25 482	1 746	347 933	142 143	59 017	2 332 837	34 278	41 681	37 566	8 017
2005	670	41 356	8 389	464	112 846	37 718	14 761	859 016	12 405	4 755	12 143	2 112
2006	984	88 828	9 732	604	138 955	35 454	17 718	1 042 139	17 337	7 079	57 444	14 492
2007	1 954	126 581	20 680	1 063	187 367	46 262	17 929	1 042 632	17 906	41 237	50 624	14 656
2008	8 312	148 094	34 300	2 302	148 920	28 369	9 383	545 300	9 141	58 847	49 499	8 960
2009	9 743	226 438	42 744	3 154	193 279	52 869	5 204	346 915	4 605	43 382	54 896	11 523
2010	9 113	335 768	71 219	1 965	148 768	34 518	5 400	388 658	3 504	20 998	56 630	13 014
2011	12 603	365 754	46 679	2 911	136 497	28 122	2 088	150 801	1 111	22 572	45 561	10 138
2012	9 016	381 043	40 598	1 741	126 670	21 532	1 405	102 461	901	12 570	39 850	6 214
2013	19 742	1 076 300	75 722	2 327	241 667	41 073	1 780	134 979	771	18 464	64 215	5 450
2014	24 777	1 289 999	45 153	4 247	333 766	28 770	2 067	157 477	223	28 093	118 660	3 782
2015	25 849	1 870 728	92 071	4 797	321 700	8 206	2 342	186 105	130	26 952	131 568	835
	124 965	6 068 778	512 769	27 321	2 438 368	505 036	139 094	7 289 320	102 312	326 630	718 656	99 193

As at 30 June 2016 and 31 December 2015, the gross credit exposure and individual/collective impairment by segment are presented as follows:

(Thousands of Euro)

	Jun 2016									
	Corporate		Construction and CRE		Retail - Mortgages		Retail - Others		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation										
Individual	3 877 578	253 607	1 806 610	386 785	20 120	1 286	59 656	11 679	5 763 964	653 357
Collective	2 087 784	217 215	562 244	110 714	7 099 788	103 865	645 979	78 268	10 395 795	510 062
	5 965 362	470 822	2 368 854	497 499	7 119 908	105 151	705 635	89 947	16 159 759	1 163 419

(Thousands of Euro)

	Dec 2015									
	Corporate		Construction and CRE		Retail - Mortgages		Retail - Others		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation										
Individual	3 955 155	288 360	1 852 872	385 946	18 136	1 948	72 748	22 222	5 898 911	698 476
Collective	2 113 623	224 409	585 496	119 090	7 271 184	100 364	645 908	76 971	10 616 211	520 834
	6 068 778	512 769	2 438 368	505 036	7 289 320	102 312	718 656	99 193	16 515 122	1 219 310

As at 30 June 2016 and 31 December 2015, the gross credit exposure and individual/collective impairment by activity sector are presented as follows:

(Thousands of Euro)

	Jun 2016											
	Construction		Industry		Commerce		Real estate		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation												
Individual	1 047 922	257 186	669 448	37 039	463 381	40 285	598 508	116 674	2 904 929	189 208	5 684 188	640 392
Collective	292 611	71 832	567 487	51 474	865 261	108 764	115 814	17 364	808 855	78 495	2 650 028	327 929
	1 340 533	329 018	1 236 935	88 513	1 328 642	149 049	714 322	134 038	3 713 784	267 703	8 334 216	968 321

(Thousands of Euro)

	Dec 2015											
	Construction		Industry		Commerce		Real estate		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Evaluation												
Individual	1 107 736	255 082	690 811	40 596	461 369	42 134	573 495	117 175	2 974 616	219 319	5 808 027	674 306
Collective	312 004	78 984	561 154	53 744	878 019	115 788	117 537	16 502	830 405	78 481	2 699 119	343 499
	1 419 740	334 066	1 251 965	94 340	1 339 388	157 922	691 032	133 677	3 805 021	297 800	8 507 146	1 017 805

As at 30 June 2016 and 31 December 2015, the restructured credit portfolio by restructuration measure is presented as follows:

(Thousands of Euro)

	Jun 2016								
	Credit in compliance			Default credit			Total		
Measure	Number of transactions	Exposure	Impairment	Number of transactions	Exposure	Impairment	Number of transactions	Exposure	Impairment
Term extension	861	87 905	9 657	515	62 081	13 868	1 376	149 986	23 525
Shortage period	2 493	298 233	21 171	2 303	647 525	235 851	4 796	945 758	257 022
New transaction with settlement	898	38 905	2 453	691	43 925	15 422	1 589	82 830	17 875
Interest rate decrease	8	614	17	115	12 522	5 039	123	13 136	5 056
Others	538	45 114	1 275	404	210 707	97 644	942	255 821	98 919
	4 798	470 771	34 573	4 028	976 760	367 824	8 826	1 447 531	402 397

(Thousands of Euro)

	Dec 2015								
	Credit in compliance			Default credit			Total		
Measure	Number of transactions	Exposure	Impairment	Number of transactions	Exposure	Impairment	Number of transactions	Exposure	Impairment
Term extension	930	86 385	4 039	491	64 137	19 046	1 421	150 522	23 085
Shortage period	2 948	368 008	38 268	2 214	635 098	216 983	5 162	1 003 106	255 251
New transaction with settlement	1 072	44 843	1 607	616	39 040	13 468	1 688	83 883	15 075
Interest rate decrease	11	972	12	122	13 037	5 300	133	14 009	5 312
Others	541	38 812	999	433	225 988	99 237	974	264 800	100 236
	5 502	539 020	44 925	3 876	977 300	354 034	9 378	1 516 320	398 959

The inflows and outflows in the restructured credit portfolio are presented as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Opening balance of the restructured portfolio (gross of impairment)	1 516 320	1 703 303
Restructured loans in the period	72 217	191 716
Accrual interest of the restructured loans portfolio	240	2 327
Settlement of restructured loans (partial or total)	(110 850)	(301 441)
Loans reclassified from "restructured" to "normal"	(30 396)	(79 585)
Closing balance of the restructured portfolio (gross of impairment)	1 447 531	1 516 320

As at 30 June 2016, the fair value of collateral underlying to credit portfolio of Corporate, Construction and Commercial Real Estate (CRE) and Retail - Mortgages segments is presented as follow:

(Thousands of Euro)

	Construction and CRE				Retail - Mortgages			
	Real estate		Other real collateral		Real estate		Other real collateral	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	5 203	633 877	1 129	63 388	106 266	12 985 999	322	12 210
>= 0,5 M€ e <1M€	286	200 598	46	28 408	347	214 525	1	500
>= 1 M€ e <5M€	328	691 867	23	35 592	37	55 554	-	-
>= 5 M€ e <10M€	37	268 187	3	19 115	-	-	-	-
>= 10 M€ e <20M€	26	373 361	1	12 609	2	37 500	-	-
>= 20 M€ e <50M€	10	294 689	-	-	-	-	-	-
>= 50M€	3	276 419	-	-	-	-	-	-
	5 893	2 738 998	1 202	159 112	106 652	13 293 578	323	12 710

As at 31 December 2015, the fair value of collateral underlying to credit portfolio of Corporate, Construction and Commercial Real Estate (CRE) and Retail - Mortgages segments is presented as follow:

(Thousands of Euro)

	Construction and CRE				Retail - Mortgages			
	Real estate		Other real collateral		Real estate		Other real collateral	
Fair value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	5 304	659 349	1 147	63 829	107 106	13 236 573	324	11 966
>= 0,5 M€ e <1M€	327	228 691	56	34 782	326	203 850	1	500
>= 1 M€ e <5M€	339	705 733	26	42 603	29	40 402	-	-
>= 5 M€ e <10M€	36	263 168	3	19 115	-	-	-	-
>= 10 M€ e <20M€	24	314 966	1	12 609	1	18 500	-	-
>= 20 M€ e <50M€	9	266 706	-	-	-	-	-	-
>= 50M€	2	201 334	-	-	-	-	-	-
	6 041	2 639 947	1 233	172 938	107 462	13 499 325	325	12 466

As at 30 June 2016 and 31 December 2015, the LTV ratio of Corporate, Construction and CRE and Retail - Mortgages segments is presented as follows:

(Thousands of Euro)

	Jun 2016			
Segment/ Ratio	Number of properties	Credit in compliance	Default credit	Impairment
Corporate				
Without property (*)	-	4 294 126	560 191	357 376
< 60%	2 280	261 355	106 517	35 220
>= 60% e < 80%	1 000	248 699	71 784	24 205
>= 80% e < 100%	961	251 138	69 259	19 707
>= 100%	246	40 494	61 799	34 314
Construction and CRE				
Without property (*)	-	698 137	356 528	160 285
< 60%	1 856	199 767	177 214	65 921
>= 60% e < 80%	927	131 678	147 825	53 909
>= 80% e < 100%	1 739	164 767	138 320	47 321
>= 100%	1 371	46 029	308 589	170 063
Retail - Mortgages				
Without property (*)	-	555 113	55 368	15 289
< 60%	58 465	2 385 291	39 613	10 065
>= 60% e < 80%	29 407	2 290 164	59 196	14 719
>= 80% e < 100%	16 318	1 422 221	88 993	23 832
>= 100%	2 462	95 814	128 135	41 246

(*) Includes operations with another type of associated collateral, namely financial collaterals.

(Thousands of Euro)

Segment/ Ratio	Dec 2015 Number of properties	Credit in compliance	Default credit	Impairment
Corporate				
Without property (*)	-	4 463 975	530 006	390 915
< 60%	2 270	304 827	69 579	30 008
>= 60% e < 80%	992	206 634	92 929	25 917
>= 80% e < 100%	960	254 179	48 879	19 188
>= 100%	261	18 737	79 033	46 741
Construction and CRE				
Without property (*)	-	784 139	336 175	172 239
< 60%	1 922	205 199	185 297	67 147
>= 60% e < 80%	939	82 298	166 947	60 523
>= 80% e < 100%	1 849	179 978	159 228	47 942
>= 100%	1 331	66 634	272 473	157 185
Retail - Mortgages				
Without property (*)	-	580 577	53 255	14 438
< 60%	58 068	2 362 897	43 038	10 633
>= 60% e < 80%	26 464	2 053 134	52 045	12 840
>= 80% e < 100%	19 009	1 674 499	86 516	23 709
>= 100%	3 921	250 723	132 636	40 692

(*) Includes operations with another type of associated collateral, namely financial collaterals.

As at 30 June 2016 and 31 December 2015, the fair value and net value of real estate received as default payments, by asset type and ageing, are presented as follows:

(Thousands of Euro)

Assets	Jun 2016 Number of properties	Asset fair value	Accounting value
Land	**1 776**	**313 611**	**282 874**
Urban	1 590	232 914	208 411
Rural	186	80 697	74 463
Buildings in development	**498**	**108 235**	**101 902**
Office	54	5 044	3 815
House	430	103 018	97 916
Other	14	173	171
Constructed buildings	**3 002**	**363 717**	**322 623**
Office	883	129 137	111 120
House	1 611	217 067	196 141
Other	508	17 513	15 362
	5 276	785 563	707 399

(Thousands of Euro)

Assets	Dec 2015		
	Number of properties	Asset fair value	Accounting value
Land	**1 792**	**310 331**	**278 094**
Urban	1 494	213 854	189 477
Rural	298	96 477	88 617
Buildings in development	**378**	**97 419**	**87 561**
Office	37	3 460	2 374
House	340	93 879	85 108
Other	1	80	79
Constructed buildings	**3 294**	**413 023**	**367 710**
Office	892	122 964	105 926
House	1 968	272 323	246 753
Other	434	17 736	15 031
	5 464	820 773	733 365

As at 30 June 2016 and 31 December 2015, the elapsed time since the recovery/execution of real estate received is presented as follows:

(Thousands of Euro)

Time elapsed since the transfer/execution	Jun 2016				
	< 1 year	>= 1 year and < 2,5 years	>= 2,5 years and < 5 years	>= 5 years	Total
Land	**34 809**	**101 082**	**145 183**	**1 800**	**282 874**
Urban	27 274	74 539	104 935	1 663	208 411
Rural	7 535	26 543	40 248	137	74 463
Buildings in development	**15 153**	**41 459**	**43 631**	**1 659**	**101 902**
Office	198	804	2 813	-	3 815
House	14 955	40 655	40 647	1 659	97 916
Other	-	-	171	-	171
Constructed buildings	**61 244**	**135 828**	**117 948**	**7 603**	**322 623**
Office	12 805	50 789	45 801	1 725	111 120
House	42 633	78 939	69 387	5 182	196 141
Other	5 806	6 100	2 760	696	15 362
	111 206	278 369	306 762	11 062	707 399

(Thousands of Euro)

Time elapsed since the transfer/execution	Dec 2015				
	< 1 year	>= 1 year and < 2,5 years	>= 2,5 years and < 5 years	>= 5 years	Total
Land	**52 758**	**107 468**	**116 097**	**1 771**	**278 094**
Urban	18 248	89 740	79 853	1 636	189 477
Rural	34 510	17 728	36 244	135	88 617
Buildings in development	**32 139**	**16 988**	**37 409**	**1 025**	**87 561**
Office	132	250	1 992	-	2 374
House	32 007	16 738	35 338	1 025	85 108
Other	-	-	79	-	79
Constructed buildings	**97 543**	**174 450**	**89 040**	**6 677**	**367 710**
Office	17 637	59 273	27 721	1 295	105 926
House	71 962	110 763	59 317	4 711	246 753
Other	7 944	4 414	2 002	671	15 031
	182 440	298 906	242 546	9 473	733 365

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 2016	Dec 2015
Financial assets held for trading		
Securities		
Shares	6 397	7 363
Bonds	10 913	12 435
Investment fund units	584	-
	17 894	19 798
Derivatives		
Derivatives financial instruments with positive fair value	13 745	14 027
	31 639	33 825
Financial liabilities held for trading		
Securities		
Short sales	1 992	1 896
Derivatives		
Derivatives financial instruments with negative fair value	75 505	49 654
	77 497	51 550

The balance Derivatives financial instruments with positive fair value includes the amount of Euro 4,735 thousand (31 December 2015: Euro 7,921 thousand) referred to instruments associated to assets or liabilities at fair value through profit and loss.

As at 30 June 2016, the balance Derivatives financial instruments with negative fair value includes the valuation of embedded derivatives separated from the host contracts in accordance with the accounting policy described in note 1 c), in the amount of Euro 60,000 thousand (31 December 2015: Euro 35,166 thousand).

As at 30 June 2016, the balance Derivatives financial instruments with negative fair value also includes the amount of Euro 5,019 thousand (31 December 2015: Euro 6,923 thousand) referred to instruments associated to assets or liabilities at fair value through profit and loss, with the exception of loans and advances to customers in the amount of Euro 1,476 thousand (31 December 2015: Euro 1,449 thousand).

As referred in IFRS 13 financial instruments are measured in accordance with the following levels of valuation described in note 47, as follows:

(Thousands of Euro)

	Jun 2016		
	Level 1	**Level 2**	**Total**
Financial assets held for trading			
Securities			
Shares	6 397	-	6 397
Bonds	10 913	-	10 913
Units of participation	584	-	584
	17 894	-	17 894
Derivatives			
Derivatives financial instruments with positive fair value	-	13 745	13 745
	17 894	13 745	31 639
Financial liabilities held for trading			
Securities			
Short sales	1 992	-	1 992
Derivatives			
Derivatives financial instruments with negative fair value	-	75 505	75 505
	1 992	75 505	77 497

(Thousands of Euro)

	Dec 2015		
	Level 1	**Level 2**	**Total**
Financial assets held for trading			
Securities			
Shares	7 363	-	7 363
Bonds	12 435	-	12 435
	19 798	-	19 798
Derivatives			
Derivatives financial instruments with positive fair value	-	14 027	14 027
	19 798	14 027	33 825
Financial liabilities held for trading			
Securities			
Short sales	1 896	-	1 896
Derivatives			
Derivatives financial instruments with negative fair value	-	49 654	49 654
	1 896	49 654	51 550

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

The balance of Derivatives financial instruments as at 30 June 2016, in comparison with the assets and liabilities associated, registered at fair value, can be analysed as follows:

(Thousands of Euro)

		Jun 2016						
		Derivative			Related Asset/Liability			
Derivative	Related financial asset/ liability	Notional	Fair value	Changes in the fair value in the period	Fair value	Changes in the fair value in the period	Book value	Reimbursement amount at maturity date
Interest rate swap	Debt securities issued	87 656	410	(407)	(128)	1 540	79 012	78 785
Interest rate swap	Deposits from customers	39 550	(192)	299	29	21	38 739	38 739
Interest rate swap	Deposits from others financial institutions	54 594	3 962	(2 575)	1 074	553	73 265	60 000
Interest rate swap	Mortgages obligations	5 413 257	(1 869)	1 166	-	-	-	-
Interest rate swap	Loans and advances to customers	44 794	(1 476)	(27)	1 231	(102)	43 505	43 340
Interest rate swap	Others	2 705 946	(2 910)	484	-	-	-	-
Currency swap	-	76 674	351	(185)	-	-	-	-
Futures (Short)	-	11 235	-	-	-	-	-	-
Forwards	-	28 769	(48)	(45)	-	-	-	-
Options	-	87 781	12	(19)	-	-	-	-
Credit Default Swaps	-	75 000	(60 000)	(24 824)	-	-	-	-
		8 625 256	(61 760)	(26 133)	2 206	2 012	234 521	220 864

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

(Thousands of Euro)

		Dec 2015						
		Derivative			Related Asset/Liability			
Derivative	Related financial asset/ liability	Notional	Fair value	Changes in the fair value in the period	Fair value	Changes in the fair value in the period	Book value	Reimbursement amount at maturity date
Interest rate swap	Debt securities issued	87 656	817	(2 010)	(1 668)	(1 270)	98 167	87 437
Interest rate swap	Deposits from customers	55 150	(491)	892	8	(12)	54 654	54 602
Interest rate swap	Deposits from others financial institutions	59 620	6 537	(2 701)	521	(1 321)	71 065	60 000
Interest rate swap	Mortgages obligations	5 460 455	(3 035)	1 512	-	-	-	-
Interest rate swap	Loans and advances to customers	44 453	(1 449)	510	1 333	(519)	44 825	44 453
Interest rate swap	Others	2 791 779	(3 394)	9 748	-	-	-	-
Currency swap	-	94 521	536	(126)	-	-	-	-
Futures (Short)	-	4 676	-	-	-	-	-	-
Futures (Long)	-	805	-	-	-	-	-	-
Forwards	-	275 068	(3)	1	-	-	-	-
Options	-	107 034	31	(328)	-	-	-	-
Credit Default Swaps	-	85 000	(35 176)	(35 176)	-	-	-	-
		9 066 217	(35 627)	(27 678)	194	(3 122)	268 711	246 492

The fair value component of financial liabilities recognised at fair value through profit or loss attributable to the to the CEMG's credit risk is negative and the respective accumulated value amounts to Euro 1,367 thousand at 30 June 2016 (31 December 2015: Euro 5,293 thousand), as described in note 6.

23 Financial Assets available for sale

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016				
	Cost (1)	Fair value reserve		Impairment Losses	Book Value
		Positive	Negative		
Fixed income securities					
Issued by public entities					
Portuguese	1 392 245	7 135	(33 052)	-	1 366 328
Foreign	162 019	1 603	(10)	(7 092)	156 520
Issued by other entities					
Portuguese	3 755 145	262	(1 269)	(42 918)	3 711 220
Foreign	258 345	13 499	(2 243)	(45 166)	224 435
Commercial paper	998	-	-	(998)	-
Variable income securities					
Shares					
Portuguese	77 385	25 861	(1 625)	(2 498)	99 123
Foreign	72 382	14 045	(1 721)	(308)	84 398
Participation units	1 021 932	16 894	(702)	(98 190)	939 934
	6 740 451	79 299	(40 622)	(197 170)	6 581 958

(1) Acquisition cost relating to shares and amortised cost for debt securities.

(Thousands of Euro)

	Dec 2015				
	Cost (1)	Fair value reserve		Impairment Losses	Book Value
		Positive	Negative		
Fixed income securities					
Issued by public entities					
Portuguese	1 020 265	5 761	(22 953)	-	1 003 073
Foreign	1 246 874	11 541	(3 713)	(7 343)	1 247 359
Issued by other entities					
Portuguese	3 900 563	739	(1 550)	(39 615)	3 860 137
Foreign	280 483	15 803	(25 640)	(14 949)	255 697
Commercial paper	998	-	-	(998)	-
Variable income securities					
Shares					
Portuguese	78 635	9 522	(1 634)	(3 684)	82 839
Foreign	75 141	16 128	(12 430)	(2 114)	76 725
Participation units	1 004 385	15 187	(880)	(56 763)	961 929
	7 607 344	74 681	(68 800)	(125 466)	7 487 759

(1) Acquisition cost relating to shares and amortised cost for debt securities.

As at 31 December 2015, the balance Financial assets available for sale includes securities subject to hedging operations, whose impact in the statement of financial position is positive and amounts to Euro 286 thousand, as referred in note 24.

