REPORT AND ACCOUNTS

1st Half 2018

CAIXA ECONÓMICA MONTEPIO GERAL GROUP

Pursuant to Article 9 of the CMVM Regulation No. 5/2008

This report is the English version of the document "Relatório e Contas 1º Semestre 2018" published by Caixa Económica Montepio Geral, caixa económica bancária, S.A., in the Portuguese Securities and Market Commission (CMVM) website in accordance with Portuguese Law. Should there be any doubt or contradiction between documents, the aforementioned Portuguese version prevails.

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PART I - MANAGEMENT REPORT

GOVERNANCE

The General Meeting of Caixa Económica Montepio Geral, caixa económica bancária, S.A. (CEMG), in an extraordinary session held on March 16, 2018, changed the corporate governance model, which henceforth included a Board of Directors and an Audit Committee, and elected new members of governing bodies for the term of office 2018-2021.

Thus, on June 30, 2018, the composition of the governing bodies of CEMG was as follows:

Board of the General Meeting

Chairman	António Manuel Lopes Tavares
Secretary	Cassiano da Cunha Calvão

Board of Directors

Chairman	Carlos Manuel Tavares da Silva[1]
Non-Executive Members	Luís Eduardo Henriques Guimarães
	Amadeu Ferreira de Paiva
	Manuel Ferreira Teixeira
	Vítor Manuel do Carmo Martins
	Rui Pedro Brás de Matos Heitor
	Pedro Jorge Gouveia Alves[2]
Executive Members	Nuno Cardoso Correia da Mota Pinto
	José Carlos Sequeira Mateus
	Pedro Miguel Nunes Ventaneira
	Carlos Miguel López Leiria Pinto
	Helena Catarina Gomes Soares de Moura Costa Pina

Audit Committee

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

Statutory Auditor

KPMG, represented by:	
	Hugo Jorge Gonçalves Cláudio[3]
	Enrolled at the Statutory Auditors Association under number 1597
Substitute	Fernando Gustavo Duarte Antunes
	Enrolled at the Statutory Auditors Association under number 1233

The Board of the General Meeting took up office on March 16, 2018 and the rest of the governing bodies took up office on March 21, 2018.

[1] Dr. Carlos Manuel Tavares da Silva holds the positions of Chairman of the Board of Directors and Chairman of the Executive Committee, under the terms authorised by Banco de Portugal.
[2] Dr. Pedro Jorge Gouveia Alves took up office on August 23, 2018.
[3] KPMG's current term of office terminates at the end of 2018.

GROUP STRUCTURE

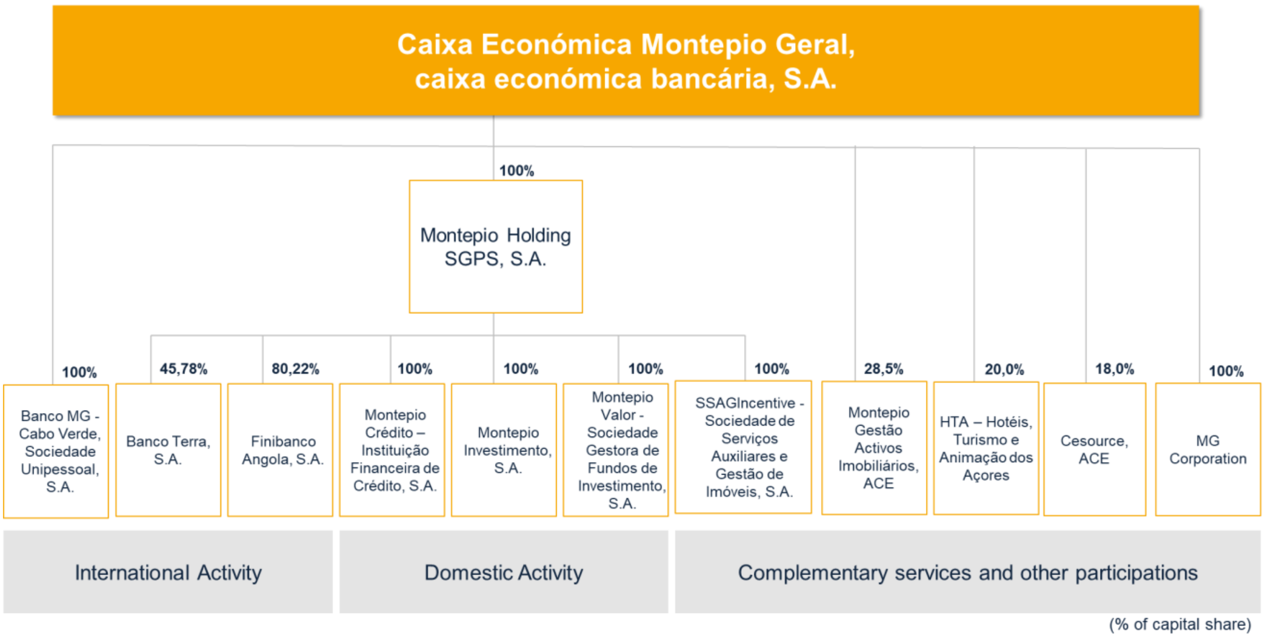
Under the terms of Decree-Law number 190/2015, Caixa Económica Montepio Geral (hereinafter referred to as «CEMG») was henceforth considered a savings bank, with the same legal provision having given rise to the decision to transform CEMG into a public limited company.

Following this process, its current corporate name is Caixa Económica Montepio Geral, caixa económica bancária, S.A.

CEMG holds a number of equity stakes in entities that not only enable offering a broad and diversified range of banking and financial products and services, but also contribute with their earnings to the mutualist goals. The CEMG Group thus presents itself as a differentiated banking and financial group, aligned with its mutualist nature and purposes, which give it unique features and an unmatched position in its activity sector and in Portuguese society.

As at June 30, 2018, the CEMG Group was composed of the entities presented below:

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



In this regard, a contract was established in 2015 to divest shares representing 30.57% of the share capital of Finibanco Angola S.A., with the decision not to recognise the divestment until the financial settlement has been made. In 2017 and in the first half of 2018, financial settlements were made representing 0.20%

and 0.15%, respectively, of the share capital of this subsidiary. As at June 30, 2018, the CEMG Group had an effective stake of 80.22% in Finibanco Angola S.A., continuing to hold its control.

In August 2018, an agreement was made to sell the 45.78% stake of the share capital of Banco Terra S.A., after which the CEMG Group will no longer have any interest in this entity.

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

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

As at June 30, 2018, the consolidation perimeter of the CEMG Group includes other entities, which are consolidated by the full method, namely: Montepio Arrendamento I, II e III – Fundos de Investimento Imobiliário Fechados para Arrendamento Habitacional (FIIAH); Polaris – Fundo de Investimento Imobiliário Fechado; PEF – Portugal Estates Fund and Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto (FEIIA).

KEY INDICATORS

	Jun-17	Dec-17	Jun-18	Year-on-year change
ACTIVITY AND RESULTS (EUR million)				
Total assets	20 206	20 200	19 249	(4.7%)
Loans to customers (gross)	14 890	14 063	13 727	(7.8%)
Customers' deposits	11 628	12 561	12 483	7.4%
Net income	13	6	16	20.6%
SOLVENCY (a)				
Common Equity Tier 1 ratio	12.6%	13.2%	13.5%	0.9 p.p.
Tier 1 ratio	12.6%	13.2%	13.5%	0.9 p.p.
Total Capital ratio	12.9%	13.3%	13.6%	0.7 p.p.
Risk weighted assets (EUR million)	12 197	11 875	11 259	(7.7%)
LIQUIDITY RATIOS				
Loans to customers (net) / Customers' deposits (b)	117.9%	107.3%	101.5%	(16.4 p.p.)
Loans to customers (net) / On-balance sheet customers' resources (c)	107.9%	92.4%	92.0%	(15.9 p.p.)
CREDIT RISK AND IMPAIRMENT COVERAGE FOR BALANCE SHEET CREDIT				
Cost of credit risk	0.9%	1.1%	0.7%	(0.2 p.p.)
Ratio of loans and interest overdue by more than 90 days	9.2%	8.2%	7.5%	(1.7 p.p.)
Coverage of loans and interest overdue by more than 90 days	86.9%	90.2%	107.4%	20.5 p.p.
Non-performing exposures (NPE) (d) / Gross customer loans	18.8%	16.4%	15.8%	(3.0 p.p.)
NPE (d) coverage by Impairment for balance sheet loans	42.7%	44.9%	50.8%	8.1 p.p.
NPE (d) coverage by Impairment for balance sheet loans and associated collaterals and financial guarantees	88.7%	87.0%	88.3%	(0.4 p.p.)
Forborne exposures (d) / Gross customer loans	8.8%	8.2%	7.6%	(1.2 p.p.)
PROFITABILITY AND EFFICIENCY				
Total operating income / Average total assets (b)	2.4%	2.5%	2.1%	(0.3 p.p.)
Net income before income tax / Average total assets (b)	0.3%	0.2%	0.2%	(0.1 p.p.)
Net income before income tax / Average total equity (b)	3.5%	3.0%	2.2%	(1.3 p.p.)
Cost-to-income (Operating costs / Total operating income) (b)	55.2%	53.0%	66.1%	10.9 p.p.
Cost-to-Income, excluding specific impacts (e)	66.5%	67.2%	66.5%	0.0 p.p.
Staff costs / Total operating income (b)	34.1%	30.9%	42.0%	7.9 p.p.
EMPLOYEES AND DISTRIBUTION NETWORK (Number)				
Employees				
Group total (f)	3 796	3 837	3 841	45
CEMG	3 592	3 630	3 638	46
Branches				
Domestic - CEMG	325	324	324	(1)
International	35	34	34	(1)
Finibanco Angola (g)	25	24	24	(1)
BTM - Banco Terra	10	10	10	0
Representation Offices - CEMG	5	5	5	0

(a) Pursuant to CRD IV / CRR (phasing-in). The ratios as of June 30, 2018 include net income for the period and reflect adhesion to the special regime of deferred tax assets.
(b) Pursuant to Banco de Portugal Instruction No. 16/2004, in its current version.
(c) Total on-balance sheet customers' resources = Customers' deposits and debt securities issued. Computed in accordance with the Financial Statements annexed to this report.
(d) EBA definition.
(e) Excludes results from financial operations and other operating results.
(f) Excluding transferred employees and work suspension contracts.
(g) Includes corporate centres.

STRATEGY AND BUSINESS AREAS

STRATEGY

The Board of Directors, which took up office on March 21, 2018, undertook the commitment to enhance the efficiency, profitability of the operation and adequacy of CEMG's business model to the most modern and demanding forms of customer relations.

Following the approval, by the General Meeting of May 14, 2018, of the Annual Report and Accounts for 2017, the Board of Directors launched a Transformation Plan aimed at producing a diagnosis of CEMG's baseline position and defining a vision with clear choices and specific business goals for the medium and long term.

To this end, the Board of Directors ensured that all the employees were informed of the new strategic framework, namely of the mission statement of the governing bodies and the decision to start the previously mentioned Transformation Plan.

CEMG's Transformation Plan will define the Bank's vision and business goals for the medium and long term, aiming to achieve 6 critical goals:

1. A sustainable business model, through an economically sustainable business model with adequate creation of value for the shareholder;
2. Strengthen CEMG's position as a reference financial institution, by supporting the social economy, working among the segments of the population that are least benefited by banking services;
3. Develop new value propositions and service models, affirming itself as a reference bank for small and medium-sized enterprises (SMEs) and for the different segments of individual customers;
4. Increase the efficiency of the commercial structures, developing new internal processes and new forms of working;
5. Enhance CEMG's robustness as a bank of relations and proximity, whether personally or through technological innovation;
6. Improve assets quality, focusing on the sustained improvement of credit quality ratios and the continuous reduction of concentration of risk in the activity sectors of construction and real estate development.

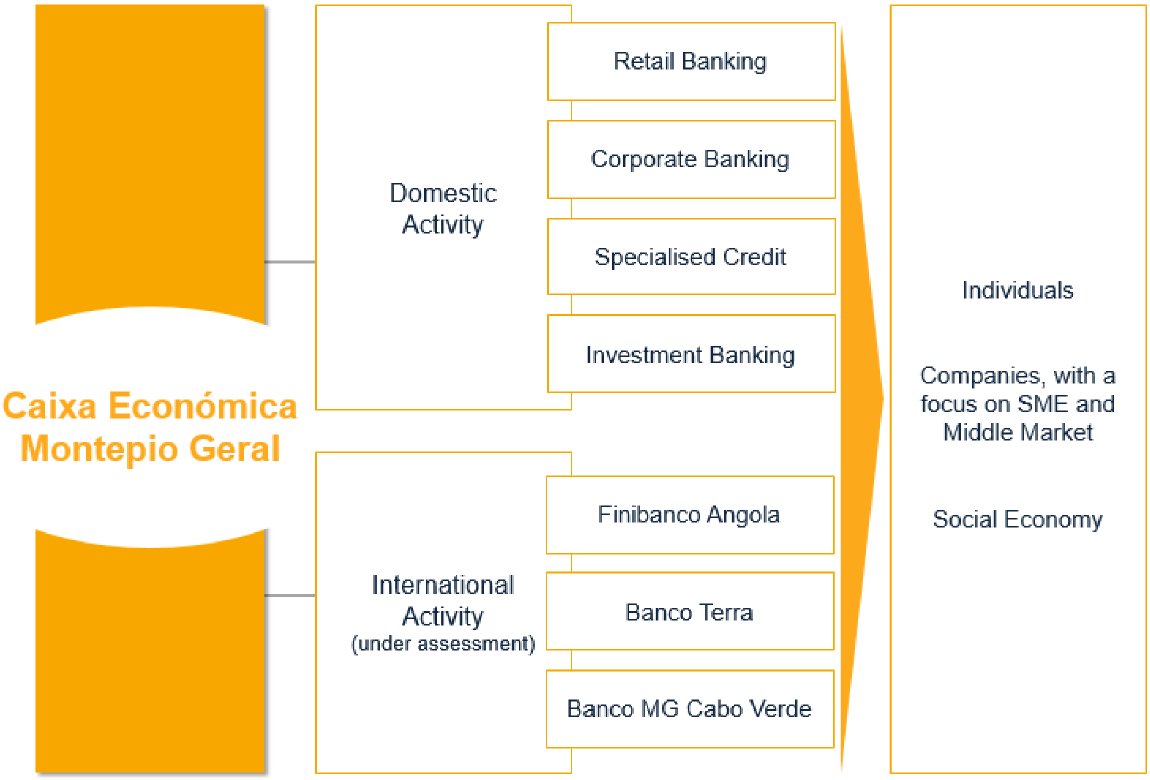
In the context of the Transformation Plan underway, CEMG stands out as a universal bank encompassing commercial banking and investment banking, focusing on SMEs and the domestic market.

The focus on the SME segment is resumed by the realignment of the existing instruments - Corporate Centres and Investment Banking, namely through Montepio Investimento, S.A., a bank 100% controlled by CEMG.

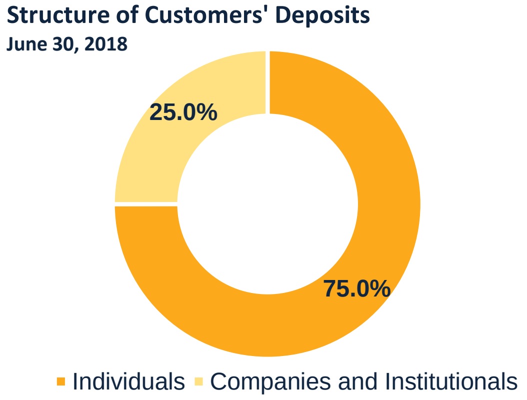
BUSINESS AREAS

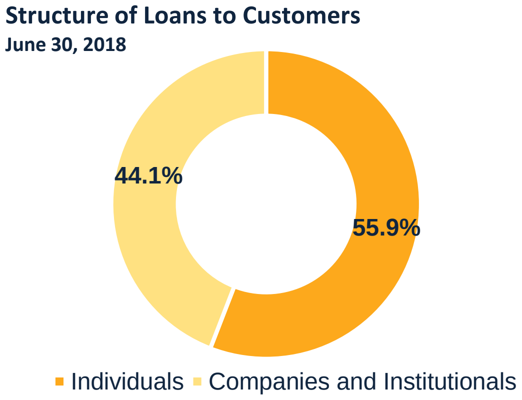
The CEMG Group is characterised as being one of the main Portuguese financial groups in retail banking, with its core business being based on the domestic market, while also developing activities abroad.

CEMG, as a comprehensive and diversified group, places at the disposal of its individual customers, companies, focused on SMEs, middle market companies, and the Social Economy a universal offer of complementary products and services through its domestic distribution network and its interests in companies that develop their activity in Portugal. Its international activity has been exercised through the stakes held in the institutions Finibanco Angola, Banco Terra, Banco MG Cabo Verde and various representation offices. This component is under reappraisal, as the focus on CEMG's domestic activity should be further accentuated in the future.



As at June 30, 2018, the deposits of CEMG's customers stood at 12.5 billion euros, with individual customers representing 75.0% of this amount, and loans to customers reaching 13.7 billion, where 55.9% are individual customers and 44.1% are corporate and institutional customers.





DOMESTIC ACTIVITY

The CEMG Group's domestic activity includes the areas of Retail Banking, through Caixa Económica Montepio Geral, caixa económica bancária S.A., Asset Management, Specialised Credit, Investment Banking and complementary services, namely through its stakes in the subsidiaries Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A., Montepio Crédito – Instituição Financeira de Crédito, S.A., Montepio Investimento, S.A. and SSAGINCENTIVE, Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A. which develop their activity in Portugal.

INDIVIDUALS

CEMG's offer for the Individuals segment has favoured the encouragement of household savings, namely through the collection and retention of funds, making available deposits with different characteristics and maturities.

The new deposits "Poupança Trimestral" (Quarterly Saving) and "Poupança Super" (Super Saving) were provided in the first half of 2018, with attractive rates and the possibility of capitalisation of interest, promoting the attraction and retention of savings in the medium term as well as the deposits "Aforro 2018-2021" (Saving 2018-2021) and "Poupança Top" (Top Saving).

The offer of Retirement Savings Plans features in particular the provision of products of Futuro – Sociedade Gestora de Fundos de Pensões, S.A., and the campaigns "Poupança FUTURO 30 anos" (30 years FUTURE Saving) and "Um FUTURO a Preservar" (A FUTURE to Preserve), which boosted and encouraged savings in the perspective of investment for retirement, by free or periodic submission of savings.

In the first half of 2018, the "Fundo PPR 5 Estrelas" (5 Star Retirement Saving Plan Fund) was distinguished with the "Melhor Fundo PPR" (Best PPR Fund) award, attributed by APFIPP - Associação Portuguesa de Fundos de Investimento, Pensões e Patrimónios (Portuguese Association of Investment Funds, Pensions and Assets) in partnership with Jornal de Negócios, under the "Melhores Fundos 2018" (Best 2018 Funds).

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

Montepio Gestão de Activos received the award "Melhor Fundo de Obrigações de Taxa Indexada" (Best Indexed Rate Bonds Fund), attributed to the "Fundo Montepio Obrigações" (Montepio Bonds Fund), a distinction attributed by APFIPP - Associação Portuguesa de Fundos de Investimento, Pensões e Patrimónios (Portuguese Association of Investment Funds, Pensions and Assets) in partnership with Jornal de Negócios.

Concerning means of payment, CEMG redesigned and optimised its entire credit cards offer for Individuals, having developed three new cards – Classic, Gold and World, with several associated benefits, in particular the charging of monthly instalments instead of the usual Issuance Rates and Annuities, enabling the Customer to pay this type of fee in a phased manner.

The Classic Card is directed at Customers that are only interested in the credit functionality, although they may decide to acquire a package of associated services. The card will always be free of charge provided that the Customer accumulates a minimum of €150 of use in the previous month. The Gold Card is a prestige card with a full insurance package associated to it, which can be free of charge provided that the Customer uses a minimum of €250 in the previous month. The World Card is a high prestige card directed at Customers interested in leisure activities, namely travel, containing a specific set of insurance and benefits, such as the offer of the annual value of €99 in access to over 1,000 lounges in hundreds of airports all over the world.

In the area of Bancassurance, continuity was given, in partnership with the Montepio Group's insurers, to the policy of simplification of services and processes. This aims to enhance efficiency and improve the customers' experience, with business support campaigns having been conducted, with particular focus on the motor vehicle and work accident branches which contributed to greater customer loyalty.

In July 2018, CEMG launched the bundled product "15 em 1 | Serviço Máximo" (15 in 1 | Maximum Service), aimed exclusively at individual customers, which combines 15 benefits in a single account. These benefits include the offer of the current account maintenance fee, the offer of unlimited transfers, provided that they are made in automatic channels, the offer of the issuance fee and annuities of 2 debit cards, and the priority and discount in Residências Montepio, Serviço de Teleassistência e Apoio ao Domicílio (Montepio Residences, Helpline and Home Support Service).

COMPANIES

CEMG maintained its participation in public sector initiatives directed at stimulating the financing to the companies. In this context, the following actions were highlighted during the first half of 2018:

FINCRESCE | SME Leader 2018 Programme

CEMG joined IAPMEI (Institute for Small and Medium-Sized Enterprises and Innovation) once again in the renewal of the Fincresce Programme, to continue distinguishing companies, which, due to their performance qualities, are positioned as drivers of the national economy in different activity sectors, by attributing "Estatutos PME Líder e Excelência" (SME Leader and Excellence Status).

Business Development Support Line 2018 (ADN 2018)

This line aims to support the activity of Small and Medium-Sized Enterprises, with turnover up to 150 million euros and which are not part of corporate groups with consolidated turnover of more than 200 million euros.

Business Development Support Line 2018 - Start Up (ADN 2018 - Start Up)

This line aims to benefit micro-enterprises in the initial stage of their life cycle and up to four years of activity.

Credit Line for Forest Cleaning

Aimed at supporting financing operations for active forestry management with respect to appropriate cleaning of fuel in forest areas, the credit line for forest cleaning provides a total amount of financing of up to 40 million euros, distributed as follows:

- Corporate Credit Line: Up to 30 million euros;
- Line of the portfolio of Individual Owners: Up to 10 million euros, with a portfolio guarantee issued for each Bank underwriting the respective collaboration protocol.

Credit Line for Storage of Burnt Wood

With a total amount of up to 5 million euros, the guaranteed credit line for storage of burnt resinous wood, protocolled with IFAP (Instituto de Financiamento da Agricultura e Pescas, I.P), SPGM (SPGM – Sociedade de Investimento, S. A., coordinating entity of the Portuguese Mutual Guarantee System) and Agrogarante (mutual guarantee company), aims to facilitate the storage of burnt resinous wood derived from regions affected by the large-scale forest fires of 2017. This line intends to provide financing sources for micro, small and medium-sized enterprises that wish to strengthen their liquidity position for the storage and conservation of a large quantity of raw material derived from the extraction of burnt wood from the affected zones.

Credit Line for Marketing of Burnt Wood

With a total amount of up to 3 million euros, the guaranteed credit line for marketing of burnt resinous wood, protocolled with IFAP, SPGM and Agrogarante, aims to facilitate the disposal of burnt resinous wood derived from regions affected by the large-scale forest fires of 2017.

This line intends to provide financing sources for micro, small and medium-sized enterprises that wish to acquire burnt resinous wood.

Microcredit and Social Entrepreneurship

Montepio Microcredit, which combines the financial component to the solidarity component, continued, throughout the first half of 2018, to promote inclusion and self-employment, with a team of specialised managers, who follow up the business ideas from their very beginning, cooperate and guide the entrepreneurs and, together, find the best solutions for each case.

Through partnerships with national organisations and protocolled financing lines, Montepio Microcredit has enabled growing together with people and ideas, creating business, generating employment and producing wealth for entrepreneurs and society.

In this regard, during the first half of 2018, CEMG maintained the "Programa de Apoio ao Empreendedorismo e à Criação do Próprio Emprego" (Programme to Support Entrepreneurship and Own Job Creation), a protocol established with Instituto do Emprego e Formação Profissional, I.P. (IEFP) and the four Mutual Guarantee Companies (Norgarante, Garval, Lisgarante and Agrogarante) embodied in the credit lines Microinvest and Invest+.

Concerning the investment in Microcredit and support to Social Entrepreneurship, during the first half of 2018, CEMG supported 50 projects through relatively small amounts of financing, amounting to a total of 752 thousand euros, which led to the creation of 74 jobs.

SOCIAL ECONOMY

Throughout the first half of 2018, CEMG continued to affirm the Social Economy as a differentiating pillar of the institution, through a business follow-up model based on a specific Department, the Social Economy and Public Sector Commercial Department (DCESSP), with a team of experienced managers from the north to the south of the country, close to the customers, with specific knowledge of the sector and its varied areas of action.

DCESSP pursued the objective of transforming CEMG into a market leader in the Social Economy segment, seeking to strengthen its market share, increase turnover, sign partnerships, maintain dialogue and relations with the structures representing the sector and its different stakeholders, strengthen brand awareness and the values of the brand, and contribute to an economy of social impact.

DCESSP is composed of employees with commercial and technical functions, with 25 commercial managers dedicated to customers of the Social Economy and Public Sector and 4 managers dedicated to Microcredit and Social Entrepreneurship, responsible for customer follow-up, new customer attraction, commercial dynamization and business capture.

CEMG's action includes support to entities of the Social Economy and their social projects, contributing to their viability, maintenance and continuity, as answers to social challenges able to boost development and social inclusion. In this regard, the following stand out as the main initiatives supported during the first half of 2018.

- **Commercial Protocol with Casa do Professor**

Casa do Professor is the oldest social solidarity association in the country, created for the purpose of supporting teachers of all educational levels, by promoting initiatives of social, scientific, training, cultural and recreational nature.

Casa do Professor prepaid card

The commercial protocol established between CEMG and Casa do Professor constitutes yet another step in the longstanding relations of partnership with this Social economy entity, and enables accessing a series of benefits in terms of CEMG Products and Services for its members, families and employees.

- **Commercial Protocol with the Portuguese Scouts Association**

The Portuguese Scouts are a Social Economy entity whose mission is to educate and convey values to young people so that they can play an active role in society. The commercial protocol established between CEMG and the Portuguese Scouts in the first half of 2018 aims to provide products and services, under specific conditions, to around 70 member groups of this entity.

- **Commercial Protocol with Oporto Diocese**

In the first half of 2018, CEMG established a commercial protocol with Oporto Diocese, the second largest Portuguese diocese in terms of number of parishes. This protocol covers the Parishes and the Social and Parish Centres within the territorial limits of Oporto Diocese, enabling the access to a specific series of benefits in terms of CEMG Products and Services by over 600 entities.

- **Open Talk F3M Conference**

Continuing the partnership established in 2014 with the company F3M Information System, S.A., one of the largest Portuguese companies specialised in information and communication technologies, which offers a range of management software for Social Economy institutions, CEMG supported the Open Talk F3M Conference held on May 8, 2018, at Fórum Braga. This conference was directed at social economy institutions, directors and professionals of the social economy, lecturers and students.

- **Pirilampo Mágico Campaign**

Once again, CEMG supported and joined the Pirilampo Mágico cause, one of the most emblematic solidarity campaigns carried out in Portugal, launched on May 17, 2018. The campaign was organised by the National Federation of Solidarity Cooperatives (Fenacerci) with its target group being the civil society, public institutions, social economy entities and companies

- **Portugal Social Economy**

The Portugal Social Economy event took place on May 23 and 24, 2018 at the Centro de Congressos de Lisboa (Lisbon Congress Centre), promoted by the AIP Foundation. This event was supported by Associação Mutualista Montepio Geral, which was present with a joint stand, having included CEMG's participation. This event was attended by social economy entities, companies supplying products and services for the social economy, public institutions, incubators and startups, allowing CEMG to establish several commercial contacts and strengthen its positioning in the Social Economy segment.

- **Solidarity Festivity and National Meeting of Private Social Solidarity Institutions**

The Solidarity Festival and National Meeting of Private Social Solidarity Institutions (IPSS) held on June 8 and 9, 2018, in Setúbal, was organised by the National Confederation of Solidarity Institutions (CNIS) with the support of CEMG. This event was attended by social economy entities, directors and professionals of the social economy, public institutions, companies supplying products and services for the social economy, and civil society. CEMG participated as a speaker in the opening session of the meeting.

- **Seminar – Pintar o Futuro | Em Tom de Conversa**

The Commemorative Seminar of the 40th Anniversary of CerciBeja, named "Pintar o Futuro | Em Tom de Conversa" (Painting the Future | In Conversation Tone) was held on May 25, 2018, in Beja, in the Auditorium of Beja Polytechnic Institute. CerciBeja is a non-profit institution, which operates in the field of special education. This seminar was supported by CEMG, being directed at social economy entities, directors and professionals of the social economy, public institutions and civil society. CEMG participated in the panel of speakers with topics "Social Innovation" and "Social Economy - Present and Future".

Support to Entrepreneurship and Social Innovation

During the first half of 2018, CEMG continued to reveal strong dynamism in the context of Entrepreneurship and Social Innovation, by supporting social incubators, entrepreneurship competitions and social entrepreneurship projects.

Social Entrepreneurship gathers a series of initiatives whose ultimate goal is the generated social impact. Intrinsically linked to innovation, social entrepreneurship initiatives represent creative and disruptive solutions to solve the most diverse social challenges, promoting equal opportunities and a more inclusive and closer society.

CEMG has actively participated in several innovative and technologically based ideas, projects and business development dynamics. The main initiatives and projects developed throughout the first half of 2018 are highlighted below:

- **Montepio Acredita Portugal**

Acredita Portugal is a non-profit organisation focused on the development and fostering of national entrepreneurship which promotes, in partnership with CEMG, the largest entrepreneurship competition of Portugal and the second largest worldwide, awarding more than 500 thousand euros to the best ideas and projects linked to this area.

In its 8th edition, the Montepio Acredita Portugal competition involved 11,477 applications, where most of the projects submitted were related to the category Social Entrepreneurship (2,050 projects) – which is specifically supported by CEMG, followed by the categories Technology (1,073), Trade (898), Restaurants (645) and Industry (635).

By supporting this competition, CEMG is actively contributing to creating value for society, joining forces with an organisation that shares the same principles concerning support to Entrepreneurship and Social Innovation, as a driver of economic development, generator of ideas and solutions for social challenges and a model of human, social and sustainable development.

- **Acorde Maior**

This project is a new initiative of Village Underground Lisboa in the area of social impact, supported by CEMG, whose objective is to involve young people of different backgrounds who live in less favourable situations, in the world of music, through activities led by experienced Portuguese musicians. The project takes place in the Village Underground during school holidays, with the first edition having been held in April 2018, the second edition in June 2018. The project will end in December 2018, on the occasion of the Christmas holidays. During 5 days, about 30 young people and three teachers explore processes of creation of collaborative music, creative thinking, composition and interpretation, culminating in the presentation of a final performance.

- **Impact Hub Lisbon**

Impact Hub Lisbon, an incubation space of social nature aimed at supporting the best entrepreneurship projects of social and environmental impact, which was supported by CEMG, celebrated one year of activity and presence in Portugal in May 2018, with indicators showing the relevance of the topic of social entrepreneurship: On average, the space has more than 100 resident members of 14 different nationalities; More than 50 startups were created, incubated, accelerated and/or supported during this period; 6 programmes of acceleration, incubation and capacity-building with participation of more than 80 startups; More than 4,000 visitors. CEMG's strategic partnership with this incubator aims to associate the institution's image with that of a recognised international incubator of social impact.

OTHER SUBSIDIARIES

Montepio Investimento, S.A.

Montepio Investimento, S.A., a bank 100% controlled by CEMG, pursued, in the first half of 2018, the strategy of action directed towards Investment Banking, in particular in the sphere of providing advisory services to companies, namely SMEs, in the areas of "Corporate Finance" and "Financial Advice", aimed at complementing the offer of products and services of the CEMG Group.

As at June 30, 2018, the total Net assets of Montepio Investimento, S.A. stood at 206.6 million euros, showing a reduction of 18.7 million euros (-8.3%) in relation to the value recorded at the end of 2017 (225.3 million euros).

As at June 30, 2018, the Cash and deposits at other credit institutions stood at 2.8 million euros, having fallen by 10.4 million euros in relation to the value recorded at the end of 2017 (13.2 million euros).

At the end of the first half of 2018, the heading of Financial assets at fair value through other comprehensive income recorded a decrease of 92.7 million euros (-63.7%) compared to the value stated at the end of 2017 (145.5 million euros), reflecting the accounting reclassification of participation units from the heading of Financial assets available for sale to the heading of Other financial assets at fair value through profit or loss.

Net loans to customers stood at 33.9 million euros at the end of the first half of 2018, having fallen by 28.0% (-13.1 million euros) in relation to the value recorded as at December 31, 2017, reflecting the amortisation of the equipment leasing and property leasing portfolios.

At the end of the first half of 2018, the Resources of other credit institutions and Equity remained as the main sources of funding.

As at June 30, 2018, Resources from other credit institutions amounted to 17.6 million euros, compared to 35.1 million euros as at December 31, 2017, representing a reduction of 49.7%.

Equity reached 187.0 million euros as at June 30, 2018, showing a reduction of 0.6% in relation to the value recorded at the end of 2017 (188.1 million euros), influenced by the decrease of Revaluation reserves of 1.2 million euros (-66.8% compared to the end of 2017).

Net income for the first half of 2018 reached 0.7 million euros, compared to 2.2 million euros recorded in the same period of 2017 (-70.7%), revealing the impact of the adverse evolution of Total operating income, despite the reduction observed in operating costs and the lower level of Impairment and provisions recorded in the period.

In the first half of 2018, Total operating income fell by 2.2 million euros compared to the same period of 2017, standing at 1.3 million euros, fundamentally reflecting the reductions in Net interest income, Net fees and commissions, Results from financial operations and Other operating income, which remained negative.

In the first half of 2018, Operating costs amounted to 0.6 million euros, showing a reduction of 15.6% compared to the value recorded in the same period of 2017, as a result of the decrease in the heading of Staff costs, which more than offset the increase in General administrative expenses.

In the first half of 2018, the Provisions and Impairment for the year stood at -0.5 million euros, compared to -0.6 million euros in the first half of 2017, benefiting from the reversal of customer loan impairment amounting to 1.5 million euros.

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

Activity and Results (EUR million)

	Jun-17	Dec-17	Jun-18	YoY Change	
				Amount	%
Total assets	279.9	225.3	206.6	(73.3)	(26.2)
Loans to customers (net)	51.3	47.0	33.9	(17.4)	(34.0)
Financial assets at fair value through other comprehensive income	144.6	145.5	52.8	(91.8)	(63.5)
Equity	187.1	188.1	187.0	(0.1)	(0.1)
Total operating income	3.5	5.6	1.3	(2.2)	(64.1)
Operating costs	0.7	1.7	0.6	(0.1)	(15.6)
Net income	2.2	1.7	0.7	(1.5)	(70.7)

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

Montepio Crédito – Instituição Financeira de Crédito, S.A. (Montepio Crédito), 100% controlled by CEMG, ensures the offer of specialized credit in the automobile, home and services sectors, and equipment, complemented by a set of solutions aimed at individual customers, companies and institutions of the third sector.

As a result of the repositioning made in terms of the CEMG Group, and the strong and solid relationship established with its partners, based on the experience gained over the years, Montepio Crédito has developed solutions and specialized credit in the following strategic areas: Motor Vehicle, Health, Motor Vehicle Repair, Telecommunications and and Furniture for the segment of individuals, and Logistics, Water, Transport, Energy, Energy Efficiency and Industry for the segment of companies.

As at June 30, 2018, Net assets reached 461.3 million euros, showing growth of 18.8 million euros (+4.2%) in relation to the value recorded at the end of 2017 (442.5 million euros) and a reduction of 12.8% year-on-year.

Loans granted to customers amounted to 418.0 million euros at the end of the first half of 2018, having increased by 2.9% in relation to the value recorded at the end of 2017 (406.3 million euros) and 9.0% year-on-year.

The Net income of the first half of 2018 stood at 1.2 million euros, compared to 1.0 million euros recorded in the same period of 2017 (+23.7%).

Total operating income reached 7.4 million euros in the first half of 2018, compared to 7.1 million euros recorded in the same period of 2017. This evolution was influenced favourably by the performance of Net fees and commissions which increased by 0.4 million euros (+38.6%), and of Results from financial operations which became positive (+14.4 euros in the first half of 2018 against -0.8 million euros in the same period of 2017), and adversely by the reduction of Net interest income by 0.7 million euros (-10.3%) and Other operating income which worsened by 0.2 million euros, to stand at -0.5 million euros.

In the first half of 2018, Operating costs amounted to 5.4 million euros, corresponding to an increase of 0.1 million euros (+2.0%) compared to the same period of 2017, caused by the increased Staff costs (+1.7% compared to the first half of 2017) and General and administrative expenses (+3.2%), despite the reduction achieved in Depreciation and amortisation (-10.4%). The evolution of Total operating income, on the one hand, and Operating costs, on the other hand, contributed to the Cost-to-income ratio having stood at 72.3% at the end of the first half of 2018, corresponding to a reduction of 2.0 p.p..

In the first half of 2018, the total amount of impairment and provisions reached 0.3 million euros, compared to 0.7 million euros in the same period of 2017, of which 0.4 million euros were related to the customer loan portfolio (0.7 million euros in the first half of 2017) and -0.1 million euros relative to the impairment of other assets.

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

Activity and Results (EUR million)

	Jun-17	Dec-17	Jun-18	YoY Change	
				Amount	%
Total assets	529.1	442.5	461.3	(67.8)	(12.8)
Loans to customers (net)	383.4	406.3	418.0	34.6	9.0
Total operating income	7.1	15.5	7.4	0.3	4.7
Operating costs	5.3	10.7	5.4	0.1	2.0
Cost-to-Income	74.3%	68.7%	72.3%	(2.0 p.p.)	
Net income	1.0	2.9	1.2	0.2	23.7

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

Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A. (Montepio Valor) is held by Montepio Holding SGPS, S.A., with its corporate object being the management of real estate investment funds.

The Net assets of Montepio Valor reached 5.3 million euros as at June 30, 2018, showing a reduction of 9.7 million euros in relation to the value recorded at the end of 2017 (5.8 million euros).

As at June 30, 2018, the Cash and deposits at central banks and other credit institutions (OIC) amounted to 4.0 million euros, reflecting a decrease of 0.6 million euros compared to the amount recorded in the same period of 2017 (-13.3%).

In the first half of 2018, the Total operating income amounted to 1.8 million euros corresponding to a reduction of 13.5% compared to the value of 2.1 million euros recorded in the same period of 2017. This outcome was above all penalised by the evolution of Other operating income from 24 thousand euros in the first half of 2017 to a negative value of 186 thousand euros at the end of the first half of 2018.

In the first half of 2018, Operating costs amounted to 1.5 million euros, reflecting a reduction of 6.5% compared to the 1.6 million euros recorded in the same period of 2017, as a result of the decrease in the heading of General and administrative expenses which more than offset the increase observed in Staff costs and in Depreciation and amortisation.

The Net income of the first half of 2018 reached 0.2 million euros, having evolved adversely in relation to the 0.4 million euros recorded in the same period of 2017.

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

Activity and Results (EUR million)

	Jun-17	Dec-17	Jun-18	YoY Change	
				Amount	%
Total assets	5.5	5.8	5.3	(0.2)	(4.5)
Total operating income	2.1	4.2	1.8	(0.3)	(13.5)
Operating costs	1.6	3.3	1.5	(0.1)	(6.5)
Cost-to-Income	76.2%	78.6%	82.4%	6.2 p.p.	
Net income	0.4	0.7	0.2	(0.2)	(39.6)

SSAGINCENTIVE - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.

SSAGINCENTIVE, Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A. (SSAGINCENTIVE) is 100% controlled by CEMG, with its corporate object being the trading and management of real estate properties required for the installation and operation of the credit institutions or financial companies that are its shareholders and/or of the companies in a group or controlling relationship with it. Furthermore, the corporate object also includes the management and purchase for resale of real estate properties acquired by its shareholders and/or companies in a group or controlling relationship with it as a result of the repayment of credit belonging to them.

As at June 30, 2018, the Net assets of SSAGINCENTIVE amounted to 61.0 million euros, reflecting a reduction of 2.6% compared to the value recorded in the same period of 2017 and 0.7% in relation to the value recorded at the end of 2017.

As at June 30, 2018, the Inventories stood at 49.2 million euros, of which 28.5 million euros refer to buildings and 20.7 million euros refer to plots of land, derived from acquisitions made from Caixa Económica Montepio Geral. The value of the Inventories at the end of June 2018 had decreased by 5.1% in relation to the value recorded at the end of 2017 and 8.3% compared to the value of 53.7 million euros recorded in the same period of 2017.

Cash and bank deposits amounted to 11.0 million euros as at June 30, 2018, corresponding to an increase of 3.3 million euros in relation to the value recorded in the same period of 2017 and 2.2 million euros compared to the value recorded at the end of 2017.

As at June 30, 2018, Equity stood at 60.9 million euros, compared to 61.2 million euros at the end of 2017. The Additional paid-in capital made by Montepio Holding stood at 67.5 million euros in the first half of 2018.

The sales and services rendered reached 2.5 million euros as at June 30, 2018, corresponding to sales of inventories and representing an increase of 2.1 million euros compared to the same period of 2017.

The heading of Other costs and losses, which includes costs related to the maintenance and legalisation of real estate properties and to sales promotion, amounted to 0.2 million euros in the first half of 2018, standing in line with the value recorded in the same period of 2017.

The Net income achieved in the first half of 2018 stood at -0.2 million euros, reflecting a favourable evolution in relation to the recorded value of -1.6 million euros in the same period of 2017, benefiting from the lower allocations for impairment.

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

Activity and Results (EUR million)

	Jun-17	Dec-17	Jun-18	YoY Change	
				Amount	%
Total assets	62.6	61.4	61.0	(1.6)	(2.6)
Total operating income	(2.0)	(3.0)	(0.2)	1.8	89.7
Net income	(1.6)	(3.1)	(0.2)	1.4	85.8

INTERNATIONAL ACTIVITY

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

Finibanco Angola, S.A., 80.22% held by CEMG, is a universal bank supporting small and medium-sized enterprises, individuals and Angolan foreign trade which seeks to leverage its competitive advantage on the quality of its service.

Under its strategy, Finibanco Angola seeks to finance and promote individual customers and micro-enterprises with viable business initiatives that would otherwise not have access to credit.

Finibanco Angola celebrated 10 years of activity at the end of the first half of 2018, having been incorporated on September 4, 2007, and starting its activity in the city of Luanda on June 9, 2008. Over these years, Finibanco Angola has grown, modernised, created employment and been recognised as an active part in the support to the development of the Angolan economy. Today, it is a more solid institution, but also more agile, flexible and suited to the requirements and needs of its target segments.

The expansion of the distribution network, levered on experience and the favourable evolution of its activity, has been accomplished through own funding, in the perspective of proximity to its customers, which include a total of 24 branches and business centres at the end of the first half of 2018.

Banco Terra (BTM), as at June 30, 2018, controlled by CEMG through a 45.78% stake in its share capital, is a commercial bank that aims to offer a full range of financial services and solutions in the areas of retail, business and the social economy. BTM was created with the purpose of contributing to poverty reduction in Mozambique, by offering loans to the sectors of industry, trade, agriculture and services, providing financial services to the rural and suburban populations in a viable and sustainable form.

BTM's distribution network, at the end of the first half of 2018, covered 10 branches, distributed over locations in Maputo and Matola (Maputo), Maxixe (Inhambane), Chimoio (Manica), Beira (Sofala), Tete and Ulóngué (Tete), and Nampula and Malema (Nampula).

During the first half of 2018, BTM pursued the process of modernisation of the information systems and policy on cost containment and proximity, aimed at strengthening the commitment undertaken before its customers. In this context, BTM continued to promote the development of financial solutions of international standard, the digitalisation of the banking processes and compliance with the rules and ratios established by the regulator, Banco de Moçambique.

In order to accomplish its strategy, and with a view to improving BTM's activity and results, BTM defined its main operational challenges as: i) the restructuring of human resources and their qualification and permanent training, focusing on the implementation of measures leading to the harmonisation of skills, aimed at aligning them with the offer of products and services provided; ii) the recovery of bad debt and reduction of loans in arrears; iii) the development of new products and services, with a view to meeting the needs of its customers; iv) the strengthening of the marketing and communication strategy; and v) the strengthening and improvement of the operational area, namely in the sphere of information technologies, electronic banking, operation reports, administration services and organisation and methods.

Banco MG Cabo Verde, S.A., 100% held by CEMG, provides a broad offer of specialised financial products and services for the segments of individuals, institutions or companies with international vocation, diversified investment and saving solutions, as well as capital and liquidity management solutions.

The table below presents key indicators on the activity and results of the CEMG Group's international business.

Activity and Results (EUR million)

	Jun-17*	Dec-17*	Jun-18*	YoY Change
Total assets	533.0	543.7	596.5	11.9%
Loans to customers (net)	123.1	113.5	99.9	(18.8%)
Customers' deposits	412.3	406.6	442.4	7.3%
Total operating income	17.4	30.7	28.8	65.4%
Operating costs	9.3	20.8	10.5	13.0%
Cost to Income	53.4%	67.9%	36.5%	(16.9 p.p.)
Net income	4.6	4.6	10.2	>100%

*For comparative purposes the financial statements of Finibanco Angola and BTM, relative to Jun-17, Dec-17 and Jun-18 of Finibanco Angola and BTM were restated using the same exchange rate: AOA/EUR 288,872; MZN/EUR 69,145.

The performance of the international activity of the CEMG Group in the first half of 2018, revealed the macroeconomic context of the main geographic areas in which it operates. In Angola, the economy continued to face enormous macroeconomic imbalances, following the previous sharp drop in the price of oil, with gross domestic product (GDP) contracting by 2.5% in 2017. In Mozambique, GDP grew by 3.7%

in 2017, slowing down slightly in relation to 2016 (+3.8%). In Cape Verde, the GDP growth rate slowed down after the international crisis, recording a growth of 4.0% in 2017, decelerating in relation to the growth of 4.7% of 2016, the strongest growth rate since 2008 (+6.7%).

The total Assets of the international activity of the CEMG Group reached 596.5 million euros as at June 30, 2018, compared to 543.7 million euros at the end of December 2017, representing an increase of 9.7% (+11.9% compared to June 30, 2017). This evolution was influenced by the reduction in the total Assets of Banco MG Cabo Verde and BTM, of -3.7% and -6.7% respectively, compared to the end of 2017, while the total Assets of Finibanco Angola increased by 21.5% compared to the value at the end of 2017.

The Loans granted to customers of the international activity fell by 11.9% in relation to the end of 2017, by evolving from 113.5 million euros as at December 31, 2017, to 99.9 million euros at the end of the first half of 2018 (18.8% compared to June 30, 2017). This evolution was caused by the 13.5% decrease in loans granted by Finibanco Angola compared to the end of 2017, which amounted to 68.1 million euros at the end of the first half of 2018 (78.7 million euros as at December 31, 2017), and by the reduction of loans granted to customers by BTM, which reached 31.8 million euros at the end of the first half of 2018 (-8.4% compared to the end of 2017).

Customer deposits captured by the subsidiaries forming the international activity of the CEMG Group reached 442.4 million euros as at June 30, 2018, having increased by 8.8% in relation to the value as at December 31, 2017, and 7.3% in relation to the same period of 2017. The Customer deposits of Finibanco Angola reached 243.0 million euros as at June 30, 2018, reflecting an increase of 22.4% compared to the value as at December 31, 2017, and 27.9% in relation to the same period of 2017, representing 54.9% of the total deposits of the international activity. The Customer deposits of Banco MG Cabo Verde stood at 174.9 million euros as at June 30, 2018, indicating a reduction of 3.6% compared to the value as at December 31, 2017, and 11.2% in relation to the same period of 2017. As at June 30, 2018, the Customer deposits of BTM amounted to 24.4 million euros, corresponding to a reduction of 8.2% compared to the value as at December 31, 2017, and 3.8% in relation to the same period of 2017.

The Total operating income of the international activity in the first half of 2018 grew by 65.4%, standing at 28.8 million euros, compared to 17.4 million euros recorded in the same period of 2017. The favourable evolution of Total operating income in the first half of 2018 was underpinned by the increased Net interest income which reached 14.3 million euros (+8%), the Net fees and commissions which amounted to 6.0 million euros (+88.7%) and the Results arising from foreign exchange differences, which reached 9.3 million euros, compared to the values of the same period of 2017.

At Finibanco Angola, Total operating income for the first half of 2018 increased by 84.7% in relation to the same period of 2017, standing at 25.7 million euros. This outcome essentially reflects the positive evolution of Net interest income which increased by 1.4 million euros, Net fees and commissions which grew by 2.9 million euros, and the Results from foreign exchange differences which increased by 7.8 million euros, respectively, compared to the same period of 2017.

At BTM, Total operating income amounted to 3.1 million euros in the first half of 2018, corresponding to a 4.8% reduction in comparison to the value recorded in the same period of 2017. This was especially influenced by the lower Net interest income (-0.3 million euros), Results from foreign exchange differences (-0.3 million euros) and Other operating income (-0.2 million euros), compared to the same period of 2017.

At Banco MG Cabo Verde, Total operating income for the first half of 2018 amounted to 0.1 million euros, representing a reduction of 0.2 million euros (-61.7%) compared to the value of the same period of 2017. The progression of Total operating income at Banco MG Cabo Verde was influenced by the adverse evolution of Net interest income (-0.1 million euros) and Results from foreign exchange differences (-0.1 million euros) in relation to the same period of 2017.

The Total operating costs of the international activity increased by 13.0% in the first half of 2018, amounting to 10.5 million euros (compared to 9.3 million euros in the same period of 2017). This growth was determined by the increased Staff costs (+21.2% compared to the first half of 2017), General and administrative expenses (+5.5%) and Depreciation and amortisation (+7.3%).

At Finibanco Angola and BTM, Operating costs increased in the first half of 2018 compared to the value of the same period of 2017, by +20.4% and +2.3% respectively, while at Banco MG Cabo Verde they fell by 6.1%, reflecting the evolution of the activity developed and the features of the corresponding markets. At Finibanco Angola the increase observed in Operating costs in the first half of 2018 was transversal to all its components: +31.5% in Staff costs, +12.0% in General and administrative expenses and +5.4% in Depreciation and amortisation, compared to the value of the same period of 2017. At BTM the year-on-year growth in Operating costs in the first half of 2018 was the result of the increase recorded in the three components of Staff costs (+0.6%), General and administrative expenses (+2.6%), and Depreciation and amortisation (+11.7%).

At Banco MG Cabo Verde, Operating costs reached 0.4 million euros in the first half of 2018, representing a 6.1% reduction compared to the value of the same period of 2017. This decrease was underpinned by the reduction recorded in General and administrative expenses in comparison to the first half of 2017 (-29.0%), which more than offset the increase in Staff costs (+714.7%) and in Depreciation and amortisation (+39.4%) compared to the same period of 2017.

As a result of this evolution, the Cost-to-income ratio of the international activity in the first half of 2018 stood at 36.5%, corresponding to a reduction of 16.9 p.p. compared to the indicator recorded in the same period of 2017.

In the first half of 2018, the contribution of the international activity to consolidated net income reached 10.2 million euros (4.6 million euros in the first half of 2017), with positive net income in Angola (10.4 million euros) and Mozambique (45.7 thousand euros), while Cape Verde generated negative net income (49.9 thousand euros).

FINANCIAL ANALYSIS

In the context of the strategic redefinition of its international share holdings, CEMG is currently negotiating with a series of investors aimed at re-focusing its approach towards the African market, with a view to deconsolidation of the financial stakes in Finibanco Angola S.A. and Banco Terra, S.A..

In this regard, a contract was established in 2015 to divest shares representing 30.57% of the share capital of Finibanco Angola S.A., with the decision not to recognise the divestment until the financial settlement has been made. In 2017 and in the first half of 2018, financial settlements were made representing 0.20% and 0.15%, respectively, of its share capital, with Montepio Holding henceforth owning 80.22% of the economic interests of this subsidiary.

In August 2018, an agreement was made to sell the 45.78% stake of the share capital of Banco Terra S.A., after which the CEMG Group will no longer have any interest in this entity.

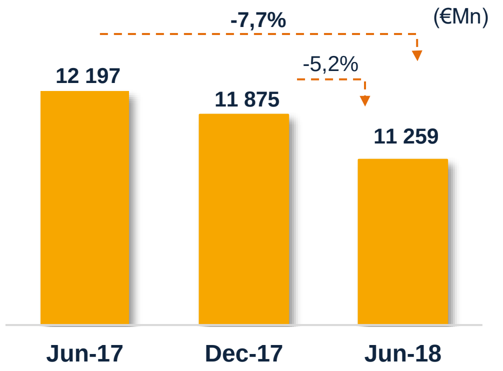
Considering the decisions taken by the Board of Directors, as well as the provisions in International Financial Reporting Standard (IFRS) 5, the activities developed by these subsidiaries have been deemed as discontinuing operations since the end of 2016.

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

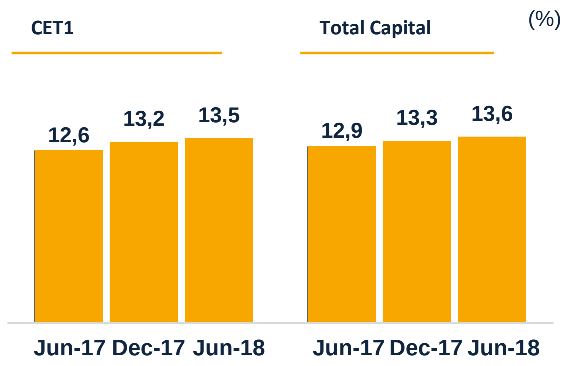
CAPITAL

In the first half of 2018, CEMG recorded a favourable evolution in its capital ratios in relation to the same period of the previous year and in relation to the end of 2017, pursuant to the phasing-in rules. Indeed, as at June 30, 2018, the Common Equity Tier 1 (CET1) ratio reached 13.5% and the Total Capital ratio reached 13.6%, comparing favourably with 13.2% and 13.3% as at December 31, 2017, respectively. This evolution reflected the reduction of Risk-weighted assets by 616 million euros compared to December 31, 2017, (-5.2%), derived from the process of deleveraging non-core assets and management of the allocation of risk in loans and debt securities portfolios, as well as the positive impact of having endorsed the Special Regime for Deferred Tax Assets and the net income for the period.

Risk-weighted Assets



Capital Ratios



CAPITAL AND CAPITAL REQUIREMENTS

(EUR million)

	Jun-17	Dec-17	Jun-18 (1)	YoY Change		YTD	
				Amount	%	Amount	%
Total Capital	**1 578**	**1 580**	**1 534**	**(44)**	**(2.8)**	**(46)**	**(2.9)**
Share Capital (2)	2 417	2 420	2 420	3	0.1	-	0.0
Reserves and Net Income	(679)	(696)	(825)	(146)	(21.5)	(129)	(18.5)
Minority Interests eligible for CET1	12	12	10	(2)	(19.5)	(2)	(18.4)
Regulatory deductions	(211)	(164)	(84)	**127**	**60.3**	**80**	**48.8**
Common Equity Tier I Capital	**1 540**	**1 572**	**1 521**	(19)	(1.2)	(51)	(3.2)
Tier I Capital Instruments	0	0	0	-	-	-	-
Minority Interests eligible for Tier I	2	3	4	2	78.7	1	28.8
Tier I Deductions	(2)	(3)	0	2	-	3	-
Tier I Capital	**1 540**	**1 572**	**1 525**	**(15)**	**(0.9)**	**(47)**	**(3.0)**
Tier II capital	49	24	8	(41)	(83.0)	(16)	(65.4)
Minority Interests eligible for Tier II	0	0	0	-	-	-	-
Other deductions	(11)	(16)	0	11	-	16	-
Minimum own funds requirements	**976**	**950**	**901**	**(75)**	**(7.7)**	**(49)**	**(5.2)**
Risk-weighted assets	**12 197**	**11 875**	**11 259**	**(938)**	**(7.7)**	**(616)**	**(5.2)**
CRD IV Prudential Ratios - Phasing-in							
Common Equity Tier 1	12.6%	13.2%	13.5%	90 pb		30 pb	
Tier 1	12.6%	13.2%	13.5%	90 pb		30 pb	
Total Capital	12.9%	13.3%	13.6%	70 pb		30 pb	
CRD IV Prudential Ratios - Fully Implemented							
Common Equity Tier 1	11.2%	11.6%	11.4%	20 pb		(20) pb	
Tier 1	11.2%	11.7%	11.4%	20 pb		(30) pb	
Total Capital	11.6%	11.9%	11.5%	(10) pb		(40) pb	
Leverage ratio - Phasing-In	7.5%	7.6%	7.8%	30 pb		20 pb	
Leverage ratio - Fully Implemented	6.7%	6.8%	6.6%	(10) pb		(20) pb	

According to the phasing-in rules in force at the reference date.