As referred in note 53, the balance Variable income securities – Investment fund units includes, as at 30 June 2016, the amount of Euro 48,795 thousand (31 December 2015: Euro 56,517 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 2016 and 31 December 2015, this amount includes Euro 6,153 thousand (31 December 2015: 6,153 thousand) engaged to "junior" securities (investment fund units with a more subordinated character), which are fully provided, as described in notes 21 and 53.

As at 30 June 2016 an impairment loss in the amount of Euro 6,841 thousand was recognised referring to the devaluation of the participation units held in Vallis Construction Sector Fund, as described in notes 15 and 53.

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, being 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 conducted at the fair value of the debt instrument at the date of reclassification;
- The fair value of securities at the reclassification date will become the new cost;
- As at the date of reclassification a new effective interest rate is determined as the basis of calculation and recognition of interest and amortized 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 amortized cost is not recognised;
- It's performed a review of subsequent impairment taking into consideration the new amortized cost, the new effective interest rate and the expected future cash flows; and

- Any impairment loss, measured as the difference between the new amortized 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 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, as described in note 44.

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

(Thousands of Euro)

	At the date of reclassification		Jun 2016		
	Book value	Fair value	Book value	Fair value	Difference
Financial assets available for sale to:					
Loans to customers	358 488	358 488	358 036	368 368	10 332
	358 488	358 488	358 036	368 368	10 332

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

(Thousands of Euro)

	Income for the period	Change	
	Interest	Reserves of fair value	Equity
Financial assets available for sale to:			
Loans to customers	6 632	(228)	(228)
	6 632	(228)	(228)

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

(Thousands of Euro)

	Income for the period			
	Changes in fair value	Retained earnings	Reserves of fair value	Equity
Financial assets available for sale to:				
Loans to customers	10 332	-	10 560	10 560
	10 332	-	10 560	10 560

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

(Thousands of Euro)

	At the date of reclassification		Dec-15		
	Book value	Fair value	Book value	Fair value	Difference
Financial assets available for sale to:					
Loans to customers	358 488	358 488	358 488	358 488	-
	358 488	358 488	358 488	358 488	-

As at 30 June 2016 and 31 December 2015, the analysis of financial assets available for sale net of impairment, by valuation levels, is presented as follows:

(Thousands of Euro)

	Jun 2016				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Issued by public entities					
Portuguese	1 366 328	-	-	-	1 366 328
Foreign	156 455	65	-	-	156 520
Issued by other entities				-	
Portuguese	-	3 005	3 708 215	-	3 711 220
Foreign	77 184	87 597	59 654	-	224 435
	1 599 967	90 667	3 767 869	-	5 458 503
Variable income securities					
Shares					
Portuguese	500	-	93 451	5 172	99 123
Foreign	3 691	-	80 369	338	84 398
Participation units	141 710	-	798 224	-	939 934
	145 901	-	972 044	5 510	1 123 455
	1 745 868	90 667	4 739 913	5 510	6 581 958

(Thousands of Euro)

	Dec 2015				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Issued by public entities					
Portuguese	1 003 073	-	-	-	1 003 073
Foreign	1 242 231	5 128	-	-	1 247 359
Issued by other entities					
Portuguese	5 909	3 522	3 850 706	-	3 860 137
Foreign	91 670	100 924	63 103	-	255 697
	2 342 883	109 574	3 913 809	-	6 366 266
Variable income securities					
Shares					
Portuguese	944	-	77 011	4 884	82 839
Foreign	6 551	-	69 836	338	76 725
Participation units	142 961	-	818 968	-	961 929
	150 456	-	965 815	5 222	1 121 493
	2 493 339	109 574	4 879 624	5 222	7 487 759

As referred in IFRS 13, financial instruments are measured according to the valuation levels described in note 47.

The assets included in level 3, in the balance Variable income securities – participation units includes participation units in real estate investment funds, in credit recovery specialized funds and venture capital funds whose value resulted from the disclosure of the Net Asset Value of the Fund (NAV) determined by the management company, in accordance with the respective funds accounts, amounting to Euro 798,224 thousand (31 December 2015: Euro 818,968 thousand). The assets of these funds result from a diverse set of assets and liabilities valued in the respective accounts, at fair value, by internal methodologies used by the management company. It is not practicable to provide a sensitivity analysis of the different components of assumptions used by entities in the presentation of NAV of funds, nevertheless it shosuld be noted that a variation of +/- 10% in NAV has an impact of Euro 79,822 thousand (31 December 2015: 81,817 thousand) in equity.

The assets included in level 3, Fixed income securities – Securities issued by other entities record notes on securitisation operations performed by CEMG and which are recorded as assets and liabilities associated with transferred assets.

Additionally, as at 31 December 2015, assets classified in level 3 also include the participation held by CEMG in Visa Europe Limited, amounting to Euro 7,900 thousand.

The instruments classified as level 3 have associated unrealised gains and losses in the positive amount of Euro 10,641 thousand (31 December 2015: positive amount of Euro 21,077 thousand) recognised in fair value reserves.

As at 30 June 2016, the impairment amount registered for these securities amounts to Euro 155,345 thousand at 30 June 2016 (31 December 2015: Euro 112,115 thousand). There were no transfers from and to this level.

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

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

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

(Thousands of Euro)

	Jun 2016	Jun 2015
Balance on 1 January	125 466	91 158
Charge for the period	89 384	48 845
Write-back for the period	(13 478)	(27 387)
Charge-off	(4 202)	(23 888)
Balance on 30 June	197 170	88 728

As at 30 June 2016, it was recognised an impairment for investment units of real estate investment funds in the amount of Euro 34,588 thousand (31 December 2015: Euro 46,950 thousand), as referred in note 15.

The evolution of the debt crisis of the Euro countries associated with the deterioration of economic and financial situation of the Greek State and the inability to access markets determined that the Greek economy will remain dependent of the continued support from EU and the IMF. As at 30 June 2016, impairment losses recognised in relation to the sovereign debt of Greece amounts to Euro 7,092 thousand (31 December 2015: Euro 7,343 thousand), as described in note 52.

The 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 3,840 million at 30 June 2016 (31 December 2015: Euro 3,707 million);

- The securities pledged as collateral to the Portuguese Securities Market Commission under the Investors' Compensation Fund amounts to Euro 1,750 thousand at 30 June 2016 and at 31 December 2015;

- The amount of the EIB loan obtained is collateralised by securities of Portuguese and Greek states in the nominal amount of Euro 695,986 thousand (31 December 2015: Euro 706,638 thousand), registered in the balance Available for sale financial assets; and

- Securities pledged as collateral to the Deposit Guarantee Fund with nominal amount of Euro 25 million (31 December 2015: Euro 25 million).

These financial assets pledged as collateral can be executed in case of default of contractual obligations assumed by the Group under the terms and conditions of signed contracts, as described in notes 32 and 33.

24 Hedging derivatives

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Asset		
Interest rate swap	-	9
Liability		
Interest rate swap	-	439

Hedging derivatives are valued in accordance with internal valuation techniques based on observable market data. Therefore, in accordance with the hierarquisation of the valuation sources, and as referred in IFRS 13, these instruments are classified as level 2, as described in note 47.

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

CEMG performs periodical effectiveness tests of the hedging relationships.

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

(Thousands of Euro)

	Jun 2016	Dec 2015
Financial assets available for sale	-	286

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

(Thousands of Euro)

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

As at 30 June 2016, the fair value hedge operations can be analysed as follows:

(Thousands of Euro)

	Jun 2016						
Derivative	Hedged item	Hedged risk	Notional	Fair value(1)	Changes in the fair value of the derivative in the year	Hedge item fair value(2)	Changes in the fair value of the hedge item in the year (2)
Interest rate swaps	Financial assets available for sale	Interest rate	-	-	430	-	(286)
			-	-	430	-	(286)

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

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

(Thousands of Euro)

	Dec 2015						
Derivative	Hedged item	Hedged risk	Notional	Fair value[(1)]	Changes in the fair value of the derivative in the year	Hedge item fair value[(2)]	Changes in the fair value of the hedge item in the year [(2)]
Interest rate swaps	Financial assets available for sale	Interest rate	5 000	(430)	1 004	286	(944)
			5 000	(430)	1 004	286	(944)

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

25 Held-to-maturity investments

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Fixed income securities		
Bonds issued by Portuguese public entities	1 125 798	26 130

The fair value of held-to-maturity investments portfolio is presented in note 47.

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

The held-to-maturity investments, as at 30 June 2016, can be 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%	36 606
OT 4.450% 15-JUN-2018	March 2008	June 2018	Fixed rate of 4.450%	216 190
OT 2.200% 17-OCT-2022	September 2015	October 2022	Fixed rate of 2.200%	91 242
OT 3.850% 15-APR-2021	February 2005	April 2021	Fixed rate of 3.850%	254 079
OT 4.950% 25-OCT-2023	June 2008	October 2023	Fixed rate of 4.950%	102 480
OT 5.650% 15-FEB-2024	May 2013	February 2024	Fixed rate of 5.650%	97 383
OT 2.875% 21-JUL-2026	January 2016	July 2026	Fixed rate of 2.875%	327 818
				1 125 798

The held-to-maturity investments, as at 31 December 2015 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%	26 130
				26 130

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

During the first half of 2016 and during 2015, CEMG did not transfer from or to this assets category.

As at 30 June 2016, the analysis of held-to-maturity investments by maturity is as follows:

(Thousands of Euro)

	Jun 2016				
	Due within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Bonds issued by portuguese public issuers	-	-	470 269	655 529	1 125 798
	-	-	470 269	655 529	1 125 798

As at 31 December 2015, the analysis of held-to-maturity investments by maturity is as follows:

(Thousands of Euro)

	Dec 2015				
	Due within 3 months	3 months to 1 year	1 year to 5 years	Over 5 years	Total
Bonds issued by portuguese public issuers	-	-		26 130	26 130
	-	-	-	26 130	26 130

26 Investments in subsidiaries and associated companies

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Montepio Holding, S.G.P.S., S.A.	341 250	341 250
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	636	636
	354 083	354 083
Impairment of investments in subsidiaries and associated companies	149 368	-
	204 715	354 083

During the first half of 2016 an impairment for the investment in Montepio Holding, S.G.P.S., S.A. was registered in the amount of Euro 149,368 thousand, as described note 16.

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

The value in use was determined based on the business plan approved by management. According to the business specificity and markets where the Group subsidiaries develop their activity, were also considered differentiated levels for the discount rate, for solvency levels required for banking activity and for the perpetuity growth 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, of the recoverable amount calculated for the subsidiary included in this analysis.

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

Montepio Holding

CEMG performed an impairment analysis regarding the investments in its subsidiaries. This analysis was performed considering the recoverable amount of the businesses developed by each of these subsidiaries.

The results of the performed analyses resulted in the recognition in the financial satements of the first half of 2016, of an impairment in CEMG in the amount of Euro 149 million, related with the investment held in Montepio Holding, S.G.P.S., S.A. ("Montepio Holding").

Montepio Holding holds 100% of capital and voting rights of Montepio Investimento, S.A., Montepio Crédito, S.A. and Montepio Valor S.A., as well as a participation of 81.57% in Finibanco Angola, S.A., and, since 2014 , a participation of 45.78% in Banco Terra, S.A.

Considering that the investment in subsidiaries represents approximatelly 80% of the Assets of Montepio Holding, it was established that the best estimate for the valuation of this entity was the fair value of those participations. According to this rational, the valuation attributable to Montepio Holding was estimated in Euro 192 million.

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

(Thousands of Euro)

	Jun 2016	Jun 2015
Balance on 1 January	-	-
Charge for the period	149 368	-
Balance on 30 June	149 368	-

The financial information concerning subsidiaries and associated companies are presented in the following table:

(Thousands of Euro)

	Nnumber of shares	Percentage of direct shares	Unit value Euros	Acquisition cost
30 June 2016				
Montepio Holding, S.P.G.S., S.A.	175 000 000	100,00%	1,00	341 250
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	636
				354 083
31 December 2015				
Montepio Holding, S.P.G.S., S.A.	175 000 000	100,00%	1,00	341 250
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	636
				354 083

The list of subsidiaries and associated CEMG's companies is presented in note 54.

27 Non-current assets held for sale

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Investments arising from recovered loans	831 831	866 484
Impairment for non-current assets held for sale	(123 797)	(132 619)
	708 034	733 865

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

The balance Investments arising from recovered loans includes the amount of Euro 1,475 thousand (31 December 2015: Euro 1,558 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 840 thousand (31 December 2015: Euro 1,057 thousand).

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

CEMG has implemented a plan to sale immediately the non-current assets held for sale. According to CEMG's expectation, it is intended that these assets are available for sale in a period less than 1 year and CEMG has a strategy for its sale. Nevertheless, given the current market conditions, in some situations it is not possible to conclude these sales before the expected deadline. This balance includes properties and other assets for which CEMG has already established promissory sale contracts in the amount of Euro 16,354 thousand (31 December 2015: Euro 18,202 thousand).

The movements for the six months period ended 30 June 2016 and during 2015, for non-current assets held for sale are analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Opening balance	866 484	909 549
Acquisitions	41 782	204 443
Disposals	(76 373)	(247 099)
Other movements	(62)	(409)
Closing balance	831 831	866 484

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

(Thousands of Euro)

	Jun 2016	Jun 2015
Balance on 1 January	132 619	130 045
Charge for the period	13 560	8 748
Write-back for the period	(6 778)	(1 221)
Charge-off	(15 604)	-
Balance on 30 June	123 797	137 572

In addition to the impairment losses, CEMG recognised losses in the amount of Euro 4,340 thousand arising from the disposal of real estate properties and gains in the amount of Euro 3,232 thousand (30 June 2015: losses of Euro 12,693 thousand and gains of Euro 1,008 thousand), as described in note 9.

28 Property and equipment

This balance is analysed as follows:

	Jun 2016	Dec 2015
	(Thousands of Euro)	
Investment		
Real Estate		
For own use	207 126	7 557
Leasehold improvements in rented buildings	40 841	40 561
Work in progress	10	10
Equipment		
Computer equipment	86 840	84 724
Interior installations	20 186	20 218
Furniture	18 913	19 273
Security equipment	7 158	7 243
Office equipment	2 546	2 702
Motor vehicles	1 927	2 246
Other equipment	1	1
Works of art	2 870	2 870
Assets in operacional lease	602	656
Other tangible assets	1 864	1 938
Work in progress	3 562	3 439
	394 446	193 438
Accumulated depreciation		
Charge for the period	(5 198)	(9 484)
Accumulated charge in previous periods	(160 860)	(152 699)
	(166 058)	(162 183)
	228 388	31 255

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 49 and 57.

29 Intangible assets

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Investment		
Software	84 853	78 045
Other intangible assets	88 333	88 333
Work in progress	4 880	6 361
	178 066	172 739
Accumulated depreciation		
Charge for the period	(6 059)	(12 822)
Accumulated charge in previous periods	(54 178)	(41 355)
	(60 237)	(54 177)
	117 829	118 562
Impairment for intagible assets	(88 333)	(88 333)
	29 496	30 229

The balance Other intangible assets includes de amount of Euro 88,272 thousand representing the difference between assets and liabilities of Montepio Investimento, S.A. (previously designated as Finibanco, S.A.) acquired by CEMG in 4 April 2011 and its accounting value and considers the fair value of those assets and liabilities as well as the business generating potential associated to Montepio Investimento, S.A. network, as described in note 1 a).

This intangible asset does not have finite useful life, so, as referred in accounting policy described in notes 1 q) and 1 z), its recoverable amount is annually reviewed, regardless of the existence of impairment signs. Any impairment losses are recognised in income statement.

As at 31 December 2015 and 2014, the CEMG's Executive Board of Directors recorded an impairment in the amount of Euro 88,333 thousand, which corresponds to the total value of the caption Other intangible asses, based on the estimate of the future economic benefits of this asset.

30 Taxes

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

(Thousands of Euro)

	Asset		Liability		Net	
	Jun 2016	Dec 2015	Jun 2016	Dec 2015	Jun 2016	Dec 2015
Financial instruments	12 288	20 713	(24 768)	(23 586)	(12 480)	(2 873)
Provisions / impairment						
Granted credit impairment	187 701	165 498	-	-	187 701	165 498
Other risks and charges	7 674	8 384	-	-	7 674	8 384
Impairment on securities and non-financial assets	44 638	965	-	-	44 638	965
Employees benefits	44 653	40 928	-	-	44 653	40 928
Other	407	408	(53)	(53)	354	355
Tax losses carried forward	183 659	176 314	-	-	183 659	176 314
Net deferred tax asset / (liability)	481 020	413 210	(24 821)	(23 639)	456 199	389 571

Deferred taxes are calculated rising 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 14,593 thousand (31 December 2015: Euro 15,919 thousand) related to deferred taxes of actuarial losses recognised against reserves as a result of the change in the accounting policy. This balance also includes the amount of Euro 3,518 thousand (31 December 2015: Euro 3,633 thousand) related to deferred taxes associated with the expense generate with the transfer of liabilities with pensioners to the general social security scheme.

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

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

The deferred tax rate is analysed as follows:

	Jun 2016	Dec 2015
Income tax (a)	21.0%	21.0%
Municipal surcharge rate	1.5%	1.5%
State surcharge rate	7.0%	7.0%
Total (b)	29.5%	29.5%

(a) Applicable to deferred taxes related to tax losses.

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

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

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

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

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

(i) Recovery of the core banking product;

(ii) Decrease of operating costs;

(iii) Reinforcement of risk management;

(iv) Robustness of the institutional model.

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

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

(Thousands of Euro)

Expire date	Jun 2016	Dec 2015
2017	29 679	32 075
2018	47 827	47 074
2027	106 153	97 165
	183 659	176 314

Tax recognised in the income statement and reserves for the six-month period ended at 30 June 2016 and during 2015, is analysed as follows:

(Thousands of Euro)

	Jun 2016		Dec 2015	
	Charged to net (loss)/income	Charged to reserves and retained earnings	Charged to net (loss)/income	Charged to reserves and retained earnings
Financial instruments	-	(9 607)	-	17 746
Provisions / impairment	65 166	-	(35 706)	-
Employees benefits	5 052	(1 328)	4 966	325
Other	-	-	305	-
Tax losses carried forward	7 345	-	100 582	-
Deferred tax charged to profit/(loss)	77 563	(10 935)	70 147	18 071
Current tax charged to profit/(loss)	(1 517)	-	7 650	-
	76 046	(10 935)	77 797	18 071

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

(Thousands of Euro)

	Jun 2016		Dec 2015	
	%	Value	%	Value
Profit before taxes		(304 534)		(71 839)
Income tax based on the current nominal tax rate	21.0	(63 952)	21	(15 086)
Municipal and state surcharge	(0.3)	784	-	-
Extraordinary contribution for the banking sector	(0.9)	2 687	(3)	2 140
Post-employment benefits and Pension Fund	(0.4)	1 115		1 265
Charge/reversal of taxable provisions/impairments	(1.4)	4 231	(6)	4 561
Autonomous taxation	(0.2)	632	(1)	494
Corrections to previous periods	0.3	(847)	10	(7 162)
Effect of differences in income tax for the period	7.6	(23 134)	(0)	289
Other	(0.8)	2 438	9	(6 325)
Income tax for the period	25.0	(76 046)	28	(19 824)

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 2013 period. As a result of the inspection, CEMG was object of an additional payment of income tax, related to autonomous taxation and some adjustments to the calculated tax loss. CEMG paid the settled amounts, without prejudice of appeal regarding some corrections made by the tax authorities.

On this basis, CMEG did not recognise any asset regarding any potential tax recovery.

31 Other assets

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Other debtors	250 287	278 831
Sundry debtors	78 391	21 547
Other accrued income	39 080	30 324
Recoverable subsidies from Portuguese Government	5 202	5 241
Deferred costs	1 114	515
	374 074	336 458
Impairment for other assets	(18 333)	(17 996)
	355 741	318 462

As at 30 June 2016, the balance Sundry debtors includes the earn-out (deferred cash: shall be paid shortly after the 3rd year of the transaction's conclusion) of Visa Inc., in the amount of Euro 704 thousand, as described in note 23.

As at 30 June 2016, the balance Other accrued income includes the amount of Euro 36,404 thousand (31 December 2015: Euro 26,000 thousand) regarding the estimated cost with the provision of services of CMEG to Montepio Geral Associação Mutualista, as described in note 10.

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

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

(Thousands of Euro)

	Jun 2016	Dec 2015
Overdue subsidies unclaimed	3 200	3 283
Recoverable subsidies from the Portuguese Government	1 872	1 768
Subsidies unclaimed	130	190
	5 202	5 241

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

(Thousands of Euro)

	Jun 2016	Dec 2015
SilverEquation	164 883	161 420
Supplementary capital contributions	14 910	14 910
Public Entities	12 468	14 198
Real estate	7 115	7 115
Montepio Geral - Associação Mutualista	-	45 100
Other	50 911	36 088
	250 287	278 831

The balance SilverEquation includes the receivable amounts under the operation of sale of credits and property to SilverEquation, as described in note 21.

As at 30 June 2016, the balance Others includes the receivable amount under the operation of sale of credits performed in the first half of 2016, as described in note 21.

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

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 53. These supplementary capital contributions are fully provided.