(1) Ratios at June 30, 2018 include net income for the period and reflect adherence to the special deferred tax assets regime.

(2) In June 2017 includes the Capital and the CEMG Participation Fund.

LIQUIDITY

During the first half of 2018, CEMG continued to develop a series of initiatives aimed at the continuous strengthening of its liquidity position, contributing to ensure comfortable levels, vis-à-vis the regulatory requirement levels in force.

The management of CEMG's balance sheet enabled the Liquidity Coverage Ratio (LCR) to stand at 152.0% as at June 30, 2018, above the minimum regulatory requirement of 100% applicable in 2018.

The performance of Customer deposits on the one hand, and of Loans to customers on the other hand, led to a favourable evolution of the loan-to-deposits ratio. The loan-to-deposits ratio, calculated in accordance with Banco de Portugal Instruction number 16/2004, reached 101.5% as at June 30, 2018, compared to 107.3% as at December 31, 2017.

LIQUIDITY RATIOS

	Jun-17	Dec-17	Jun-18	YoY Change (%)
Loans to customers (net) / Customers' deposits (a)	117.9	107.3	101.5	(16.4 p.p.)
Loans to customers (net) / Total on-balance sheet customers' resources (b)	107.9	92.4	92.0	(15.9 p.p.)

(a) Pursuant to Banco de Portugal Instruction No. 16/2004, in its current version.
(b) Total On-Balance Sheet Customers' Resources = Customers' resources + debt securities issued. Computed in accordance with the Financial Statements annexed to this report.

Throughout the first half of 2018, CEMG's liquidity position continued to evolve favourably, reflected in the increased amount of deposits at the European Central Bank (ECB), with the amount taken from the ECB under the long-term funding programme TLTRO-II standing at 1,547 million euros, considering the value of the associated interest.

Considering that the rate of the amounts taken from the ECB was established at -0.40%, the value of the future liability before the ECB is, inclusively, lower than CEMG's liquidity balance at the Central Bank. It should be noted that this value represents approximately 17 times the amount of minimum cash reserve requirements that CEMG is obliged to meet, evincing a favourable evolution of the liquidity situation.

The optimisation of the operations on CEMG's own assets portfolio, namely assets that are eligible for monetary policy operations, was reflected in an improvement of the ratio of the use of the pool of assets to the total pool of eligible assets, when compared to the same period of 2017. In the first half of 2017, this ratio stood at 73%, having fallen to 58% at the end of June 2018, reflecting the positive evolution of the repayment of 1,153 million euros to the ECB recorded between June 2017 and June 2018.

The funding obtained from the ECB amounted to 1,558 million euros as at June 30, 2018, standing at 1,547 million euros considering the value of the associated interest, which compares with a similar value stated in December of the previous year and with 2,700 million euros observed in June 2017. The total amount of the pool of eligible assets increased in relation to the end of 2017 by 76 million euros, and decreased by 1,031 million euros in relation to the first half of the previous year. This positive balance between the reduction of the pool and reduction of the funding from the ECB derives from CEMG's policy on investment portfolio management, which focused on reducing the stock of assets, through their divestment. Moreover, assets not eligible for operations with the Eurosystem were also divested, with reference to the sale of securities related to the EVORA securitization operation.

The use of Eurosystem monetary policy operations, namely long-term lines embodied in TLTRO-II, is in line with the logic of supporting the economy, in order to optimize long-term funding, taking advantage of the Quantitative Easing program by the ECB. Indeed, it was precisely this positioning of support to the economy that enabled CEMG to benefit from the lowest rate disclosed by the ECB for these operations.

Thus, in terms of collateral available for obtaining liquidity, the value of eligible assets shifted from 3,702 million euros at the end of the first half of 2017 to 2,671 million euros as at June 30, 2018, including the pool of collaterised interbank market, which, at the end of the first half of 2018 was 42 million euros without encumbrance. This last value compares with 36 million euros as at December 31, 2017, and 276 million euros at the end of the first half of the previous year.

POOL OF ELIGIBLE ASSETS FOR REFINANCING OPERATIONS WITH THE ECB

(EUR million)

	Jun-17	Dec-17	Jun-18	YoY Change	
				Amount	%
Pool of eligible assets [(a)]	3 702	2 595	2 671	(1 031)	(27.9)
Use of the pool	2 700	1 558	1 547	(1 153)	(42.7)
Pool of available assets	**1 002**	**1 037**	**1 124**	**122**	**12.2**

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

The Repo operations showed a reduction of 384 million euros between the end of June 2017 and the first half of 2018, having shifted from 1,579 million euros as at June 30, 2017, to 1,195 million euros as at June 30, 2018. As at December 31, 2017, the value of the Repo operations stood at 1,623 million euros. This reduction was due to CEMG's increased liquidity, as a result of the process of sale of assets that were in repo, releasing the haircut value on the one hand, and accomplishing financial gains on the other hand.

In the euro interbank money market, CEMG recorded at the end of the first half of 2018 liquidity providing of the value of 32 million euros at an average rate of -0.31%. In the foreign exchange interbank market, CEMG showed a position of 10 million American dollars assigned at the average rate of 2.2%.

BALANCE SHEET

In the first half of 2018, CEMG continued with the accomplishment of a series of initiatives aimed at the development and implementation of an economically sustainable business model, namely with respect to deleveraging CEMG's balance sheet, embodied in the reductions of non-performing loans and improved liquidity, by attracting and retaining customer deposits.

SYNTHETIC BALANCE SHEET

(EUR million)

	Jun-17	Dec-17	Jun-18	YoY Change	
				Amount	%
Cash and deposits at central banks and OCI	852	2 096	2 092	1 240	>100
Loans to customers	13 698	13 029	12 626	(1 072)	(7.8)
Securities portfolio and other financial assets*	2 930	2 385	2 155	(775)	(26.5)
Non current assets held for sale and investment properties	1 297	1 281	1 026	(271)	(20.9)
Non current assets held for sale - Discontinuing operations	446	474	355	(91)	(20.3)
Current and deferred tax assets	497	473	520	23	4.7
Other	486	462	475	(11)	(2.3)
Total assets	**20 206**	**20 200**	**19 249**	**(957)**	**(4.7)**
Deposits from central banks and OCI	4 880	3 345	3 263	(1 617)	(33.1)
Customers' resources	11 628	12 561	12 483	855	7.4
Issued debt	1 314	1 780	1 357	43	3.2
Non current liabilities held for sale - Discontinuing operations	320	330	257	(63)	(19.6)
Other	291	421	260	(31)	(10.5)
Total liabilities	**18 433**	**18 437**	**17 620**	**(813)**	**(4.4)**
Share capital**	2 420	2 420	2 420	-	0.0
Reserves, retained earnings and other	(660)	(663)	(806)	(146)	(22.2)
Net income	13	6	16	3	21.1
Total equity	**1 773**	**1 763**	**1 630**	**(143)**	**(8.1)**
Total liabilities and equity	**20 206**	**20 200**	**19 249**	**(957)**	**(4.7)**

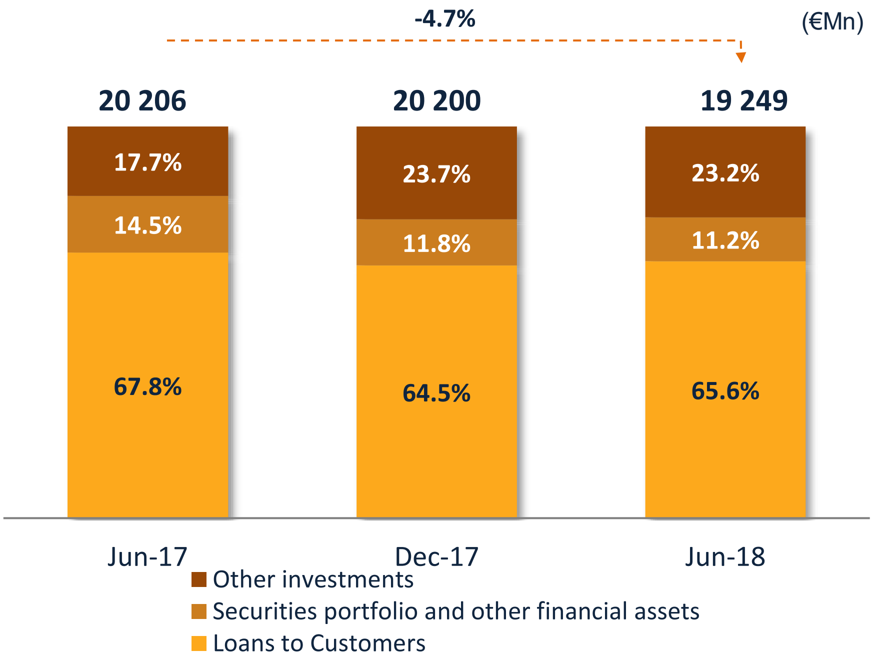
* In June 2018 includes instruments at fair value through profit or loss, namely credits that do not meet the SPPI tests (Solely Payments of Principal and Interest).

** Includes in June 2017 the Capital and the CEMG Participation Fund.

ASSETS

Net assets stood at 19,249 million euros as at June 30, 2018, compared to the value of 20,206 million euros recorded in the same period of 2017 and to 20,200 million euros as at December 31, 2017. The evolution of Net assets in relation to the end of 2017 indicates a decrease of 951 million euros sustained by the reductions of the headings of Financial assets at fair value through other comprehensive income by 1,209 million euros, the loan portfolio by 404 million euros and investment properties by 253 million euros, the latter caused by the deconsolidation of the "Fundo de Investimento Imobiliário Aberto Valor Prime" (Open Real Estate Investment Fund "Valor Prime"). In the opposite direction, increases were recorded in the heading of Other financial assets at amortised cost of 621 million euros derived from the constitution of a portfolio in June 2018, as well as the accounting reclassification of the participation units from the portfolio of Financial assets at fair value through other comprehensive income to Financial assets not necessarily held for trading at fair value through profit or loss amounting to 463 million euros.

TOTAL ASSETS STRUCTURE



CASH AND DEPOSITS AT CENTRAL BANKS AND OCI

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

As at June 30, 2018, the liquidity deposited at central banks and OIC reached 2,092 million euros, compared to 852 million euros recorded in the same period of 2017. This reflects an increase of 1,240 million euros (+146%), essentially caused by the increase recorded in the heading of Cash and deposits at central banks of 1,297 million euros.

LOANS TO CUSTOMERS

As at June 30, 2018, Loans to customers (gross) amounted to 13,727 million euros, corresponding to a reduction of 7.8% compared to the value of 14,890 million euros recorded as at June 30, 2017.

In the first half of 2018, CEMG continued to fine-tune the process of approval and granting of loans with a view to accomplishing the goals of improving asset quality and, in this way, drive an improvement in credit quality indicators, based on a reduction of concentration risk, in particular in the construction and real estate development sectors, leading to a reduction in the cost of credit risk.

The net loan portfolio as at June 30, 2018, recorded a year-on-year reduction of 1,072 million euros reflecting the decreased credit granted to companies, highlighting the decrease in gross credit granted to the sectors of Trade (-22.6%), Construction and public works and real estate activities (-10.4%) and Financial activities (-22.5%), and to individuals, namely mortgage loans (-7.9%), which continues to show a higher level of repayment in relation to new operations raised.

In the context of CEMG's Transformation Plan, credit recovery is based on a more effective and integrated management of non-performing loans (NPLs) by maximising recoveries and investment banking solutions, benefiting from the strategic focus on the segments of individuals and companies, with an emphasis on SMEs and Social Economy entities.

LOANS TO CUSTOMERS

(By sector of activity)

(EUR million)

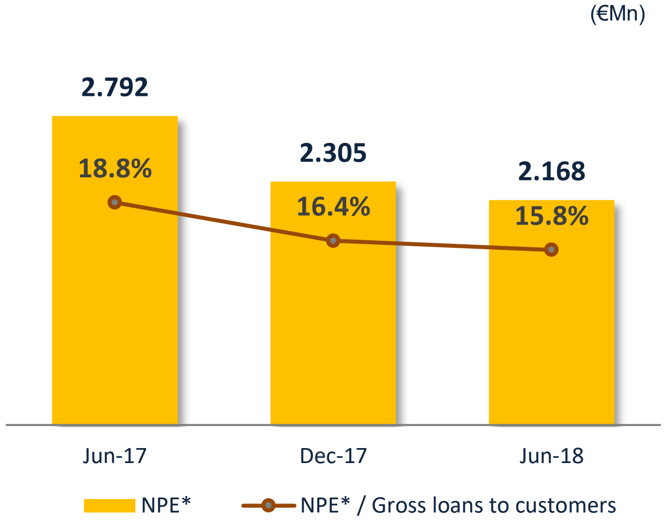
	Jun-17	Dec-17	Jun-18	YoY Change	
				Amount	%
Housing loans	7 059	6 739	6 498	(561)	(7.9)
Construction and Public works, and Real estate activities	1 817	1 774	1 627	(190)	(10.4)
Wholesale and retail trade	1 225	1 063	948	(277)	(22.6)
Financial Activities	743	641	576	(167)	(22.5)
Services provided to companies	637	630	440	(197)	(30.9)
Tourism	507	497	452	(55)	(10.8)
Transports	500	476	425	(75)	(14.9)
Manufacture of food products, beverages and tobacco	253	228	228	(25)	(10.1)
Basic metallurgic industries and metallic products	179	172	163	(16)	(8.7)
Electricity, gas and water	160	153	144	(16)	(10.0)
Agriculture, forestry and fishing	164	145	83	(81)	(49.2)
Others	1 646	1 545	2 143	497	30.2
Gross loans	**14 890**	**14 063**	**13 727**	**(1 163)**	**(7.8)**
Loan impairments	**1 192**	**1 034**	**1 101**	**(91)**	**(7.6)**
Net loans	**13 698**	**13 029**	**12 626**	**(1 072)**	**(7.8)**

Throughout the first half of 2018, CEMG carried out a series of initiatives aimed at reducing exposures in non-performing loans, to which contributed the write-off of credits amounting to 113 million euros, carried out in June 2018, in activity sectors identified as non-core.

The balance of non-performing exposures (NPE) progressed favourably both in relation to the value of the same period of the previous year and compared to the value at the end of 2017, standing at 2,168 million euros as at June 30, 2018, with the proportion of NPE in relation to the total gross loans to customers standing at 15.8%.

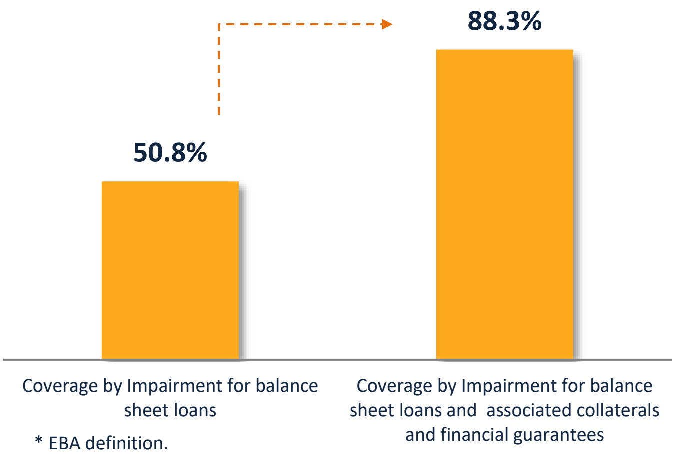
The coverage of NPE by loan impairment in the balance sheet and associated collateral and financial guarantees reached 88.3% as at June 30, 2018, compared to 88.7% in the same period of the previous year and 87.0% at the end of 2017, while the coverage by balance sheet impairment stood at 50.8%.

Non-performing exposures **(NPE)***



* EBA definition.

NPE * coverage on June 30, 2018



* EBA definition.

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS

Pursuing the strategy of rebalancing the asset structure, throughout the first half of 2018, CEMG continued to identify and implement measures aimed at improving the liquidity levels and active management of the securities and other financial assets portfolio.

As at June 30, 2018, the portfolio of securities and other financial assets amounted to 2,155 million euros, compared to the value of 2,930 million euros in the same period of 2017 and to 2,385 million euros as at December 31, 2017. The evolution of the portfolio of securities and other financial assets in relation to the end of 2017 shows, on the one hand, the divestment of public debt securities throughout the first half of 2018, and on the other hand, the constitution of a portfolio of Other financial assets at amortised cost of public debt, as well as the accounting reclassification of the participation units from the portfolio of Financial assets at fair value through other comprehensive income to Financial assets not held for trading mandatorily at fair value through profit or loss amounting to 463 million euros.

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS

(EUR million)

	Jun-17	Dec-17	Jun-18	YoY Change	
				Amount	%
Financial assets held for trading	87	184	53	(34)	(39.6)
Financial assets at fair value through other comprehensive income	2 843	2 201	992	(1 851)	(65.1)
Other financial assets at amortised cost	-	-	621	621	-
Financial assets not held for trading mandatorily at fair value through profit or loss*	-	-	489	489	-
Total Securities portfolio and other financial assets	**2 930**	**2 385**	**2 155**	**(775)**	**(26.5)**

* In June 2018 includes instruments at fair value through profit or loss, namely credits that do not meet the SPPI tests (Solely Payments of Principal and Interest).

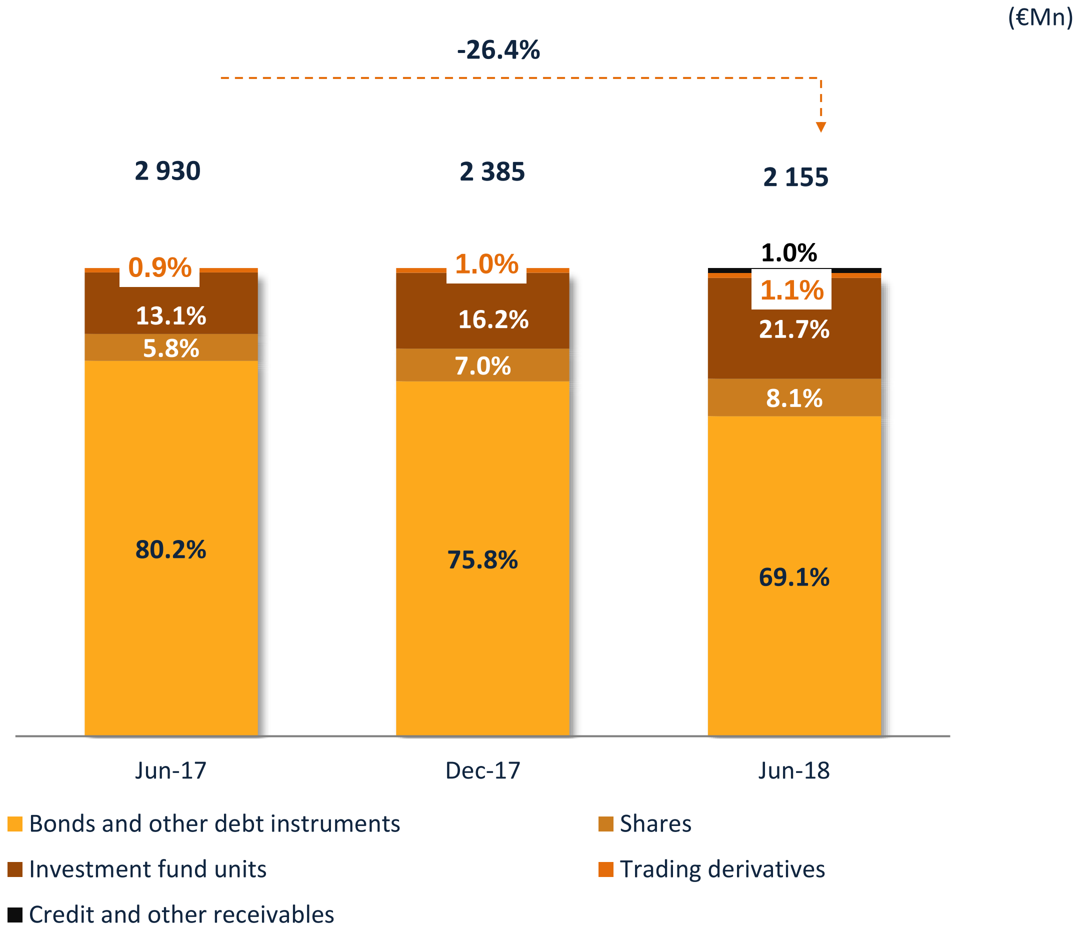
The portfolio of securities and other financial assets, analysed by type of instrument, showed a year-on-year decrease of 875 million euros in bonds and other debt instruments, which includes Portuguese, Italian and Spanish public debt, having shifted from 2,349 million euros as at June 30, 2017, to 1,474 million euros as at June 30, 2018, determining the decrease recorded in the total portfolio.

SECURITIES PORTFOLIO AND OTHERS BY TYPE OF INSTRUMENT

(EUR million)

	Jun-17	Dec-17	Jun-18	YoY Change	
				Amount	%
Bonds and other debt instruments	2 349	1 808	1 474	(875)	(37.3)
Shares	169	167	172	3	1.8
Investment fund units	384	385	463	79	20.7
Trading derivatives	28	25	24	(4)	(13.3)
Credit and other receivables	-	-	22	22	-
Total Securities portfolio and other financial assets	**2 930**	**2 385**	**2 155**	**(775)**	**(26.4)**

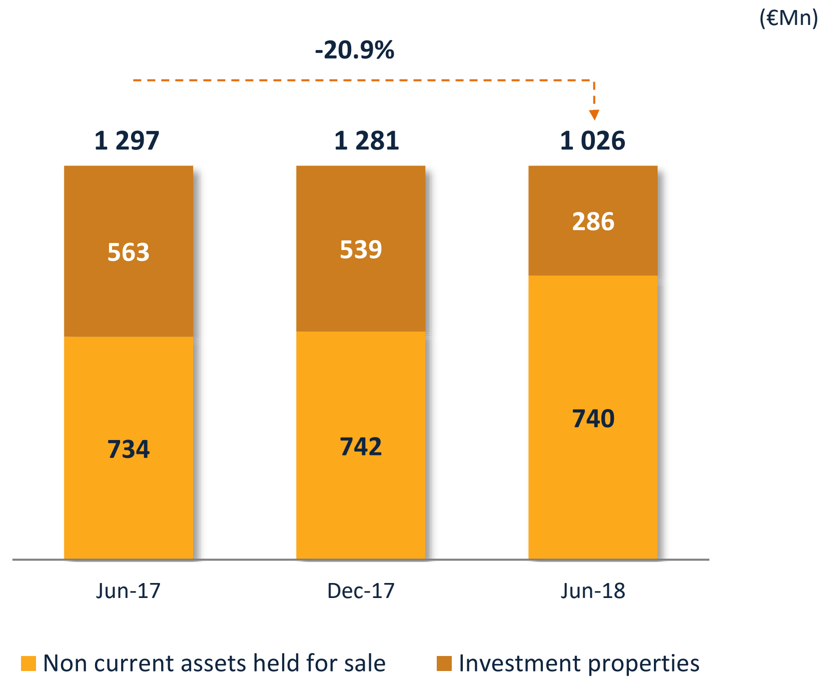
Structure of the Securities Portfolio and other financial assets



NON CURRENT ASSETS HELD FOR SALE AND INVESTMENT PROPERTIES

The total sum of the headings of Non-current assets held for sale and Investment properties showed a year-on-year decrease of 20.9% as at June 30, 2018, having shifted from 1,297 million euros at the end of June 2017 to 1,026 million euros as at June 30, 2018, in line with the strategic orientation for the integrated management of real estate properties and the consequent reduction of exposure to this activity sector.

Real Estate risk exposure



The heading of Non-current assets held for sale essentially shows the amount associated to real estate properties derived from the resolution of customer loan contracts, which decreased in relation to the end of 2017 in evolving from 742 million euros as at December 31, 2017, to 740 million euros as at June 30, 2018, reflecting the effect of the regularization of certain operations that had been non-performing and the good performance of the sales of real estate properties in the retail market in the first half of 2018.

With regard to Investment properties, the heading in which the properties held by the Real Estate Investment Funds under consolidation in CEMG are accounted for, they decreased by 47.7% since December 31, 2017, evolving from 539 million euros to 286 million euros at the end of the first half of 2018 (-49.2% year-on-year), reflecting the deconsolidation of the "Fundo de Investimento Imobiliário Aberto Valor Prime" (Open Real Estate Investment Fund "Valor Prime"), pursuing the strategic objective of reducing the exposure to real estate risk.

NON CURRENT ASSETS HELD FOR SALE – DISCONTINUING OPERATIONS

As at June 30, 2018, the heading of Non-current assets held for sale - discontinuing operations amounted to 355 million euros, corresponding to the value of the assets recorded by the Group's operations in Angola and Mozambique, after having been adjusted for the necessary movements of the consolidation process, and was stated following the application of IFRS 5 to the subsidiaries Finibanco Angola and Banco Terra, as indicated in Note 61 of the Notes to the consolidated financial statements.

CURRENT AND DEFERRED TAX ASSETS

As at June 30, 2018, total Current and deferred tax assets amounted to 520 million euros, compared to 473 million euros as at December 31, 2017, reflecting the fiscal impact associated with the transition adjustments to IFRS9, mainly determined by the increase in credit impairment.

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

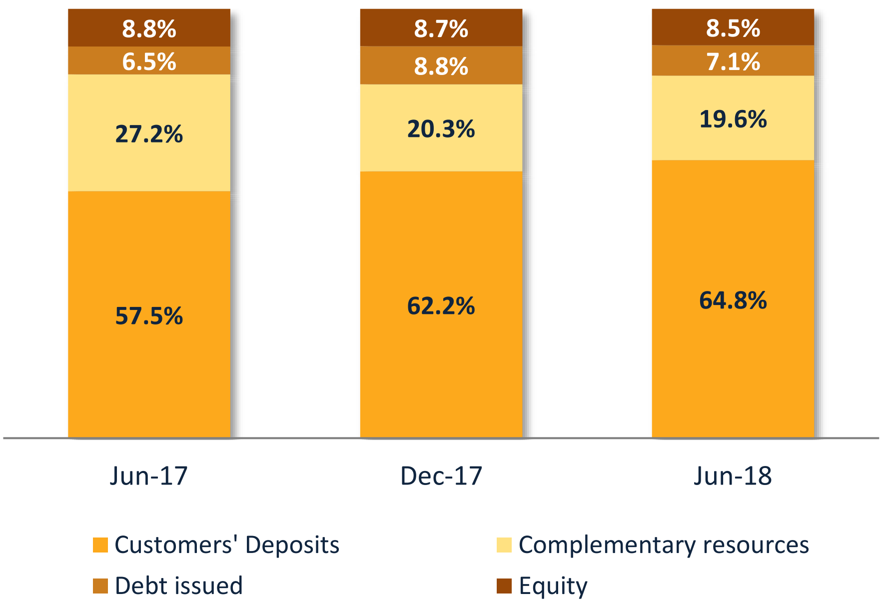
OTHER

The aggregate Other, presented in the Assets of the synthetic balance sheet, reached 475 million euros as at June 30, 2018, compared to 486 million euros recorded as at June 30, 2017, and 462 million euros at the end of 2017. This aggregate incorporates the headings of Hedge derivatives, Other tangible assets, Intangible assets, Investments in associates and Other assets. The increase recorded in this aggregate at the end of June 2018, in comparison to the value stated as at December 31, 2017, was essentially derived from the increase of 15 million euros in the heading of Other assets.