As at 30 June 2016, the balance Public Entities includes the receivable amount of Euro 12,468 (31 December 2015: 14,198 thousand) from public entities, mostly related with courts in the context of insolvency proceedings and credit claims.

As at 30 June 2016 and 31 December 2015, the balance Real Estate includes the amount of Euro 7,115 thousand related with the receivable amounts from the sale of properties classified as non-current assets held for sale.

The balance Others includes the amoun of uro 1,214 thousand regarding the sale of the shareholding in Iberpartners, Cafés, S.G.P.S., S.A.

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

(Thousands of Euro)

	Jun 2016	Jun 2015
Balance on 1 January	17 996	3 086
Charge for the period	15	-
Write-back for the period	(53)	-
Charge-off	(22)	-
Transfers	397	-
Balance on 30 June	18 333	3 086

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.

32 Deposits from central banks

As at 30 June 2016 and 31 December 2015, this balance is related to deposits obtained in the European System of Central Banks and is pledged by securities from the available for sale portfolio, as described in note 23.

33 Deposits from other financial institutions

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016			Dec 2015		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from credit institutions in Portugal						
Deposits repayable on demand	50 099	-	50 099	14 437	-	14 437
Term deposits	-	36 423	36 423	-	25 041	25 041
Other deposits	432	-	432	-	-	-
	50 531	36 423	86 954	14 437	25 041	39 478
Deposits from credit institutions abroad						
EIB loan	-	520 562	520 562	-	560 644	560 644
OIC loan	-	-	-	-	-	-
Deposits repayable on demand	82 863	-	82 863	46 822	-	46 822
Term deposits	-	304 389	304 389	-	435 504	435 504
Sales operations with repurchase agreement	-	760 990	760 990	-	860 210	860 210
CSA's	6 380	-	6 380	10 530	-	10 530
Repos	822	-	822	-	48	48
Other deposits	2 608	113 061	115 669	2 277	72 280	74 557
	92 673	1 699 002	1 791 675	59 629	1 928 686	1 988 315
Adjustments to hedge operations value	1 074	-	1 074	521	-	521
	144 278	1 735 425	1 879 703	74 587	1 953 727	2 028 314

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

The balance Deposits from other financial institutions includes issuances at fair value according to internal valuation methodologies, considering mainly observable data from the market, with the amount of Euro 73.265 thousand (31 December 2015: Euro 71.065 thusand). 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 amount of the EIB loan is collateralised by securities of Portuguese and Greek states in the amount of Euro 695,986 thousand (31 December 2015: Euro 706,638 thousand), registered in the balance Financial assets available for sale, as described in note 23.

The balance Deposits from other financial institutions also includes issues subject to hedging operations whose impact on the book value amounts to Euro 1,074 thousand (31 December 2015: Euro 521 thousand). Financial liabilities included in this balance are revaluated against results, in accordance with the accounting policy described in note 1 d). At 30 June 2016, it was recognised a loss in the amount of Euro 553 thousand (31 December 2015: gain in the amount of Euro 1,321 thousand), related with changes in the hedge amount, as referred in notes 6 and 22.

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

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

34 Deposits from customers

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016			Dec 2015		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits repayable on demand	3 054 764	113 144	3 167 908	2 555 461	116 502	2 671 963
Time deposits	-	8 549 094	8 549 094	-	9 421 738	9 421 738
Saving accounts	-	113 139	113 139	-	106 359	106 359
Other deposits	12 719	306 171	318 890	7 672	-	7 672
Adjustments arising from hedging operations	29	-	29	8	-	8
	3 067 512	9 081 548	12 149 060	2 563 141	9 644 599	12 207 740

In the terms of Ordinance no. 180/94, of 15 December, the deposit guarantee fund was established to guarantee the reimbursement of funds deposited in credit institutions. The criteria to calculate the annual contributions to the referred fund are defined by Regulation of Bank of Portugal No. 11/94, from 29 December.

The caption Time deposits includes deposits at fair value, measured in accordance with internal evaluation techniques considering, mainly, observable market inputs, in the amount of Euro 38,739 thousand (31 December 2015: Euro 54,654 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 c), having recognised as at 30 June 2016, a loss in the amount of Euro 21 thousand (31 December 2015: gain of Euro 12 thousand), regarding the fair value variations resulting from CEMG's credit risk, as described in notes 6 and 22.

35 Debt securities issued

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Euro Medium Term Notes (EMTN)	51 580	61 138
Bonds	1 050 938	1 340 138
Covered bonds	520 080	520 113
	1 622 598	1 921 389

The fair value of the debt securities issued is presented in note 47.

The balance Debt securities issued includes issues at fair value in the amount of Euro 79,012 thousand (31 December 2015: Euro 98,167 thousand), according with internal valuation techniques and considering, mainly, observable market data. According with the hierarchy of the valuation sources, as referred in IFRS 13, these instruments are classified in level 2. Financial liabilities are revalued against income statement, as referred in the accounting policy presented in note 1 c). As at 30 June 2016 a loss of Euro 1,540 thousand (31 December 2015: a loss of Euro 1,131 thousand) was recognised regarding the fair value variations resulting from CEMG 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 performed issuances amounting to Euro 2,000,000 thousand at nominal value.

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

(milhares de euros)

Description	Nominal value	Book value	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody´s/Fitch/Dbrs)
Covered bonds - 2S	1 000 000	1 000 190	DEC 2009	DEC 2016	Quarterly	Euribor 3M + 0.75%	Baa1/BBB-/A
Covered bonds - 4S	500 000	500 049	MAY 2013	MAY 2017	Monthly	Euribor 1M + 0.75%	Baa1/BBB-/A
Covered bonds- 5S	500 000	500 157	DEC 2015	DEC 2020	Quarterly	Euribor 3M + 0.80%	Baa1/BBB-/A
	2 000 000	2 000 396					

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

(Thousands of Euro)

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

The operations carried out by the Group under the Issuance of Covered Bonds Programme of CEMG are presented as follows:

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

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 2016, the amount of credits that collateralise these issues amounts to Euro 2,725,816 thousand (31 December 2015: Euro 2,727,400 thousand), as referred in note 21.

At 30 June 2016 and 31 December 2015, CEMG Group holds in its portfolio mortgage bonds with a nominal value of Euro 1,480,000 thousand (December 2015: Euro 1,480,000 thousand).

The movements in debt securities issued during the first half of 2016 is analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Issues	Repayments	Net Repurchase	Other movements [(a)]	Balance on 30 June
Euro Medium Term Notes (EMTN)	61 138	-	-	(11 000)	1 442	51 580
Bonds	1 340 138	-	(75 248)	(204 070)	(9 882)	1 050 938
Covered bonds	520 113	-	-	-	(33)	520 080
	1 921 389	-	(75 248)	(215 070)	(8 473)	1 622 598

(a) Other movements include accrued interest, fair value hedge, fair value adjustments and foreign exchange adjustments.

As at 30 June 2016, CEMG performed the reimbursement of Euro 75,248 thousand (31 December 2015: Euro 899,327 thousand).

The movements in debt securities issued during the period ended at 31 December 2015 is analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Issues	Repayments	Net Repurchase	Other movements [(a)]	Balance on 31 December
Euro Medium Term Notes (EMTN)	150 145	-	(125 000)	36 950	(957)	61 138
Bonds	1 786 327	28 100	(274 327)	(191 830)	(8 132)	1 340 138
Covered bonds	-	500 000	(500 000)	520 000	113	520 113
	1 936 472	528 100	(899 327)	365 120	(8 976)	1 921 389

(a) Other movements include accrued interest, fair value hedge, fair value adjustments and foreign exchange adjustments.

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

During 2015, CEMG issued Euro 528,100 thousand of debt securities and performed the reimbursement of Euro 899,327 thousand.

During 2015, CEMG sold the amount of Euro 320,000 thousand of covered bonds – 2nd series and Euro 200,000 thousand of covered bonds – 4th series.

As at November 2015, the 3rd series of covered bonds was refunded in the nominal amount of Euro 500,000 thousand. Additionally, it was issued the 5th series in the nominal amount of Euro 500,000 thousand.

In accordance with the note 1 c), debt issued repurchased by CEMG is derecognised from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement. As a result of the purchases made during the six-month period ended at 30 June 2016, CEMG recognized a profit of Euro 333 thousand (30 June 2015: loss of Euro 4,252 thousand), as described in note 10.

As at 30 June 2016, bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 0.39% and 13.61% (31 December 2015: 0.55% and 13.39%).

36 Financial liabilities relating to transferred assets

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Aqua Mortgage No. 1	133 520	140 964
Pelican Finance No. 1	176 549	176 532
Pelican Mortgages No. 3	262 889	275 733
Pelican Mortgages No. 4	690 049	711 896
Pelican Mortgages No. 5	692 648	716 086
Pelican Mortgages No. 6	882 470	908 410
Pelican SME No. 2	1 091 718	1 091 730
	3 929 843	4 021 351

The detail of these operations is presented in note 50.

37 Provisions

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Provisions for general banking risks	14 202	-
Provisions for other liabilities and charges	11 811	15 509
	26 013	15 509

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

(Thousands of Euro)

	Jun 2016	Jun 2015
Balance on 1 January	-	-
Charge for the period	6 798	-
Write-back for the period	(14 936)	-
Transfers	22 340	-
Balance on 30 June	14 202	-

The balance Transfers refers to the impairment associated with off balance sheet credit exposure which, in 2016, are registered in the balance Provisions, as described in note 21.

With the publication of Regulation of Bank of Portugal No. 5/2015, which entered into force on 1 January 2016, the impairment for credit exposures off-balance sheet is now registered in the balance Provisions for guarantees and commitments made, according to the accounting policy described in note 1 z).

The movements in provisions for liabilities and charges are analysed as follows:

(Thousands of Euro)

	Jun 2016	Jun 2015
Balance on 1 January	15 509	16 151
Charge for the period	1 635	-
Write-back for the period	(5 333)	(3 202)
Balance on 30 June	11 811	12 949

These provisions are accounted 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 and probability of payment.

38 Other subordinated debt

As at 30 June 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 1.ª série	Feb 2008	Feb 2018	150 000	Euribor 6 months+1.5%	113 260
CEMG/08 2.ª série	Jul 2008	Jul 2018	150 000	Euribor 6 months+1.5%	111 364
CEMG/08 3.ª série	Jun 2008	Jun 2018	28 000	Euribor 12 months+1.5%	4 171
FNB 08/18 1ª/2ª Série	Dec 2008	Dec 2018	10 363	Euribor 6 months+1.75% (i)	8 328
					237 123

As at 31 December 2015, 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/06	Apr 2006	Apr 2016	50 000	Euribor 3 months+0.95%	26 148
CEMG/08 1.ª série	Feb 2008	Feb 2018	150 000	Euribor 6 months+1.5%	121 232
CEMG/08 2.ª série	Jul 2008	Jul 2018	150 000	Euribor 6 months+1.5%	120 894
CEMG/08 3.ª série	Jun 2008	Jun 2018	28 000	Euribor 12 months+1.5%	18 177
FNB 08/18 1ª/2ª Série	Dec 2008	Dec 2018	10 363	Euribor 6 months+1.75% (i)	10 373
FNB Grandes empresas 07/16_ 1ª série	May 2007	May 2016	6 450	Máx (0;6.0%*(1-n/8)) (ii)	6 532
FNB Grandes empresas 07/16 2ª/3ª série	Jun 2007	Jun 2016	30 250	Máx (0;6.0%*(1-n/8)) (ii)	30 330
					333 686

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

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

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

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

Notes:

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

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

During the six-month period ended at 30 June 2016 and during the period ended at 31 December 2015, the movement occurred in the balance Other subordinated debt was as follows:

	Jun 2016					
	Balance on 1 January	Issues	Reimbursements	Net purchases	Other movements (a)	Balance on 30 June
CEMG/06	26 148	-	(19 498)	(6 650)	-	-
CEMG/08 1.ª série	121 232	-	-	(9 740)	1 768	113 260
CEMG/08 2.ª série	120 894	-	-	(7 507)	(2 023)	111 364
CEMG/08 3.ª série	18 177	-	-	(13 808)	(198)	4 171
FNB 08/18 1ª/2ª Série	10 373	-	-	(2 042)	(3)	8 328
FNB Grandes empresas 07/16 2ª/3ª	30 330	-	(27 858)	(2 472)	-	-
FNB Grandes empresas 07/16_ 1ª	6 532	-	(5 509)	(1 023)	-	-
	333 686	-	(52 865)	(43 242)	(456)	237 123

(a) "Other movements" includes the accrued interest in the balance sheet, adjustments arising from hedging operations, fair value adjustments, currency change and disposal of subordinated debt.

(Thousands of Euro)

	Dec 2015					
	Balance on 1 January	Issues	Reimbursements	Net purchases	Other movements (a)	Balance on 31 December
CEMG/06	26 154	-	-	-	(6)	26 148
CEMG/08 1.ª série	121 330	-	-	-	(98)	121 232
CEMG/08 2.ª série	121 031	-	-	-	(137)	120 894
CEMG/08 3.ª série	18 179	-	-	-	(2)	18 177
FNB 08/18 1ª/2ª Série	10 375	-	-	-	(2)	10 373
FNB Grandes empresas 07/16 2ª/3ª	30 491	-	-	-	(161)	30 330
FNB Grandes empresas 07/16_ 1ª	6 512	-	-	-	20	6 532
FNB Indices estratégicos 07/17 1ª	14 947	-	(14 947)	-	-	-
FNB Indices estratégicos 07/17	39 000	-	(39 000)	-	-	-
FNB Rendimento Seguro 05/15	238	-	(238)	-	-	-
	388 257	-	(54 185)	-	(386)	333 686

(a) "Other movements" includes the accrued interest in the balance sheet, adjustments arising from hedging operations, fair value adjustments, currency change and disposal of subordinated debt.

Financial liabilities are revaluated through income statement, as referred in the accounting policy presented in note 1 c). As at 31 December 2015 it was recognised the amount of Euro 139 thousand related with the variations in fair value associated with CEMG's credit risk.

As at 30 June 2016, the subordinated debt bears postponed interest every three, six and twelve months and its effective interest rate range is set between 1.37% and 1.59% (31 December 2015: 0.49% and 2.0%).

Other subordinated debt portfolio is recorded at fair value, as presented in note 47.

39 Other liabilities

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Creditors		
Suppliers	2 947	7 088
Other creditors	74 934	15 150
Administrative public sector	123 336	13 802
Holiday pay and subsidies	55 198	33 692
Other administrative costs payables	11 137	7 949
Deferred income	980	999
Other sundry liabilities	29 943	28 278
	298 475	106 958

As at 30 June 2016, the balance Other sundry liabilities includes the amount of Euro 21,150 thousand (31 December de 2015: Euro 15,509 thousand) related with the 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 2016 and 31 December 2015, the balance Holiday pay and subsidies includes the amount of Euro 14,218 thousand, related with the seniority premium.

Additionally, as at 30 June 2016, this balance includes the amount of Euro 19,288 thousand (31 December 2015: Euro 19,474 thousand), related to the specialization of holidays, and holidays and Christmas allowance.

As at 30 June 2016, the balance Holiday pay and subsidies registers an amount of Euro 22,006 thousand regarding the costs to be paid within the current Active Retirement Scheme, as described in note 11.

40 Institutional capital

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

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

The referred capital increase was materialized by MGAM through the realization of institutional capital fully paid-up in cash in the amount of Euro 270,000,000.

41 Participation fund

As at 30 June 2016 and 31 December 2015, CEMG participation fund has a total nominal value of Euro 400,000 thousand, with the nominal unitary value if 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 nominal value of Euro 200,000 thousand, in cash, through a private offer, fully subscribed by Montepio Geral Associação Mutualista.

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

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

These securities are eligible for solvency purposes as Common Equity Tier 1. Under IAS 32 – Financial Instruments: Presentation, 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 2016		Dec 2015	
	Number of Investment Fund Units held	**Percentage**	**Number of Investment Fund Units held**	**Percentage**
Related parties				
Montepio Geral Associação Mutualista	254 443 246	63.61%	207 260 984	51.82%
Montepio Investimento S.A.	80 918	0.02%	31 580 918	7.90%
	254 524 164	63.63%	238 841 902	59.72%

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 cancelled from equity and the difference between the purchase value and its book value is recognised in equity.

CEMG repurchased perpetual subordinated instruments in the amounts of Euro 6.727 thousand, during 2013, and Euro 1,950 thousand in March 2016. After this operation, the balance Other equity instruments amounts to Euro 6,323 thousand (31 December 2015: Euro 8,273 thousand).

During the first half of 2016, CEMG proceeded to the interest payment for this emission in the amount of Euro 210 thousand (31 December 2015: Euro 758 thousand).

Reimbursement

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

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

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

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

As at 30 June 2016, these obligations are not seen as a positive element of CEMG's Equity.

43 General and special reserves

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

The special reserve is charged to cover losses from current operations. Under the Portuguese regulations and CEMG's Articles of Association, on an annual basis, the special reserve should be charged, at least, in a minimum of 5% of the year`s profit. 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 44.

44 Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

(Thousand of Euro)

	Jun 2016	Dec 2015
Fair value reserves		
Fair value reserves		
Available-for-sale financial assets	38 677	5 881
Loans to customers	3 630	3 858
	42 307	9 739
Taxes		
Available-for-sale financial assets	(11 410)	(1 735)
Loans to customers	(1 070)	(1 138)
	(12 480)	(2 873)
Fair value reserves net of taxes	29 827	6 866
Other reserves and retained earnings:		
General reserve	186 000	186 000
Special reserve	68 273	68 273
Deferred tax reserve	41 175	42 502
Other reserves and retained earnings	(788 976)	(457 769)
	(493 528)	(160 994)

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 years in accordance with accounting policy 1 c).

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

The movements in the fair value reserve on financial assets available for sale during the first half of 2016 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	(17 192)	(10 428)	6 684	(4 981)	-	(25 917)
Bonds issued by public foreign entities	7 828	688	525	(7 699)	251	1 593
Bonds issued by other entities						
Portuguese	(811)	3 595	231	(719)	(3 303)	(1 007)
Foreign	(9 837)	52 953	808	(2 451)	(30 217)	11 256
	(20 012)	46 808	8 248	(15 850)	(33 269)	(14 075)
Variable income securities						
Shares						
Portuguese	7 888	15 326	-	(164)	1 186	24 236
Foreign	3 698	16 056	432	(9 668)	1 806	12 324
Participation units	14 307	43 466	3	(157)	(41 427)	16 192
	25 893	74 848	435	(9 989)	(38 435)	52 752
	5 881	121 656	8 683	(25 839)	(71 704)	38 677

As at 31 December 2015, the movements in this balance were 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	48 946	2 229	(20 661)	(47 706)	-	(17 192)
Bonds issued by public foreign entities	3 699	(1 497)	4 692	(557)	1 491	7 828
Bonds issued by other entities						
Portuguese	(12 771)	(13 023)	(7)	12 741	12 249	(811)
Foreign	26 680	(22 360)	(2 422)	(11 304)	(431)	(9 837)
	66 554	(34 651)	(18 398)	(46 826)	13 309	(20 012)
Variable income securities						
Shares						
Portuguese	92	(36)	7 716	44	72	7 888
Foreign	1 332	(251)	1 710	(9)	916	3 698
Participation units	(8 127)	65 942	(260)	5 357	(48 605)	14 307
	(6 703)	65 655	9 166	5 392	(47 617)	25 893
	59 851	31 004	(9 232)	(41 434)	(34 308)	5 881

The fair value reserves can be analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Amortised cost of available-for-sale financial assets	6 740 451	7 607 344
Accumulated impairment recognized	(197 170)	(125 466)
Amortised cost of available-for-sale financial assets, net of impairment	6 543 281	7 481 878
Market value of available-for-sale financial assets	6 581 958	7 487 759
Net/ unrealised gains/(losses) recognized in the fair value reserve	38 677	5 881

45 Distribution of profits

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

46 Obligations and future commitments

Obligations and future commitments are analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Guarantees granted	455 956	448 720
Commitments to third parties	1 355 689	1 448 383
Assets transferred in securitised operations	160 091	170 819
Securities and other items held for safekeeping on behalf of customers	6 878 631	7 266 785
	8 850 367	9 334 707

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

(Thousands of Euro)

	Jun 2016	Dec 2015
Guarantees granted		
Guarantees	425 478	423 888
Open documentary credits	30 478	24 832
	455 956	448 720
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit lines	575 727	681 632
Potential obligation with the Investors' Indemnity System	1 689	1 689
Annual contribution to the Guarantee Deposits Fund	22 768	22 768
Revocable commitments		
Revocable credit lines	755 505	742 294
	1 355 689	1 448 383

Guarantees granted are financial operations that are not consisted by mobilization on Funds by CEMG.

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 when 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 one another 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 2016 and 31 December 2015, the balance Annual contribution to the obligations of Guarantee Deposits Fund is related with the irrevocable commitment assumed by CEMG and required by law, to deliver the unrealised amounts of annual contributions required by the Fund.

As at 30 June 2016 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 25,000 thousand, as described in note 23.

As at 30 June 2016 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 CEMG in the event of default by the respective counterparties, without considering potential recoveries or collaterals.

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

Assets under management and custody are analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Deposit and custody of securities	6 878 631	7 266 785

47 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 with its financial characteristics and the discount rates used include both the interest rate curve and the current conditions of the CEMG's pricing policy.