LIABILITIES

As at June 30, 2018, total Liabilities stood at 17,620 million euros revealing a decrease of 817 million euros in relation to the value of 18,437 million euros as at December 31, 2017, reflecting the decrease in Deposits (-78 million euros), in Liabilities represented by securities (-308 million euros), in Other liabilities (-159 million euros), in Other subordinated liabilities (-116 million euros) and in Resources from other credit institutions (71 million euros). As at June 30, 2018, Equity capital funded 8.5% of the Assets while Customer deposits continued to be the main source of funding, accounting for 64.8% of the Assets.

LIABILITIES AND EQUITY STRUCTURE



DEPOSITS FROM CENTRAL BANKS AND OCI

As at June 30, 2018, the funding obtained from central banks and other credit institutions amounted to 3,263 million euros, compared to the value of 4,880 million euros in the same period of 2017 and to 3,345 million euros as at December 31, 2017.

This heading incorporates funds taken from the ECB, which amounted to 1,547 million euros as at June 30, 2018, considering the value of the associated interest, compared to 2,700 million euros as at June 30, 2017, and 1,558 million euros as at December 31, 2017. The funding obtained from other credit institutions reached 1,716 million euros as at June 30, 2018 (2,179 million euros as at June 30, 2017, and 1,787 million euros as at December 31, 2017). The lower dependence on the ECB reflects the success of the liquidity-generating measures implemented during the 2017 financial year and the first half of 2018.

CUSTOMERS' RESOURCES

Throughout the first half 2018, CEMG developed a series of initiatives related to the attraction and retention of customer funds, with an adequate management aimed at diversifying the funding sources.

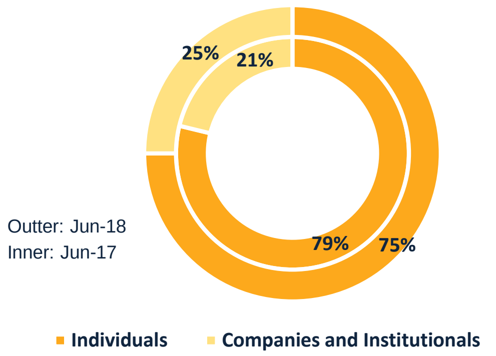
Total customers' resources amounted to 13,516 million euros, of which 12,814 million euros correspond to on-balance customer resources', of which 97.4% refer to customer deposits.

As at June 30, 2018, Customer deposits stood at 12,483 million euros, essentially concentrated in individual customers, a segment that maintained its predominance in representing 75% of total deposits.

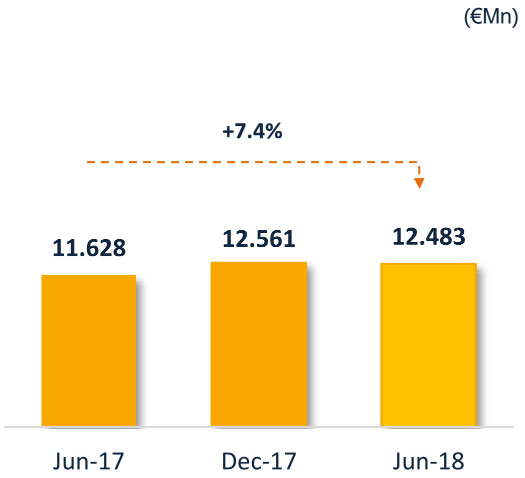
Customer deposits at the end of the first half of 2018 showed a year-on-year growth of 7.4%, reflecting the imprinted commercial dynamics, despite the circumstances of interest rates at historically low levels and an increased competition environment.

As at June 30, 2018, the heading of Securities placed with customers stood at 331 million euros (863 million euros as at June 30, 2017, and 617 million euros as at December 31, 2017), representing a year-on-year reduction of 61.7% as a result of the maturities of debt securities.

Customers' deposits structure



Customers' deposits



Off-balance sheet resources, disintermediation resources in which the CEMG Group operates as depositary bank, amounted to 709 million euros as at June 30, 2018, compared to 709 million euros as at December 31, 2017 and in the same period of 2017 primarily due to the year-on-year decrease in Capitalisation insurance (Bancassurance) and in Real estate investment funds.

CUSTOMERS' RESOURCES

(EUR million)

	Jun-17	Dec-17	Jun-18	YoY Change	
				Amount	%
Customer Deposits (by segment)	**11 628**	**12 561**	**12 483**	**855**	**7.4**
Individuals	9 164	9 215	9 360	196	2.1
Companies and Institutionals	2 464	3 346	3 123	659	26.7
Customer Deposits (by type)	**11 628**	**12 561**	**12 483**	**855**	**7.4**
Sight Deposits	3 238	3 509	3 917	679	21.0
Term Deposits	8 390	9 052	8 566	176	2.1
Securities placed with Customers	863	617	331	(532)	(61.7)
Total On-Balance sheet resources	**12 491**	**13 178**	**12 814**	**323**	**2.6**
Off-Balance sheet resources	709	709	702	(7)	(1.0)
Total Customers' resources	**13 200**	**13 887**	**13 516**	**316**	**2.4**

ISSUED DEBT

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

At the end of the first half of 2018 the amount of Issued debt decreased in relation to December 31, 2017, by 23.8%, in evolving from 1,780 million euros to 1,357 million euros as at June 30, 2018 (+3.2% year-on-year), showing the reductions of Liabilities represented by securities (-19.9%) and Other subordinated debt (48.9%). The reduction in issued debt of 424 million euros in relation to the value as at December 31, 2017, reflects the repayment upon maturity of senior and subordinated debt issues.

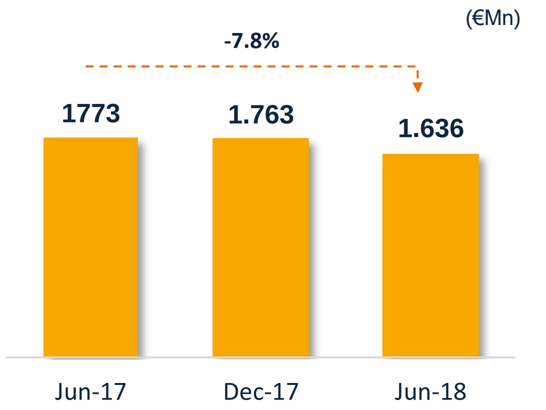
NON CURRENT LIABILITIES HELD FOR SALE – DISCONTINUING OPERATIONS

As at June 30, 2018, the heading of Non-current liabilities held for sale - discontinuing operations amounted to 257 million euros, corresponding to the value of the assets recorded by the Group's operations in Angola and Mozambique, after having been adjusted for the necessary movements of the consolidation process, and was stated following the application of IFRS 5 to the subsidiaries Finibanco Angola and Banco Terra, as indicated in Note 61 of the Notes to the consolidated financial statements.

EQUITY

Equity stood at 1,630 million euros in June 2018, corresponding to a reduction of 133 million euros in relation to the value of the end of 2017, determined by the adverse impacts related to the IFRS 9 transition adjustment of 81 million euros and the recording of negative foreign exchange reserves of 35 million euros and fair value reserves of 18 million euros, not offset by the net income of 15.8 million euros recorded in the first half of 2018.

Equity



EARNINGS

In the first half of 2018, CEMG recorded a net income of 15.8 million euros, compared to 13.0 million euros in the same period of 2017.

The net income stated in the first half of 2018 reflects, on the one hand, the evolution observed in the core business, embodied in the decreased Net interest income, only partially offset by the increased Net fees and commissions alongside the reduction of Operating costs, and in the lower Results from financial operations, in view of the higher levels of gains recorded in the first half of 2017 related to the divestment of public debt portfolios, and Other operating income, and, on the other hand, the lower allocations for impairment and provisions in the period.

SYNTHETIC INCOME STATEMENT

(EUR million)

	Jun-17	Jun-18	YoY Change Amount	YoY Change %
Net interest income	**143.3**	**134.2**	**(9.1)**	**(6.3)**
Commercial net interest income	*143.5*	*134.7*	*(8.8)*	*(6.1)*
Net fees and commissions	55.2	57.4	2.2	3.9
Core total operating income	**198.5**	**191.6**	**(6.9)**	**(3.5)**
Income from equity instruments	7.7	7.9	0.2	2.5
Results from financial operations	26.6	5.2	(21.4)	(80.5)
Other operating income	15.8	(4.0)	(19.8)	(<100)
Total operating income	**248.6**	**200.7**	**(47.9)**	**(19.3)**
Staff Costs	84.7	84.2	(0.5)	(0.5)
General and administrative expenses	40.0	36.4	(3.6)	(8.9)
Depreciation and amortization	12.5	12.1	(0.4)	(3.0)
Operating costs	**137.2**	**132.7**	**(4.5)**	**(3.3)**
Net operating income before provisions and impairments	**111.4**	**68.0**	**(43.4)**	**(39.0)**
Net provisions and impairments	89.1	59.5	(29.6)	(33.2)
Share of profit of associates under the equity method	(0.1)	(0.1)	0.0	(15.6)
Net income before income tax	**22.1**	**8.4**	**(13.7)**	**(62.0)**
Income tax	(13.1)	(2.2)	10.9	83.2
Net income after income tax from continuing operations	**9.0**	**6.2**	**(2.8)**	**(31.1)**
Income from discontinuing operations	5.4	11.9	6.5	>100
Non-controlling interests	1.3	2.3	1.0	69.6
Net Income	**13.0**	**15.8**	**2.8**	**21.1**

The earnings from the commercial activity, which considers the sum of the commercial net interest income from net fees and commissions minus operating costs, recorded a 3.5% reduction year-on-year, by evolving from 61.5 million euros in the first half of 2017 to 59.4 million euros in the first half of 2018. This reduction of 2.1 million euros in the earnings of the commercial activity was due to the combined effect of the reduction in Commercial net interest income (-6.1%) not offset by the increased Net fees and commissions (+3.9%) and the reduction of Operating costs (-3.3%).

TOTAL OPERATING INCOME

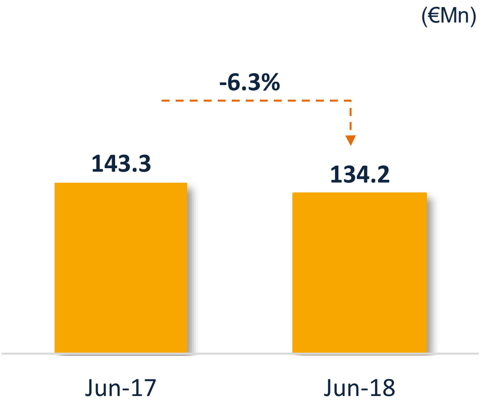
Core total operating income, calculated by the sum of the Net interest income and Net fees and commissions, fell by 6.9 million euros in shifting from 198.5 million euros in the first half of 2017 to 191.6 million euros in the first half of 2018, penalised by the unfavourable performance of Net interest income (-6.3%) notwithstanding the positive evolution of Net fees and commissions (+3.9%).

Total operating income, in the first half of 2018 amounted to 200.7 million euros, compared to the value of 248.6 million euros recorded in the first half of 2017, reflecting the lower value of Net interest income (interest from loans and securities) and Results from financial operations, in this case reflecting the impact of the divestment of securities made in 2017.

Net interest income

Net interest income in the first half of 2018 stood at 134.2 million euros, compared to the value of 143.3 million euros recorded in the first half of 2017. The evolution of Net interest income was adversely influenced by the lower interest from the loan portfolio and securities portfolio, and favourably influenced by the reduction observed in interest paid on customer deposits and issued debt.

Net interest income



The decrease, in the first half of 2018, of the interest of the loan and securities portfolios, in relation to the same period of 2017 was 19.0 million euros and 23.4 million euros respectively. This decrease was determined by the volume effect and price effect, reflecting in the evolution of interest from the securities portfolio, the impact of the sale of securities made during the first half of 2017.

In the first half of 2018, and compared to the same period of the previous year, the interest paid for customer deposits fell by 10.2 million euros, benefiting from the reduction of the average rate applied, and the interest paid by the debt issued fell by 11.5 million euros, both via the price effect and the volume effect.

As a result of this performance, net interest margin in the first half of 2018 stood at 1.54%, in line with the rate recorded in the first half of 2017.

BREAKDOWN OF NET INTEREST INCOME

(EUR million)

	1st Half 2017			1st Half 2018		
	Avg. amount	**Avg. rate (%)**	**Interest**	**Avg. amount**	**Avg. rate (%)**	**Interest**
Assets						
Cash and deposits	207	0.12	0.1	1 187	1.82	10.9
Loans and advances to OCI	473	0.95	2.3	340	1.38	2.3
Loans to customers	14 973	2.48	186.5	13 944	2.39	167.5
Securities portfolio	2 829	2.14	30.4	1 911	0.72	7.0
Other (includes derivatives)	-	-	34.9	-	-	9.6
subtotal	18 482	2.74	254.2	17 382	2.26	197.4
Liabilities						
Resources from central banks	2 574	0.01	0.2	1 556	0.27	2.1
Resources from OCI	2 311	0.40	4.6	1 767	0.95	8.4
Customers' deposits	11 839	0.72	43.1	12 297	0.53	32.9
Senior debt	1 677	2.62	22.1	1 392	1.51	10.6
Subordinated debt	251	1.27	1.6	156	1.22	1.0
Other (includes derivatives)	-	-	39.4			8.2
subtotal	18 652	1.18	110.9	17 168	0.73	63.1
Net interest income		**1.54**	**143.3**		**1.54**	**134.2**

DETAILED EVOLUTION OF NET INTEREST INCOME BETWEEN THE 1ST HALF OF 2017 AND 2018

(EUR million)

	Volume effect	**Price effect**	**Residual effect**	**Total**
Assets				
Cash and deposits	0.6	1.8	8.4	10.7
Loans and advances to OCI	(0.6)	1.0	(0.3)	0.1
Loans to customers	(12.8)	(6.6)	0.5	(19.0)
Securities portfolio	(9.9)	(20.1)	6.5	(23.4)
Other (includes derivatives)	0.0	0.0	(25.2)	(25.2)
subtotal	(15.1)	(44.3)	2.6	(56.8)
Liabilities				
Resources from central banks	(0.1)	3.3	(1.3)	1.9
Resources from OCI	(1.1)	6.5	(1.5)	3.9
Customers' deposits	1.7	(11.4)	(0.4)	(10.2)
Senior debt	(3.7)	(9.3)	1.6	(11.5)
Subordinated debt	(0.6)	(0.1)	0.0	(0.6)
Other (includes derivatives)	0.0	0.0	(31.2)	(31.2)
subtotal	(8.8)	(42.3)	3.4	(47.7)
Change in net interest income	**(6.3)**	**(2.0)**	**(0.7)**	**(9.1)**

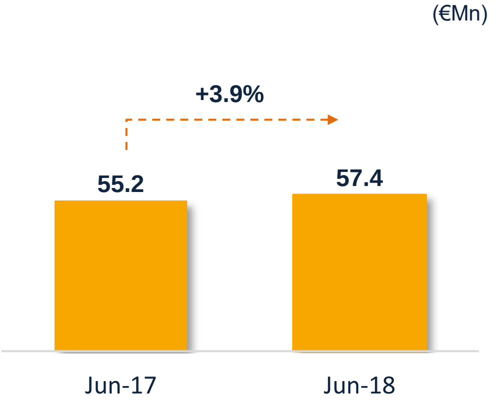
Income from equity instruments

The heading of Income from equity instruments includes the income associated to variable yield securities, namely shares and participation units in investment funds, related to investments stated in the portfolio of assets available for sale. The value recorded in the first half of 2018 amounted to 7.9 million euros, comparing favourably with the value of 7.7 million euros recorded in the first half of 2017.

Net fees and commissions

Net fees and commissions related to services provided to customers reached 57.4 million euros in the first half of 2018, representing an increase of 3.9%, compared to the value of 55.2 million euros recorded in the first half of 2017, reflecting the favourable impact associated to the initiatives to adjust the pricing to the value proposition offered by CEMG. Special note should be made to the fees and commissions related to payment services (namely on deposits, maintenance of accounts and cards).

Net fees and commissions



Results from financial operations

The Results from financial operations amounted to 5.2 million euros in the first half of 2018, compared to 26.6 million euros recorded in the first half of 2017, as a result of the lower gains from the divestment of public debt, namely Portuguese public debt securities (6.5 million euros in the first half of 2018 compared to 16.0 million euros in the first half of 2017).

RESULTS FROM FINANCIAL OPERATIONS

(EUR million)

	Jun-17	Jun-18	YoY Change	
			Amount	%
Net gains / (losses) from finacial assets and liabilities at fair value through profit or loss	4.0	2.0	(2.0)	(50.8)
Net gains / (losses) from financial assets at fair value through other comprehensive income	21.5	4.0	(17.5)	(81.4)
Net gains / (losses) from foreign exchange differences	1.1	(0.8)	(1.9)	(<100)
Results from financial operations	**26.6**	**5.2**	**(21.4)**	**(80.5)**
of which: Results from the sale of Portuguese sovereign debt	*16.0*	*6.5*	*(9.5)*	*(59.6)*

Other results

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

In the first half of 2018, Other results showed an adverse evolution in relation to the outcome observed in the same period of 2017, in evolving from 15.8 million euros to -4.0 million euros. This was due to the fact that, in the first half of 2017, gains were recorded derived from the divestment of Portuguese public debt securities of the portfolio of Investments held to maturity amounting to 14.4 million euros, and capital gains of 2.8 million euros associated to the divestment of a portfolio of loans to customers that were non-performing and recorded off-balance sheet.

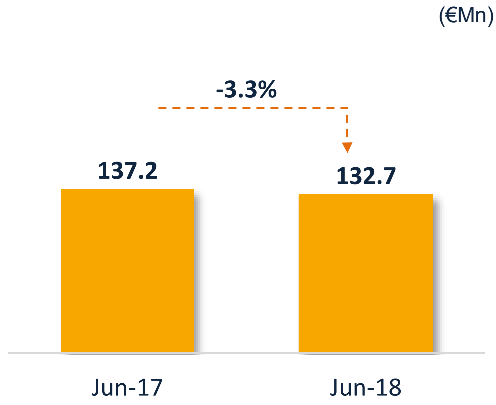
In 2018, the deconsolidation of the "Fundo de Investimento Imobiliário Aberto Valor Prime" (Open Real Estate Investment Fund "Valor Prime") led to a lower contribution of rents from properties allocated to this investment fund by 2.8 million euros. Nevertheless, in 2018 there were greater gains in the divestment of trading real estate properties by 4.9 million euros and lower costs related to sector contributions (IFRIC 21) by 3.3 million euros.

During the first half of 2018, the Results from the sale of other assets stood at 5.5 million euros, compared to the value of 19.2 million euros recorded in the first half of 2017. Other operating income stood at -9.6 million euros, compared to -3.4 million euros recorded in the same period of 2017.

OPERATING COSTS

In the first half of 2018, Operating costs amounted to 132.7 million euros representing a reduction of 4.5 million euros (-3.3%) compared to the value recorded at the end of the first half of 2017, underpinned by the reduction of General and administrative expenses by 3.6 million euros (-8.9%) and Staff costs by 0.5 million euros (-0.5%).

Operating costs



Staff costs amounted to 84.2 million euros in the first half of 2018, and include the impact of the indemnities paid to the former Management and Supervisory Bodies, while at the same time having benefited from the lower costs of the Pension Fund in comparison to the same period of 2017, which offset the increased number of staff, reflected in the increased level of remunerations and compulsory social security charges.

General and administrative expenses stood at 36.4 million euros in the first half of 2018, compared to 40.0 million euros in the same period of 2017, having benefited from the lower costs recorded in the real estate investment funds that are included in the consolidation perimeter.

Depreciation and amortisation stood at 12.1 million euros in the first half of 2018, having fallen by 3.0% in relation to the same period of 2017.

In the first half of 2018, the Cost-to-income ratio, excluding the Results from financial operations and Other results, reached 66.5%, standing in line with the ratio recorded in the same period of 2017.

OPERATING COSTS

(EUR million)

	Jun-17	Jun-18	YoY Change	
			Amount	%
Staff Costs	84.7	84.2	(0.5)	(0.5)
General and administrative expenses	40.0	36.4	(3.6)	(8.9)
Depreciation and amortisation	12.5	12.1	(0.4)	(3.0)
Operating costs	**137.2**	**132.7**	**(4.5)**	**(3.3)**
Efficiency ratios				
Cost-to-income (Operating costs / Total operating income) (a)	55.2%	66.1%	10.9 p.p.	
Cost-to-income, excluding specific impacts (b)	66.5%	66.5%	0.0 p.p.	

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

(b) Excludes results from financial operations and Other income (proceeds from the sale of other assets and other operating income).

IMPAIRMENT AND PROVISIONS

The allocations for Impairment and provisions, in the first half of 2018, calculated in conformity with IFRS 9, amounted to 59.5 million euros, compared to 89.1 million euros recorded in the same period of 2017, determining the favourable evolution of the cost of credit risk from 0.9% in the first half of 2017 to 0.7% in the first half of 2018. Furthermore, 157.1 million euros were recorded under IFRS 9 adjustment transitions related to impairment and provisions for loans, securities, investments in credit institutions and other assets.

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

The impairments constituted in the first half of 2018 for other financial assets stood at 2.6 million euros, having fallen by 2.3 million euros in relation to the value recorded in the same period of 2017.

In relation to the Impairment of other assets, the value stated for the first half of 2018 stood at 9.4 million euros, showing a decrease of 8.0% in relation to the value recorded in the same period of 2017. Other provisions recorded allocations of 1.7 million euros, compared to 10.5 million euros in the same period of 2017.

IMPAIRMENT AND PROVISIONS

	Jun-17	Jun-18	YoY Change	
			Amount	%
(EUR million)				
Loan impairment	63.5	45.8	(17.7)	(27.9)
Other financial assets impairment	4.9	2.6	(2.3)	(47.1)
Other assets impairment	10.2	9.4	(0.8)	(8.0)
Other provisions	10.5	1.7	(8.8)	(83.8)
Total impairment and provisions	**89.1**	**59.5**	**(29.6)**	**(33.2)**

INCOME TAX

Current and deferred taxes for the first half of 2018 amounted to -2.2 million euros compared to -13.1 million euros stated in the same period of 2017, having been calculated in conformity with the International Accounting Standards (IAS) and observing the tax system applicable to each subsidiary of the CEMG Group.

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

RESULTS FROM DISCONTINUING OPERATIONS

The heading of Results from discontinuing operations incorporate the net income for the period of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A. attributable to CEMG following the application of the accounting policy defined in IFRS 5, which amounted to 11.9 million euros in the first half of 2018.

NON-CONTROLING INTERESTS

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

RISK MANAGEMENT

The CEMG Group's overall risk management entails a series of policies and procedures and the definition of limits concerning risk appetite, as well as the establishment of controls that enable, in an appropriate and integrated manner, identifying, assessing, monitoring, mitigating and reporting the risks derived from the activities developed in the different business lines and entities of the CEMG Group. At the CEMG Group, risk management falls under the institution's overall strategy, embodied in the definition of risk appetite in its various dimensions, in consolidated terms and for the different entities comprising the Group.

RISK MANAGEMENT SYSTEM

The CEMG Group has a risk management system that is one of the pillars on which the internal control system is sustained, consisting of a series of processes that enable ensuring the correct comprehension of the material risks to which the institution is exposed. The risk management system aims to identify, assess, monitor and control all the material risks to which the institution is exposed, both via internal and external means, in order to ensure the maintenance of the level previously defined by the management body and which will not significantly affect the institution's financial situation.

The risk management strategy is established in conformity with the CEMG Group's statement on risk appetite, considering the following aspects: solvency, liquidity, and profitability based on risk-adjusted return.

The risk management function is responsible for the effective application of the risk management system, which at CEMG falls under the Risk Department. The risk management function constitutes one of the three key functions on which CEMG's internal control system is based, alongside the compliance function and the internal audit function. Together, these functions constitute the three elements of the model of 3 lines of defence established by the guidelines of the European Banking Authority (EBA) on best practices of internal governance.

The risk function operates as a second line of defence of the internal control system, ensuring the existence of an appropriate risk management system and aimed at obtaining a vision of the overall risk profile of the institution, while challenging and supporting the business lines in the implementation of the first line processes of control. The main responsibilities of CEMG's risk management function are listed below, in conformity with the internal regulation of the function and the duties established in the regulations:

a) Promote the implementation of the CEMG Group's risk policies approved by the Board of Directors in the context of the risk management and control function;

b) Ensure the appropriate identification of the nature of the risks underlying the activity of the entities comprising the Group, the assessment and precise measurement of the magnitude of these risks, as well as the monitoring and effective control of the respective impact;

c) Monitor the approved risk appetite indicators, proposing, where necessary, the measures that ensure their compliance;

d) Support the Executive Committee in taking decisions of material influence in the Group's risk profile; and
e) Ensure compliance with the legislation and regulations in force.

The compliance function as an integral part of the internal control system, and operating as a second line of defence, undertakes responsibility for the management of compliance risk, which is reflected in the risk of occurrence of legal or regulatory penalties, financial or reputation loss, as a consequence of breach of laws, regulations, specific determinations, contracts, rules of conduct and relations with customers, ethical principles or internal rules of CEMG.

Compliance risk is mitigated by promoting a culture of ethics and compliance, and by independent, permanent and effective intervention of the compliance function.

Concerning compliance activity, during the first half of 2018 aspects were identified and appraised that contribute to the characterisation of compliance risk, especially in institutional processes, associated to products and services, pre-contractual and contractual duties of disclosure of information to customers and, in general, providing specialised support on matters of control and compliance.

Indeed, the review of the model of internal risk of money laundering/terrorist financing was promoted through the assessment of the identified specific risks inherent to CEMG's particular operative reality, as well as the installed control procedures for mitigation of the identified risks, in order to appraise any changes recorded in CEMG's operative reality.

In the first half of 2018, its activities included initiatives taken in adjustment to the new Guidelines of the European Banking Authority on matters of internal governance of the institutions (EBA/GL/2017/11), and adjustment to the new regulatory challenges: Mortgage Loans; Transposition of the Directive on Payment Accounts; Assessment of Solvency in Contracts Concluded with Consumers; Payment Systems (PSD II); and General Data Protection Regulation.

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

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

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

Its scope of action includes all the entities integrated in CEMG's consolidation perimeter and the entities in which CEMG holds the majority of the capital or controls its management.

Regarding the branches abroad, if they have their own audit functions, the corporate internal audit function is attributed to CEMG's Audit and Inspection Department, which will ensure the functional coordination of the local audit functions, in order to assure the alignment of practices and procedures at the Group level, and may include the conduct of local audit actions.

DAI may also audit organic units/entities that are outside the scope referred to above, but which provide essential services to the CEMG Group under outsourcing arrangements.

Risk Management Governance Model

Up to March 20, 2018, CEMG's risk management function reported directly to CEMG's Executive Board of Directors, under supervision of the Risk Committee, a statutory body exclusively composed of members without executive functions. Currently, CEMG's risk management function reports hierarchically to the Executive Director responsible for risk (Chief Risk Officer), who has no direct responsibility for commercial divisions or units taking financial risk, with access and regular reporting to CEMG's Board of Directors, namely in terms of monitoring the material risks of the CEMG Group.

The Executive Board of Directors is responsible for the strategy and policies to be adopted regarding risk management. This includes the approval of the principles and rules of the highest level that should be followed in risk management. The risk management function reports functionally to the Risk Committee, composed of non-executive Directors.

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

Audit Committee

The Audit Committee is CEMG's supervisory body, whose duties include supervision of the Company's administration, supervision of the audit activities, the process of preparation and disclosure of financial information, the efficacy of the internal control, risk management, and compliance systems and the activity and independence of the statutory auditor and external auditor.