Therefore, the fair value obtained is influenced by the parameters used in the evaluation model that, necessarily have some degree of judgement and reflect exclusively the value attributed to different financial instruments. However, it does not consider prospective factors, like the future business evolution. Under these conditions, the values presented cannot be understood as an estimate of the economic value of CEMG.

The main methods and assumptions used in estimating the fair value for the assets and liabilities of CEMG 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.

- *Loans and advances to credit institutions, Deposits from central banks, Deposits from other banks 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 short-term. The rate of return of funding with the European Central Bank is 0.022% (31 December 2015: 0.07%).

Regarding loans and advances to credit institutions and deposits from credit institutions, not recognised 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 date (rates from the monetary market or from the interest rate swap market, at the end of the period). For 30 June 2016, the average discount rate was -0.15% for Repos and 0.06% for the remaining resources. As at 31 December 2015 they were of -0.205% and 0.02%, 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 fair value through profit and loss*

These financial instruments are accounted at fair value. 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 market conditions and time frame.

Interest rates are determined based on information disseminated by the suppliers of content financial - 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 calibrated with the values of interest rate short-term futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are 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 flows 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.

- *Hedging and trading derivatives*

  All derivatives are recorded at fair value.

  In the case of those who are quoted in organized markets their market prices are used. As for derivatives traded "over the counter", apply the numerical methods based on techniques of discounted cash flow valuation models and considering options including changing market interest rates applicable to the instruments concerned, and where necessary, their volatility.

  Interest rates are determined based on information disseminated by the suppliers of content financial - 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 source but regarding interbank money market. The interest rate curve obtained is calibrated with the values of interest rate short-term futures. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods.

- *Loans and advances to customers with defined maturity date*

  The fair value of these 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 CEMG 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 date (rates from the monetary market or from the interest rate swap market, at the end of the year) and the spread used at the date of the report, which was calculated from the average production of the second quarter of 2016. The average discount rate was 2.46% for housing loans (31 December 2015: 3.43%), 5.60% for individual loans (31 December 2015: 5.90%), for treasury loans is 3.01% (31 December 2015: 4.49%) and 3.65% to the remaining loans (31 December 2015: 4.48%), 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*

  Considering the short maturity of these financial instruments, the conditions of the existing portfolio are similar to current conditions used by CEMG. 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 date (rates of monetary market or the interest rate swap market, at the end of the year) and the spread of CEMG at the date of the report, which was calculated from the average production of the last semester month of 2016. The average discount rate in the first half of 2016 was of 0.84% (31 December 2015: 1.04%).

- *Debt securities issued and Subordinated debt*

For these financial instruments, fair value was calculated for the components that are not yet reflected on CEMG's balance sheet. For the fixed interest rate instruments for which CEMG applies a hedge-note, 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 3.77% (31 December 2015: 5.80%). The average discount rate calculated for senior issues placed on the retail market was 0.92% (31 December 2015: 1.28%). The senior issue placed on the institutional market is valued at fair value through profit or loss.

As at 30 June 2016, the following table presents the values of the interest rate used in the calculation of the interest rate curve of the main 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	-0.3370%	0.4051%	0.5200%	-1.2250%	-0.0567%
7 days	-0.3710%	0.4404%	0.5200%	-1.2750%	-0.0670%
1 month	-0.3640%	0.8000%	0.6200%	-1.1300%	-0.4600%
2 months	-0.3210%	0.5400%	0.6000%	-1.0200%	-0.4000%
3 months	-0.2860%	1.0600%	0.6500%	-0.9500%	-0.4600%
6 months	-0.1790%	1.1900%	0.7250%	-0.8750%	-0.3400%
9 months	-0.1160%	1.2800%	0.6300%	-0.8200%	-0.2800%
1 year	-0.0510%	1.3450%	0.6600%	-0.7200%	-0.2300%
2 years	-0.2160%	0.7470%	0.5630%	-0.8710%	-0.1675%
3 years	-0.2070%	0.8170%	0.5590%	-0.8660%	-0.1900%
5 years	-0.1065%	0.9780%	0.6380%	-0.7650%	-0.1825%
7 years	0.0680%	1.1420%	0.7870%	-0.6170%	-0.1350%
10 years	0.3540%	1.3460%	1.0000%	-0.3880%	-0.0600%
15 years	0.6620%	1.5690%	1.1900%	-0.1630%	0.0450%
20 years	0.7710%	1.6820%	1.1900%	-0.1630%	0.0450%
30 years	0.7840%	1.7780%	1.1900%	-0.1630%	0.0450%

As at 31 December 2015, the following table presents the values of the interest rate used in the calculation of the interest rate curve of the main 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	-0.2490%	0.5500%	0.3200%	-0.8700%	0.0364%
7 days	-0.2490%	0.3920%	0.4800%	-0.8100%	0.0393%
1 month	-0.2050%	0.6100%	0.5750%	-0.8700%	-0.1200%
2 months	-0.1650%	0.6700%	0.6200%	-0.8250%	-0.1600%
3 months	-0.1310%	0.7550%	0.6900%	-0.8200%	-0.0500%
6 months	-0.0400%	0.9400%	0.8450%	-0.7450%	-0.2100%
9 months	0.0400%	1.1200%	0.9700%	-0.7200%	-0.1500%
1 year	0.0600%	1.1150%	1.1250%	-0.6100%	-0.1200%
2 years	-0.0325%	1.1870%	1.0930%	-0.6430%	0.0775%
3 years	0.0590%	1.4340%	1.3020%	-0.5600%	0.0825%
5 years	0.3280%	1.7720%	1.5880%	-0.3050%	0.1375%
7 years	0.6210%	2.0040%	1.7920%	-0.0430%	0.2275%
10 years	1.0000%	2.2360%	1.9940%	0.2500%	0.3925%
15 years	1.3990%	2.4640%	2.1600%	0.5570%	0.7025%
20 years	1.5670%	2.5180%	2.1600%	0.5570%	0.7025%
30 years	1.6100%	2.6070%	2.1600%	0.5570%	0.7025%

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 2016	Dec 2015	1 month	3 months	6 months	9 months	1 year
EUR/USD	1.1102	1.0887	9.775	9.750	9.825	9.925	9.938
EUR/GBP	0.8265	0.734	14.825	13.550	12.800	12.625	12.175
EUR/CHF	1.0867	1.0835	7.925	7.775	7.725	7.800	7.825
EUR/JPY	114.05	131.07	14.830	13.825	13.575	13.300	13.125

Concerning the exchange rates, CEMG uses in the valuation models the spot rate observed in the market at the time of the valuation.

The fair value for each group of assets and liabilities at 30 June 2016 and 31 December 2015 is presented as follows:

(Thousands of Euro)

	Jun 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	-	-	319 549	319 549	319 549
Loans and advances to credit institutions repayable on demand	-	-	55 283	55 283	55 283
Loans and advances to credit institutions	-	-	353 947	353 947	354 054
Loans and advances to customers	43 505	-	13 935 354	13 978 859	14 093 042
Available-for-trade financial assets	31 639	-	-	31 639	31 639
Available-for-sale financial assets	-	6 581 958	-	6 581 958	6 581 958
Held-to-maturity investments	-	-	1 125 798	1 125 798	1 128 503
	75 144	6 581 958	15 789 931	22 447 033	22 564 028
Financial liabilities					
Deposits from central banks	-	-	2 855 709	2 855 709	2 855 709
Deposits from other credit institutions	73 265	-	1 806 438	1 879 703	1 890 183
Deposits from customers	38 739	-	12 110 321	12 149 060	11 812 740
Debt securities issued	79 012	-	1 543 586	1 622 598	1 718 886
Financial liabilities relating to transferred assets	-	-	3 929 843	3 929 843	3 874 770
Financial liabilities held for trading	77 497	-	-	77 497	77 497
Other subordinated debt	-	-	237 123	237 123	226 906
	268 513	-	22 483 020	22 751 533	22 456 691

(Thousands of Euro)

	Dec 2015				
	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	-	-	358 125	358 125	358 125
Loans and advances to credit institutions repayable on demand	-	-	50 617	50 617	50 617
Loans and advances to credit institutions	-	-	372 776	372 776	372 840
Loans and advances to customers	44 825	-	14 120 635	14 165 460	13 338 565
Available-for-trade financial assets	33 825	-	-	33 825	33 825
Available-for-sale financial assets	-	7 487 759	-	7 487 759	7 487 759
Hedge derivatives	9	-	-	9	9
Held-to-maturity investments	-	-	26 130	26 130	25 716
	78 659	7 487 759	14 928 283	22 494 701	21 667 456
Financial liabilities					
Deposits from central banks	-	-	2 262 258	2 262 258	2 262 258
Deposits from other credit institutions	71 065	-	1 957 249	2 028 314	2 028 453
Deposits from customers	54 654	-	12 153 086	12 207 740	12 250 849
Debt securities issued	98 167	-	1 823 222	1 921 389	2 049 218
Financial liabilities relating to transferred assets	-	-	4 021 351	4 021 351	3 987 264
Financial liabilities held for trading	51 550	-	-	51 550	51 550
Hedge derivatives	439	-	-	439	439
Other subordinated debt	-	-	333 686	333 686	308 237
	275 875	-	22 550 852	22 826 727	22 938 268

The following table summarizes, by valuation levels, the fair value of CEMG's financial assets and liabilities, as at 30 June 2016:

(Thousands of Euro)

	Jun 2016				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial assets					
Cash and deposits at central banks	319 549	-	-	-	319 549
Loans and advances to credit institutions repayable on demand	55 283	-	-	-	55 283
Loans and advances to credit institutions	-	-	354 054	-	354 054
Loans and advances to customers	-	43 505	14 049 537	-	14 093 042
Financial assets held for trading	17 894	13 745	-	-	31 639
Available-for-sale financial assets	1 745 868	90 667	4 739 913	5 510	6 581 958
Available-for-sale financial assets	1 128 503	-	-	-	1 128 503
	3 267 097	147 917	19 143 504	5 510	22 564 028
Financial liabilities					
Deposits from central banks	2 855 709	-	-	-	2 855 709
Deposits from other credit institutions	-	73 265	1 816 918	-	1 890 183
Deposits from customers	-	38 739	11 774 001	-	11 812 740
Debt securities issued	-	79 012	1 639 874	-	1 718 886
Financial liabilities relating to transferred assets	-	-	3 874 770	-	3 874 770
Financial liabilities held for trading	1 992	75 505	-	-	77 497
Other subordinated debt	-	-	226 906	-	226 906
	2 857 701	266 521	19 332 469	-	22 456 691

The following table summarizes, by valuation levels for each group of assets and liabilities of CEMG their fair values as at 31 December 2015:

(Thousands of Euro)

	Dec 2015				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial assets					
Cash and deposits at central banks	358 125	-	-	-	358 125
Loans and advances to credit institutions repayable on demand	50 617	-	-	-	50 617
Loans and advances to credit institutions	-	-	372 840	-	372 840
Loans and advances to customers	-	44 825	13 293 740	-	13 338 565
Financial assets held for trading	19 798	14 027	-	-	33 825
Available-for-sale financial assets	2 493 339	109 574	4 879 624	5 222	7 487 759
Hedging derivatives	-	9	-	-	9
Held-to-maturity investments	25 716	-	-	-	25 716
	2 947 595	168 435	18 546 204	5 222	21 667 456
Financial liabilities					
Deposits from central banks	2 262 258	-	-	-	2 262 258
Deposits from other credit institutions	-	71 065	1 957 388	-	2 028 453
Deposits from customers	-	54 654	12 196 195	-	12 250 849
Debt securities issued	-	98 167	1 951 051	-	2 049 218
Financial liabilities relating to transferred assets	-	-	3 987 264	-	3 987 264
Financial liabilities held for trading	1 896	49 654	-	-	51 550
Hedging derivatives	-	439	-	-	439
Other subordinated debt	-	-	308 237	-	308 237
	2 264 154	273 979	20 400 135	-	22 938 268

CEMG uses the following hierarchy for fair value, with 3 levels in the valuation 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 valuation techniques supported by observable inputs in active markets, being direct data (prices, rates, spreads, etc.) or indirect data (derivatives), and valuation assumptions similar to what an unrelated party would use in estimating the fair value of that financial instrument.

- Level 3: Fair value is determined based on unobservable inputs in active markets, using techniques and assumptions that market participants would use do evaluate the same instruments, including assumptions about the inherent risks, the valuation technique used and inputs used and review processes to test the accuracy of the values obtained.

CEMG considers an active market in which occur transactions of financial instruments with sufficient frequency and volume to continuously provide information on prices, therefore, the following minimum conditions shall be verified:

- 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;
- 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 previous paragraphs.

48 Employee benefits

CEMG assumed the responsibility to pay to their employees seniority and disability retirement pensions and others benefits, in accordance with the accounting policy described in note 1 u). Additionally, and according to the same policy, CEMG calculates, on an annually basis, on 31 December of each year, the liabilities with pensions and other benefits. Thus, the values presented in this note reflect only the current service cost.

The key actuarial assumptions used to calculate pension liabilities are as follows:

	Assumptions	Checked
	Dec 2015	Dec 2015
Financial assumptions		
Salaries increase rate	0.75%	1.30%
Pensions increase rate	0.25%	0.05%
Projected rate of return of Fund assets	2.75%	2.30%
Discount rate	2.75%	-
Demographic assumptions and valuation methods		
Mortality table		
Men	TV 88/90	
Women	TV 88/90	
Actuarial method	UCP	

The assumptions used in the present value calculation of the liabilities are in accordance with the requirements of IAS 19. The determination of the discount rate took into account: (i) developments in the major indexes, for high quality corporate brands and (ii) duration of liabilities.

As at 31 December 2015, duration of liabilities amounts to 23.20 years (2014: 22.30 years).

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 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.

The 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.

Risks

Considering the provisions of Montepio Geral Pension Fund's investment policy regarding exposure to different risks and different legal provisions, the control of these limits is daily monitored through a detailed analysis of the "legal limits and exceeded investments". There is also a set of procedures that are carried out in case if the limits are exceeded.

Subsequently, the Risk Management controls the effect of the measures and their impact on investment policy. At the same time, the levels of exposure to legal and prudential limits governing the Montepio Pension Fund are also controlled.

In addition to the verification of compliance with the investment policy and the legal and prudential limits, the management company (Futuro) decided to reinforce the control and monitoring using different risk measures and a set of internal procedures to maintain the prudent management of risk. On this basis, it is used a reasoned risk management model in the technical perspective of the studies "QIS Pension Funds" of EIOPA. The development of tolerance indicators for this model allows monitoring the variations of these indicators, according to the defined investment policy for the pension fund.

The monitoring of market risk is based on the calculation of VaR, with a 99.5% confidence interval for one year. The VaR does not constitute a full guarantee that the risks do not exceed the probability used, therefore Stress Tests are also conducted, in order to calculate the impact of various extreme scenarios on the value of the portfolio.

The assessment of the level of liquidity of the stock and bond component of the fund is made through a liquidity test. For actions, this analysis is done in number of days to settle, considering the assets in the portfolio. This test consists in verify the degree of equity segment liquidity, assessing how many days are required for its settlement in the market, taking into account the costs associated with these transactions and the historical average volume of transactions in the various markets. In addition, the bond segment is made the calculation of receipts (positive cash flows) arising from coupon payments (interest) bonds and amortization or any Call exercises for the period of one month. These tests allow to assess the degree of short-term liquidity and monitor or act against the possible shortage of liquidity in a timely basis.

The number of persons covered by the plan is as follows:

	Dec 2015
Actives	3 715
Retirees and survivors	1 025
	4 740

Based on the accounting policy described in note 1 u), post-employment benefits, other benefits and respective coverage levels, reportable to 31 December 2015, are presented as follows:

	(Thousands of Euro)
	Dec 2015
Assets/(Liabilities) recognised in the balance sheet	
Responsabilities with retirement benefits	
Pensioners	(138 149)
Employees	(464 708)
	(602 857)
Responsabilities with healthcare benefits	
Pensioners	(19 178)
Employees	(35 745)
	(54 923)
Responsabilities with death subsidy	
Pensioners	(698)
Employees	(892)
	(1 590)
Total	(659 370)
Coverages	
Value of the fund	643 861
Net assets/(liabilities) in the balance sheet (see note 39)	(15 509)
Accumulated actuarial differences recognized in other comprehensive income	120 474

The changes in the defined benefit obligation can be analysed as follows:

(Thousands of Euro)

	Dec 2015			
	Retirement pensions	Healthcare benefits	Death Subsidy	Total
Responsabilities in the beginning of the period	607 830	54 768	1 543	664 141
Current service cost	10 331	1 677	43	12 051
Interest cost	15 196	1 369	39	16 604
Actuarial gains and losses				
- Changes in the assumptions	(14 375)	(1 313)	(52)	(15 740)
- Not related to changes assumptions de pressupostos	(7 846)	(346)	37	(8 155)
Pensions paid by the fund	(8 959)	(1 232)	(20)	(10 211)
Early retirement	680	-	-	680
Responsabilities in the end of the period	602 857	54 923	1 590	659 370

The pension funds are managed by "Futuro – Sociedade Gestora de Fundos de Pensões, S.A.", in which CEMG participates with 97.2% at 31 December 2015.

The evolution on the pensions fund value in the period ended at 31 December 2015, is analysed as follows:

(Thousands of Euro)

	Dec 2015
Balance of the funds in the beginning of the period	574 085
Return on plan assets	12 960
CEMG contributions	64 739
Participant contributions	2 288
Pensions paid by the fund	(10 211)
Balance of the funds at the end of the period	643 861

The caption CEMG contribution relates to the contributions made by CEMG in 2015 referring to 2014.

As at 31 December 2015, the Pensions Funds' assets are analysed as follows:

(Thousands of Euro)

	Dec 2015
Bonds	421 001
Other variable income securities	133 784
Shares	46 287
Investments in banks and other	35 060
Real Estate	7 729
	643 861

The assets of pension funds used by CEMG or representative of securities issued by other CEMG's entities are analysed as follows:

(Thousands of Euro)

	Dec 2015
Investments in banks and other	30 142
Real Estate	7 729
Bonds	85
Others	1 908
	39 864

As at 31 December 2015, the assets of the pension fund, divided between assets with market price and assets without market price, can be analysed as follows:

(Thousands of Euro)

	Dec 2015		
	Assets of the Fund	**With market price**	**Without market price**
Variable income security			
Shares	46 287	46 287	-
Shares investment fund	95 007	3 195	91 812
Equity shares	1 908	1 908	-
Bonds	421 001	421 001	-
Real estate	7 729	-	7 729
Real estate investment funds	26 480	514	25 966
Venture capital funds	10 364	-	10 364
Hedge funds - Uncorrelated Investments	25	-	25
Investment in banks and others	35 060	-	35 060
Total	643 861	472 905	170 956

The costs of the period with reform pensions, healthcare benefits and death subsidies are analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Current service cost	5 641	12 051
Net interest costs/(Income) in the responsabilities hedging balance	-	2 252
Early retirements cost	-	680
Participant contributions	-	(2 288)
Staff costs	5 641	12 695

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 2015	
	Liabilities	
	Increase	Decrease
Discount rate (0.25% change)	(26 461)	27 459
Wage growth rate (0.25% change)	16 776	(15 622)
Pension growth rate (0.25% change)	16 555	(15 871)
SAMS contribution (0.25% change)	2 344	(2 344)
Future death (1 year change)	(17 370)	17 195

49 Related parties transactions

As defined in IAS 24, are considered related parties of CEMG the companies detailed in note 62, 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 the 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 first-line managers are included in Other key management personnel.

On this basis, the list of related parties considered by CEMG is presented as follows:

Institutional Capital Owner:
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
Eugénio Óscar Garcia Rosa
Vitor Manuel do Carmo Martins
Francisco José Fonseca da Silva
Acácio Jaime Liberato Mota Piloto
Luís Eduardo Henriques Guimarães
Rui Pedro Brás Matos Heitor

Board of Directors from other related parties:
Alberto Carlos Nogueira Fernandes da Silva
Aldina Antónia da Costa Romaneiro
Amândio Manuel Carrilho Coelho
Ana Lúcia Louro Palhares
Ana Maria G Almeida
António Francisco de Araújo Pontes
António Paulo da Silva Gonçalves Raimundo
António Sezões Almeida Porto
António Tomás Correia
Artur Luís Martins
Bernard J. Christiaanse
Carlos Morais Beato
Eduardo José da Silva Farinha
Fernando Dias Nogueira
Fernando Jorge Lopes Centeno Amaro
Fernando Paulo Pereira Magalhães
Fernando Ribeiro Mendes

Board of Directors from other related parties (cont.)
Fernão Vasco de Almeida Bezerra Fernandes Thomaz
Francisco António Laranjeira Souto
Isabel Maria Loureiro Alves Brito
João Filipe Milhinhos Roque
João Francisco Mendes Almeida de Gouveia
Joaquim de Campos Afonso
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 Carlos Sequeira Mateus
José de Almeida Serra
José Joaquim Fragoso
José Luís Esparteiro da Silva Leitão
José Manuel Rodriguez Garcia
Luís Filipe dos Santos Costa
Luís Miguel Marques Ferreira Cardoso
Luís Soares dos Santos
Manuel Aranda da Silva
Manuel de Pinho Baptista
Margarida Maria Pinto Rodrigues Duarte
Maria Manuela Traquina Rodrigues
Mário José Brandão Ferreira
Mário José Matos Valadas
Miguel Alexandre Teixeira Coelho
Norberto da Cunha Junqueira F. Félix Pilar
Nuno Henrique Serra Mendes
Paula Alexandra Gonçalves de Oliveira Guimarães
Pedro António Castro Nunes Coelho
Pedro Jorge Gouveia Alves
Pedro Miguel de Almeida Alves Ribeiro
Pedro Miguel Moura Líbano Monteiro
Pedro Nuno Coelho Pires
Ricardo Canhoto de Carvalho
Rosa Maria Parra Sevilla
Rui Jorge da Costa Martins
Tereza de Jesus Teixeira Barbosa Amado
Virgílio Manuel Boavista Lima
Vitor Guilherme de Matos Filipe

Other key management elements

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.
Finibanco Vida – Companhia de Seguros de Vida, S.A.
Finipredial - Fundo de Investimento Imobiliário Aberto
Fundação Montepio Geral
Fundo de Capital de Risco Montepio Crescimento *
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, Limitada
Lestinvest, S.G.P.S., S.A. *
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 - Capital de Risco, SCR, S.A. *
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 Recuperação de Crédito, A.C.E. *
Montepio Seguros, S.G.P.S., S.A.
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.
N Seguros, S.A.
Naviser - Transportes Marítimos Internacionais, S.A.
Nebra Energias Renovables, S.L.
Nova Câmbio - Instituição de Pagamento, S.A.
Pelican Mortgages I P Limited Company
Pelican Mortgages II P Limited Company
Pinto & Bulhosa, S.A.
Polaris - Fundo de Investimento Imobiliário Fechado
Portugal Estates Fund - Fundo de Investimento Imobiliário Fechado
Residências Montepio, Serviços de Saúde, S.A.
SAGIES - Segurança e Higiene no Trabalho, S.A.
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.
Sociedade Portuguesa de Administrações, S.A.
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis S.A.

* Entity settled during the first half of 2016.

As at 30 June 2016, the assets held by CEMG regarding related parties, represented or not by securities, included in the balances Deposits in credit institutions repayable on demand, Other Loans and advances to credit institutions, Loans and advances to customers (Gross), Financial assets available for sale, Other assets and Guarantees and commitments provided to third parties are analysed as follows:

(Thousands of Euro)

	Jun 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	Other assets	Guarantees and commitments provided to third parties	Total
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. (I.F.I.)	-	1 701	-	-	3	-	1 704
Bolsimo - Gestão de Activos, S.A.	-	-	1	-	-	-	1
Board of Directors of other related parties	-	-	1 382	-	-	-	1 382
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	-	17	-	-	-	17
Executive Board of Directors	-	-	150	-	-	-	150
General and Supervisory Board	-	-	687	-	-	-	687
Outros Elementos chave de Gestão	-	-	3 030	-	-	8	3 038
Finibanco Angola, S.A.	6 826	21 497	-	-	302	5 801	34 426
Finipredial - Fundo de Investimento Imobiliário Aberto	-	-	35 012	-	136	5 004	40 152
Germont – Empreendimentos Imobiliários, S.A.	-	-	13 228	-	-	5 831	19 059
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	2 546	-	-	2 453	4 999
Lusitania Vida, Companhia de Seguros, S.A.	-	-	1	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	-	-	103	-	188	6 479	6 770
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	103 051	203 278	1 774	196	84 706	393 005
Montepio Geral Associação Mutualista	-	-	4	-	36 888	177	37 069
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	-	590	-	590
Montepio Holding, S.G.P.S., S.A.	-	-	149 576	-	555	-	150 131
Montepio Imóveis – Soc Imobiliária de Serviços Auxilares, S.A.	-	-	13 717	-	-	-	13 717
Montepio Investimento, S.A.	-	75 225	-	-	-	181	75 406
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	-	-	-	46	3	49
Nova Câmbio - Instituição de Pagamento, S.A.	-	-	951	-	-	1 577	2 528
PEF - Fundo de Investimento Imobiliário Fechado	-	-	150	-	-	150	300
Polaris-Fundo de Investimento Imobiliário Fechado	-	-	6 002	-	1	-	6 003
Residências Montepio, Serviços de Saúde, S.A.	-	-	1 107	-	-	-	1 107
	6 826	201 474	430 942	1 774	38 905	112 370	792 291

As at 31 December 2015, the assets held by CEMG regarding related parties, represented or not by securities, included in the balances Deposits in credit institutions repayable on demand, Other Loans and advances to credit institutions, Loans and advances to customers (Gross), Available for sale financial assets, Other Assets, Guarantees and commitments provided to third parties, are analysed as follows:

(Thousands of Euro)

	Dec 2015						
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.	-	3 701	-	-	-	-	3 701
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	-	21	-	-	-	21
Current Executive Board of Directors	-	-	154	-	-	-	154
Previous Executive Board of Directors	-	-	227	-	-	-	227
Current General and Supervisory Board	-	-	839	-	-	-	839
Previous General and Supervisory Board	-	-	359	-	-	-	359
Board of Directors' members of other related parties	-	-	364	-	-	-	364
Finibanco Angola, S.A.	6 960	22 045	-	-	505	5 461	34 971
Finipredial Fundo de Investimento Imobiliário Aberto	-	-	34 714	-	121	4	34 839
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	-	1	-	-	-	1
Germont – Empreendimentos Imobiliários, S.A.	-	-	16 072	-	-	8 743	24 815
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	-	-	4 405	-	-	546	4 951
Iberpartners Cafés, SGPS, S.A.	-	-	394	-	-	-	394
Lestinvest, SGPS, S.A.	-	-	36 598	-	-	-	36 598
Lusitania Vida, Companhia de Seguros, S.A.	-	-	1	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	-	-	2	-	620	6 513	7 135
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	102 567	190 633	1 735	16	94 453	389 404
Montepio Geral Associação Mutualista	-	-	4	-	75 066	1 166	76 236
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	-	678	-	678
Montepio Holding, SGPS, S.A.	-	-	147 540	-	555	-	148 095
Montepio Imóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	-	-	10 436	-	-	-	10 436
Montepio Investimento, S.A.	-	75 161	-	-	7 610	179	82 950
Montepio Recuperação de Crédito, ACE	-	-	-	-	2 159	-	2 159
Montepio Valor – Sociedade Gestora de Fundos de Investimento, S.A.	-	-	-	-	89	3	92
NovaCâmbios, Instituição de Pagamento, S.A.	-	-	981	-	-	1 538	2 519
Other key management elements	-	-	3 796	-	-	8	3 804
Polaris – Fundo de Investimento Imobiliário Fechado	-	-	5 710	-	1	-	5 711
Portugal Estates Fund – Fundo de Investimento Imobiliário Fechado	-	-	99	-	-	-	99
Residências Montepio, Serviços de Saúde, S.A.	-	-	980	-	67	-	1 047
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	-	-	-	-	-	-
	6 960	203 474	454 330	1 735	87 487	118 614	872 600

As at 30 June 2016, CEMG's liabilities with related parties, included in the balances Participation Fund, Deposits from other financial institutions, Deposits from customers, Other subordinated debt and Other liabilities, are analysed as follows:

(Thousands of Euro)

Companies	Jun 2016					
	Participation Fund	Deposits from other financial institutions	Deposits from customers	Other subordinated debt	Other liabilities	Total
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	-	272 660	-	-	-	272 660
Banco Terra, S.A.	-	201	-	-	-	201
Bolsimo - Gestão de Activos, S.A.	-	-	2 494	-	-	2 494
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto	-	-	1 579	-	-	1 579
Clínica CUF Belém, S.A.	-	-	8	-	-	8
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	-	4	-	-	4
Board of Directors of other related parties	77	-	3 221	130	-	3 428
Executive Board of Directors	45	-	1 854	-	-	1 899
General and Supervisory Board	55	-	1 898	-	-	1 953
Empresa Gestora de Imóveis da Rua do Prior S.A	-	-	72	-	-	72
Finibanco Angola, S.A.	-	36 045	488	-	-	36 533
Finibanco Vida – Companhia de Seguros de Vida, S.A.	-	-	2 236	1 000	-	3 236
Finipredial - Fundo de Investimento Imobiliário Aberto	-	-	11 620	-	63	11 683
Fundação Montepio Geral	-	-	1 784	-	-	1 784
Fundo de Pensões - Montepio Geral	2 998	-	29 348	50	-	32 396
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	-	1 961	-	-	1 961
Germont – Empreendimentos Imobiliários, S.A.	-	-	416	-	-	416
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	30	-	-	30
Lusitania Vida, Companhia de Seguros, S.A.	-	-	22 859	21 250	-	44 109
Lusitania, Companhia de Seguros, S.A.	499	-	3 030	13 000	-	16 529
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	-	24 198	-	-	24 198
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	-	20 814	-	-	20 814
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	-	9 685	-	-	9 685
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	-	1 168	-	433	1 601
Montepio Geral Associação Mutualista	254 443	-	238 296	1 003 762	-	1 496 501
Montepio Gestão de Activos - Soc Gestora Fundos de Investimento, S.A.	-	-	872	-	-	872
Montepio Gestão de Activos Imobiliários, ACE	-	-	2 479	-	-	2 479
Montepio Holding, S.G.P.S., S.A.	-	-	23 698	622	-	24 320
Montepio Imóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	-	-	105	-	-	105
Montepio Investimento, S.A.	81	47 493	-	-	259	47 833
Montepio Seguros, S.G.P.S., S.A.	-	-	2 554	-	-	2 554
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	-	4 668	-	-	4 668
N Seguros, S.A.	220	-	3 866	-	-	4 086
Nova Câmbio - Instituição de Pagamento, S.A.	302	-	1 116	-	-	1 418
Other key management elements	39	-	1 221	20	-	1 280
PEF - Fundo de Investimento Imobiliário Fechado	-	-	3	-	-	3
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	-	47	-	-	47
Sociedade Portuguesa de Administrações, S.A.	-	-	245	-	-	245
	258 759	356 399	421 436	1 039 834	755	2 077 183

As at 31 December 2015, CEMG's liabilities with related parties, included in the balances Deposits from other financial institutions, Deposits from customers, Other subordinated debt and Other liabilities, are analysed as follows:

(Thousands of Euro)

	Dec 2015					
Companies	Participation Fund	Deposits from other financial institutions	Deposits from customers	Other subordinated debt	Other liabilities	Total
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	-	419 873	-	-	-	419 873
Banco Terra, S.A.	-	739	-	-	-	739
Bolsimo – Gestão Activos, S.A.	-	-	3 696	-	-	3 696
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto	-	-	1 092	-	-	1 092
Clínica CUF de Belém, S.A.	-	-	17	-	-	17
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	-	6	-	-	6
Current Executive Board of Directors	-	-	2 320	45	-	2 365
Previous Executive Board of Directors	-	-	155	-	-	155
Current General and Supervisory Board	-	-	1 749	-	-	1 749
Previous General and Supervisory Board	-	-	2 018	5	-	2 023
Board of Directors' members from other related parties	-	-	714	139	-	853
Empresa Gestora de Imóveis da Rua do Prior S.A	-	-	2	-	-	2
Finibanco Angola, S.A.	-	51 760	386	-	-	52 146
Finibanco Vida – Companhia de Seguros de Vida, S.A.	-	-	4 463	1 000	-	5 463
Finipredial – Fundo de investimento Imobiliário Aberto	-	-	1 872	-	88	1 960
Fundação Montepio Geral	-	-	913	-	-	913
Fundo de Pensões Montepio Geral	-	-	30 142	85	1 908	32 135
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	-	1 770	-	-	1 770
Germont – Empreendimentos Imobiliários, S.A.	-	-	537	-	-	537
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	-	-	19	-	-	19
Lestinvest, SGPS, S.A.	-	-	1 433	-	-	1 433
Lusitania Vida, Companhia de Seguros, S.A.	-	-	19 159	21 250	-	40 409
Lusitania, Companhia de Seguros, S.A.	-	-	15 944	13 749	-	29 693
Montepio - Capital de Risco, Sociedade Capital de Risco, S.A.	-	-	383	-	-	383
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	-	16 343	-	-	16 343
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	-	13 591	-	-	13 591
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	-	5 314	-	-	5 314
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	-	1 302	-	383	1 685
Montepio Crescimento Fundo de Capital de Risco	-	-	12 090			12 090
Montepio Geral Associação Mutualista	207 261	-	168 054	1 529 148	-	1 904 463
Montepio Gestão de Activos – S.G.F.I., S.A.	-	-	2 042	-	-	2 042
Montepio Gestão de Activos Imobiliários, ACE	-	-	2 189	-	-	2 189
Montepio Holding, SGPS, S.A.	-	-	9 858	14 258	-	24 116
Montepio Investimento, S.A.	31 581	10 538	-	-	259	42 378
Montepio Recuperação de Crédito, ACE	-	-	721	-	2 493	3 214
Montepio Seguros, SGPS, S.A.	-	-	868	-	-	868
Montepio Valor – Sociedade Gestora de Fundos de Investimento, S.A.	-	-	7 637	-	-	7 637
N Seguros, S.A.	-	-	1 251	220	-	1 471
NovaCâmbios, Instituição de Pagamento, S.A.	-	-	1 801	-	-	1 801
Key management elements	-	-	2 168	66	-	2 234
Residências Montepio, Serviços de Saúde, S.A.	-	-	113	-	-	113
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	-	294	-	-	294
Silvip, S.A.	-	-	1 634	-	-	1 634
Sociedade Portuguesa de Administrações, S.A.	-	-	282	-	-	282
	238 842	482 910	336 342	1 579 965	5 131	2 643 190

As at 30 June 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)

	Jun 2016				
Companies	Interest and similar income	Interest and similar expenses	Net commission and other income	Other operating income	Genenral and administrative expenses
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A. (I.F.I.)	11	4 742	-	251	-
Board of Directors of Other Related Parties	1	17	1	-	-
Executive Board of Directors	-	6	-	-	-
General and Supervisory Board	5	10	-	-	-
Finibanco Angola, S.A.	55	37	35	170	-
Finipredial - Fundo de Investimento Imobiliário Aberto	532	-	94	-	450
Finibanco Vida – Companhia de Seguros de Vida, S.A.	-	34	5	-	-
Fundo de Capital de Risco Montepio Crescimento	-	1	-	-	-
Fundo de Pensões - Montepio Geral	-	1	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	10	3	-	-
Germont – Empreendimentos Imobiliários, S.A.	200	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	75	-	-	-	-
Lestinvest, S.G.P.S., S.A.	373	-	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	216	2	-	-
Lusitania, Companhia de Seguros, S.A.	4	104	78	190	-
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para A	-	18	87	-	-
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para	-	24	78	-	-
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado par	-	5	98	-	-
Montepio Crédito - Instituição Financeira de Crédito, S.A.	1 846	-	3	56	425
Montepio Geral Associação Mutualista	-	30 939	3	12 994	4 583
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimen	-	7	2	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	1 324	1 508
Montepio Holding, S.G.P.S., S.A.	3 194	280	-	-	398
Montepio Imóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	551	-	-	-	-
Montepio Investimento, S.A.	318	-	1	350	-
Montepio Recuperação de Crédito, ACE	-	-	-	3 488	3 413
Montepio Seguros, S.G.P.S., S.A.	-	-	40	-	-
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	20	1	311	-
N Seguros, S.A.	-	4	3	-	-
Nova Câmbio - Instituição de Pagamento, S.A.	18	-	23	-	-
Other key management elements	6	7	1	-	-
PEF - Fundo de Investimento Imobiliário Fechado	2	-	6	-	-
Polaris-Fundo de Investimento Imobiliário Fechado	113	-	2	-	-
Residências Montepio, Serviços de Saúde, S.A.	10	-	15	12	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	6	-	-	-
	7 314	36 488	581	19 146	10 777

As at 31 December 2015, 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)

Companies	Jun 2015				
	Interest and similar income	Interest and similar expenses	Net commission and other income	Other operating income	Genenral and administrative expenses
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	20	11 070	43	-	-
Board of Directors of Other Related Parties	1	2	1	-	-
Executive Board of Directors	-	3	-	-	-
General and Supervisory Board	1	1	-	-	-
Finibanco Angola, S.A.	221	-	685	-	-
Finipredial – Fundo de investimento Imobiliário Aberto	101	-	709	-	-
Fundo Capital de Risco Montepio Crescimento	-	8	-	-	-
Fundo de Pensões Montepio Geral	-	231	1	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	25	5	-	-
Germont – Empreendimentos Imobiliários, S.A.	68	-	1	-	-
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	45	-	2	-	-
Iberpartners, Cafés S.G.P.S., S.A.	(12)	-	-	-	-
Lestinvest, SGPS, S.A.	880	-	1	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	410	-	-	-
Lusitania, Companhia de Seguros, S.A.	5	196	65	-	-
Montepio Arrendamento - F.I.I.F. Para Arrendamento Habitacional	-	25	109	-	-
Montepio Arrendamento II - F.I.I.F. Para Arrendamento Habitacional	-	884	237	-	-
Montepio Arrendamento III - F.I.I.F. Para Arrendamento Habitacional	-	793	237	-	-
Montepio Crédito - I.F.I.C., S.A.	4 848	47	3 148	-	-
Montepio Geral Associação Mutualista	-	35 493	-	21 716	8 289
Montepio Gestão de Activos – S.G.F.I., S.A.	(1)	13	3	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	778	1 319	1 319
Montepio Holding, SGPS, S.A.	2 791	-	-	-	-
Montepio Imóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	240	-	(1)	-	-
Montepio Investimento, S.A.	35	-	986	-	-
Montepio Mediação – Sociedade Mediadora de Seguros, S.A.	-	1	-	-	-
Montepio Recuperação de Crédito, ACE	-	-	-	4 954	4 954
Montepio Seguros, SGPS, S.A.	-	-	48	-	-
Montepio Valor – Sociedade Gestora de Fundos de Investimento, S.A.	-	87	1 432	-	-
N Seguros, S.A.	-	-	4	-	-
NovaCâmbios, Instituição de Pagamento, S.A.	50	-	53	-	-
Outros Elementos chave de Gestão	2	4	-	-	-
Polaris - Fundo Inv. Imob. Fech. Subsc. Partic.	120	-	2	-	-
Portugal Estates Fund (PEF) - F U N I I F S P	1	-	6	-	-
Residências Montepio, Serviços de Saúde, S.A.	11	-	35	-	-
SIBS, S. G. P. S., S.A.	-	11	1	-	-
SILVIP - Soc. Gestora Fundos Investimento Imobiliarios, S.A.	-	11	-	-	-
	9 427	49 315	8 591	27 989	14 562

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.

Significant transactions with related parties

During the first half of 2016, as described in note 57, the following significant transactions with related parties were performed:

- Acquisition of Real Estate Property for own use from Montepio Geral Associação Mutualista, in the global amount of Euro 199,444 thousand, as described in note 28;

- Acquisition of subordinated and perpetual debt securities in the global amount of Euro 45,191 thousand, from Montepio Geral Associação Mutualista; and

- Acquisition of 2,868,092 of investment fund units of the Finipredial Fund, in the total amount of Euro 24,738 thousand, from Montepio Geral Associação Mutualista.

During the first half of 2016 and during 2015, there were no transactions with the pension’s fund of CEMG.

50 Securitization transactions

As at 30 June 2016, there are nine securitization transactions, eight 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 650,000 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 29 September, 2003, Caixa Económica Montepio Geral had settled a securitisation operation with a Special Purpose Vehicle («SPV») – Pelican Mortgages no. 2 PLC, established in Dublin. The referred agreement consists in a mortgage credit transfer for a period of 33 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 700,000 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0286% 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 750,000 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 1,000,000 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. (currently Finibanco, S.A.) had settled a mortgage credit portfolio to «Tagus – Sociedade de Titularização de Créditos, S.A.» in the amount of Euro 233,000 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 1,000,000 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 1,040,200 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 a revolving period of 18 months, amended in November 2015 to 42 months and with a limit (Aggregate Principal Amount Outstanding) of Euro 294,000 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 Credit Titularization Fund's Management Companies (Pelican Mortgages No. 1, Pelican Mortgages No. 2) and to Credit Titularization Companies (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.* provides the same functions for operation Pelican Finance No. 1.