Risk Committee

In terms of internal supervision, the Board of Directors appoints the Risk Committee, whose members are elected at CEMG's General Meeting, which also designates the Chairman, whose duties, exercised in an independent form, are established in the respective Articles of Association. The mission of the Risk Committee is to permanently monitor the definition and implementation of the institution's risk strategy and risk appetite, and check whether they are compatible with a sustainable medium and long-term strategy and with the action programme and budget that have been approved, advising the Executive Committee and Board of Directors in these spheres.

Risk Department

The Risk Department is CEMG's unit responsible for performing the risk management function, being entrusted with monitoring all the financial and operational risks, exercising its function in an independent manner and in conformity with best practices and the regulatory requirements. The Risk Department carries out the analysis and management of risks, providing advice to the management body, namely through-proposed rules and management models for the different risks, the preparation of management reports to substantiate the decisions taken and participation in the Supporting Commissions of the Board of Directors. The Risk Department also assures compliance with a series of prudential reporting to the supervisory authority, particularly in the area of own fund requirements, control of major risks, liquidity risk, interest rate risk, country risk, counterparty risk, self-assessment of the adequacy of own Funds, Market Discipline, Recovery Plan and Resolution Plan.

Supporting Committees of the Executive Committee

Commissions providing support to the Executive Committee have been constituted, as forums of debate and support to decision-making, through formulation of proposals and recommendations in the areas of their scope of intervention. A special mention to the Executive Commission for Credit, which holds weekly meetings, where loan operations are appraised and decided in accordance with the policy and regulation on loan concession. The Asset and Liability Committee (ALCO) is responsible for monitoring the management of Capital, the Balance Sheet and Income Statement. Its duties include, in particular, the issue of proposals or recommendations with a view to the management of liquidity or capital positions, considering the scenarios of evolution of the activity, the macroeconomic context and the indicators relative to the real and projected evolution of the different risks.

Subsidiary Companies

In order to ensure an effective management of the risks associated to the Group's activities, the Risk Department is responsible for ensuring that all CEMG Group companies, including those located abroad, implement risk management systems that are coherent with one another and in conformity with the requirements defined in the Internal Regulation of CEMG's risk management system, in the CEMG Group's Overall Risk Policy and in all the other applicable internal policies and rules, without prejudice to the respective legal and regulatory framework. The Risk Department is responsible for monitoring the risk management activity of the CEMG Group companies, on a consolidated and individual basis, with a view to ensuring the consistency of the risk concepts used, the methodologies of identification, assessment and control of risk, the supporting regulations and respective processes for monitoring the risk profile, as well as compliance with the applicable regulatory and prudential requirements, namely in consolidated terms. These activities should be conducted directly by the risk management functions of these entities, except in those for which CEMG's management body decides that the development of these responsibilities by CEMG's Risk Department would be more effective and efficient.

Risk Appetite Framework (RAF)

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

- Maintain a capital level that ensures compliance with the minimum regulatory requirements and the prudential requirements defined under the Supervisory Review and Evaluation Process (SREP) concerning the Common Equity Tier 1 (CET1), Total Capital and Leverage ratios;
- Maintain a liquidity level that enables compliance with the minimum regulatory requirements for the Liquidity Coverage Ratio (LCR), ensuring an adequate survival level, both in a base scenario and stress scenario, preventing excessive concentration in funding sources and ensuring compliance with Net Stable Funding Ratio (NSFR) requirements;
- Ensure stable profitability that translates the sustainability of its business model in order to enable the organic growth of capital levels and liquidity buffers;
- Ensure the availability of sufficient financial resources to cover the economic capital requirements, based on a 99.9% confidence interval and a time horizon of one year in the calculation of unexpected losses for all types of risk, both in a baseline scenario and stress scenario;
- Maintain a robust and stable reputation position in the market.

The evolution of the CEMG Group’s risk profile is regularly monitored in relation to the established risk appetite, with the respective reporting to the management body, namely through the specialised commission supporting this body (Risk Committee), as well as to the supervisory body which, in turn, is organised into specialised boards for analysis of the different issues.

Model Validation Centre

Pursuant to the best practices on risk management matters and with a view to strengthening the independence of functions between the development and validation of models, CEMG separated the Model Validation Centre (NVM) from the Risk Department in the first half of 2018, which maintained its functional reporting to the Risk Committee, but henceforth reports hierarchically to the Chief Risk Officer. The Model Validation Centre was created in 2016 for the purpose of undertaking the independent validation of the credit risk assessment models, produced by the Risk Modelling Department (DMR), placed in the Risk Department.

In the first half of 2018, the Model Validation Centre started a process of strengthening the CEMG Group's model risk management, which included the start-up of a series of actions, in particular the following: (i) extension of the validation responsibilities to models other than those exclusively developed by the DMR;

(ii) preparation of a Model Risk Management Policy; (iii) definition of methodologies for classification of the model's risk level, the severity of recommendations, the materiality of the alterations and model risk limits; (iv) strengthening of the reporting on model risk and follow-up of recommendations; and (v) review of the validation framework and methodology. These actions started in the first half of 2018 and are expected to be completed and operationalised in the second half of 2018.

Information Management

At the end of 2017, aware of the need to strengthen the quality of its decision-making processes, and meet the growing requirements of the regulator, CEMG formalised in a body (Information Management Office) the responsibility to assure the management of information in all its dimensions, namely governance, quality of data and information architecture.

In this regard, CEMG developed a governance model in line with the reference framework referred to as DAMA-DMBOK (DAMA International Guide to Data Management Body of Knowledge) and BCBS 239 (principles of effective risk data aggregation and risk reporting), which establish the guidelines and organisational model for data management, providing the institution with the tools required for the effective support of a management strategy for its data, ensuring the reliability of the information in meeting the internal and external reporting requirements, promoting operational efficiency and anticipating regulatory requirements.

Main developments in the first half of 2018

In the area of the risk management function, the following developments took place during the first half of 2018:

- IFRS 9: IFRS 9 entered into force on January 1, 2018, introducing significant changes in the classification of financial assets and in the recording of impairment. IFRS 9 is divided into three pillars: Classification and Measurement; Impairment; Hedge accounting. It is in the Impairment chapter that the most relevant impacts are observed for CEMG.
    - Regarding impairment, IFRS 9 establishes the need to recognise Expected Credit Losses (ECL) as impairment for all financial assets that comply with SPPI criteria (Solely Payment of Principal and Interest), considering the expected credit loss of one year, or the expected credit loss up to the maturity of the financial instrument (ECL lifetime). The Expected Loss model (IFRS 9) thus replaces the incurred loss model (IAS 39).
    - According to this alteration, financial assets are classified into segments, based on the evolution of their credit risk.
    - The measurement of expected losses (ECL) for the segment of homogenous populations is the result of the product of probability of default (PD) of the financial asset, the loss given default (LGD) and the exposure at default (EAD), discounted at the effective interest rate of the contract up to the reporting date.
    - The main difference between the measured impairment losses for financial assets classified in the stages refers to the time horizon of the probability of default (PD). The probability of default is one of the main differences in the calculation of IFRS 9 impairment (ECL), with two types of PD being estimated: 12-months PD and lifetime PD.

CREDIT RISK

Credit risk is associated with the degree of uncertainty of the expected returns as a result of the incapacity either of the borrower (and the guarantor, if any) or of the issuer of a security or of the counterparty to an agreement to fulfil their obligations. Credit risk management benefits from a robust process of credit analysis and decision-making, based on a series of tools to support the credit decision-making process. The quantification of credit risk is also supported by the model for calculating impairment losses.

During the first half of 2018, work continued on review of the credit risk management models and polices, accompanying the changes in the regulatory framework, and the guidelines issued by the national and European supervisors and regulators, and the best market practices.

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

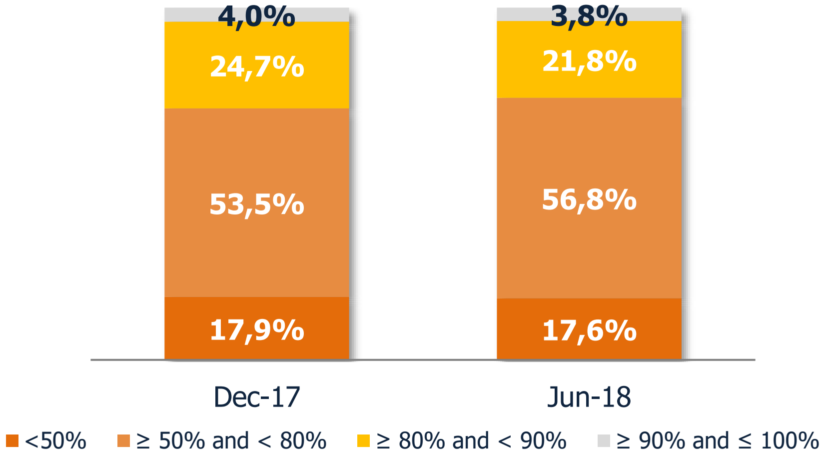
The implemented models are monitored on a monthly basis by the Risk Department, with a process existing for regular updating in light of the results obtained, business or regulatory alterations that imply the need to review these models. It should also be highlighted the independent validation process carried out by an independent organic unit.

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

In addition to the rating and scoring models, the decision-making process for loan operations is also based on rejection or scaling filters. Rejections or filters in terms of decision levels are determined by the occurrence of credit events in the financial system, breach of credit rules (for example, Debt Burden Ratio) and whenever the pricing associated to a particular operation represents a risk of adverse selection.

For mortgage loans granted during the first half of 2018, the levels of the Loan-to-Value ratio (LTV) remained conservative, having shown a favourable evolution in relation to the previous year. The average LTV ratio, excluding the financing of real estate properties that belonged to CEMG, was 66.7% (67.9% in 2017), demonstrating an evolution in line with the observed improvement of the real estate market indicators.

DISTRIBUTION OF THE MORTGAGE LOAN PORTFOLIO BY LTV LEVEL



During the first half of 2018, the weight of non-performing exposures (NPE) in Gross loans to customers fell in relation to the same period of 2017 by 3.0 p.p., standing at 15.8%, compared to 18.8% in the same period of the previous year. This outcome was influenced, on the one hand, by the efforts developed in the credit recovery area, and on the other hand, by the write-off of credit in June 2018 of the value of 113 million euros.

The total amount of impairment for credit risk reached 1,101 million euros at the end of the first half of 2018, giving rise to a ratio of coverage of loans and interest overdue by more than 90 days of 7.5%. Moreover, the coverage of non-performing exposures stood at 50.8%, while the coverage ratio, also considering the associated total collateral and financial guarantees, reached 88.3%.

LOAN QUALITY INDICATORS

(EUR million)

	Jun-17	Dec-17	Jun-18	YoY Change	
				Amount	%
Gross loans to customers	14 890	14 063	13 727	(1 163)	(7.8)
Loans and interest overdue by more than 90 days	1 371	1 146	1 025	(346)	(25.3)
Loans impairment	1 192	1 034	1 101	(91)	(7.6)
Ratios (%)					
Cost of credit risk	0.9	1.1	0.7	(0.2 p.p.)	
Loans and interest overdue by more than 90 days	9.2	8.2	7.5	(1.7 p.p.)	
Non-performing exposures (NPE) (a) / Gross loans to customers	18.8	16.4	15.8	(3.0 p.p.)	
Forborne exposures (a) / Gross customer loans	8.8	8.2	7.6	(1.2 p.p.)	
Coverage by Impairments for balance sheet loans (%)					
Loans and interest overdue by more than 90 days	86.9	90.2	107.4	20.5 p.p.	
Non-performing exposures (NPE) (a)	42.7	44.9	50.8	8.1 p.p.	
Non-performing exposures (NPE), also including associated collaterals and financial guarantees (a)	88.7	87.0	88.3	(0.4 p.p.)	

(a) EBA definition.

CREDIT CONCENTRATION RISK

Credit concentration risk arises from the existence of risk factors that are common or correlated between different entities or portfolios, to such an extent that the deterioration of any of these factors could have a simultaneous negative effect on the loan quality of each counterpart or on the earnings of each category of assets and liabilities. In a concentration scenario, the effect of the losses on a small number of exposures can be disproportionate, confirming the importance of the management of this risk in maintaining suitable solvency levels. At the CEMG Group, the monitoring of concentration risk is primarily incident on credit concentration risks.

There are various procedures related to the identification, quantification and management of credit concentration risk. Credit concentration risk refers to the degree of concentration of the risk of default in the granted loan, derived from possible over-exposure to individual counterparts or groups of counterparts that are related to counterparts operating in the same activity sector, in the same geographic area or exposures with collateral or assets under common operation, excluding Group companies. In order to limit credit concentration risk due to exposure to a customer / group of interrelated customers, maximum exposure limits were defined for the aggregate positions of the credit and investment portfolios, for various entities of the CEMG Group.

Concentration risk is managed centrally, with regular monitoring of risk indicators by the Risk Department. For the established Risk Appetite Statement (RAS), limits and strategic objectives were defined for key indicators, with concentration risk being one of the relevant dimensions.

Credit concentration risk is monitored regularly, considering relevant risk indicators (individual and sector concentration) in comparison to previous periods to follow the evolution. The identification and monitoring of the largest exposures and most significant increased exposure of the loan portfolio are conducted monthly.

MARKET RISK

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

Value-at-Risk (VaR) is one of the main indicators used to measure and monitor market risk. The Group calculates the VaR on a daily basis, both for its trading book and for the portfolio of financial assets at fair value through other comprehensive income. VaR is also calculated on a time horizon of 10 business days and at a 99% significance level, by the historical simulation method. The types of risk considered in this methodology are interest rate risk, exchange rate risk, price risk, credit default swap risk (CDS), options risk and specific credit risk.

With respect to market risk information and analysis, there is regular reporting on CEMG's own portfolios and those of other entities of the Group, with various risk limits being defined, including overall limits of VaR, by Issuer, by type/class of asset and credit quality level (rating) and Stop Loss and Loss Trigger limits for positions held for trading and in other comprehensive income.

The produced reports are used to control the different limits of exposure, analysing the risks of concentration, credit, interest rate and asset price variation, among others. These analyses consider the analysis of scenarios, namely the sensitivities of the securities portfolio to variations of interest rates, spreads, adverse exchange rate evolution and variation of the market prices of shares and real estate properties.

In the field of market risk, in addition to reporting on the risk of CEMG's overall portfolio, specific risk reports are also produced for the trading book and the proprietary portfolios of financial assets at fair value through other comprehensive income.

In order to ensure more effective risk management, the positions in portfolio are disaggregated into a portfolio of financial assets at fair value through other comprehensive income, portfolio of other financial assets at amortised cost, portfolio of financial assets not necessarily held for trading at fair value through profit or loss, and portfolio of assets held for trading (which exclude hedge coverages and fair value option), with risk limits being defined according to the type of portfolio. The thresholds applicable to the portfolios are defined in internal regulations, updated on an annual basis or other, whenever justified by alterations to market risk levels. Stop loss and loss trigger thresholds are also defined, applicable to the portfolios. Whenever any of these thresholds are reached, the re-examination of the strategy intrinsic to this position is compulsory.

Concerning investment policy, there was a reduction up to June 2018 of exposure to Italian and Spanish public debt securities. It should also be pointed out the divestment of Greek public debt bonds (with B- rating). Likewise, special note is made of the divestment of the trading book of the senior note of the EVORA securitisation with BBB- rating. The changes indicated above led to variations in terms of the rating structure, namely in the BBB-, BBB and BBB+ ranges. The weight of bonds classified as investment grade in the total bond portfolio in June 2018 reached 88.8%, in line with the value in December 2017.

STRUCTURE OF THE BOND PORTFOLIO BY RATING CLASSES

(EUR million)

Rating	Dec-17		Jun-18		YTD Change	
	Amount	%	Amount	%	Amount	%
AA+	-	-	1	0.1	1	-
AA	2	0.1	-	-	(2)	-
AA-	2	0.1	-	-	(2)	-
A+	2	0.1	1	0.1	(1)	(34.6)
A	2	0.1	1	0.1	(1)	(52.1)
A-	2	0.1	3	0.2	1	48.7
BBB+	297	15.1	222	13.8	(75)	(25.3)
BBB	578	29.3	435	27.1	(143)	(24.7)
BBB-	860	43.7	760	47.4	(100)	(11.6)
B-	17	0.9	-	-	(17)	-
NR	46	2.3	50	3.0	4	8.7
Subtotal	**1 808**	**91.8**	**1 473**	**91.8**	**(335)**	**(18.5)**
Discontinuing subsidiaries	162	8.2	132	8.2	(30)	(18.3)
Total	**1 970**	**100.0**	**1 605**	**100.0**	**(365)**	**(18.5)**

In June 2018, the total of 1,605 million euros includes the value of 132 million euros corresponding to the securities portfolio of Finibanco Angola (126 million euros, with B- rating) and Banco Terra (6 million euros, CC rating), which are recorded in the accounts under Non-current assets held for sale of discontinuing operations.

A summary of the VaR indicators in December 2017 and June 2018 is presented below:

VaR INDICATORS (1)

	Dec-17		Jun-18	
	Financial assets at fair value through other comprehensive income	Trading	Financial assets at fair value through other comprehensive income	Trading
Market VaR	**0.70%**	**1.02%**	**0.53%**	**0.69%**
Interest rate risk	0.37%	0.24%	0.29%	0.38%
Foreign exchange risk	0.09%	0.19%	0.06%	0.08%
Price risk (2)	0.24%	0.59%	0.18%	0.23%
Credit VaR (3)	**0.56%**	**4.81%**	**1.21%**	**1.56%**
Total VaR	**1.26%**	**5.83%**	**1.74%**	**2.25%**

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

(2) - Includes diversification effect.

(3) - Excludes exposure to Banco Terra and Finibanco Angola.

Moreover, analyses are conducted of scenarios for the trading book to supplement the analysis of the other risk indicators. In June 2018, the following results were obtained from the analysis of scenarios:

STRESS TEST OF THE TRADING PORTFOLIO

(EUR million)

Scenario	Jun-18
Increase of 100 basis b.p. in interest rates	(2.9)
25% fall of the stock market	(2.0)
Increase of credit spreads by 100 b.p. (in bonds)	(0.8)

EXCHANGE RATE RISK

Concerning the exchange rate risk of the banking book, in general, the different resources attracted in different currencies are invested in assets in the respective money market for maturity periods that are not higher than those of the resources are. Therefore, the existing foreign exchange gaps essentially derive from possible mismatches between the maturity periods of the investments and resources. The current foreign exchange exposure of the CEMG Group in consolidated terms is essentially the result of the structural positions derived from the conversion of the balances of the subsidiaries in their main currencies, namely the Kwanza and American Dollar for Finibanco Angola and the Metical at Banco Terra in Mozambique.

For the exchange rate risk of the banking book, limits of exposure have been defined which are monitored by the management bodies and by ALCO, where any overrunning of the established limits follows an established circuit, including approval by the management body or the implementation of measures to cover this risk.

The defined limits in terms of exchange rate risk include limits of position by currency, in consolidated terms and individual terms, as well as in terms of VaR, also being disaggregated in terms of the trading book and banking book.

INTEREST RATE RISK IN THE BANKING BOOK

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

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

Following the recommendations of Basel and Banco de Portugal Instruction number 19/2005, of June 15, the Group calculates its exposure to balance sheet interest rate risk, at least quarterly, based on the methodology of the Bank of International Settlements (BIS), classifying all the headings of the assets, liabilities and off-balance sheet items which do not belong to the trading book, by repricing brackets.

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

At the same time, a stress test is conducted with six shock scenarios in the interest rate curve. This test measures impacts on net interest income at one year and on net worth of the shocks in the interest rate curve prescribed in the BIS document of April 2016, *Standards – Interest rate risk in the banking book*.

Based on the financial features of each contract, the respective expected cash 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 IN JUNE 2018

(EUR million)

	Residual maturities of repricing				
	Up to three months	Three to six months	Six months to one year	One to five years	Over five years
Asset	9 461	3 127	662	1 210	1 231
Off-balance sheet	4	0	15	768	0
Total	**9 465**	**3 127**	**677**	**1 978**	**1 231**
Liabilities	3 387	1 533	2 871	4 857	68
Off-balance sheet	762	10	0	14	1
Total	**4 149**	**1 543**	**2 871**	**4 872**	**69**
GAP (Assets - Liabilities) in Jun 2018	**5 316**	**1 584**	**(2 194)**	**(2 894)**	**1 162**
GAP (Assets - Liabilities) in Dec 2017	**4 175**	**1 409**	**(1 881)**	**(5 485)**	**748**

In view of the interest rate gaps observed as at June 30, 2018, an instantaneous and parallel positive shift of the interest rates by 100 basis points would lead to a reduction of net gains in the expected economic value of the banking book of approximately -28.4 million euros (December 31, 2017: 11.6 million euros).

LIQUIDITY RISK

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

The objective of controlling the liquidity levels is to maintain a satisfactory level of disposable assets 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 within ALCO. Under the control of risk levels, limits are defined for various liquidity risk indicators, which are monitored through weekly and monthly reports.

The evolution of the liquidity situation is analysed, in particular, based on estimated future cash flow projections for various time horizons, considering CEMG's balance sheet. The liquidity position of the day under review and the amount of assets that are considered highly liquid in the uncompromised securities portfolio are added to these projections to determine the accumulated liquidity gap for various time horizons. Moreover, the liquidity positions are also monitored from a prudential perspective, calculated according to the rules required by Banco de Portugal (Instruction number 13/2009 of September, 15), as well as the level of compliance of the liquidity prudential indicator, Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and Additional Liquidity Monitoring Metrics (ALMM), and internal ratios such as, for example, ratios of loans to deposits, concentration of funding sources, short term funding and eligible assets.

In June 2018, the liquidity gaps up to 12 months are presented in the table below.

LIQUIDITY POSITION GAPS IN JUNE 2018

(EUR million)

Position reference date + forecast amount	Maturity periods				
	On sight and up to 1 week	Above 1 week and up to 1 month	Above 1 month and up to 3 months	Above 3 months and up to 6 months	Above 6 months and up to 12 months
Accumulated mismatches	2 863	2 855	2 827	2 367	2 201

As at June 30, 2018, customer resources continued to be the main source of funding, accounting for 71.0% of total funding sources.

Liabilities	%
Resources from central banks	8.8
Resources from other credit institutions	9.8
Resources from Customers	71.0
Debt securities issued	7.0
Other liabilities	3.4
Total	**100.0**

The LCR ratio reached 152.0% at the end of June 2018, above the minimum requirement of 100%. Special note should also be made of the maintenance of a balanced commercial account with the loan-to-deposits ratio, considering loans and resources of customers on the balance sheet, standing at 92.0% as at June 30, 2018, compared to 92.4% at the end of 2017, and 107.9% in the same period of the previous year.

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

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

During the first half of 2018, CEMG's exposure to real estate risk, in the components described above, fell by approximately 175 million euros, in shifting from 1,494 million euros at the end of 2017 to 1,319 million euros as at June 30, 2018.

PENSION FUND RISK

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

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

As at June 30, 2018, the accumulated negative actuarial deviation of the Pension Fund stood at 188 million euros.

OPERATIONAL RISK AND BUSINESS CONTINUITY

Operational risk corresponds to the potential loss arising from failures or inadequacies in internal procedures, persons or systems, as well as potential losses derived from external events. The CEMG Group adopts the standard approach to quantify its own fund requirements for operational risk, supported by an implemented operational risk management system that is based on identifying, assessing, monitoring, measuring, mitigating and reporting this type of risk.

The Risk Department exercises the corporate function of operational risk management for CEMG. This is supported by specific employees within different organic units that assure the appropriate implementation of the operational risk management.

The assessment of the operational risk profile for new products, processes and systems and their monitoring, on a regular basis, has permitted the prior identification and mitigation of situations of operational risk.

With regard to the monitoring of operational risk in the first half of 2018, the activities of collection and analysis of loss events were maintained. In terms of exposure to operational risk, the business lines showing higher severity in the first half of 2018 continue to be those related to retail and payment and settlement activities, as indicated in the following table:

EVENTS DISTRIBUTION BY BUSINESS LINE IN JUNE 2018

	Frequency	Severity
Retail Banking	23.30%	19.10%
Payment and settlement	75.90%	80.90%

Also continuing to be essential in the management of this specific type of risk is the prior identification of relevant operational risks whenever a product, process or system is implemented or reviewed, and follow-up is ensured of action plans aimed at preventing or mitigating the effects of the materialisation of the risks with greatest frequency / severity of loss events or with higher residual value in the context of the self-assessment process.

Self-assessment of Operational Risks

The operational risk management cycle implemented at CEMG is based on the preparation of a map of activities and respective operational risks and controls, enabling the identification of the potential exposure of each body/organic unit to the operational risk, determination of its risk profile and prioritisation of any mitigation actions. The operational risks are mapped considering 7 main categories: internal fraud; external fraud; employment and safety at work practices; customer, products and commercial practices; damages to physical assets; disturbance of activities and system failures; and implementation, delivery and management of processes. The operational risks and respective controls are self-assessed regularly, as a rule in workshop arrangements with the representatives of each body/organic unit and the support of the Risk Department. During the first half of the year, workshops were carried out with 5 of the Departments considered most critical, involving managers and representatives of 22 organic units, which enabled updating the respective maps of operational activities, risks and controls and the measurement of the corresponding residual value.

Based on the results of the self-assessments, conducted in terms of impacts and frequencies for the risks and percentage efficacy for the controls, a matrix of tolerance to residual risk is established, which will substantiate the risk level considered acceptable for the institution and will enable identifying any risks for which additional mitigation measures may need to be designed. The results of the self-assessments are reported to the Board of Directors and Risk Committee.

Business Continuity Management

The cycle of business continuity management is supported by a series of activities of assessment, design, implementation and monitoring, integrated in a continuous improvement cycle aimed at making business processes more resilient, and ensuring the continuity of operations in the case of events that interrupt the activity.

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

In the first months of 2018, CEMG hosted the X Forum of Business Continuity, which gathered the main Portuguese banking institutions, with its primary objective being the exchange of opinions and experiences in terms of best practices in this area. Under debate were the challenges that the sector currently faces, almost all related to the digital economy and which place the topic of cybersecurity in the centre of the agenda.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

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

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

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

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

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

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

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

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

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

STRESS TESTS

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

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

The ICAAP 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 and capital adequacy. The outcome of these tests enables confirming the adequacy of internal capital levels to the tested adverse scenarios.

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

RISK RATINGS

The risk ratings attributed to CEMG by the rating agencies as at June 30, 2018, are presented in the table below:

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

(1) Conditional Pass-through Covered Bond Programme.

Rating events for the first half of 2018

On January 24, 2018, the financial rating agency Fitch Ratings announced an upward revision of the risk rating of Covered Bonds issued by CEMG, from 'A +' to 'AA-', with 'Stable' Outlook. The following contributed to this upward revision: the level of protection conferred by the quality of the autonomous assets allocated to these bonds in light of the updating of the assessment methodology applied by the financial rating agency to the Portuguese covered bonds, published on January 12, 2018; the upward revision of the Long Term IDR - Issuer Default Rating of CEMG, from 'B' to 'B+', occurred on December 21, 2017; and the upward review of the risk rating of the Portuguese Republic from 'BB+' to 'BBB' occurred on December 15, 2017.

CONSOLIDATED FINANCIAL STATEMENTS FOR THE 1st HALF OF 2018

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

Interim Consolidated Income Statement
for the six-month periods ended at 30 June 2018 and 2017

(Thousands of Euro)

	Jun 2018	Jun 2017
Interest and similar income	197 363	254 170
Interest and similar expense	63 125	110 863
Net interest income	134 238	143 307
Dividends from equity instruments	7 935	7 744
Net fee and commission income	57 399	55 218
Net gains/ (losses) arising from assets and liabilities at fair value through profit or loss	1 956	3 973
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	4 001	21 545
Net gains/ (losses) arising from foreign exchange differences	(793)	1 079
Net gains/ (losses) arising from sale of other financial assets	5 499	19 154
Other operating income/ (expenses)	(9 557)	(3 464)
Total operating income	200 678	248 556
Staff costs	84 218	84 668
General and administrative expenses	36 381	40 065
Depreciation and amortisation	12 099	12 479
	132 698	137 212
Loans impairment	45 842	63 545
Other financial assets impairment	2 597	4 905
Other assets impairment	9 364	10 175
Other provisions	1 708	10 521
Operating profit	8 469	22 198
Share of profit of associates under the equity method	(104)	(90)
Profit before income tax	8 365	22 108
Tax		
Current	(1 118)	(3 890)
Deferred	(1 110)	(9 259)
Profit/ (loss) after tax from continuing operations	6 137	8 959
Profit/ (loss) from discontinuing operations	11 940	5 434
Consolidated net profit/ (loss) after tax	18 077	14 393
Consolidated profit/ (loss) for the period attributable to		
Shareholder	15 797	13 049
Non-controlling interests	2 280	1 344
Consolidated net profit/ (loss) for the period	18 077	14 393

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

Caixa Económica Montepio Geral

caixa económica bancária, S.A.