As at 30 June 2016, the securitization transactions performed by the Group are as follows:

(Thousands of Euro)

Issue	Settlement date	Currency	Asset transferred	Credit Initial amount	Credit Current amount	Liabilities Initial amount	Liabilities Current amount
Pelican Mortgages No. 1	December, 2002	Euro	Mortgage credit	653 250	52 148	653 250	-
Pelican Mortgages No. 2	September, 2003	Euro	Mortgage credit	705 600	107 943	705 600	-
Pelican Mortgages No. 3	March, 2007	Euro	Mortgage credit	762 375	262 851	762 375	262 889
Pelican Mortgages No. 4	May, 2008	Euro	Mortgage credit	1 028 600	692 433	1 028 600	690 049
Aqua Mortgage No. 1	December, 2008	Euro	Mortgage credit	236 500	146 094	236 500	133 520
Pelican Mortgages No. 5	March, 2009	Euro	Mortgage credit	1 027 500	692 582	1 027 500	692 648
Pelican Mortgages No. 6	February, 2012	Euro	Mortgage credit	1 107 000	892 073	1 107 000	882 470
Pelican Finance No. 1	May, 2014	Euro	Consumer credit	185 300	172 881	185 300	176 549
Pelican SME No. 2	March, 2015	Euro	Small companies	1 124 300	1 012 985	1 124 300	1 091 718
				6 830 425	4 031 990	6 830 425	3 929 843

Additionally, the detail of securitized loans not derecognised, by securitisation operation and nature of the contracts at 30 June 2016 is presented as follows:

(Thousands of Euro)

	Not derecognised securitisation transactions							
	Pelican Mortgage n.º 3	Pelican Mortgage n.º 4	Aqua Mortgage n.º 1	Pelican Mortgage n.º 5	Pelican Mortgage n.º 6	Pelican Finance n.º 1	Pelican SME n.º 2	Total
Domestic credit								
Corporate								
Loans and advances	-	-	-	-	-	-	686 355	686 355
Pledged current account	-	-	-	-	-	-	155 172	155 172
Other credits	-	-	-	-	-	-	82 138	82 138
Private								
Mortgage	261 842	689 379	142 057	689 585	883 871	-	-	2 666 734
Consumer and other credits	-	-	-	-	-	171 801	76 232	248 033
	261 842	689 379	142 057	689 585	883 871	171 801	999 897	3 838 432
Credit and overdue interest								
Less than 90 days	142	623	603	360	1 601	201	1 530	5 060
More than 90 days	867	2 431	3 434	2 637	6 601	879	11 558	28 407
	1 009	3 054	4 037	2 997	8 202	1 080	13 088	33 467
	262 851	692 433	146 094	692 582	892 073	172 881	1 012 985	3 871 899

As at 31 December 2015, the securitization transactions performed by CEMG are as follows:

(Thousands of Euro)

Issue	Settlement date	Currency	Asset transferred	Credit: Initial amount	Credit: Current amount	Liabilities: Initial amount	Liabilities: Current amount
Pelican Mortgages No. 1	December, 2002	Euro	Mortgage credit	653 250	55 538	653 250	-
Pelican Mortgages No. 2	September, 2003	Euro	Mortgage credit	705 600	111 281	705 600	-
Pelican Mortgages No. 3	March, 2007	Euro	Mortgage credit	762 375	275 641	762 375	275 733
Pelican Mortgages No. 4	May, 2008	Euro	Mortgage credit	1 028 600	714 376	1 028 600	711 896
Aqua Mortgage No. 1	December, 2008	Euro	Mortgage credit	236 500	153 294	236 500	140 964
Pelican Mortgages No. 5	March, 2009	Euro	Mortgage credit	1 027 500	717 038	1 027 500	716 086
Pelican Mortgages No. 6	February, 2012	Euro	Mortgage credit	1 107 000	914 815	1 107 000	908 410
Pelican Finance No. 1	May, 2014	Euro	Consumer credit	185 300	172 643	185 300	176 532
Pelican SME No. 2	March, 2015	Euro	Small companies	1 124 300	1 020 353	1 124 300	1 091 730
				6 830 425	4 134 979	6 830 425	4 021 351

Additionally, the detail of securitized loans not derecognised by securitization operation and nature of the contracts at 31 December 2015 is presented as follows:

(Thousands of Euro)

	Not derecognised securitisation transactions: Pelican Mortgage n.º 3	Pelican Mortgage n.º 4	Aqua Mortgage n.º 1	Pelican Mortgage n.º 5	Pelican Mortgage n.º 6	Pelican Finance n.º 1	Pelican SME n.º 2	Total
Domestic credit								
Corporate								
Loans and advances	-	-	-	-	-	-	664 074	664 074
Pledged current account	-	-	-	-	-	-	158 078	158 078
Other credits	-	-	-	-	-	8	108 218	108 226
Private								
Mortgage	274 602	711 137	149 604	714 842	908 047	-	-	2 758 232
Consumer and other credits	-	-		-	-	171 947	83 350	255 297
	274 602	711 137	149 604	714 842	908 047	171 955	1 013 720	3 943 907
Credit and overdue interest								
Less than 90 days	28	368	381	256	1 248	142	1 335	3 758
More than 90 days	1 011	2 871	3 309	1 940	5 520	546	5 298	20 495
	1 039	3 239	3 690	2 196	6 768	688	6 633	24 253
	275 641	714 376	153 294	717 038	914 815	172 643	1 020 353	3 968 160

As at 30 June 2016, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bond issued	Issue amount Euros	Current amount Euros	CEMG's interest retention 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	8 953 913	3 598 711	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 2	Class A	659 750 000	66 092 737	27 718 377	2036	AAA	Aaa	AAA	n.a.	A+	A1	A+	n.a.
	Class B	17 500 000	17 500 000	11 360 000	2036	AA+	A1	AA-	n.a.	A+	A1	A-	n.a.
	Class C	22 750 000	22 750 000	8 600 000	2036	A-	Baa2	BBB	n.a.	BBB+	Baa3	BB+	n.a.
	Class D	5 600 000	5 600 000	5 600 000	2036	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	248 143 277	120 334 071	2054	AAA	Aaa	AAA	n.a.	BBB+	A3	BB+	n.a.
	Class B	14 250 000	6 406 708	6 406 708	2054	AA-	Aa2	AA-	n.a.	BBB-	Ba2	B-	n.a.
	Class C	12 000 000	5 395 123	5 395 123	2054	A	A3	A	n.a.	BB	B2	B-	n.a.
	Class D	6 375 000	2 866 159	2 866 159	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	544 190 096	544 190 096	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	A (h)
	Class B	55 500 000	48 173 745	48 173 745	2056	AA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	52 079 725	52 079 725	2056	A-	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	25 000 000	21 699 885	21 699 885	2056	BBB	n.a.	n.a.	n.a.	BB	n.a.	n.a.	n.a.
	Class E	27 500 000	23 869 874	23 869 874	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	477 983 196	477 983 196	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	167 407 473	167 407 473	2061	BBB-	n.a.	n.a.	n.a.	BBB+	n.a.	n.a.	n.a.
	Class C	27 500 000	23 608 746	23 608 746	2061	B	n.a.	n.a.	n.a.	BB+	n.a.	n.a.	n.a.
	Class D	27 500 000	23 608 746	23 608 746	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	595 736 669	595 736 669	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	104 536 606	104 536 606	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	286 300 000	2043	A+	n.a.	n.a.	A (lo)	A+	n.a.	n.a.	A (lo)
	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 2015, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bond issued	Issue amount Euros	Current amount Euros	CEMG's interest retention 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	12 352 295	4 699 735	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 2	Class A	659 750 000	73 499 090	30 799 864	2036	AAA	Aaa	AAA	n.a.	A+	A1	A+	n.a.
	Class B	17 500 000	17 500 000	10 360 000	2036	AA+	A1	AA-	n.a.	A+	A1	A-	n.a.
	Class C	22 750 000	22 750 000	8 600 000	2036	A-	Baa2	BBB	n.a.	BBB+	Ba2	BB+	n.a.
	Class D	5 600 000	5 600 000	5 600 000	2036	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	260 265 950	126 212 701	2054	AAA	Aaa	AAA	n.a.	BBB+	Baa3	BB+	n.a.
	Class B	14 250 000	6 719 698	6 719 698	2054	AA-	Aa2	AA-	n.a.	BBB-	B2	B-	n.a.
	Class C	12 000 000	5 658 693	5 658 693	2054	A	A3	A	n.a.	BB	Caa1	B-	n.a.
	Class D	6 375 000	3 006 181	3 006 181	2054	BBB	Baa3	BBB	n.a.	B	Caa3	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	561 384 441	561 384 441	2056	AAA	n.a.	n.a.	AAA	A	n.a.	n.a.	A
	Class B	55 500 000	49 695 853	49 695 853	2056	AA	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	60 000 000	53 725 247	53 725 247	2056	A-	n.a.	n.a.	n.a.	BB	n.a.	n.a.	n.a.
	Class D	25 000 000	22 385 519	22 385 519	2056	BBB	n.a.	n.a.	n.a.	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	24 624 071	24 624 071	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	494 125 730	494 125 730	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	173 061 188	173 061 188	2061	BBB-	n.a.	n.a.	n.a.	BBB+	n.a.	n.a.	n.a.
	Class C	27 500 000	24 406 065	24 406 065	2061	B	n.a.	n.a.	n.a.	BB+	n.a.	n.a.	n.a.
	Class D	27 500 000	24 406 065	24 406 065	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	620 579 757	620 579 757	2063	A	n.a.	A-	AA	A+	n.a.	A-	AA
	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	111 973 138	111 973 138	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	545 900 000	2043	A+	n.a.	n.a.	A (lo)	A+	n.a.	n.a.	A (lo)
	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.

51 Risk management

General Risk Profile

The risk appetite is based on certain principles – namely strength, sustainability and profitability – and defined according to the strategic plan and positioning in the intended market. CEMG analyses the risks of its activities and identifies the material ones. For these, are set objectives according to the desired level of return and strategy, tolerance levels, (the risk ranges that can lead to discussions and decisions on corrective measures) and limits, which, if exceeded, may originate immediate corrective measures.

The main concern of the Executive Board of Directors (EBD) in the definition of risk appetite is its alignment with other organisational components (business strategy and global vectors of risk strategy). Additionally, EBD intends to ensure that the risk appetite is well understood throughout the organisation, especially by the business units responsible for decision making, which may affect the risk exposure and its monitoring.

EBD determines the maintenance of solid balance sheet ratios through a strong capital position and a stable and secure liquidity profile, which allow to address stress situations. EBD intends to ensure sufficient capital to meet regulatory needs, to cover potential losses, with an optimized balance structure to maintain a stable funding capacity and strong liquidity reserves, limiting the risk of potential liquidity problems and ensuring the continuity of its operations without the intervention of supervisory entities, and the protection of its depositors and non subordinated debt holders.

In particular, CEMG has clear objectives, established in its strategic plan for the capital ratios, deposit transformation ratio in credit and liquidity coverage ratio (LCR), as well as a model of viable and sustainable business in line with the risk appetite.

Strategies and processes

CEMG is subject to several risks during the course of its business.

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.

EBD is responsible for the overall management of CEMG's risks, defining the tolerance levels and the maximum risk limits that they are willing to globally assume, for each specific risk considered as materially significant, according to the strategic objectives and defined business plans. This policy is reviewed on a regular basis, depending on the results achieved and the levels specified for indicators and risk limits.

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 different types of risk, progressively adopting consistent methodologies and principles;
- Continuous contribution to improve the support tools of transactions' structuring and development of internal techniques to assess performance and optimization of the capital base; and
- Monitoring of CEMG internationalisation strategy, collaborating in the design of organizational solutions and monitoring and reporting of the risk assumed by the different international units.

Structure and Organização

EBD 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.

Were constituted Support Committees to the EBD, which are dependent structures of the EBD, being as forums for discussion and support decision-making, through the formulation of proposals and recommendations to the EBD, 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 CAE, in order to update the CEMG's risk profile, setting limits for risk-taking, management of liquidity and equity positions, the adoption of recovery measures, taking into account the activity expansion 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 CAE 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 CAE 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, to elaborate proposals or recommendations to the CAE 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 in force at the time and to the regulatory framework.

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. Additionally, CEMG integrates the Futuro Investment Committee, which is the body that takes management decisions about the Pension Fund of Montepio.

The Real Estate Risk Committee monitors the management of property risk by elaborate proposals or issuing recommendations to the EBD in order to promote an optimized management of property risk in line with the defined objectives.

The Department of Risk ("DRI") is responsible for supporting the EBD in making decisions related to the management of different types of risk inherent to the business, within CEMG.

DRI ensures the analysis and management of the Market, Liquidity, Interest Rate, Credit, Real Estate and operational risks, providing advice to EBD, 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 EBD.

DRI ensures the accomplishment of several prudential reports to the supervision authority, namely the domain of their own funds requirements, major risk control and related parties funding, liquidity risk, interest rate risk, country risk, counterparty risk, self-evaluation of Equity's adequacy, Market Discipline, Recovery Plan and Resolution Plan.

Additionally, for credit risk management, Credit Risk Department ("Direcção de Análise de Crédito"), ensures the assessment of credit proposals from companies and retail.

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.

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 is performed by the Compliance Office that reports directly to EBD, and 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 banking practices.

The compliance risk is mitigated encouraging a culture of compliance, fostering the respect for their employees by the framework applicable through an independent intervention, together with all organic units.

It is part of compliance's functions to define the procedures and mechanisms of compliance control, and their monitoring, reporting immediately to the Executive Board of Directors information about any possible violation of statutory obligations, rules of conduct and client relationship or other duties that can lead the institution or the employees in penalties.

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.

Risk Measurement Systems

CEMG is exposed to several risks – equity, credit, concentration, market, interest rate, liquidity, real estate and operational. All the risks identified as materials are subject to regular monitoring and mitigation measures, in order to reduce potential losses to CEMG. The monitoring of these risks is centralized in the DRI, which informs the EBD of its development and suggests action measures when needed.

Equity risk

Equity risk is the possibility of occurrence of potential unexpected losses that compromise the ability of the institution to meet the capital requirements established by prudential regulation. In this context, the objective of CEMG is to maintain a sufficient level of capital which allows to obtain equity ratios at least equal to prudent limits and which can provide a strong resilience against adverse scenarios, allowing to cover unexpected losses and maintain the institution in the market, in sustainable and competitive conditions.

With this objective, CEMG establishes metrics to control this risk, such as prudential equity ratios CET1, Tier 1 and Total Equity and the leverage ratio, on an individual and consolidated basis and in phasing-in and full implementation. Additionally, internal equity ratios (Pillar II) obtained in the ICAAP, in a baseline scenario and in stress scenarios are also analysed.

For these ratios there is a monthly control in order to take corrective measures, in case of depart from the objectives and limits.

Credit Risk

Credit risk is associated with the uncertainty degree of expected returns, disability either of the borrower (and its guarantor, if any) or of the issuer of a security or the counterparty of a contract to comply with their obligations.

The fundamental principle of credit risk analysis is the independence from business decisions, with direct reporting to EBD. In this analysis are used instruments and established rules, according to the materiality of the exposure, familiarity with the types of risk involved (e.g. modeling capacity of those 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 analytical methodologies, under the credit risk, the techniques and risk control models are based on econometric modeling, according to the experience of the institution in granting various types of credit and also, whenever possible, in terms of 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, distinguishing the construction sector, and the third sector, from the other activity sectors, while for customers «Empresários em nome individual» and micro business is applied the scoring model business.

The internal rating models classify companies in 7 classes: 6 in performing risk classes and 1 in default.

The reactive scoring model of mortgage loans has a scale that includes 8 classes and the individual credit incorporates 10 classes for each of those portfolios, aggregating in both cases customers and non-customers. The reactive credit card scoring classifies credit proposals in 4 classes of risk.

The principle of involvement of credit risk analysis is based on the materiality of transactions. There are limits established for companies, by transaction amounts, risk classification and overall exposure, to the mandatory opinion by independent credit analysts of business decision.

Opinions include the exposure limit assigned to the term of the transaction, considering the ability of cash flow generation by the company and its financial charges.

The strategies implemented in the institution's risk management consider the capital requirements associated with the transactions, by defining the decision rules and credit pricing.

The pricing of active operations reflects their expected loss, as well as the cost of debt capital and equity and also administrative costs. The quantification of that expected loss, consider the marginal probabilities of default for the term of the transaction, associated with internal classes of risk and the severity of the loss, quantified through market estimates, considering the types of credit and collaterals. The pricing reflects also the level of business relationship with customers.

The override of the response of scoring systems, internal ratings and internal pricing tables is allowed only by higher decision levels, in accordance with established principles of delegation of competences. Rejection situations are defined in order to minimize the risk of adverse selection and there is always, at least, one risk of rejection class.

Credit rejections are thus determined by the occurrence of credit events in the financial system, breach of credit rules (e.g. effort rate) and where the incorporation of risk in pricing significantly agravate the risk of adverse selection.

There are also defined limits of intervention of several levels of decision-making, by transaction amount and global exposure of client, type of transaction/collateral and pricing/ROE (Return on Equity). In this context, we highlight the principle that the highest hierarchical levels are empowered to approve transactions with lower ROE adjusted risk or larger exposures. These limits are approved by the EBD, and the level of highest decision corresponds to the EBD, which exercises this power in the Credit Committee. This Board includes the first line directors responsible for the Commercial Divisions and DRI.

The risk analysis also involves regular internal reporting on the major types of risk, to the EBD and to the business areas involved. Within the credit risk, there are internal reports prepared in a monthly basis, with the main risk indicators of credit portfolios and metrics on the use of rating/scoring models. In terms of preventive monitoring, there are an early warning system for the key indicators of deterioration of credit risk, as well as watchlist monitoring of the largest exposures of corporate loans portfolio. It is also prepared a weekly report of risk exposure to counterparties.

CEMG's credit risk exposure can be analysed as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Deposits with other credit institutions	55 283	50 617
Deposits with banks	353 947	373 277
Loans and advances to customers	13 978 859	14 165 460
Financial assets held for trading	24 658	26 462
Available-for-sale financial assets	5 458 503	6 366 266
Hedging derivatives	-	9
Held-to-maturity investments	1 125 798	26 130
Other assets	267 159	198 723
Guarantees granted	425 478	423 888
Documentary credits	30 478	24 832
Irrevocable commitments	575 727	681 632
Credit default swaps (notionals)	75 000	85 000
	22 370 890	22 422 296

Note: Gross exposure impairment and amortisation in accordance with the prudential consolidation perimeter, including securitization positions.

The credit risk exposure by sector of activity, for the six-month period ended in June 2015, can be analysed as follows:

(Thousands of Euro)

Activity sector	Jun 2016							
	Loans and advances to customers		Financial assets held for trading	Availabe-for-sale financial assets		Held-to-maturity investments tos detidos até à maturidade	Guarantees granted and documentary credits	
	Gross Amount	Impairment	Book value	Gross Amount	Impairment	Book value	Gross Amount	Impairment
Agriculture	158 115	(4 793)	-	-	-	-	1 447	(27)
Mining	15 677	(876)	-	-	-	-	1 708	(74)
Food, beverage and tobacco	251 636	(15 109)	-	-	-	-	2 885	(214)
Textiles	88 964	(8 931)	-	-	-	-	1 546	(25)
Shoes	47 017	(3 522)	-	-	-	-	671	(30)
Wood and cork	38 727	(4 692)	-	-	-	-	807	(33)
Printing and publishing	102 620	(6 867)	-	-	-	-	451	(53)
Petroleum refining	366	(39)	-	25 345	-	-	-	-
Chemicals and rubber	126 104	(12 366)	-	-	-	-	3 139	(104)
Non-metallic minerals	135 798	(4 666)	-	-	-	-	2 282	(290)
Basis metallurgic industries and metallic products	177 737	(19 199)	-	-	-	-	5 832	(175)
Production of machinery	41 411	(2 889)	-	-	-	-	780	(67)
Production of transport material	37 452	(1 481)	-	-	-	-	4 822	(169)
Other transforming industries	55 941	(5 616)	-	-	-	-	1 610	(81)
Electricity, gas and water	129 491	(830)	-	11 836	-	-	997	(57)
Construction	1 289 478	(326 338)	-	998	(998)	-	123 535	(4 942)
Wholesale and retail	1 238 343	(146 185)	-	8 030	-	-	66 891	(2 867)
Tourism	447 318	(27 049)	-	-	-	-	9 943	(314)
Transports	307 034	(47 477)	-	-	-	-	8 751	(1 103)
Communication and information activities	104 827	(7 513)	-	45 080	(31 926)	-	26 061	(147)
Financial activities	1 165 458	(98 822)	13 745	727 447	(7 500)	-	126 073	(1 273)
Real estate activities	708 479	(133 039)	-	-	-	-	15 042	(999)
Services provided to companies	654 759	(41 918)	-	-	-	-	37 054	(470)
Public services	136 927	(3 603)	10 913	1 529 940	(7 092)	1 125 798	508	(17)
Other activities of collective services	456 947	(22 661)	-	-	-	-	7 466	(503)
Mortgage loans	7 190 176	(201 648)	-	3 206 001	(48 658)	-	4 650	(152)
Other	21 274	(1 088)	-	-	-	-	1 005	(16)
	15 128 076	(1 149 217)	24 658	5 554 677	(96 174)	1 125 798	455 956	(14 202)

The credit risk exposure by sector of activity, as at 31 December 2015, can be analysed as follows:

(Thousands of Euro)

Activity sector	Dec 2015							
	Loans and advances to customers		Financial assets held for trading	Availabe-for-sale financial assets		Held-to-maturity investments tos detidos até à maturidade	Guarantees granted and documentary credits	
	Gross Amount	Impairment	Book value	Gross Amount	Imparidade	Book value	Gross Amount	Impairment
Agriculture	151 848	(4 774)	-	2 138	-	-	2 275	(34)
Mining	15 552	(948)	-	-	-	-	1 692	(209)
Food, beverage and tobacco	242 967	(14 959)	-	981	-	-	2 732	(184)
Textiles	88 212	(9 030)	-	-	-	-	2 327	(41)
Shoes	44 338	(4 118)	-	-	-	-	489	(13)
Wood and cork	43 902	(7 654)	-	-	-	-	1 115	(43)
Printing and publishing	103 463	(8 403)	-	-	-	-	437	(62)
Petroleum refining	398	(38)	-	14 011	-	-	-	-
Chemicals and rubber	133 534	(12 015)	-	-	-	-	2 533	(108)
Non-metallic minerals	131 205	(4 480)	-	-	-	-	6 144	(501)
Basis metallurgic industries and metallic products	164 548	(19 983)	-	-	-	-	9 051	(620)
Production of machinery	39 257	(2 834)	-	-	-	-	871	(115)
Production of transport material	37 609	(1 565)	-	-	-	-	678	(66)
Other transforming industries	54 996	(5 306)	-	-	-	-	1 509	(111)
Electricity, gas and water	132 829	(765)	-	29 411		-	997	(36)
Construction	1 347 429	(325 127)	-	998	(998)	-	142 642	(11 125)
Wholesale and retail	1 229 913	(154 508)	-	7 064	-	-	65 813	(3 414)
Tourism	406 877	(24 683)	-	-	-	-	8 021	(451)
Transports	382 777	(65 359)	-	-	-	-	9 762	(1 187)
Communication and information activities	79 809	(6 863)	-	22 675	-	-	3 521	(192)
Financial activities	1 384 958	(115 951)	14 027	732 452	(9 209)	-	114 151	(1 139)
Real estate activities	671 614	(132 627)	-	-	-	-	14 870	(1 050)
Services provided to companies	510 436	(40 180)	-	-	-	-	43 145	(448)
Public services	135 843	(2 685)	12 435	2 263 821	(7 343)	26 130	922	(18)
Other activities of collective services	462 051	(22 168)	-	-	-	-	7 790	(833)
Mortgage loans	7 366 848	(208 864)	-	3 352 251	(45 355)	-	4 446	(329)
Other	21 557	(1 083)	-	3 369	-	-	787	(11)
Total	15 384 770	(1 196 970)	26 462	6 429 171	(62 905)	26 130	448 720	(22 340)

With regard to credit risk, the financial assets portfolio predominantly maintains its position in bonds of sovereign issuers, mainly from Portuguese Republic.