Interim Consolidated Balance Sheet as at 30 June 2018 and 31 December 2017

(Thousands of Euro)

	Jun 2018	Dec 2017
Assets		
Cash and deposits at central banks	1 720 994	1 733 628
Loans and advances to credit institutions repayable on demand	54 018	50 205
Other loans and advances to credit institutions	317 203	312 203
Loans and advances to customers	12 625 830	13 029 318
Financial assets held for trading	52 450	184 076
Financial assets not held for trading mandatorily at fair value through profit or loss	488 926	-
Financial assets at fair value through other comprehensive income	992 361	2 200 893
Hedging derivatives	5 611	-
Other financial assets at amortised cost	620 891	-
Investments in associates	3 967	4 097
Non-current assets held for sale	740 350	742 221
Non-current assets held for sale - discontinuing operations	355 341	474 475
Investment properties	285 602	538 625
Property and equipment	229 075	233 312
Intangible assets	29 774	31 371
Current tax assets	5 537	7 327
Deferred tax assets	514 386	466 000
Other assets	206 926	192 273
Total Assets	19 249 242	20 200 024
Liabilities		
Deposits from central banks	1 546 980	1 557 840
Deposits from other financial institutions	1 715 731	1 786 717
Deposits from customers	12 482 708	12 561 040
Debt securities issued	1 236 072	1 544 054
Financial liabilities held for trading	15 539	16 171
Hedging derivatives	-	1 663
Non-current liabilities held for sale - discontinuing operatiojns	257 145	330 392
Provisions	29 395	27 096
Current tax liabilities	3 316	5 217
Other subordinated debt	120 662	236 193
Other liabilities	212 168	370 720
Total Liabilities	17 619 716	18 437 103
Equity		
Share capital	2 420 000	2 420 000
Other equity instruments	6 323	6 323
Fair value reserves	8 776	27 924
Other reserves and retained earnings	(849 268)	(730 598)
Consolidated net profit/ (loss) for the period attributable to the Shareholder	15 797	6 437
Total equity attributable to the shareholder	1 601 628	1 730 086
Non-controlling interests	27 898	32 835
Total Equity	1 629 526	1 762 921
Total Liabilities and Equity	19 249 242	20 200 024

CHIEF ACCOUNTANT THE BOARD OF DIRECTORS

PART II - FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS AND NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Interim Consolidated Income Statement
for the six-month periods ended at 30 June 2018 and 2017

(Thousands of Euro)

	Notes	Jun 2018	Jun 2017
Interest and similar income	3	197 363	254 170
Interest and similar expense	3	63 125	110 863
Net interest income	3	134 238	143 307
Dividends from equity instruments	4	7 935	7 744
Net fee and commission income	5	57 399	55 218
Net gains/ (losses) arising from assets and liabilities at fair value through profit or loss	6	1 956	3 973
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	7	4 001	21 545
Net gains/ (losses) arising from foreign exchange differences	8	(793)	1 079
Net gains/ (losses) arising from sale of other financial assets	9	5 499	19 154
Other operating income/ (expenses)	10	(9 557)	(3 464)
Total operating income		200 678	248 556
Staff costs	11	84 218	84 668
General and administrative expenses	12	36 381	40 065
Depreciation and amortisation	13	12 099	12 479
		132 698	137 212
Loans impairment	14	45 842	63 545
Other financial assets impairment	15	2 597	4 905
Other assets impairment	16	9 364	10 175
Other provisions	17	1 708	10 521
Operating profit		8 469	22 198
Share of profit of associates under the equity method	18	(104)	(90)
Profit before income tax		8 365	22 108
Tax			
Current	33	(1 118)	(3 890)
Deferred	33	(1 110)	(9 259)
Profit/ (loss) after tax from continuing operations		6 137	8 959
Profit/ (loss) from discontinuing operations	61	11 940	5 434
Consolidated net profit/ (loss) after tax		18 077	14 393
Consolidated profit/ (loss) for the period attributable to			
Shareholder		15 797	13 049
Non-controlling interests	47	2 280	1 344
Consolidated net profit/ (loss) for the period		18 077	14 393

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

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

Interim Consolidated Balance Sheet as at 30 June 2018 and 31 December 2017

(Thousands of Euro)

	Notes	Jun 2018	Dec 2017
Assets			
Cash and deposits at central banks	19	1 720 994	1 733 628
Loans and advances to credit institutions repayable on demand	20	54 018	50 205
Other loans and advances to credit institutions	21	317 203	312 203
Loans and advances to customers	22	12 625 830	13 029 318
Financial assets held for trading	23	52 450	184 076
Financial assets not held for trading mandatorily at fair value through profit or loss	24	488 926	-
Financial assets at fair value through other comprehensive income	25	992 361	2 200 893
Hedging derivatives	26	5 611	-
Other financial assets at amortised cost	27	620 891	-
Investments in associates	28	3 967	4 097
Non-current assets held for sale	29	740 350	742 221
Non-current assets held for sale - discontinuing operations	61	355 341	474 475
Investment properties	30	285 602	538 625
Property and equipment	31	229 075	233 312
Intangible assets	32	29 774	31 371
Current tax assets	-	5 537	7 327
Deferred tax assets	33	514 386	466 000
Other assets	34	206 926	192 273
Total Assets		19 249 242	20 200 024
Liabilities			
Deposits from central banks	35	1 546 980	1 557 840
Deposits from other financial institutions	36	1 715 731	1 786 717
Deposits from customers	37	12 482 708	12 561 040
Debt securities issued	38	1 236 072	1 544 054
Financial liabilities held for trading	23	15 539	16 171
Hedging derivatives	26	-	1 663
Non-current liabilities held for sale - discontinuing operatiojns	61	257 145	330 392
Provisions	39	29 395	27 096
Current tax liabilities	-	3 316	5 217
Other subordinated debt	40	120 662	236 193
Other liabilities	41	212 168	370 720
Total Liabilities		17 619 716	18 437 103
Equity			
Share capital	42	2 420 000	2 420 000
Other equity instruments	43	6 323	6 323
Fair value reserves	45	8 776	27 924
Other reserves and retained earnings	44 and 45	(849 268)	(730 598)
Consolidated net profit/ (loss) for the period attributable to the Shareholder		15 797	6 437
Total equity attributable to the shareholder		1 601 628	1 730 086
Non-controlling interests	47	27 898	32 835
Total Equity		1 629 526	1 762 921
Total Liabilities and Equity		19 249 242	20 200 024

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

Caixa Económica Montepio Geral

caixa económica bancária, S.A.

Interim Consolidated Statement of Cash Flows
for the six-month periods ended at 30 June 2018 and 2017

(Thousands of Euro)

	Jun 2018	Jun 2017
Cash flows arising from operating activies		
Interest income received	166 437	264 011
Commissions income received	70 279	72 202
Interest expense paid	(70 766)	(133 955)
Commissions expense paid	(15 648)	(17 634)
Payments to employees and suppliers	(122 604)	(136 593)
Recovery of loans and interests	2 926	2 562
Other payments and receivables	(74 417)	14 774
Income tax payment	(2 382)	1 325
	(46 175)	66 692
(Increase) / decrease in operating assets		
Loans and advances to credit institutions and customers	205 367	283 191
Deposits held for monetary control purposes	(9 142)	(94 438)
Other assets	(107 474)	7 787
	88 751	196 540
(Increase) / decrease in operating liabilities		
Deposits from customers	(66 787)	(830 202)
Deposits from credit institutions	(71 101)	(94 010)
Deposits from central banks	-	377 840
	(137 888)	(546 372)
	(95 312)	(283 140)
Cash flows arising from investing activities		
Non-current assets/ liabilities held for sale - discontinuing operations	65 696	(3 133)
Dividends received	7 935	7 744
(Acquisition) / sale of financial assets held for trading	121 710	(7 302)
(Acquisition) / sale of financial assets at fair value through profit or loss	(488 926)	-
(Acquisition) / Sale of financial assets at fair value through other comprehensive income	1 141 577	(384 635)
Interest received arising from financial assets at fair value through other comprehensive income	15 424	52 493
(Acquisition) / sale of hedging derivatives	14 446	-
(Acquisition) / sale of other assets at amortised cost	(622 256)	1 119 599
(Acquisition) / sale of investments in associated companies	(43)	-
(Acquisition) / sale of other financial asssets	-	(869)
Fixed assets and investment properties acquisition	(6 825)	(9 541)
Fixed assets and investment properties sale	22 109	46 899
Change in the consolidation perimeter of investment properties	230 659	-
	501 506	821 255
Cash flows arising from financing activities		
Capital increase	-	250 000
Other equity instruments	(163)	(162)
Proceeds from issuance of bonds and subordinated debt	-	500 000
Reimbursement of bonds and subordinated debt	(423 200)	(1347 261)
Increase / (decrease) in other sundry liabilities	-	(4 510)
	(423 363)	(601 933)
Effect of changes in exchange rate on cash and cash equivalents	(794)	1 079
Net changes in cash and cash equivalents	(17 963)	(62 739)
Cash and cash equivalents at the beginning of the period:		
Cash (note 19)	178 927	211 648
Loans and advances to credit institutions repayable on demand (note 20)	50 205	69 568
	229 132	281 216
Cash and cash equivalents at the end of the period:		
Cash (note 19)	157 151	159 560
Loans and advances to credit institutions repayable on demand (note 20)	54 018	58 917
	211 169	218 477

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

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

Interim Consolidated Statement of Changes in Equity
for the six-month periods ended at 30 June 2018 and 2017

(Thousands of Euro)

	Share Capital	Participation fund	Other equity instruments	Fair value reserves	Other reserves and retained earnings: General and special reserves	Other reserves and retained earnings: Other reserves	Equity attributable to the shareholder	Non-controlling interests	Total Equity
Balance on 31 December 2016	**1 770 000**	**399 919**	**6 323**	**(6 860)**	**186 000**	**(922 085)**	**1 433 297**	**23 201**	**1 456 498**
Other comprehensive income:									
Exchange difference arising from the consolidation	-	-	-	-	-	825	825	981	1 806
Actuarial gains/ (losses) for the period (note 50)	-	-	-	-	-	-	-	-	-
Deferred taxes related to equity changes recorded agains retained earnings (note 33)	-	-	-	-	-	(642)	(642)	-	(642)
Changes in fair value (note 45)	-	-	-	76 576	-	-	76 576	-	76 576
Deferred taxes related to fair value changes (note 33)	-	-	-	(25 410)	-	-	(25 410)	-	(25 410)
Consolidated net profit/ (loss) for the period	-	-	-	-	-	13 049	13 049	1 344	14 393
Total comprehensive income for the period	-	-	-	51 166	-	13 232	64 398	2 325	66 723
Share capital increase (note 42)	250 000	-	-	-	-	-	250 000	-	250 000
Costs related to the issue of perpetual subordinated instruments (note 43)	-	-	-	-	-	(162)	(162)	-	(162)
Acquisition of participation fund (note 42)	-	-	-	-	-	-	-	-	-
Other consolidation reserves	-	-	-	-	-	70	70	-	70
Balance on 30 June 2017	**2 020 000**	**399 919**	**6 323**	**44 306**	**186 000**	**(908 945)**	**1 747 603**	**25 526**	**1 773 129**
Other comprehensive income:									
Exchange difference arising from the consolidation	-	-	-	-	-	(132)	(132)	(294)	(426)
Actuarial gains/ (losses) for the period (note 50)	-	-	-	-	-	3 260	3 260	-	3 260
Deferred taxes related to equity changes recorded agains retained earnings (note 33)	-	-	-	-	-	(354)	(354)	-	(354)
Changes in fair value (note 45)	-	-	-	(22 963)	-	-	(22 963)	-	(22 963)
Deferred taxes related to fair value changes (note 33 and 45)	-	-	-	6 581	-	-	6 581	-	6 581
IAS 29 impact related to the equity of Finibanco Angola S.A. (note 58)	-	-	-	-	-	37 474	37 474	8 580	46 054
Impairment related to discontinuing operations (note 61)	-	-	-	-	-	(32 509)	(32 509)	-	(32 509)
Consolidated net profit/ (loss) for the period	-	-	-	-	-	(6 612)	(6 612)	32	(6 580)
Total comprehensive income for the period	-	-	-	(16 382)	-	1 127	(15 255)	8 318	(6 937)
Share capital increase (note 42)	-	-	-	-	-	-	-	-	-
Change in the consolidation perimeter	-	-	-	-	-	473	473	193	666
Disposal of own securities	-	81	-	-	-	-	81	-	81
Costs related to the issue of perpetual subordinated instruments	-	-	-	-	-	(156)	(156)	-	(156)
Dividends paid	-	-	-	-	-	(1 975)	(1 975)	(1 202)	(3 177)
Conversion of the participation fund into share capital (note 42)	400 000	(400 000)	-	-	-	-	-	-	-
Other consolidation reserves	-	-	-	-	-	(685)	(685)	-	(685)
Balance on 31 December 2017	**2 420 000**	**-**	**6 323**	**27 924**	**186 000**	**(910 161)**	**1 730 086**	**32 835**	**1 762 921**
IFRS 9 transition adjustments									
Gross amount	-	-	-	(15 868)	-	(136 355)	(152 223)	(482)	(152 705)
Taxes	-	-	-	6 068	-	49 872	55 940	95	56 035
Balance on 1 January 2018	**2 420 000**	**-**	**6 323**	**18 124**	**186 000**	**(996 644)**	**1 633 803**	**32 448**	**1 666 251**
Other comprehensive income:									
Exchange difference arising from the consolidation	-	-	-	-	-	(34 555)	(34 555)	(8 768)	(43 323)
Deferred taxes related to equity changes recorded agains retained earnings (note 33)	-	-	-	-	-	(5 489)	(5 489)	-	(5 489)
Changes in fair value (note 45)	-	-	-	(8 770)	-	-	(8 770)	-	(8 770)
Gains related to equity instruments	-	-	-	-	-	(37)	(37)	-	(37)
Deferred taxes related to fair value changes (note 33 and 45)	-	-	-	(578)	-	-	(578)	-	(578)
IAS 29 impact related to the equity of Finibanco Angola S.A. (note 58)	-	-	-	-	-	5 345	5 345	2 385	7 730
Consolidated net profit/ (loss) for the period	-	-	-	-	-	15 797	15 797	2 280	18 077
Total comprehensive income for the period	-	-	-	(9 348)	-	(18 939)	(28 287)	(4 103)	(32 390)
Change to the consolidation perimeter	-	-	-	-	-	(236)	(236)	799	563
Costs related to the issue of perpetual subordinated instruments	-	-	-	-	-	(163)	(163)	-	(163)
Legal reserve	-	-	-	-	5 766	(5 766)	-	-	-
Dividends paid	-	-	-	-	-	(2 474)	(2 474)	(1 137)	(3 611)
Other consolidation reserves	-	-	-	-	-	(1 015)	(1 015)	(109)	(1 124)
Balance on 30 June 2018	**2 420 000**	**-**	**6 323**	**8 776**	**191 766**	**(1025 237)**	**1 601 628**	**27 898**	**1 629 526**

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

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

Interim Consolidated Statement of Comprehensive Income for the six-month period ended at 30 June 2018

(Thousands of Euro)

	Notes	Jun 2018 Continuing operations	Discontinuing operations	Total	Shareholder	Non-controlling interests
Items that may be reclassified into the Income Statement						
Fair value reserve						
Financial assets at fair value through other comprehensive income and loans and advances to customers						
Debt instruments	45	(8 858)	-	(8 858)	(8 858)	-
Loans and advances to customers		(325)	-	(325)	(325)	-
Taxes related to fair value changes	33	(578)	-	(578)	(578)	-
Exchange differences arising from the consolidation	45	-	(43 323)	(43 323)	(34 555)	(8 768)
IAS 29 impact related to the equity of Finibanco Angola, S.A.	61	-	7 730	7 730	5 345	2 385
		(9 761)	(35 593)	(45 354)	(38 971)	(6 383)
Items that won't be reclassified into the Income Statement						
Fair value reserve						
Financial assets at fair value through other comprehensive income and loans and advances to customers						
Equity instruments	45	413	-	413	413	-
Gains related to equity instruments	45	(37)	-	(37)	(37)	-
Deferred taxes related to changes in equity recorded against retained earnings	33	(5 489)	-	(5 489)	(5 489)	-
		(5 113)	-	(5 113)	(5 113)	-
Other comprehensive income for the period		(14 874)	(35 593)	(50 467)	(44 084)	(6 383)
Consolidated net profit/ (loss) for the period		6 137	11 940	18 077	15 797	2 280
Total consolidated comprehensive income/ (loss) for the period		(8 737)	(23 653)	(32 390)	(28 287)	(4 103)

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

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

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

(Thousands of Euro)

	Notes	Jun 2017 Continuing operations	Discontinuing operations	Total	Shareholder	Non-controlling interests
Items that may be reclassified into the Income Statement						
Fair value reserves						
Financial assets at fair value through other comprehensive income and loans and advances to customers						
Debt instruments	45	76 709	-	76 709	76 709	-
Loans and advances to customers		(133)	-	(133)	(133)	-
Taxes related to fair value changes	33	(25 410)	-	(25 410)	(25 410)	-
IAS 29 impact related to the equity of Finibanco Angola, S.A.	61	-	1 806	1 806	825	981
		51 166	1 806	52 972	51 991	981
Items that won't be reclassified into the Income Statement						
Deferred taxes related to changes in equityt recorded against retained earnings	33	(642)	-	(642)	(642)	-
		(642)	-	(642)	(642)	-
Other comprehensive income/ (loss) for the period		50 524	1 806	52 330	51 349	981
Consolidated net profit/ (loss) for the period		7 615	6 778	14 393	13 049	1 344
Total consolidated comprehensive income/ (loss) for the period		58 139	8 584	66 723	64 398	2 325

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

1 Accounting policies

a) Basis of presentation

Caixa Económica Montepio Geral, caixa económica bancária, S.A. (hereinafter "CEMG") is a credit institution, based at Rua Áurea, 219-241, Lisbon, held by Montepio Geral Associação Mutualista (hereinafter "MGAM"), established on 24 March, 1844, and authorised to operate in accordance with Decree-Laws no. 298/92 of 31 December, and no. 136/79 of 18 May, which regulate the activity of savings banks and establish some restrictions to their activities. However, CEMG is authorised to perform banking operations in addition to those mentioned in its by-laws, if previously authorised by the Bank of Portugal. This fact conducts to the practice of banking operations in general.

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

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

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

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

On 10 September 2015 it was published the Decree-Law no. 190/2015, which introduces amendments in the Legal Framework of Credit Institutions and Financial Companies and in the Mutual Association Code. Following the publication of this Decree-Law, CEMG changed its classification to "caixa económica bancária".

In accordance with Regulation (EC) no. 1606/2002 from the European Parliament and the Counsel, of 19 July and Regulation no. 5/2015 of Bank of Portugal, from 7 December, CEMG's financial statements are required to be prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU") from 2017 onwards. IFRS comprise accounting standards issued by the International Accounting Standards Board ("IASB") and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body.

The interim consolidated condensed financial statements presented herein were approved by the Board of Directors of CEMG on 26 September 2018. The condensed financial statements are presented in Euro rounded to the nearest thousand.

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

The consolidated condensed financial statements of the Group for the six-month period ended at 30 June 2018 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. The condensed financial statements for the six-month period ended at 30 June 2018 do not include all the information required to be disclosed in the annual financial statements.

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

The accounting policies presented in this note were applied consistently to all entities of the Group and are consistent with those used in the preparation of the financial statements of the previous period, except for the changes arising from the adoption of IFRS 9 - Financial Instruments and IFRS 15 – Revenue from contracts with customers. IFRS 9 replaces IAS 39 Financial instruments – Recognition and Measurement and establishes new rules for the accounting of financial instruments introducing significant modifications mainly regarding impairment requirements. Requirements introduced by IFRS 9 are, in general, applied retrospectively through the restatement of the opening balance up to the initial application date.

The Group benefit from the exception which allows that comparative information of previous periods may not be restated if related to modifications in classification and measurement (including impairment). Differences in financial assets and liabilities recorded in the balance sheet as a result from the application of IFRS 9 where recognised in Reserves and Retained Earnings as of 1 January 2018.

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 financial assets at fair value through other comprehensive income, except those for which a reliable measure of fair value is not available. Financial assets and liabilities that are classified under hedge accounting are stated at fair value in respect of the risk that is being hedged.

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

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

b) Basis of consolidation

The consolidated financial statements now presented reflect the assets, liabilities, profits and losses of CEMG and its subsidiaries ("Group"), and the results attributable to the Group by its financial investments in associated companies, for the periods ended at 30 June 2018 and 2017.

Investments in subsidiaries

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

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

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

Investments in associates

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

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

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

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

Goodwill – Differences arising from consolidation

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

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

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

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

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

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

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

Acquisition and dilution of non-controlling interests

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

Loss of control

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

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

Investments in foreign subsidiaries and associates

The financial statements of the foreign subsidiaries and associates of the Group are prepared in their functional currency, defined as the currency of the primary economic environment in which they operate or the currency in which the subsidiaries obtain their income or finance their activity. In the consolidation process, assets and liabilities, including goodwill, of foreign subsidiaries not considered as functional currency of a hyperinflationary economy, are converted into euro at the official exchange rate at the balance sheet date.

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

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

As at 31 December 2017, for Angola, the inflation rate accumulated in the past three years is close to or above 100%, depending on the index used, and there is also the prospect that it will continue to cumulatively exceed 100% in 2018. This is an objective quantitative condition in addition to the existence of other conditions set forth in IAS 29, which means that the functional currency of Finibanco Angola, S.A.'s financial statements as of 31 December 2017 corresponds to the currency of a hyperinflationary economy. As at 30 june 2018, since the conditions observed as at 31 december 2017 are still present, the functional currency of Finibanco Angola, S.A. is still considered as corresponding to a hyperinflationary economy (see note 63).

Regarding the investments in foreign operations that are consolidated in the Group accounts under the full consolidation and equity methods, for exchange differences between the conversion to Euros of the opening net assets at the beginning of the year and their value in Euros at the exchange rate ruling at the balance sheet date, for consolidated accounts, are charged against consolidated reserves – exchange differences. Exchange differences resulting from hedging instruments related with investments in foreign currency are booked in reserves resulting from those investments. Whenever the hedge is not fully effective, the ineffective portion is accounted in the income statement.

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

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

Transactions eliminated on consolidation

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

c) Loans and advances to customers

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

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

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

Impairment

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

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

IFRS 9 establishes a new asset impairment model based on "expected credit losses", which replaces the "incurred loss" model followed in IAS 39, which considers the expected losses throughout the life of financial instruments. Thus, macroeconomic factors are considered when determining ECL, whose changes have impact in expected losses.

The new impairment model is applicable to the following instruments of CEMG, which are not measured at fair value through profit or loss:

- Financial assets classified as debt instruments;
- Commitments and financial guarantees issued.

Under IFRS 9 no impairment is recognised in equity instruments.

Instruments that are subject to impairment calculations are divided in three stages considering its credit risk level, as follows:

- Stage 1: no significant increase in credit risk since its initial recognition. In this case, impairment losses will correspond to expected credit losses resulting from default events that may occur within 12 months after the reporting date;

- Stage 2: instruments in which there is a significant increase in credit risk since its initial recognition, however no objective evidence of impairment exists. In this case, impairment losses will correspond to expected credit losses resulting from default events that may occur over the expected residual life of the instrument;

- Stage 3: instruments for which there is objective evidence of impairment losses as a consequence of events that resulted in losses. In this case, impairment losses will correspond to expected credit losses over the expected residual life of the instrument.

The calculation of impairment losses in accordance with IFRS 9 is complex and requires decisions from Management, estimates and assumptions, particularly in the following areas:

- Assessment of the existence of a significant increase in credit risk since the initial recognition; and
- Incorporation of forward-looking information in ECL calculation.

ECLs Calculation

ECL correspond to unbiased weighted estimates of credit losses that will be determined as follows:

- Financial assets without signs of impairment at the reporting date: the actual value of the difference between the contractual cash flows and the cash flows that CEMG expects to receive;
- Financial assets with signs of impairment at the reporting date: difference between the gross book value and the actual value of the estimated cash flows;
- Unused credit commitments: the actual value of the difference between the contractual cash flows that would result if the commitment is used and the cash flows that CEMG expects to receive;
- Financial guarantees: the actual value of expected reimbursement payments deducted from the amounts that CEMG expects to recover.

IFRS 9 defines financial assets with signs of impairment in a similar way as IAS 39 defined impaired financial assets.

Definition of default

Under IFRS 9, CEMG will consider that its financial assets are in default by applying the same definition used in the regulatory view.

Significant increase in credit risk

Under IFRS 9, in order to determine if a significant increase in credit risk has occurred (risk of default) since the financial instrument´s initial recognition, CEMG considers as relevant information all the information available and without costs and/or excessive effort, including either quantitative and qualitative information or an analysis based in CEMG´s history, expert judgment.

Under IFRS 9, the identification of a significant increase in credit risk is performed by comparing:

- The remaining PD lifetime at the reporting date, and
- The remaining PD lifetime at this moment, that has been estimated at the initial moment of the exposure´s recognition.

CEMG identifies the occurrence of a significant increase in credit risk through the comparison of the actual 12 months PD and the 12 months PD estimated at the contract's inception, as a proxy for the comparison between the actual remaining PD lifetime and the remaining PD lifetime calculated at the contract's inception.

When evaluating the significant increase in credit risk, CEMG considers as a backstop the existence of more than 30 days of delay, amongst others.

Degrees of credit risk

In accordance with the current management of CEMG´s credit risk, each customer and consequently its exposures are classified with a degree of risk from its masterscale.

CEMG uses this degrees of risk as a primary factor for the identification of a significant increase in credit risk, in accordance with IFRS 9.

Inputs for the measurement of ECL

The main inputs used for measuring ECLs in a collective basis include the following parameters:

- Probability of Default – PD;
- Loss Given Default – LGD; and
- Exposure at Default – EAD.

These parameters are obtained through internal statistic models and other relevant historical data considering the existing regulatory models adjusted in order to reflect the forward-looking information.

The PD are estimated based on a certain historical period and are calculated using statistical models. These models are based in internal data, including qualitative and quantitative factors. If a change in the degree of risk of the counterparty or the exposure occurs, the estimate of the related PD is also changed.

The degrees of risk are highly important for the determination of the PDs for each exposure. CEMG collects default and performance indicators regarding its credit risk exposures through analysis by type of customers and type of product.

LGD is the magnitude of the loss that is expected to occur if the exposure enters in default. CEMG estimates LGD´s parameters based on historical recovery rates after the counterparties entry into default. The LGD´s models considers existing collaterals and time of default as well as recovery costs. In case of contracts collaterised by real estate, LTV ratios (loan to value) are an extremely important parameter in the determination of the LGD.

The EAD represents the expected exposure if the exposure and/or customer entry into default. CEMG obtains the EAD values from the counterparty´s current exposure and potential changes to its current value in accordance with the contractual conditions, including amortization and prepayments. For commitments and financial guarantees, the value of EAD includes both the amount of credit used and the expectation of the future potential value that may be used in accordance with the contract.

As described above, except for the financial assets that consider a 12month PD as they do not present a significant increase in credit risk, CEMG calculates the ECL considering the risk of default during the maximum contractual maturity period of the contract or, in certain specific situations, based on the behavior maturity.

Forward-looking information

Under IFRS 9, CEMG includes forward looking information both in its assessment of the significant increase in credit risk and in the measurement of the ECL, using an external entity for the acquisition of relevant macroeconomic variables. This approach represents a forecast of what is more likely to occur and will be in line with other data used by CEMG for other purposes, such a strategic planning and budgeting.