With regard to credit derivatives, the Group held, as at 30 June 2016, a long position of credit default swaps of Euro 75 million (31 December 2015: Euro 80 thousand).

In terms of credit quality, there was an increase in the average level of counterparties associated to the improvement of Portuguese public debt rating.

Regarding the level of credit quality of debt securities, the major changes were the result of exposure to Portugal, partly attenuated by the decrease of exposure of sovereigns Italy and Spain:

(Thousands of Euro)

Rating	Jun 2016		Dec 2015		Change	
	Value	%	Value	%	Value	%
AAA	9 133	0.3	-	-	9 133	-
AA+	2 125	0.1	-	-	2 125	-
AA	1 546	0.1	2 629	0.1	(1 083)	(41.2)
AA-	1 022	-	4 392	0.2	(3 370)	(76.7)
A+	4 643	0.2	1 688	0.1	2 955	175.1
A	55 488	2.0	56 718	2.3	(1 230)	(2.2)
A-	28 950	1.0	43 629	1.7	(14 679)	(33.6)
BBB+	84 710	3.0	625 863	25.1	(541 153)	(86.5)
BBB	84 875	3.0	647 771	26.0	(562 896)	(86.9)
BBB-	21 637	0.8	28 042	1.1	(6 405)	(22.8)
BB+	2 505 256	88.2	1 038 118	41.6	1 467 138	141.3
BB	-	-	24 391	1.0	(24 391)	(100.0)
BB-	-	-	-	-	-	-
B+	2 115	0.1	-	-	2 115	-
B	-	-	-	-	-	-
B-	-	-	-	-	-	-
CCC+	-	-	-	-	-	-
CCC	11 149	0.4	11 169	0.4	(20)	(0.2)
CCC-	-	-	-	-	-	-
C	8 007	0.3	-	-	8 007	-
NR	14 210	0.5	9 551	0.5	4 659	48.8
Total	2 834 866	100.0	2 493 961	100.0	340 905	13.7

Note: excludes securities arising from own securitisations belonging to the consolidation perimeter.

Concentration risk

In order to minimize the concentration risk, CEMG Group seeks to diversify as much as possible, its activity areas and sources of income as well as diversify their exposures and financing sources.

Concentration risk is analysed at the level of individual concentration and sector concentration, in order to reflect any diversification shortcomings.

The concentration risk management is centrally performed by DRI, with regular monitoring of the levels of concentration. In particular, the level of concentration of the largest depositors and, regarding the credit portfolio, the degree of regional diversification, the level of individual concentration and the degree of sectorial diversification of the corporate portfolio are monitored regularly by DRI.

There are maximum exposure limits established per customer/group of related customers, for each entity of the CEMG Group, as well as limits on the concentration of the largest depositors. Exceeding any of these limits, even if temporarily, requires the approval of the EBD.

Market Risk

Market risk reflects the potential loss that may be incurred by a particular portfolio as a result of rate changes (interest and exchange rates) and/or of prices of the several financial instruments that compose it, considering both the existing correlations between them and their volatilities.

Concerning information and market risk analysis, regular reports are provided on the company's 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. CEMG's investment portfolio is mainly concentrated in bonds, which as at 30 June 2016 represented 87.7% (31 December 2015: 87.5%) of the total's portfolio.

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.

The following table presents the main indicators of these measures, for trading portfolio:

(Thousands of Euro)

	Jun 2016	Average	Minimum	Maximum
Market VaR	555	688	528	1 285
Interest rate risk	483	496	520	496
Exchange risk	77	106	163	95
Price risk	288	372	226	964
Diversification effect	(293)	(286)	(381)	(270)
Credit VaR	159	139	124	146
Total VaR	**714**	**827**	**652**	**1 431**

In the produced reports it is performed the control of the various exposure limits, analysing the risk of concentration, credit, interest rate and change in asset prices, among others. These analyses include scenario analysis, namely the sensitivities of the securities portfolio to interest rate changes, spreads, unfavourable exchange rate developments and changes in the market prices of shares and real estate.

Within the market risk, in addition to the report of the CEMG's portfolio global risk, specific risk reports for the trading portfolio and to the portfolios of assets available for sale and monthly reports of the Pension funds portfolios are also performed.

The assessment of interest rate risk caused by banking portfolio operations is performed by sensitivity analysis to the risk.

The risk of interest rate is measured according to the impacts on the net interest income, in net position and equity, caused by changes in market interest rates. The main risk factors derive from periods of mismatch for re-fixing rates and/or residual maturities between assets and liabilities (repricing risk), from non-parallel changes in interest rate curves (yield curve risk), from the lack of perfect correlation between different indexes with the same repricing period (basis risk) and from options associated to instruments that allow a diverse action of the actors dependent on the level of contracted and practiced rates (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 of Bank of Portugal No. 19/2005, from 15 June, 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.

(Thousands of Euro)

	Within 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years
31 June 2016					
Assets	8 907 482	3 669 298	306 376	1 527 237	1 958 106
Off balance sheet	8 022 062	74 309	129 694	96 976	-
Total	16 929 544	3 743 607	436 070	1 624 213	1 958 106
Liabilities	4 935 893	1 517 992	2 319 305	8 594 945	302 365
Off balance sheet	8 071 022	102 861	31 294	117 864	-
Total	13 006 915	1 620 853	2 350 599	8 712 809	302 365
Gap (Assets - Liabilities)	3 922 629	2 122 754	(1 914 529)	(7 088 596)	1 655 741
31 Dec 2015					
Assets	9 682 427	3 892 230	295 594	1 381 238	1 409 454
Off balance sheet	8 217 800	18 502	67 556	141 297	-
Total	17 900 227	3 910 732	363 150	1 522 535	1 409 454
Liabilities	4 927 841	2 132 690	2 083 644	8 049 051	307 269
Off balance sheet	8 227 811	98 735	20 000	98 429	-
Total	13 155 652	2 231 425	2 103 644	8 147 480	307 269
Gap (Assets - Liabilities)	4 744 575	1 679 307	(1 740 494)	(6 624 945)	1 102 185

The gaps of interest rate during the six-month period ended at 30 June 2016 and during 2015 are presented as follows:

(Thousands of Euro)

	Jun 2016				Dec 2015			
	June	Average	Maximum	Mínimum	December	Average	Maximum	Mínimum
Interest rate Gap	(1 302 001)	(1 070 686)	(839 372)	(1 302 001)	(839 372)	(1 595 917)	(839 372)	(2 382 682)

Sensitivity to the balance sheet interest rate risk, by currency, 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 2016, based on the interest rate gaps observed, an instantaneous positive variation in the interest rates by 100 bp would cause a decrease in the income statement in Euro 2,059 thousand (31 December 2015: increase of Euro 24,003 thousand).

The following table presents the average interests, in relation to CEMG major assets and liabilities categories for the six-month period ended at 30 June 2016 and for the period ended in 2015, as well as the average balances and income and expense for the period:

(Thousands of Euro)

	Jun 2016			Dec 2015		
Products	**Average balance for the period**	**Average interest rate (%)**	**Income / Expense**	**Average balance for the period**	**Average interest rate (%)**	**Income / Expense**
Assets						
Loans and advances to customers	15 220 492	2.50	189 563	15 645 930	2.69	421 499
Deposits	102 531	0.01	5	125 001	0.01	13
Securities portfolio	7 668 164	1.44	54 752	8 055 274	1.50	121 217
Interbank loans and advances	359 285	0.76	1 366	424 092	0.42	1 767
Swaps	-	-	37 070	-	-	92 943
Total Assets	23 350 472		282 756	24 250 297		637 439
Liabilities						
Deposits from customers	11 988 741	1.26	75 029	12 968 697	1.66	215 797
Securities deposits	6 189 662	2.02	62 326	6 200 067	1.47	90 990
Interbank deposits	4 541 824	0.21	4 691	4 234 695	1.36	57 701
Other liabilities	2 155	0.89	10	1 679	0.06	1
Swaps	-	-	35 584	-	-	87 598
Total Liabilities	22 722 382		177 640	23 405 138		452 087

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.

The breakdown of assets and liabilities, by currency, as at 30 June 2016 and 31 December 2015, is analysed as follows:

(Thousands of Euro)

	Jun 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	304 335	10 535	1 202	736	1 231	377	1 133	319 549
Loans and advances to credit institutions repayable on de	43 546	8 644	655	619	1 153	-	666	55 283
Loans and advances to credit institutions	332 185	21 762	-	-	-	-	-	353 947
Loans and advances to customers	13 841 227	136 916	-	-	718	-	(2)	13 978 859
Financial assets held for trading	28 841	2 475	-	323	-	-	-	31 639
Available-for-sale financial assets	6 517 031	763	-	-	-	64 164	-	6 581 958
Held-to-maturity investments	1 125 798	-	-	-	-	-	-	1 125 798
Investments in associated companies and others	204 715	-	-	-	-	-	-	204 715
Non- current assets held for sale	708 034	-	-	-	-	-	-	708 034
Other tangible assets	228 388	-	-	-	-	-	-	228 388
Intangible assets	29 496	-	-	-	-	-	-	29 496
Current tax assets	19 676	-	-	-	-	-	-	19 676
Deferred tax assets	456 199	-	-	-	-	-	-	456 199
Other assets	354 451	475	329	1	377	-	108	355 741
Total Assets	24 193 922	181 570	2 186	1 679	3 479	64 541	1 905	24 449 282
Liabilities by currency								
Deposits from central banks	2 855 709	-	-	-	-	-	-	2 855 709
Deposits from other credit institutions	1 779 543	61 332	4 260	34 291	232	-	45	1 879 703
Deposits from customers	12 052 716	71 502	8 079	10 106	1 956	-	4 701	12 149 060
Debt securities issued	1 622 355	243	-	-	-	-	-	1 622 598
Financial liabilities associated to transferred assets	3 929 843	-	-	-	-	-	-	3 929 843
Financial liabilities held for trading	77 053	444	-	-	-	-	-	77 497
Provisions	26 013	-	-	-	-	-	-	26 013
Other subordinated debt	237 123	-	-	-	-	-	-	237 123
Other liabilities	182 441	4 086	2	509	4	-	560	187 602
Total Liabilities	22 762 796	137 607	12 341	44 906	2 192	-	5 306	22 965 148
Exchange forward transactions	(13 394)	(46 163)	12 354	42 820	-	-	4 522	
Exchange Gap		(2 199)	(2 199)	(408)	(1 287)	(64 541)	1 121	
Stress Test		440	(440)	82	(257)	(12 908)	(224)	

(Thousands of Euro)

	Dec 2015							
	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	345 357	8 556	1 246	587	1 499	7	873	358 125
Loans and advances to credit institutions repayable on de	35 434	11 222	2 000	488	290	-	1 183	50 617
Loans and advances to credit institutions	351 050	22 227	-	-	-	-	-	373 277
Loans and advances to customers	14 024 575	140 268	-	-	617	-	-	14 165 460
Financial assets held for trading	30 337	2 753	-	-	735	-	-	33 825
Available-for-sale financial assets	7 433 962	268	105	-	208	53 216	-	7 487 759
Hedging derivatives	9	-	-	-	-	-	-	9
Held-to-maturity investments	26 130	-	-	-	-	-	-	26 130
Investments in associated companies and others	354 083	-	-	-	-	-	-	354 083
Non- current assets held for sale	733 865	-	-	-	-	-	-	733 865
Other tangible assets	31 255	-	-	-	-	-	-	31 255
Intangible assets	30 229	-	-	-	-	-	-	30 229
Current tax assets	19 676	-	-	-	-	-	-	19 676
Deferred tax assets	389 571	-	-	-	-	-	-	389 571
Other assets	317 966	397	3	86	-	-	10	318 462
Total Assets	24 123 499	185 691	3 354	1 161	3 349	53 223	2 066	24 372 343
Liabilities by currency								
Deposits from central banks	2 262 258	-	-	-	-	-	-	2 262 258
Deposits from other credit institutions	1 905 556	81 507	6 562	34 634	45	-	10	2 028 314
Deposits from customers	12 104 015	79 384	10 278	7 062	1 777	-	5 224	12 207 740
Debt securities issued	1 921 140	249	-	-	-	-	-	1 921 389
Financial liabilities associated to transferred assets	4 021 351	-	-	-	-	-	-	4 021 351
Financial liabilities held for trading	51 074	476	-	-	-	-	-	51 550
Hedging derivatives	439	-	-	-	-	-	-	439
Provisions	15 509	-	-	-	-	-	-	15 509
Other subordinated debt	333 686	-	-	-	-	-	-	333 686
Other liabilities	98 327	4 203	2 015	66	1 893	-	454	106 958
Total Liabilities	22 713 355	165 819	18 855	41 762	3 715	-	5 688	22 949 194
Exchange forward transactions	(42 985)	(20 843)	16 896	40 489	2 023	-	4 559	
Exchange Gap	-	(971)	1 393	(111)	1 657	53 223	937	
Stress Test	-	194	(279)	22	(331)	(10 645)	(187)	

The result of the stress test performed corresponds to the estimate impact (before tax) in equity, including minority interests, due to a devaluation of 20% in exchange rate of each currency against Euro.

Regarding the risk of interest rate and risk exchange of the banking portfolio, there are established limits for exposure to these risks, which are monitored by ALCO. Any override of these limits, even if temporarily, requires the approval of EBD or application of hedge exposure measures.

Liquidity risk

Liquidity risk reflects the Group's inability to comply with their obligations at maturity, without incurring in significant losses resulting from the deterioration of funding conditions (funding risk) and/or sale of its assets below market rates (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 carried out 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 Bank of Portugal (Instruction of Bank of Portugal No. 13/2009 from 15 September), as well as the level of compliance of the prudential liquidity ratios, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) and internal ratios, e.g. transformation of deposits in credit, concentration of funding sources, short-term financing and eligible assets.

There are established limits for various indicators of liquidity risk, which are monitored through weekly and monthly reports.

As at 30 June 2016, the value of LCR was 108.0% (31 December 2015: 118.51%) and CEMG's financing was as follows:

(Thousands of Euro)

Liabilities	Jun 2016	<1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	> 12 months
Deposits from central banks	2 855 709	905 709	-	-	-	-	1 950 000
Financial liabilities held for trading	1 879 703	734 151	1 700	144 814	-	72 363	926 675
Deposits from other credit institutions	12 149 059	4 629 295	1 304 605	1 482 438	1 066 895	1 202 001	2 463 825
Deposits from customers	1 622 598	-	4 200	326 500	97 550	264 700	929 648
Debt securities issued	3 929 843	-	-	-	-	-	3 929 843
Financial liabilities associated to transferred assets	77 497	-	-	-	-	-	77 497
Other subordinated debt	299 923	-	-	62 800	-	-	237 123
Other liabilities	214 715	-	-	26 100	-	-	188 615
Total liabilities	**23 029 047**	**6 269 155**	**1 310 505**	**2 042 652**	**1 164 445**	**1 539 064**	**10 703 226**

As at 31 December 2015, CEMG's financing was as follows:

(Thousands of Euro)

Liabilities	Dec 2015	<1 month	1 - 3 months	3 - 6 months	6 - 9 months	9 - 12 months	> 12 months
Deposits from central banks	2 262 258	536 268	-	-	-	-	1 725 990
Financial liabilities held for trading	2 028 314	612 310	43 700	180 160	-	144 814	1 047 330
Deposits from other credit institutions	12 207 739	4 187 903	1 546 735	1 840 829	1 127 194	841 753	2 663 325
Deposits from customers	1 921 389	17 050	25 778	45 820	19 750	326 500	1 486 491
Debt securities issued	4 021 351	-	-	-	-	-	4 021 351
Financial liabilities associated to transferred assets	51 550	-	-	-	-	-	51 550
Hedging derivatives	439	-	-	-	-	-	439
Other subordinated debt	333 686	-	-	62 800	-	-	270 886
Other liabilities	106 958	-	-	26 100	-	-	80 858
Total liabilities	**22 933 684**	**5 353 531**	**1 616 213**	**2 155 709**	**1 146 944**	**1 313 067**	**11 348 220**

Within the instruction of Bank of Portugal No. 28/2014 from 15 January 2015, which focuses on the guidance of the European Banking Authority in relation to the disclosure of encumbered and unencumbered assets (EBA/GL/2014/3) and taking into consideration the recommendation by the European Systemic Risk Committee, we present the following information, as at 30 June 2016 and 31 December 2015 on the assets and collaterals:

	Jun 2016			
Assets	**Carrying amount of encumbered assets**	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Assets from the reporting institution	6 244 882	n/a	18 204 400	n/a
Equity instruments	-	-	1 130 436	1 160 366
Debt securities	1 648 820	1 613 594	5 702 727	3 290 847
Other assets	-	n/a	2 180 462	n/a

(Thousands of Euro)

	Dec 2015			
Assets	**Carrying amount of encumbered assets**	**Fair value of encumbered assets**	**Carrying amount of unencumbered assets**	**Fair value of unencumbered assets**
Assets from the reporting institution	3 327 704	n/a	21 006 865	n/a
Equity instruments	-	-	1 128 855	753 923
Debt securities	3 191 537	3 172 165	4 060 984	5 556 146
Other assets	-	n/a	2 194 314	n/a

(Thousands of Euro)

Collateral received	Jun 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		
Equity instruments	-	-
Debt securities	118 272	-
Other collateral received	-	-
Own securities issued that are not own covered bonds or ABS	-	-

(Thousands of Euro)

Collateral received	Dec 2015 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		
Equity instruments	-	-
Debt securities	1 587 847	-
Other collateral received	-	-
Own securities issued that are not own covered bonds or ABS	-	-

(Thousands of Euro)

Encumbered assets, encumbered collateral received and associated liabilities	Jun 2016 Carrying amount of selected financial liabilities
Associated liabilities, contingent liabilities and securities borrowed	1 587 847
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	-
	1 587 847

(Thousands of Euro)

Encumbered assets, encumbered collateral received and associated liabilities	Dec 2015 Carrying amount of selected financial liabilities
Associated liabilities, contingent liabilities and securities borrowed	3 732 609
Assets, collateral received and own debt securities issued other than covered bonds and encumbered ABS	
	4 877 538

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 2016 and 31 December 2015 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 2016, amounts to Euro 984,388 thousand (31 December 2015: Euro 1,748,904 thousand).

It should be noted that the global amount of available collateral at the European Central Bank (ECB), as at 30 June 2016 amounts to Euro 3,839,839 thousand (31 December 2015: Euro 3,706,816 thousand) with a use of Euro 2,855,451 thousand (31 December 2015: Euro 2,262,258 thousand):

(Thousands of Euro)

	Jun 2016	Dec 2015
Total collateral eligible	**5 429 602**	**5 311 056**
Total collateral inside the pool	3 839 839	3 706 816
Total collateral outside the pool	1 589 763	1 604 240
Collateral used	**4 422 214**	**3 562 152**
Collateral used for the ECB	2 855 451	2 262 258
Collateral compromised in other financing transactions	1 566 763	1 299 894
Available collateral for the ECB	**984 388**	**1 444 558**
Total available collateral	**1 007 388**	**1 748 904**

Note: The amount of collateral considers the applied haircuts.

Real Estate Risk

The real estate risk results from possible negative impacts on the results or level of CEMG equity, due to fluctuations in the market price of real estate.

The real estate risk results from exposure in real estate (whether from credit recovery processes, whether investment properties) as well as real estate fund units held in securities portfolio. These exposures are monitored on a monthly basis and scenario analyses are performed on a monthly basis that attempt to estimate potential impacts of changes in real estate markets in portfolios of real estate funds, investment real estate and real estate received as loan guarantee.

As at 30 June 2016 and 31 December 2015, exposure to real estate and investments real estate fund units presented the following value:

(Thousands of Euro)

	Jun 2016	Dec 2015
Real estate received as loan guarantee	707 399	733 365
Real estate investment fund units	818 245	835 416
	1 525 644	1 568 781
Stress test	(152 564)	(156 878)

Stress test results correspond to the estimated impact in equity (before taxes) of a 10% variation in values of real estate and real estate funds.

Operational risk

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.

CEMG has implanted an integrated continuing business plan, which allows to ensure the continuity of the operations in a case of a rupture in the activity. DRI has the corporate function of operational risk management 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 early identification and mitigation of operational risk situations.

Regarding the risk monitoring, the main activities performed consisted in the process of collection and analysis of operational risk loss events, analysis of Key Risk Indicators, assessment of exposure to operational risk and the preparation of periodic reports on the operational risk profile of the institution. In particular, quarterly monitoring reports of operational risk loss events and implemented mitigation measures are developed. There are also an annual report which includes the analysis of all operational risk management tools.

Under the mitigation phase, were suggested action plans for the most significant risks identified, based on the operational risk management tools mentioned above.

Additionally, CEMG has implemented a management process of business continuity, supported by a set of assessment, design, implementation and monitoring activities, integrated in a continuous improvement cycle.

This process is critical as mitigation instrument risk, making the business processes more resilient and allowing to ensure the continuity of operations in case of occurrence of events that cause the termination of the activity, considering the Recovery Time Objective (RTO) defined.

Other risks

Other risks - pension fund, reputation, strategy and business - are also monitored by EBD. These risks are controlled and there are corrective measures implemented depending on the results achieved against the objectives/limits in appetite risk.

Capital management and Solvency Ratio

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. 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. Between the implementation of this new prudential regulation 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. This exclusion will end after the adoption, by the European Committee, of a regulation based on Regulation (CE) No. 1606/2002 that approves the International Financial Report Standard, that will replace IAS 39.

- **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 Bank of Portugal. Non-controlled interests, referring to minimum requirements of additional own funds of institutions where the Group does not hold 100% share capital, 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 Bank of Portugal. Non-controlled interests, referring to minimum requirements of additional own funds of institutions where the Group does not hold 100% share capital, 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, the regulatory minimums indicated by CRD IV/CRR are 4.5% for CET1, 6% for Tier 1 and 8% for Total Capital. However, on these regulatory minimums are applied equity reserves (such as the the Conservation Reserve, the Anticyclical Reserve and the Reserve for Other Systemic Institutions), whose value is set by the Bank of Portugal. In 2016, the Bank of Portugal has established an Anticyclical Reserve of 0%. Regarding the Conservation Reserve, Bank of Portugal, in its Regulation No. 6/2016, defines its implementation in accordance with the transitional plan defined in Article 160 of the CRD IV and therefore the amount of this reserve is 0.625% in 2016, 1.250% in 2017, 1.875% in 2018 and 2.5% after 1 January 2019. In accordance with these provisions, as at 30 June 2016, the CEMG Group shall present Common Equity Tier 1, Tier 1 and Total ratios not inferior to 5.125%, 6.625% and 8.625%, respectively, including the Equity Reserves already defined by Bank of Portugal.

The resume of the calculation for CEMG's capital requirements at 30 June 2016 and 31 December 2015, is presented as follows:

(Thousands of Euro)

	Jun 2016	Dec 2015
Capital Common Equity Tier 1		
Paid-up capital	2 170 000	1 900 000
Net profit, reserves and retained earnings	(692 189)	(628 250)
Other regulatory adjustments	(231 399)	(297 467)
	1 246 412	974 283
Capital Tier 1		
Other equity instruments	-	-
Regulatory adjustments	-	-
	1 246 412	974 283
Capital Tier 2		
Subordinated loans	94 900	131 222
Regulatory adjustments	(30 180)	18 102
	64 720	149 324
Total own funds	1 311 132	1 123 607
Own funds requirements		
Credit risk	887 336	907 389
Market risk	8 660	12 890
Operational risk	51 222	51 215
Other requirements	30 293	26 017
	977 511	997 511
Prutential Ratio		
Ratio Common Equity Tier 1	10.20%	7.81%
Ratio Tier 1	10.20%	7.81%
Total Capital Ratio	10.73%	9.01%

Policies for hedging and mitigating risk

For reducing the credit risk, are relevant the real mortgage guarantees and financial collateral which allow the direct reduction in the value of the position. Guarantees of personal protection with replacement effect on exposure are also considered.

The imposition of collaterals depends on the size of the unexpected loss, typically occurring in high volume transactions, especially in financing the construction and purchase of housing.

Risk mitigation through the collateralisation of transactions is considered in its pricing, either through the borrower's credit risk (e.g. in cases of real collateral), either by the reduction of the exposed value, especially with financial collateral (in this case the market risk of the assets involved is considered).

The requirement of personal guarantees is generally associated with retail credit whenever the customer does not have financial conditions to bear the financing costs. In loans to companies, personal guarantees are normally associated with higher value transactions involving smaller companies and when it is intended to mitigate the risk, given the collateralisation level of transactions.

In terms of direct reduction, the collateralised transactions by Financial Collateral, namely, time deposits, bonds and shares included in a main stock index, as established by Section 4, Chapter 4, Title II, Part III of Capital Requirements Regulation No. 575/2013 (CRR).

CEMG does not usually uses netting and does not create credit derivatives on its portfolio.

With regard to mortgage guarantees, the evaluations of the assets are performed by independent evaluators or by an internal Unit structure, regardless of commercial area. The revaluation of assets is performed through on-site assessments by a technical evaluator, in accordance with the conditions set out in the CRR, being the same checked periodically through real estate variation rates.

The Model of Calculation of Impairment Losses of CEMG's Credit Portfolio is in force since June 2006, being periodically updated (the last update was in 2015) 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.

CEMG'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 subjected 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.
- 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, transacions are analysed either through Analysis in an Individual Basis or Analysis in a Collective Basis.

For each customer/credits, there are a number of impairment indicators which are verified and which include internal and external information that agravate the impairment values since they represent an increase in the risk of default. It should be noted that reestrutured credit is an impairment sign and, therefore, the reestrutured 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 the credits to customers of homogeneous populations is the result of 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.

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 mitigation techniques of trading portfolio's market risk consist, essentially, in hedging risk positions with financial products with symmetrical risk, in order to reduce the transaction's overall risk in the partial or total sale of positions at risk to reduce the exposure or completely eliminate it, and setting limits that control exposure to market risk.

Regarding the banking portfolio, the mitigating techniques for interest and exchange rate risk are the negotiation of hedging derivatives and closing of positions through the sale of open positions at risk (feasible in the case of medium and long term public debt portfolios and corporate bonds).

52 Sovereign debt of European Union countries subject to bailout

As at 30 June 2016, the exposure of Group to sovereign debt of European Union countries subject to bailout is as follows:

(Thousands of Euro)

	Jun 2016						
Issuer/portfolio	Book value	Fair value	Fair value reserves	Impairment	Average maturity rate (%)	Average maturity (years)	Fair value measurement level
Greece							
Available-for-sale financial assets	11 149	11 149	-	(7 092)	3.00%	16.16	1

The securities value includes the respective accrued interests in the amount of Euro 188 thousand.

As at 31 December 2015, the exposure of CEMG to sovereign debt of European Union countries subject to bailout is as follows:

(Thousands of Euro)

	Dec 2015						
Issuer/portfolio	Book value	Fair value	Fair value reserves	Impairment	Average maturity rate (%)	Average maturity (years)	Fair value measurement level
Greece							
Available-for-sale financial assets	11 169	11 169	-	(7 343)	3.00	16.66	1

The securities value includes the respective accrued interests in the amount of Euro 460 thousand.

53 Transfer of assets

CEMG performed a set of transactions of sale of financial assets (namely loans and advances to customers) for 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 CEMGs holds more than 50% of the capital of the Funds.

The Funds have a specific management structure (General Partner), fully independent from CEMGs 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 CEMGs, which are financed through the issuance of senior and junior bonds.

The value of the senior bonds fully subscribed by the funds that hold the share capital of the companies match the fair value of the asset sold, determined in accordance with a negotiation based on valuations performed by both parties. These bonds are remunerated at an interest rate that reflects the risk of the company that holds the assets. The value of the junior bonds is equivalent to the difference between the fair value based on the valuation of the senior bonds and the sale value.

These junior bonds, when subscribed by CEMG, provide the right to a contingent positive value if the recovered amount for the assets transferred is above the nominal value amount of senior bonds plus it related interest.

However, considering that these junior bonds reflect a difference between the valuations of the assets sold based on the appraisals performed by independent entities and the negotiation between the parties, the junior bonds are fully provided.

Therefore, following the transactions that occurred, CEMG subscribed:

- Participation units of the Funds, for which the cash-flows that allow the recovery arise mainly from a set of assets transferred from the participant banks (where CEMG has clearly a minority interest). These securities are booked in the available for sale portfolio and are accounted for at fair value based on the market value, as disclosed by the Funds and audited at year end;

- Junior bonds (with higher subordination degree) issued by the companies held by the funds and which are fully provided to reflect the best estimate of impairment of the financial assets transferred.

Within this context, not withholding control but maintaining an exposure to certain risks and rewards, CEMG, in accordance with IAS 39.21 performed an analysis of the exposure to the variability of risks and rewards in the assets transferred, before and after the transaction, having concluded that it does not hold substantially all the risks and rewards.

Considering that it does not hold control and does not exercise significant influence on the funds or companies management, CEMG performed the derecognition of the assets transferred under the scope of IAS 39.20 c(i) and the recognition of the assets received as follows:

(Thousands of Euro)

	Until Jun 2016			Until Dec 2015		
	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	27 717	43 124	15 407	27 074	42 202	15 128
Vallis Construction Sector Fund	18 794	20 889	2 095	18 794	20 889	2 095
Fundo de Reestruturação Empresarial, FCR	21 549	21 590	41	21 549	21 590	41
	68 060	85 603	17 543	67 417	84 681	17 264

As at 30 June 2016 and 31 December 2015, the assets received under these transactions are as follows:

(Thousands of Euro)

	Jun 2016				
	Senior Securities	Junior Securities	Total	Junior Impairment	Net Value
Fundo Vega, FCR	28 435	-	28 435	-	28 435
Vallis Construction Sector Fund	14 929	6 153	21 082	(12 994)	8 088
Fundo de Reestruturação Empresarial, FCR	12 527	-	12 527	(255)	12 272
	55 891	6 153	62 044	(13 249)	48 795

(Thousands of Euro)

	Dec 2015				
	Senior Securities	Junior Securities	Total	Junior Impairment	Net Value
Fundo Vega, FCR	27 292	-	27 292	-	27 292
Vallis Construction Sector Fund	16 991	6 153	23 144	(6 153)	16 991
Fundo de Reestruturação Empresarial, FCR	12 489	-	12 489	(255)	12 234
	56 772	6 153	62 925	(6 408)	56 517

As at 30 June 2016 was recorded an impairment in the amount of Euro 6,841 thousand on the devaluation of the participation units in the Vallis Construction Sector Fund, as described in notes 15 and 23.

As at 30 June 2016, the junior securities correspond to participation units in the amount of Euro 6,153 thousand, as described in note 23, which are are fully provided for.

In 2015, CEMG subscribed 30,325 investment units in the Fund Vega FCR in the amount of Euro 27,292 thousand. In addition, subscribed supplementary capital contributions in the amount of Euro 14,910 thousand, as described in note 31. It should be noted that the supplementary capital contributions are fully provided.

Although the junior bonds are fully provided, CEMG still holds an indirect exposure to financial assets transferred, under the minority investment that holds in the pool of assets transferred by all financial institutions involved, through the holding of participation units of the funds (denominated in the table as senior bonds).

54 Contingencies

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

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

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

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

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

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

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

55 Subsidiary and associated companies Caixa Económica Montepio Geral

As at June 2016, the subsidiary companies of CEMG are presented as follows:

Subsidiary Company	Head of Office	Share Capital	Currency	Activity	Group		Bank
					% of control	% of effective part.	% of direct part.
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	Praia	8 996 000	Cape Verdean Escudo	Banking	100.00%	100.00%	100.00%
Montepio Holding, S.G.P.S., S.A.	OPorto	175 000 000	Euro	Holding	100.00%	100.00%	100.00%

As at 30 June 2016, 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	26.00%

As at 31 December 2015, the subsidiary companies of CEMG, are as follows:

Subsidiary Company	Head of Office	Share Capital	Currency	Activity	Group		Bank
					% of control	% of effective part.	% of direct part.
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	Praia	8 996 000	Cape Verdean Escudo	Banking	100.00%	100.00%	100.00%
Montepio Holding, S.G.P.S., S.A.	OPorto	175 000 000	Euro	Holding	100.00%	100.00%	100.00%
Montepio Recuperação de Crédito, ACE	Lisbon	-	-	Several services	93.00%	93.00%	93.00%

As at 31 December 2015, 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	26.00%

56 Impact of the change in the accounting policy associated with the impairment recognised

For the preparation of the individual interim financial statements as at 30 June 30 2016, CEMG applied for the first time the Regulation of Bank of Portugal No. 5/2015, from 30 December, establishing that all the entities subject to its supervision shall prepare the individual financial statements in accordance with NIRF, as adopted, at every moment, by EU Regulation, and repealing the Regulation of Bank of Portugal No. 1/2005, which established that the financial statements of CEMG shall be prepared in accordance with the Adjusted Accounting Standards (AAS).

The amendment at 1 January 2016, of the above mentioned Regulation results from the revocation of the Regulation of Bank of Portugal No. 3/95 referring to the recognition of impairment on the credit portfolio. According to IAS 8, this change in the accounting policy is presented for comparative purposes, after 1 January 2015, recognising on that date all the effects of the adoption of IFRS in equity.

Thus, the balance Other reserves and retained earnings includes, at 1 January 2015, a restatement resulting from such change in the accounting policy. Such restatement performed under the IFRS can be analysed as follows:

(Thousands of Euro)

	Equity	Net income	Equity
	31 December 2015	31 December 2015	1 January 2015
Last year's reported value	1 280 023	(376 043)	1 466 362
Revocation of Notice of Bank of Portugal No. 3/95	143 126	45 047	98 079
Amended values	1 423 149	(330 996)	1 564 441

57 Relevant facts

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

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

On the same date, occurred the sale of Euro 31,500,000 participation units held by Montepio Investimento S.A. with a nominal value of Euro 31,500 thousand.

In addition, and according with the deliberations mentioned above, CEMG acquired from MGAM a set of real estate property and securities in the amounts of Euro 199,444 thousand, as described in note 28, and of Euro 69,929 thousand, respectively.

58 Subsequent events

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

AUDITOR'S REPORT ON INDIVIDUAL FINANCIAL INFORMATION

KPMG

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LIMITED REVIEW REPORT ON INTERIM FINANCIAL INFORMATION

(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

1 In accordance with the requirements of "Código dos Valores Mobiliários" (CVM), we hereby present our limited review report, on the interim financial information for the six months period ended 30 June 2016, of **Caixa Económica Montepio Geral**, which includes the statement of financial position (which shows a total of Euro 24,447,986 thousands and total equity of Euro 1,484,134 thousands, including a net loss of 228,488 thousands of Euro), the statements of income, comprehensive income, changes in equity and cash flows, for the six months period then ended and the corresponding notes to the financial statements.

2 The amounts included in the financial statements and in the additional financial information were extracted from the accounting records.

Responsabilities

3 The Executive Board of Directors is responsible for:

a) the preparation of financial information that present fairly the financial position of Caixa Económica Montepio Geral, the result of its operations, the comprehensive income, the changes in equity and the cash flows;

b) the historical financial information prepared in accordance with the IAS 34 – Interim Financial Reporting and that is complete, true, current, clear, objective and lawful as established by the Stock Exchange Code ('CVM');

c) the adoption of adequate accounting policies and criteria;

d) the maintenance of an appropriate internal control system; and

e) the communication of any relevant matter that may have influenced the activity, financial position or results.

4 Our responsibility is to verify the financial information included in the above mentioned documents, namely if it is complete, true, current, clear, objective and lawful as required by the CVM, in order to issue a professional and independent report based on our work.

KPMG

Scope

5 The work that we have performed was conducted with the objective of obtaining a moderate level of assurance about whether the financial information mentioned above is free of material misstatements. Our work was performed based on the Technical Standards and Review/Audit Guidelines issued by the "Ordem dos Revisores Oficiais de Contas", and planned in accordance with that objective and included the following procedures:

a) mainly, inquiries and analytical procedures performed to review:

- the reliability of the assertions included in the financial information;
- the adequacy of the accounting policies adopted, considering the circumstances and the consistency of their application;
- the application, or not, of the going concern principle;
- the presentation of the financial information;
- if the financial information is complete, true, current, clear, objective and lawful; and

b) substantive tests on material non usual significant transactions.

6 Our work also included the verification of the consistency of the financial information contained in the Executive Board of Directors report with the remaining above mentioned documents.

7 We believe that our work provides a reasonable basis to issue the report on the interim financial information.

Conclusion

8 Based on our review, which was performed with the objective of obtaining moderate assurance, nothing has come to our attention that causes us to believe that the interim financial information for the six month period ended at 30 June 2016, is not free of material misstatements that affect its compliance with the IAS 34 – Interim Financial Reporting and that is not complete, true, current, clear, objective and lawful.

Lisbon, 30 August 2016

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A. (no. 189)
Represented by
Ana Cristina Soares Valente Dourado (ROC nº 1011)

COMPLIANCE OF THE FINANCIAL REPORT

STATEMENT OF COMPLIANCE OF THE FINANCIAL INFORMATION

This statement has been drafted under the terms of subparagraph c) of number 1 of article 246 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 on the first six months of 2016 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.

Lisbon, August 2016

THE CHARTERED ACCOUNTANT

Luís Miguel Lines Andrade

THE EXECUTIVE BOARD OF DIRECTORS

José Manuel Félix Morgado – Chairman

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

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 25
2.	Description of strategies and objectives (including those specifically related to the undertaking of securitisation operations and operations with structured products);	MR, Strategy, page 23
3.	Description of the importance of the activities developed and their contribution to the business (including in quantitative terms);	MR, Business Areas, page 25 FSNO, Indicators of the balance sheet and income statement by operational segment, page 218
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 25, Financial Analysis, page 37, Risk Management, page 47 FSNO, Financial assets and liabilities held for trading, page 140, Financial assets available for sale, page 143, Hedging derivatives page 149, Held-to-maturity investments, page 150
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 47 FSNO, Risk Management, page 229
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 47 FSNO, Risk Management, page 229
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 37

		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 37 FSNO, Earnings from assets and liabilities at fair value through profit or loss, page 104, Net gains from financial assets available for sale, page 105
10.	Description of the reasons and factors responsible for the impact incurred;	MR, Financial Analysis, page 37, Macroeconomic Environment, page 16
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 37 FSNO, Financial Statements, page 64
12.	Breakdown of write-downs between realised and unrealised amounts;	MR, Financial Analysis, page 37 FSNO, Financial assets and liabilities held for trading, page 140, Financial assets available for sale, page 143, Held-to-maturity investments, page 150
13.	Description of the influence of the financial turbulence on the entity's share price;	MR, Participation Fund, page 58
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 47 FSNO, Risk Management, page 229
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 37 FSNO, Fair Value, page 188, Risk Management, page 229
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 140, Financial assets available for sale, page 143, Held-to-maturity investments, page 150, Risk Management, page 229
17.	Information on mitigation of credit risk (i.e. through credit default swaps) and the respective effect on existing exposure;	MR, Risk Management, page 47 FSNO, Risk Management, page 229
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 47 FSNO, Loans and advances to customers, page 120, Financial assets and liabilities held for trading, page 140, Financial assets available for sale, page 143, Held-to-maturity investments, page 150, Indicators of the balance sheet and income statement by operational segment, page 218, Risk Management, page 229
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 37 FSNO, Financial assets and liabilities held for trading, page 140, Financial assets available for sale, page 143, Held-to-maturity investments, page 150

		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 73
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 73, Securitisation transactions, page 213
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 73
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 47 FSNO, Risk Management, page 229
VI.	**Other relevant aspects in disclosures**	
26.	Description of the disclosure policies and principles used in the reporting of disclosures and in financial reporting.	CGR 2015, III Internal Control and Risk Management, page 438

Montepio

Valores que crescem consigo.

CAIXA ECONÓMICA MONTEPIO GERAL

CAIXA ECONÓMICA BANCÁRIA
PUBLICLY LISTED COMPANY

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

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