Write-offs policy

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

d) Financial instruments

(i) Classification, initial recognition and subsequent measurement

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

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

1a) Financial assets held for trading

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

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

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

b) Financial assets, not for trading, mandatorily at fair value through profit or loss

In this category are included Financial Instruments managed in a fair value basis, not for trading, or debt instruments whose cash flows do not comply with the criteria of solely reimbursement of principal and payment of interests over the outstanding principal ("SPPI – *Solely Payments of Principal and Interest").*

At inception, an entity may irrevocably recognise a financial asset measured at fair value through profit or loss if it eliminates or significantly reduces an inconsistency in measurement or recognition (sometimes referred to as "accounting mismatch") that otherwise would result in the measurement of financial assets and liabilities or in the recognition of gains and losses from them, in different basis.

However, at inception, IFRS 9 allows that an entity makes an irrevocably selection (instrument by instrument) in order to present as comprehensive income the subsequent fair value changes from an investment in an equity instrument that meets the definition criteria of IFRS 9. This option only applies to instruments not for trading nor the contingent retribution recognised by an acquirer in a business combination to which IFRS 3 applies.

c) 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 and deposits from customers which contain embedded derivatives or with hedge derivatives associated.

The changes in fair value attributable to changes in the credit risk of these liabilities was recognised in the income statement in 2017, under Net gains / (losses) arising from assets and liabilities at fair value through profit or loss in accordance with IAS 39. According to IFRS 9, this fair value changes are recognised in other comprehensive income, where the amount recognised in other comprehensive income in each year will be variable. The accumulated amount recognised in other comprehensive income will be nil if these liabilities are reimbursed at maturity date.

The designation of other financial assets and liabilities at fair value through profit and loss (Fair Value Option) is performed whenever at least one of the following requirements is fulfilled:

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

Considering that the transactions performed by CEMG in the normal course of business are fulfilled at market prices, the financial assets and liabilities at fair value through profit or loss are initially accounted at their fair value, with the expenses or income related to the transactions being recognised in profit and loss in the initial moment and subsequent fair value changes under IFRS 9 according to the following:

- the amount related to the fair value change attributable to changes in the credit risk of the liability is presented in Other comprehensive income; and
- the remaining amount of the fair value change is presented in the income statement.

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 accrual of interest from derivatives associated to financial instruments classified in this category.

2) Financial assets at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met and if is not designated at fair value through profit or loss by option (use of Fair value option):

- the financial asset is held within a business model whose objective is to both collect contractual cash flows and the sale of that financial asset; and
- the contractual cash flows occur on specified dates and correspond solely to payments of principal and interest on the principal amount outstanding (SPPI).

Financial assets held with the purpose of being maintained by CEMG, namely bonds, treasury bills or shares, are classified as at fair value through other comprehensive income, except if they are classified in another category of financial assets. The financial assets at fair value through other comprehensive income 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".

i) Debt instruments

On the sale, or if impairment is determined, the accumulated gains or losses recognised in fair value reserves are recognised in the income statement under "Net gains / (losses) arising from assets and liabilities at fair value through other comprehensive income" or under "Impairment losses from other financial assets", respectively. Interest income from debt instruments is recognised in Net interest income based on the effective interest rate, including a premium or discount when applicable.

ii) Equity instruments

In accordance with IFRS 9, no impairment is recognised in equity instruments recorded at fair value through other comprehensive income, being the corresponding accumulated gains or losses recognised in the fair value reserve transferred into Retained earnings when its sale occurs.

In the initial recognition of an equity instrument that is not held for trading, CEMG may irrevocably choose to classify it as at fair value through other comprehensive income. This option is exercised on a case-by-case basis, instrument by instrument. This option is only available for financial instruments that comply with the definition of equity instruments provided for in IAS 32, and cannot be used for financial instruments whose classification as an equity instrument under the scope of the issuer is made under the exceptions provided for in paragraphs 16A and 16D of IAS 32.

Dividends are recognised in the income statement when the right to receive the dividends is attributed.

3) Other financial assets at amortised cost

A financial asset is measured at amortised cost if both of the following criteria are met and if is not designated at fair value through profit or loss by option (use of Fair value option):

- the financial asset is held within a business model whose main objective is to hold financial assets in order to collect contractual cash flows; and
- the contratual cash flows occur in specified dates and correspond solely to payments of principal and interest on the principal amount outstanding (SPPI). In this category are included non-derivative financial assets with fixed or determinable payments and fixed maturity, for which CEMG has the intention and capacity to maintain until the maturity of the assets and that were not included in any other category of financial assets. These financial assets are initially recognised at fair value and subsequently measured at amortised cost. The interest is calculated using the effective interest rate method and recognised in Net interest income. The impairment losses are recognised in profit and loss when identified.

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 related transaction costs are included in the effective interest rate for these financial instruments. The interests accounted based on the effective interest rate method are recognised in Net interest income.

Impairment losses are recognised in profit and loss when identified.

5) Other financial liabilities

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

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

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

(ii) Impairment

At each balance sheet date, an assessment over the impairment of debt instruments classified at amortised cost or at fair value through other comprehensive income is made in accordance with the ECL methodology.

(iii) Embedded derivatives

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

e) Hedge accounting

(i) Hedge accounting

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

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

- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is valuable in a continuous basis and highly effective throughout the reporting year; and

- for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect profit or loss.

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

(ii) Fair value hedge

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

(iii) Hedge effectiveness

For a hedge relationship to be classified as such according to IFRS 9, effectiveness has to be demonstrated. As such, the Group performs prospective tests at the beginning date of the initial hedge, if applicable and retrospective tests in order to demonstrate at each reporting period the effectiveness of the hedging relationships, showing that the changes in the fair value of the hedging instrument are hedged by the changes in the hedged item for the risk being covered. Any ineffectiveness is recognised immediately in profit and loss when incurred.

f) Reclassification between financial instruments categories

Reclassifications of financial assets can only occur when the entity changes its business model used in the management of financial assets, which it is expected to be very unusual. In this case, all financial assets affected must be reclassified. The reclassification must be applied prospectively from the date of reclassification, and any gains, losses (including gains or losses from impairment) or interest previously recognised should not be restated. IFRS 9 does not allow the reclassification of investments in equity instruments measured at fair value through other comprehensive income or when then fair value option was exercised for financial assets and liabilities. An entity should not reclassify any financial liability.

g) Derecognition

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

The Group derecognises financial liabilities when these are 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 customers or credit institutions. 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 interest 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 are not recognised on the balance sheet. The amounts paid are recognised in loans and advances to customers or loans and advances to credit institutions. The receivables are collateralised by the related securities. Securities sold through repurchase agreements continue to be recognised in the balance sheet and are revaluated in accordance with the applicable accounting policy. The amounts received from the proceeds of these securities are considered as deposits from customers and deposits from credit institutions.

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

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

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

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

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

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

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

The fair value is based in market values being determined based on the expected selling price estimated through periodic valuations performed by independent experts registered with Portuguese Securities Market Commission (CMVM).

The subsequent measurement of these assets is determined based on the lower of the carrying amount and the corresponding fair value net of selling costs, not subject to amortisation. In case of unrealised losses, these should be recognised as impairment losses against results for the period.

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 at fair value through other comprehensive income are calculated using the effective interest rate method and 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.

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 (Net gains/(losses) arising from financial assets at fair value through other comprehensive income, Net gains / (losses) arising from assets and liabilities at fair value through profit or loss and Net gains/ (losses) arising from other financial assets at amortised cost)

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 debt instruments of financial assets at fair value through other comprehensive income and of other financial assets at amortised cost. The changes in fair value of hedging derivatives and hedged items, when fair value hedge is applicable, are also recognised in this caption.

n) Fee and commission income

Income from fees and commissions is recognised in accordance with the following criteria:

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

o) Fiduciary activities

Assets held in the scope of fiduciary activities are not recognised in the Group's 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, plant and equipment

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

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

	Number of years
Building for own use	50
Expenditure on rented buildings	10
Other property and equipment	4 to 10

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

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

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

q) Investment property

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

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

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

r) Intangible assets

Software

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

s) Cash and cash equivalents

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

Cash and cash equivalents exclude restricted balances with Central Banks.

t) Offsetting

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

u) Foreign currency transactions

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

v) Post-employment and long-term benefits

Defined benefit plans

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

Arising from the signing of the Collective Labor Agreement (ACT) and subsequent amendments, the Group set 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 CEMG, and 3% to employees, replacing the Caixa de Abono de Familia dos Empregados Bancários (CAFEB) extinguished by the same Decree-Law. As a result, the pension rights of the active employees started to be covered by the terms defined by Social Security System, considering the period of service rendered since 1 January 2011 until the retirement age. The difference to the minimum pension guaranteed is supported by the banks, in accordance with the terms defined in Collective Labor Agreement ("Acordo Colectivo de Trabalho").

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

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

In December 2016, CEMG issued a new Collective Labor Agreement/ACT, introducing a number of changes in the employment benefits, such as the change in the retirement age, in line with the general Social Security system, and the attribution of an end-of-career award which replaced the extinguished old-age bonus, as disclosed in Note 50.

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

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

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

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

The income / cost of interests with the pension plan is calculated, 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 costs of early retirements correspond to the increase in liabilities due to the employee's retirement before reaching retirement age.

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

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

Defined contribution plan

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

Bonus to employees and to the Board of Directors

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

w) Income taxes

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

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

Income tax recognised in profit or loss comprises current and deferred tax effects. Income tax is recognised in the income statement, except to the extent that it relates to items recognised directly to reserves in which case it is recognised in reserves. Deferred taxes arising from the revaluation of financial assets at fair value through other comprehensive income and cash flow hedging derivatives are subsequently recognised in profit and loss in the moment the results that originated the deferred taxes are recognised.

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

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

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

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

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

In 2018, CEMG became the dominant company of the Group subject to Income tax under the Special Taxation Regime of Group Companies (*Regime Especial de Tributação dos Grupos de Sociedades*, hereinandafter "RETGS"), whose previously dominant company was Montepio Holding, S.G.P.S., S.A.

Thus, the Group considers that the effects arising from the calculation of the taxable income in accordance with RETGS are incorporated in the calculation of the current tax for the period of each one of the entities, including the effect in the current tax for the period by using a tax loss generated by another group entity.

x) Segmental reporting

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

The Group controls its business activity through the following main segments: (i) Operational: Retail Banking, Corporate Banking and Other Segments, and (ii) Geographic: Domestic Area and International Area (Angola, Cape Verde and Mozambique).

y) Provisions

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

The provision measurement is according with the principles defined in IAS 37 in respect of the best estimate of expected cost, the more likely result for the ongoing processes, considering the risk and uncertainties related to the process. In cases where the discount effect is material, provisions correspond to actual value of the expected future payments, discounted by a rate that considers the associated risk of the obligation.

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

z) Insurance and reinsurance brokerage services

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

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

Commission received for insurance brokerage services refers to:

- commission that includes a fixed and a variable component. The fixed component is calculated by applying a predetermined rate over the amounts of subscriptions made through CEMG and a variable component calculated based on predetermined criteria, total annual fees being the sum of the fees calculated monthly;
- 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 accrual basis. Fees paid in a different period from that to which it relates are recorded as a receivable in the caption "Other assets" by corresponding entry to "Income from services and commissions - for insurance brokerage services".

aa) Accounting estimates and judgments in applying accounting policies

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

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

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

Impairment of financial assets at fair value through other comprehensive income

The Group determines that financial assets at fair value through other comprehensive income 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.

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

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

Impairment losses on loans and advances to customers

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

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

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

Fair value of derivative financial instruments

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

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

Entities included in the consolidation perimeter

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

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

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

Income taxes

The Group is subject to the payment of income taxes in several jurisdictions.

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

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

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

Pensions and other post employment and long-term benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections and others, such as discount rate, pensions' growth rate and wages and mortality table, estimated return on investments, and other factors that could impact the cost and liability of the pension plan.

Changes in these assumptions could materially affect these values.

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

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

Provisions

The measurement of provisions considers the principles set out in IAS 37 regarding the best estimate of the expected cost, the most likely outcome of ongoing litigations and considering the risks and uncertainties of the process. Different assumptions and judgments would have an impact in determining the amount of provisions and consequently on the financial statements.

2 Net interest income and net gains arising from assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income

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

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Net interest income	134 238	143 307
Net gains/ (losses) arising from assets and liabilities at fair value through profit or loss	1 956	3 973
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	4 001	21 545
	140 195	168 825

3 Net interest income

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Interest and similar income		
Interest from loans and advances to customers	167 533	186 538
Interest from deposits and other investments	13 220	2 384
Interest from financial assets held for trading	8 101	34 875
Interest from financial assets at fair value through other comprehensive income	5 076	17 626
Interest from hedging derivatives	3 254	-
Other financial assets at amortised cost	158	12 504
Other interest and similar income	21	243
	197 363	254 170
Interest and similar expense		
Interest from deposits of customers	32 872	43 054
Interest from securities issued	10 575	22 067
Interest from loans of central banks and other financial institutions	10 544	4 758
Interest from financial liabilities held for trading	6 348	35 540
Interest from hedging derivatives	1 822	-
Interest from subordinated liabilities	959	1 599
Other interest and similar expense	5	3 845
	63 125	110 863
Net interest income	134 238	143 307

The balance Interest and similar income – Loans and advances to customers includes, respectively, the amount of Euro 10,549 thousand and the amount of Euro 4,180 thousand (30 June 2017: Euro 10,625 thousand and Euro 3,321 thousand), related to commissions and other gains/losses which are accounted for under the effective interest rate method, as referred in the accounting policy described in note 1 l).

In addition, the balance Interest and similar income - Loans and advances to customers also includes the amount of Euro 131 thousand referring to loans that do not meet the SPPI criteria and which are recorded at fair value through profit or loss.

As at 30 June 2018, the balance Interest and similar income includes the amount of Euro 39,223 thousand related to customers classified under stages 2 and 3. As of 30 June 2017, this balance includes the amount of Euro 31,979 thousand related to customers with signs of impairment.

4 Dividends from equity instruments

This balance includes dividends and income from investment fund units received during the period, relating to financial assets at fair value through other comprehensive income.

5 Net fee and commission income

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Fee and commission income		
Banking services	50 928	48 257
Transactions on behalf of third parties	14 610	13 613
Insurance brokerage services	3 458	2 800
Guarantees provided	2 902	2 833
Commitments to third parties	828	861
Other fee and commission income	322	4 490
	73 048	72 854
Fee and commission expense		
Bank services rendered by third parties	9 966	9 401
Transactions with securities	631	265
Other fee and commission expense	5 052	7 970
	15 649	17 636
Net fee and commission income	57 399	55 218

As at 30 June 2018 and 2017, the balance Insurance brokerage services are presented as follows:

(Thousands of Euro)

	Jun 2018	Jun 2017
Life insurance	2 021	1 575
Non-life insurance	1 437	1 225
	3 458	2 800

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 assets and liabilities at fair value through profit or loss

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018			Jun 2017		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Securities						
Bonds and other fixed income securities						
Issued by public entities	1 470	1 779	(309)	9 307	9 146	161
Issued by other entities	2 031	854	1 177	46 532	44 582	1 950
Shares	1 318	1 426	(108)	7 162	6 662	500
Investment units	150	387	(237)	560	431	129
	4 969	4 446	523	63 561	60 821	2 740
Derivative financial instruments						
Interest rate contracts	34 594	34 602	(8)	47 065	44 207	2 858
Exchange rate contracts	15 765	16 147	(382)	17 556	17 803	(247)
Future contracts	3 086	3 222	(136)	2 033	2 367	(334)
Option contracts	831	632	199	1 549	1 350	199
Commodities contracts	447	-	447	-	-	-
	54 723	54 603	120	68 203	65 727	2 476
Financial assets not held for trading at fair value through profit or loss						
Investment units	2 399	1 453	946	-	-	-
Loans and advances to customers	119	-	119	-	-	-
	2 518	1 453	1 065	-	-	-
Other financial assets at fair value through profit or loss						
Loans and advances to customers	13	176	(163)	44	303	(259)
	13	176	(163)	44	303	(259)
Hedging derivatives						
Interest rate contracts	33 686	29 509	4 177	-	-	-
	33 686	29 509	4 177	-	-	-
Financial liabilities at fair value through profit or loss						
Deposits from credit institutions	-	-	-	3	-	3
Deposits from customers	9	-	9	19	44	(25)
Debt securities issued	58	55	3	275	401	(126)
Other subordinated debt	-	-	-	-	836	(836)
	67	55	12	297	1 281	(984)
Hedged financial liabilities						
Liabilities represented by securities	5 835	9 613	(3,778)	-	-	-
	5 835	9 613	(3,778)	-	-	-
	101 811	99 855	1 956	132 105	128 132	3 973

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

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

7 Net gains/ (losses) arising from financial assets at fair value through other comprehensive income

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018			Jun 2017		
	Gains	Losses	Total	Gains	Losses	Total
Fixed income securities						
Bonds						
Issued by public entities	10 693	6 905	3 788	18 836	2 750	16 086
Issued by other entities	213	-	213	3 705	207	3 498
Shares	-	-	-	352	19	333
Other variable income securities	-	-	-	2 407	779	1 628
	10 906	6 905	4 001	25 300	3 755	21 545

As at 30 June 2018, the balance Fixed income securities – Bonds – Issued by public entities includes the amount of Euro 6,017 thousand related with capital gains generated with the sale of Portuguese public debt bonds and the amount of Euro 2,101 thousand related with capital losses related to the Spanish, Italian and Greek public debt. As at 30 June 2017, this balance includes the amount of Euro 15,833 thousand, related with capital gains generated with the sale of Portuguese public debt bonds.

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

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018			Jun 2017		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differences	21 859	22 652	(793)	30 707	29 628	1 079

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 financial assets

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Sale of non-current assets held for sale	6 444	1 511
Sale of other assets	(945)	14 860
Sale of loans and advances to customers	-	2 783
	5 499	19 154

As at 30 June 2017, the balance Sale of other assets includes the amount of Euro 14,375 thousand related to the gain generated on the sale of part of the portfolio of the Portuguese public debt bonds which was transferred to the portfolio of financial assets at fair value through other comprehensive income and that was previously recorded in the portfolio of other financial assets at amortised cost.

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 29.

10 Other operating income/ (expenses)

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Other operating income		
Profits arising from investment properties revaluation	5 744	12 442
Staff transfer	5 770	6 311
Profits arising from investment properties rentals	4 773	8 136
Profits arising from deposits on demand management	3 743	5 425
Reimbursement of expenses	3 567	3 717
Services rendered	2 528	2 521
Other	7 424	9 748
	33 549	48 300
Other operating expense		
Contributions:		
Banking sector	11 080	11 875
Ex-ante for the Single Resolution Fund	2 691	9 702
Resolution Fund	8 113	3 612
Deposit Guarantee Fund	22	13
Revaluation losses in investment properties	4 476	9 768
Servicing and credit recovery expenses	2 146	572
Taxes	1 746	2 629
Donations and membership	342	431
Issuance costs	308	2 580
Other	12 182	10 582
	43 106	51 764
Other net operating income/ (expenses)	(9 557)	(3 464)

As at 30 June 2018, the balance Other operating income – Staff transfer includes the amount of Euro 5,714 thousand (30 June 2017: Euro 5,959 thousand) referring to the staff transfers from CEMG to MGAM and to entities under its control.

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

The balance Ex-ante Contribution to the Resolution Fund corresponds to the annual contribution, in accordance with paragraph 1, Article 153-H, of the Legal Framework of Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras* – RGICSF) which transposed the Articles 100 (4) (a) and 103 (1) of the Directive 2015/59/EU of the European Parliament and of the Council of 15 May 2014, and Article 20 of the Delegated Regulation (EU) 2015/63 of 21 October 2014

(Delegated Regulation) and with the conditions provided by the Implementing Regulation 2015/81 of the Council from 19 December 2014 (Implementing Regulation).

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

Additionally, the Single Resolution Council ("SRB"), in close cooperation with Bank of Portugal, as a national resolution authority, is responsible for the calculation of these contributions on an annual basis, according to and for the purposes of paragraph 2, Article 70, of Regulation MUR. In 2017 and in the first half of 2018, CEMG decided to use irrevocable payment commitments in the proportion of 15% of the contribution amount, in accordance with paragraph 3, Article 8, of the Implementing Regulation. On this basis, CEMG, as at 30 June 2018, opted for the settlement of Euro 4,886 thousand (30 June 2017: Euro 3,475 thousand) in the form of irrevocable payment commitments booked in the caption Loans and advances to credit institutions abroad - term deposits, as described in notes 21 and 59. It should be noted that only cash collateral is accepted as collateral for irrevocable payment commitments.

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

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

11 Staff costs

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Remunerations	63 303	59 713
Mandatory social security charges	15 856	15 059
Charges with the Pension Fund	3 346	1 144
Other staff costs	1 713	8 752
	84 218	84 668

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

In the first half of 2018, the amount of compensation paid to the previous Executive Board of Directors and to the Supervisory Board, which in both cases were fulfilling their function until 20 March 2018, amounted to Euro 1,148 thousand and Euro 455 thousand, respectively.

As at 30 June 2018, the Management personnel did not received any retribution of variable remuneration.

First-line managers are considered as Other key management personnel.

The costs with salaries and other benefits attributed to the Board of Directors, Audit Committee, General Meeting Board, previous Executive Board of Directors, previous General and Supervisory Board and Other key management personnel, in the first half of 2018, are presented as follows:

(Thousands of Euro)

	Board of Directors	Audit Committee	General Meeting Board	Board of Directors of CEMG subsidiaries	Previous Executive Board of Directors	Previous General and Supervisory Board	Other key management personnel	Total
Remunerations and other short-term benefits	484	72	7	226	528	284	2 033	3 634
Pension costs	-	-	-	-	7	-	67	74
Costs with health-care benefits (SAMS)	2	-	-	1	10	-	37	50
Social Security charges	105	13	2	38	118	51	451	778
	591	85	9	265	663	335	2 588	4 536

As at 30 June 2018, the remuneration of the General and Supervisory Board amounted to Euro 335 thousand (30 June 2017: Euro 570 thousand).

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

(Thousands of Euro)

	Executive Board of Directors	General and Supervisory Board and General Meeting Board	Other key management personnel	Total
Remunerations and other-short term benefits	1 500	615	2 413	4 528
Pension costs	15	-	130	145
Costs with health-care benefits (SAMS)	8	-	45	53
Social Security charges	317	113	537	967
	1 840	728	3 125	5 693

As at 30 June 2018, loans granted to the Board of Directors of CEMG amounted to Euro 345 thousand, to the Board of Directors of CEMG's subsidiaries reached Euro 1,902 thousand (31 December 2017: Euro 1,108 thousand), to the Audit Committee amounted to Euro 1 thousand and to the Other key management personnel amounted to Euro 4,071 thousand (31 December 2017: Euro 3,042 thousand). Loans granted to the Executive Board of Directors of CEMG amounted to Euro 132 thousand (31 December 2017: Euro 134 thousand) and to the General and Supervisory Board of CEMG amounted to Euro 2,034 thousand (31 December 2017: Euro 2,323 thousand), as referred in note 52.

12 General and administrative expenses

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Rental costs	4 655	4 806
Specialised services		
Other specialised services	9 654	10 617
IT services	4 236	3 735
Independent work	1 037	1 479
Maintenance and related services	3 258	3 877
Communication costs	2 758	2 896
Water, energy and fuel	2 160	2 256
Advertising costs	1 569	1 784
Transportation	1 280	1 258
Consumables	711	873
Insurance	646	1 137
Travel, hotel and representation costs	546	519
Training	269	56
Other general and administrative expenses	3 602	4 772
	36 381	40 065

The Rental costs balance includes the amount of Euro 3,683 thousand (30 June 2017: Euro 3,844 thousand) related to rents paid regarding buildings used by the Group as lessee.

The balance Other administrative expenses includes the amount of Euro 1,648 thousand (30 June 2017: 1,833 thousand) related to services rendered by Montepio Gestão de Activos Imobiliários, A.C.E.

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

(Thousands of Euro)

	Jun 2018	Jun 2017
Below 1 year	1 313	1 552
1 to 5 years	2 730	417
	4 043	1 969

13 Depreciation and amortisation

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Intangible assets		
Software	6 634	7 035
Property and equipment		
Land and building		
For own service	2 373	2 367
Leasehold improvements in rented buildings	609	842
Equipment		
IT equipment	1 474	1 283
Interior installations	645	523
Furniture	189	204
Security equipment	103	126
Transportation	60	70
Machinery and tools	5	6
Operating leases	6	21
Other property and equipment	1	2
	5 465	5 444
	12 099	12 479

14 Loans impairment

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Other loans and advances to credit institutions		
Charge for the period	1 779	-
Reversal for the period	(1 859)	-
	(80)	-
Loans and advances to customers		
Charge for the period net of reversals	48 848	66 106
Recovery of loans and interest charged-off	(2 926)	(2 561)
	45 922	63 545
	45 842	63 545

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

15 Other financial assets impairment

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Impairment for financial assets		
at fair value through other comprehensive income		
Charge for the period net of reversals	1 233	4 905
Impairment of other financial assets at amortised cost		
Charge for the period net of reversals	1 364	-
	2 597	4 905

As at 30 June 2017, the balance Impairment for financial assets at fair value through other comprehensive income includes a charge for the period in the amount of Euro 5,227 thousand that corresponds to impairment losses recognised for investment units in a Fund specialised in the recovery of loans, acquired under the sale of loans and advances to customers. In accordance with the classification criteria specified by IFRS 9, the investment units in these funds are classified, as at 1 January 2018, as Financial assets not held for trading mandatorily at fair value through profit or loss.

16 Other assets impairment

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Impairment for non-current assets held for sale		
Charge for the period	9 572	9 136
Reversal for the period	(1 132)	(955)
	8 440	8 181
Impairment for other assets		
Charge for the period	2 792	6 801
Reversal for the period	(1 868)	(4 807)
	924	1 994
	9 364	10 175

17 Other provisions

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Provisions for guarantees and commitments		
Charge for the period	5 836	8 374
Reversal for the period	(5 060)	(6 303)
	776	2 071
Provisions and other risks and charges		
Charge for the period	1 146	10 057
Reversal for the period	(214)	(1 607)
	932	8 450
	1 708	10 521

18 Share of profit of associates under the equity method

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

(Thousands of Euro)

	Jun 2018	Jun 2017
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	(104)	(90)

19 Cash and deposits at central banks

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Dec 2017
Cash	157 151	178 927
Deposits at central banks		
Bank of Portugal	1 563 843	1 554 701
	1 720 994	1 733 628

As at 30 June 2018, the balance within Bank of Portugal in the amount of Euro 94,832 thousand (31 December 2017: Euro 92,448 thousand), to satisfy the legal requirements to maintain a minimum cash reserve, calculated based on the value of deposits and other effective liabilities. The cash reserve requirements, according with the European Central Bank System for Euro Zone, establishes the maintenance of a deposit with the Central Bank equivalent to 1% of the average value of deposits and other liabilities, during each reserve requirements period.

As at 30 June 2018 and during 2017, deposits from Bank of Portugal were not remunerated.

20 Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Credit institutions in Portugal	1 568	1 364
Credit institutions abroad	16 983	9 639
Amounts due for collection	35 467	39 202
	54 018	50 205

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

21 Other loans and advances to credit institutions

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Loans and advances to credit institutions in Portugal		
Term deposits	1 987	1 986
Repos	76	-
Other loans and advances	10 579	7 088
	12 642	9 074
Loans and advances to credit institutions abroad		
Short-term deposits	30 000	30 000
CSA's	28 103	40 226
Term deposits	9 221	7 659
Repos	8 068	3 405
Subordinated deposits	200	130
Other loans and advances	229 824	221 709
	305 416	303 129
Impairment for credit risks over investments in credit institutions	(855)	-
	317 203	312 203

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

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

On this basis, and within operations of derivative financial instruments with institutional counterparties, and as defined in the respective contracts, the Group holds an amount of Euro 28,103 thousand (31 December 2017: Euro 40,226 thousand) related to deposits in credit institutions given as collateral for the referred operations.

The caption Loans and advances to credit institutions abroad – Term deposits includes the amount of Euro 4,886 thousand (31 December 2017: Euro 3,475 thousand) related to a deposit made and accepted as collateral within the Ex-ante Contribution to the Resolution Fund, as described in notes 10 and 59.

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

Impairment movements for credit risks on Other loans and advances to credit institutions are analysed as follows:

(Thousands of Euro)

	Jun 2018	Jun 2017
Balance on 1 January	-	-
IFRS 9 transition adjustment	935	
Charge for the period net of reversals	(80)	-
Balance on 30 June	855	-

22 Loans and advances to customers

This balance is analysed as follows:

	(Thousands of Euro)	
	Jun 2018	**Dec 2017**
Corporate		
Loans not represented by securities		
Loans	2 795 181	2 810 479
Commercial lines of credits	482 476	477 745
Finance lease	453 074	464 640
Discounted bills	73 191	71 695
Factoring	157 747	144 199
Overdrafts	9 146	2 543
Other loans	694 204	708 465
Loans represented by securities		
Commercial paper	258 109	252 357
Bonds	237 534	242 387
Retail		
Mortgage loans	6 400 029	6 598 927
Finance lease	64 856	66 557
Consumer credit and other loans	987 179	995 574
	12 612 726	12 835 568
Correction value of assets subject to hedge operations		
Other credits	(164)	(1)
Overdue loans and interests		
Below 90 days	89 608	81 350
Above 90 days	1 024 725	1 146 222
	1 114 333	1 227 572
	13 726 895	14 063 139
Impairment for credit risks	(1 101 065)	(1 033 821)
	12 625 830	13 029 318

As at 30 June 2018, the balance Loans and advances to customers includes de amount of Euro 2,732,796 thousand (31 December 2017: Euro 2,726,854 thousand) related to the issue of covered bonds held by the Group, as referred in note 38.

As at 30 June 2018, the credit, guarantees and irrevocable credit lines (excluding interbank and money market transactions) that CEMG granted to the holder of institutional capital and to its subsidiaries was Euro 76,015 thousand (31 December 2017: Euro 35,591 thousand), as referred in note 52. The conclusion of businesses between CEMG and the holders of institutional capital or individual or collective persons related to them, according to Article 20 of the Portuguese Securities Code, regardless the value, it's always submitted to deliberation and examination of the Board of Directors and the Audit Committee, as proposed by the commercial network, supported by analysis and opinion about the compliance with the limit established in Article 109 of the General Law on Credit Institutions and Financial Companies General Law issued by the Risk Division. The impairment amount for credit risks related with these contracts amounts to Euro 252 thousand as at 30 June 2018 (31 December 2017: Euro 335 thousand).

During 2017, CEMG performed a sale operation of two customer loan portfolios which were in default. The capital gains amounted to: (i) Euro 2,783 thousand related to the sale operation of a customer loan portfolio that was in default recorded off-balance sheet, with a nominal value of Euro 215,288 thousand, as described in note 9 and (ii) Euro 13,424 thousand related to the sale operation of a customer loan portfolio that was in default recorded on and off-balance sheet, with a nominal value of Euro 475,136 thousand, as described in note 23.

It should be note that the latter disposed portfolio included other rights not recorded either on or off-balance sheet in the amount of Euro 105,590 thousand. In addition, and within this transaction, CEMG acquired all the Class A notes of the vehicle that purchased this portfolio and recorded the amount of Euro 121,329 thousand in the portfolio of financial assets held for trading, as mentioned in note 23.

As at 30 June 2018, the balance Loans and advances to customers included the amount of Euro 3,261,889 thousand (31 December 2017: Euro 3,623,040 thousand) related with loans object of securitisation and, in accordance with note 1 g), were not subject of derecognition, as described in note 53.

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

Loans and advances to customers include loans recorded at fair value through profit or loss in the amount of Euro 18,997 thousand (31 December 2017: Euro 24,633 thousand). The fair value adjustment amounted to Euro 164 thousand (31 December 2017: Euro 1 thousand), and the impact on income was negative in the amount of Euro 163 thousand (31 December 2017: negative in Euro 535 thousand), according to note 23.

The fair value of the loan portfolio is disclosed in note 49.

The analysis of Loans and advances to customers, by type of interest rate as at 30 June 2018 and 31 December 2017, is as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Variable interest rate contract	11 664 013	12 653 940
Fixed interest rate contract	2 062 882	1 409 199
	13 726 895	14 063 139

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

(Thousands of Euro)

	Jun 2018	Dec 2017
Asset-backed loans	739 143	820 659
Other guarantee loans	226 069	225 529
Financial leases	30 385	37 472
Secured loans	4 255	4 300
Other loans	114 481	139 612
	1 114 333	1 227 572

The analysis of loans and advances to customers, by maturity and by type of credit, as at 30 June 2018, is as follows:

(Thousands of Euro)

	Loans and advances to customers				
	Below 1 year	1 to 5 years	Above 5 years	Undetermined	Total
Asset-backed loans	191 876	617 783	8 715 632	739 143	10 264 434
Other guarantee loans	537 498	268 402	370 443	226 069	1 402 412
Financial leases	42 063	232 283	243 584	30 385	548 315
Secured loans	258 109	-	-	4 255	262 364
Loans represented by securities - Bonds	101 071	133 912	2 551	-	237 534
Other loans	307 258	104 619	485 478	114 481	1 011 836
	1 437 875	1 356 999	9 817 688	1 114 333	13 726 895

The analysis of loans and advances to customers, by maturity and by type of credit, as at 31 December 2017, is as follows:

(Thousands of Euro)

	Loans and advances to customers				
	Below 1 year	1 to 5 years	Above 5 years	Undetermined	Total
Asset-backed loans	192 197	924 891	8 463 915	820 659	10 401 662
Other guarantee loans	516 732	323 947	514 491	225 529	1 580 699
Financial leases	37 024	238 550	255 623	37 472	568 669
Secured loans	252 357	-	-	4 300	256 657
Loans represented by securities - Bonds	109 917	122 215	10 256	-	242 388
Other loans	273 113	123 620	476 719	139 612	1 013 064
	1 381 340	1 733 223	9 721 004	1 227 572	14 063 139

The balance Financial leases, by maturity as at 30 June 2018, is analysed as follows:

(Thousands of Euro)

	Financial leases			
	Below 1 year	1 to 5 years	Above 5 years	Total
Outstanding rents	70 307	234 635	137 704	442 646
Outstanding interests	(11 161)	(36 877)	(25 869)	(73 907)
Residual values	27 116	74 386	47 689	149 191
	86 262	272 144	159 524	517 930

The balance Financial leases, by maturity as at 31 December 2017, is analysed as follows:

(Thousands of Euro)

	Financial leases			
	Below 1 year	1 to 5 years	Above 5 years	Total
Outstanding rents	69 804	244 578	145 835	460 217
Outstanding interests	(11 871)	(37 819)	(26 122)	(75 812)
Residual values	23 870	73 377	49 545	146 792
	81 803	280 136	169 258	531 197

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

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

(Thousands of Euro)

	Jun 2018	Dec 2017
Corporate		
Construction / Production	230 717	267 222
Investments	417 799	490 234
Treasury	198 494	212 935
Other loans	48 798	47 514
Retail		
Mortgage loans	98 557	92 744
Consumer credit	61 773	59 444
Other loans	58 195	57 479
	1 114 333	1 227 572

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

(Thousands of Euro)

	Jun 2018	Jun 2017
Balance on 1 January	1 033 821	1 179 617
IFRS 9 transition adjustment	144 833	-
Charge for the period net of reversals		
Continuing operations	48 848	66 106
Discontinuing operations	5 042	4 072
Impairment charged-off	(126 437)	(54 134)
Transfers associated to discontinuing operations	(5 042)	(4 072)
Balance on 30 June	1 101 065	1 191 589

In compliance with the accounting policy described in note 1 l), interest on overdue loans for a period over 90 days not covered by asset-backed guarantees, 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 2018	**Jun 2017**
Asset-backed loans	715 281	712 321
Other guaranteed loans	243 603	331 895
Unsecured loans	142 181	147 373
	1 101 065	1 191 589

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

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

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

	(Thousands of Euro)	
	Jun 2018	**Jun 2017**
Asset-backed loans	47 293	9 545
Other guaranteed loans	31 192	31 816
Unsecured loans	47 952	12 773
	126 437	54 134

The total recovered loans and overdue interest, booked in the first half of 2018, amounted to Euro 2,926 thousand (30 June 2017: Euro 2,561 thousand), as described in note 14.

In addition, the loan portfolio includes loans that, towards the financial difficulties of the customer, initial conditions of the contract were amended in the amount of Euro 1,053,290 thousand (31 December 2017: Euro 1,162,359 thousand) which have an impairment of Euro 403,655 thousand (31 December 2017: Euro 390,088 thousand).

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

Regarding the particular forbearance measures, CEMG adopted the ones included in Instruction 32/2013 of the Bank of Portugal, of 31 December 2013, namely contractual amendments (lack of capital, extension of the final date, deferral of capital, etc.) and consolidation of debts in another contract, with conditions adjusted to the customer's current situation.

The restructuring operations that were performed at 30 June 2018 and during 2017 were positive and allowed to mitigate the effect of the economic and financial crisis and within a situation in which is observed some economic recovery signs, adapting the debt service to the disposable income of customers.

Additionally, the reestructured loans portfolio includes contracts that resulted in a formal restructuring with the customers and the consequent establishment of a new funding to replace the previous. The restructuring may result in a reinforcement of guarantees and / or liquidation of part of the credit and involves an extension of maturities or a different interest rate. The analysis of restructured loans, performed in the first half of 2018 and during 2017, by type of credit, is as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Corporate		
Loans not represented by securities		
Loans	47 707	109 768
Commercial lines of credit	9 694	3 787
Financial lease	6 397	9 275
Other loans	2 731	39 184
Retail		
Mortgage loans	6 381	11 448
Consumer credit and other loans	3 011	4 500
	75 920	177 962

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

Regarding restructured loans, the impairment associated to these operations amounts to Euro 20,877 thousand (31 December 2017: Euro 28,892 thousand).

The Group uses physical and financial collaterals as instruments for mitigating credit risk. The physical collaterals correspond mainly to mortgages on residential properties in the course of the mortgage and other types of mortgages on properties in other types of loans. To reflect the market value of them, these effects are reviewed regularly based on evaluations conducted by certified independent testing organizations or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are re-evaluated based on market values of their assets, when available, and certain coefficients applied depreciation to reflect its volatility.

Most of the physical collaterals are revaluated at least once a year.

23 Financial assets and liabilities held for trading

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

(Thousands of Euro)

	Jun 2018	Dec 2017
Financial assets held for trading		
Securities		
Shares	8 143	6 734
Bonds	19 398	149 622
Investment units	949	3 167
	28 490	159 523
Derivatives		
Derivative financial instruments with positive fair value	23 960	24 553
	52 450	184 076
Financial liabilities held for trading		
Securities		
Short sales	1 395	901
Derivatives		
Derivative financial instruments with negative fair value	14 144	15 270
	15 539	16 171

As at 31 December 2017, the balance Financial assets held for trading – Securities – Bonds includes the amount of Euro 121,329 thousand relating to a class A asset securitisation transaction which was acquired within a sale operation of a customer loan portfolio that was in default recorded on and off-balance sheet, with a nominal value of Euro 475,136 thousand, as described in note 22.

As at 31 December 2017, within an asset assignment performed in 2016 (loans and real estate) in the amount of Euro 288,232 thousand, CEMG acquired the right to return of a set of parameters of assigned assets, which amounted to Euro 12,000 thousand on 31 December 2016. As at 30 June 2018 and 31 December 2017, this transaction amounted to Euro 11,204 thousand and is recorded under the caption Financial instruments with positive fair value.

The balance Derivatives financial instruments with positive fair value includes, at 30 June 2018, the amount of Euro 12,027 thousand (31 December 2017: Euro 11,923 thousand) referred to instruments associated to assets or liabilities at fair value through profit and loss and to trading.

The balance Derivatives financial instruments with negative fair value includes, at 30 June 2018, the amount of Euro 2,374 thousand (31 December 2017: Euro 2,595 thousand) referred to instruments associated to assets or liabilities at fair value through profit and loss and trading.

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

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

(Thousands of Euro)

	Jun 2018			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Shares	8 143	-	-	8 143
Bonds	19 398	-		19 398
Investment units	949	-	-	949
	28 490	-	-	28 490
Derivatives				
Derivative financial instruments with positive fair value	-	23 960	-	23 960
	28 490	23 960	-	52 450
Financial liabilities held for trading				
Securities				
Short sales	1 395	-	-	1 395
Derivatives				
Derivative financial instruments with negative fair value	-	14 144	-	14 144
	1 395	14 144	-	15 539

(Thousands of Euro)

	Dec 2017			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Shares	6 734	-	-	6 734
Bonds	28 293	-	121 329	149 622
Investment units	3 167	-	-	3 167
	38 194	-	121 329	159 523
Derivatives				
Derivative financial instruments with positive fair value	-	24 553	-	24 553
	38 194	24 553	121 329	184 076
Financial liabilities held for trading				
Securities				
Short sales	901	-	-	901
Derivatives				
Derivative financial instruments with negative fair value	-	15 270	-	15 270
	901	15 270	-	16 171

The balance of Derivatives financial instruments as at 30 June 2018, in comparison with the assets and liabilities associated, recorded at fair value, can be analysed as follows:

(Thousands of Euro)

		Jun 2018						
		Derivative			Related asset / liability			
Derivative	Related financial asset / liability	Notional	Fair value	Fair value changes in the period (1)	Fair value	Fair value changes in the period	Book value	Reimbursement amount at maturity date
Interest rate swap	Liabilities represented by securities and subordinated liabilities	3 300	232	(182)	113	(150)	3 354	3 300
Interest rate swap	Deposits from customers	14 850	(65)	42	24	(9)	14 597	14 597
Interest rate swap	Loans and advances to customers	18 967	164	209	(164)	(163)	18 997	18 967
Interest rate swap	Other	3 504 623	(2 262)	226	-	-	-	-
Currency swap (Short)	-	49 145	140	(151)	-	-	-	-
Currency swap (Long)	-	49 339						
Futures (Short)	-	14 883	(47)	(56)	-	-	-	-
Futures (Long)	-	3 520						
Forwards (Short)	-	60 190	-	-	-	-	-	-
Forwards (Long)	-	60 333						
Options (Short)	-	53 181	11 655	445	-	-	-	-
Options (Long)	-	361 163						
		4 193 494	9 817	533	(27)	(322)	36 948	36 864

(1) Includes the derivative gain/ (loss) disclosed in note 6.

The balance of Derivatives financial instruments as at 31 December 2017, in comparison with the assets and liabilities associated, recorded at fair value, can be analysed as follows:

(Thousands of Euro)

		Dec 2017						
		Derivative			Related asset / liability			
Derivative	Related financial asset / liabilty	Notional	Fair value	Fair value changes in the period (1)	Fair value	Fair value changes in the period	Book value	Reimbursement amount at maturity date
Interest rate swap	Liabilities represented by securities and subordinated liabilities	3 300	414	(526)	263	1 271	3 460	3 300
Interest rate swap	Deposits from customers	15 100	(107)	(59)	33	21	14 789	14 789
Interest rate swap	Deposits from other credit institutions	-	-	(2,576)	-	(3)	-	-
Interest rate swap	Mortgage bonds	-	-	2 380	-	-	-	-
Interest rate swap	Loans and advances to customers	24 562	(45)	671	(1)	(535)	24 633	24 562
Interest rate swap	Other	3 669 577	(2 488)	1 735	-	-	-	-
Currency swap (Short)	-	50 481	291	(88)	-	-	-	-
Currency swap (Long)	-	50 744						
Futures (Short)	-	2 978	9	9	-	-	-	-
Futures (Long)	-	-						
Forwards (Short)	-	3 044	-	(4)	-	-	-	-
Forwards (Long)	-	3 051						
Options (Short)	-	54 809	11 209	(797)	-	-	-	-
Options (Long)	-	358 131						
		4 235 777	9 283	745	295	754	42 882	42 651

(1) Includes the derivative gain/ (loss) disclosed in note 6.

As at 30 June 2018, the amount of the loan obtained from EIB is collateralised by Spanish and Italian bonds at the nominal value of Euro 16,730 thousand (31 December 2017: at the nominal value of Euro 10,000 thousand), provided as collateral and recorded under the caption Financial assets held for trading, as described in note 36.

24 Financial assets not held for trading mandatorily at fair value through profit or loss

	(Thousands of Euro)
	Jun 2018
Varible income securities	
Investment units	466 867
Loans and advances to customers at fair value	
Loans not represented by securities	22 059
	488 926

As part of the IFRS 9 adoption, the Group's investment units held until 31 December 2017 in the portfolio of financial assets at fair value through other comprehensive income were reclassified to the portfolio of financial assets not held for trading mandatorily at fair value through profit or loss, as described in notes 25 and 45.

On 30 June 2018, the assets included in level 3, under Variable income securities – Investment units include investment units in real estate investment funds, specialised credit recovery funds and venture capital funds that are valued according to the amount disclosed over the Net Asset Value of the Fund (NAVF), determined by the management company, in the amount of Euro 459,612 thousand, of which Euro 297,688 thousand are related to real estate investment funds. The assets of specialised credit recovery funds result from a diversified set of assets and liabilities, which are valued at the respective funds' accounts at fair value through internal methodologies used by the management entity.

The assets of the real estate investment funds are valued by the management company based on evaluation reports prepared by real estate experts registered at CMVM.

For all financial assets recorded under level 3, the sensitivity analysis carried out considered a 10% change in the value of the financial asset and, consequently, an impact of Euro 45,961 thousand was calculated on 30 June 2018.

As mentioned in Note 57, the caption Variable income securities – Investment units includes, as at 30 June 2018, the amount of Euro 96,486 thousand related to investment units in specialised credit funds acquired with the transfer of loans and advances to customers.

In accordance with IFRS 13, financial instruments are measured according to the valuation levels described in note 49. Financial assets included in this balance were classified under levels 1 and 3.

(Thousands of Euro)

	Jun 2018			
	Level 1	Level 2	Level 3	Total
Variable income securities				
Investment units	7 255	-	459 612	466 867
Loans and advances to customers at fair value				
Loans not represented by securities	-	-	22 059	22 059
	7 255	-	481 671	488 926

25 Financial assets at fair value through other comprehensive income

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018				
	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	370 592	3 317	(58)	(965)	372 886
Foreign	370 412	272	(8 307)	(662)	361 715
Bonds issued by other entities					
Domestic	72 892	619	(1 559)	(27,694)	44 258
Foreign	61 429	539	(582)	(7,060)	54 326
Variable income securities					
Shares					
Domestic	74 239	16 925	(621)	-	90 543
Foreign	71 430	11 501	(14 298)	-	68 633
	1 020 994	33 173	(25,425)	(36,381)	992 361

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

(Thousands of Euro)

	Dec 2017				
	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	714 117	2 444	(1 112)	-	715 449
Foreign	862 310	1 057	(5 131)	-	858 236
Bonds issued by other entities					
Domestic	69 958	1 237	(76)	(29 251)	41 868
Foreign	49 251	691	(86)	(7 000)	42 856
Variable income securities					
Shares					
Domestic	76 158	12 112	(1 625)	(1 920)	84 725
Foreign	73 142	10 327	(7 718)	(48)	75 703
Investment units	402 535	20 488	(260)	(40 707)	382 056
	2 247 471	48 356	(16 008)	(78 926)	2 200 893

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

As part of the IFRS 9 adoption, the investment units were reclassified to Financial assets not held for trading mandatorily at fair value through profit and loss, as described in note 24.

The main assumptions in the evaluation of shares whose book value is determined based on CEMG internal models are as follows:

Monteiro Aranha

The valuation of Monteiro Aranha S.A. was carried out considering the fact the main assets are holdings in listed companies of the Brasilian Stock Exchange. Based on this, the Adjusted Amount in Equity was calculated based on the fair value of those listed companies, assuming the price quote on the last 12 months.

Almina

The evaluation of Almina with reference to 30 June 2018 was carried out based on Almina Holding Group business plan, as well as other information provided by Almina's management.

The two relevant businesses for Almina's evaluation correspond to ore exploitation: zinc and copper. The main assumptions that have been used were: use of a discount rate between 10% and 11% and the determination of ore market prices based on international indexes.

As at 30 June 2018 and during 2017, the analysis of financial assets at fair value through other comprehensive income, net of impairment, by valuation levels, is analysed as follows:

(Thousands of Euro)

	Jun 2018				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Bonds issued by public entities					
Domestic	372 886	-	-	-	372 886
Foreign	361 715	-	-	-	361 715
Bonds issued by other entities					
Domestic	6 010	33 097	5 151	-	44 258
Foreign	40 390	13 936	-	-	54 326
	781 001	47 033	5 151	-	833 185
Variable income securities					
Shares					
Domestic	-	-	79 836	10 707	90 543
Foreign	-	-	68 296	337	68 633
	-	-	148 132	11 044	159 176
	781 001	47 033	153 283	11 044	992 361

(Thousands of Euro)

	Dec 2017				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Bonds issued by public entities					
Domestic	715 449	-	-	-	715 449
Foreign	858 236	-	-	-	858 236
Bonds issued by other entities					
Domestic	6 967	29 221	5 680	-	41 868
Foreign	28 771	14 085	-	-	42 856
	1 609 423	43 306	5 680	-	1 658 409
Variable income securities					
Shares					
Domestic	-	-	79 836	4 889	84 725
Foreign	1 693	-	73 672	338	75 703
Investment units	7 500	-	374 556	-	382 056
	9 193	-	528 064	5 227	542 484
	1 618 616	43 306	533 744	5 227	2 200 893

As referred in IFRS 13, financial instruments are measured according to the valuation levels described in note 49.

As part of the IFRS 9 adoption, the CEMG's investment units held until 31 December 2017 classified in the portfolio of financial assets at fair value through other comprehensive income were reclassified to the portfolio of financial assets not held for trading mandatorily at fair value through profit or loss, according to note 24.

For all financial assets recorded in level 3, the sensitivity analysis carried out considered a 10% change in the value of the financial asset and, consequently, an impact of Euro 15,328 thousand was calculated on 30 June 2018 (31 December 2017: Euro 53,374 thousand).

Instruments classified as level 3 have associated unrealised gains and losses in the positive amount of Euro 6,165 thousand (31 December 2017: positive amount of Euro 32,362 thousand) recognised in fair value reserves.

On 30 June 2018, the impairment amount recorded for these securities amounted to Euro 33,401 thousand (31 December 2017: Euro 75,814 thousand).

The movements occurred in financial assets at fair value through other comprehensive income recorded in level 3 are analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Balance on 1 January	533 744	554 484
Acquisitions	-	4 722
Revaluations	(5 901)	(19 293)
Disposals	-	(6 169)
Transfers to financial assets not held for trading mandatorily at fair value through profit or loss	(374 560)	-
Balance on 30 June	153 283	533 744

The movements occurred in impairment of financial assets at fair value through other comprehensive are analysed as follows:

(Thousands of Euro)

	Jun 2018	Jun 2017
Balance on 1 January	78 926	98 276
IFRS 9 transition adjustment	(38 603)	-
Charge for the period		
Continuing operations	1 274	6 024
Discontinuing operations	-	2
Reversal for the period		
Continuing operations	(41)	(1 119)
Discontinuing operations	-	(3)
Impairment charged-off	(5 175)	(1 478)
Balance on 30 June	36 381	101 702

Securities pledged as collateral recorded in Financial assets at fair value through other comprehensive income, are presented as follows:

- The market value of the assets pledged as collateral to the European Central Bank under liquidity providing operations amounts to Euro 2,619,175 thousand at 30 June 2018 after hair cut (31 December 2017: Euro 2,557,271 thousand), as described in note 35;
- Securities pledged as collateral to the CMVM under the Investors' Compensation Fund in the nominal amount of Euro 1,000 thousand at 30 June 2018 and during 2017;

- The amount of the EIB loan obtained is collateralised by securities of Portuguese, Spanish and Italian states in the nominal amount of Euro 215,000 thousand (31 December 2017: Euro 507,939 thousand), registered in the balance Available-for-sale financial assets, as described in note 36; and
- Securities pledged as collateral to the Deposit Guarantee Fund in the nominal amount of Euro 22,200 thousand at 30 June 2018 (31 December 2017: Euro 23,500 thousand), as mentioned in note 48.

These financial assets pledged as collateral can be executed in case of default of contractual obligations assumed by the Group under the terms and conditions of signed contracts, as referred in notes 36 and 37.

26 Hedging derivatives

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Assets		
Interest rate swap	5 611	-
Liabilities		
Interest rate swap	-	1 663

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

The Group performs periodical effectiveness tests of the hedging relationships.

The analysis of the hedging derivatives portfolio by maturity date, as at 30 June 2018 and 31 December 2017 is as follows:

(Thousands of Euro)

	Jun 2018							
	Notional by maturity date				Fair value			
	Below 3 months	3 to 12 months	Above 12 months	Total	Below 3 months	3 to 12 months	Above 1 year	Total
Fair value hedge derivatives with interest rate risk:								
Interest rate swap	-	-	750 000	750 000	-	-	5 611	5 611
	-	-	750 000	750 000	-	-	5 611	5 611

	Dec 2017							
	Notional by maturity date				Fair value			
	Below 3 months	3 to 12 months	Above 12 months	Total	Below 3 months	3 to 12 months	Above 12 months	Total
Fair value hedge derivatives with interest rate risk:								
Interest rate swap	-	-	750 000	750 000	-	-	1 663	1 663
	-	-	750 000	750 000	-	-	1 663	1 663

As at 30 June 2018 and 31 December 2017, the fair value hedge operations can be analysed as follows:

(Thousands of Euro)

	Jun 2018						
Derivative	**Hedged item**	**Hedged risk**	**Notional**	**Fair value** (1)	**Changes in fair value of the derivative in the period**	**Hedged item fair value** (2)	**Changes in fair value of the hedged item in the period** (2)
Interest rate swap	Liabilities represented by securities	Interest rate	750 000	5 611	7 274	(1 407)	(3 780)
			750 000	5 611	7 274	(1 407)	(3 780)

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

(Thousands of Euro)

	Dec 2017						
Derivative	**Hedged item**	**Hedged risk**	**Notional**	**Fair value** (1)	**Changes in fair value of the derivative in the period**	**Hedged item fair value** (2)	**Changes in fair value of the hedged item in the period** (2)
Interest rate swap	Liabilities represented by securities	Interest rate	750 000	(1 663)	(1 663)	2 373	2 373
			750 000	(1 663)	(1 663)	2 373	2 373

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

27 Other financial assets at amortised cost

This balance is analysed as follows:

	(Thousands of Euro)
	Jun 2018
Fixed income securities	
Bonds issued by Portuguese public entities	369 771
Bonds issued by Foreign public entities	252 484
	622 255
Impairment for other financial assets at amortised cost	(1 364)
	620 891

The fair value of the portfolio of Other financial assets at amortised cost is disclosed in note 49.

Other financial assets at amortised cost, as at 30 June 2018, can be analysed as follows:

(Thousands of Euro)

Securities	Issue date	Maturity date	Interest rate	Book value
BONOS 0,350% 30JUL2023	22 May 2018	30 July 2023	0.350%	139 421
BONOS 0,750% 30JUL2021	08 March 2016	30 July 2021	0.750%	36 027
BTP 0.10 15-APR-2019	15 April 2016	15 April 2019	0.100%	34 832
BTP 1,200% 01APR2022	01 March 2017	01 April 2022	1.200%	42 204
OT 2,200% 17-OCT-2022	09 September 2015	17 October 2022	2.200%	21 895
OT 4,95% 25-OCT-2023	10 June 2008	25 October 2023	4.950%	106 920
OT 5.65% 15-FEV-2024	14 May 2013	15 February 2024	5.650%	157 536
OT APR21	23 February 2005	15 April 2021	3.850%	83 420
				622 255

Other financial assets at amortised cost are recognised in accordance with the accounting policy described in note 1 d).

As at 30 June 2018, the amount of loan obtained from EIB is collateralised by bonds of the Spanish, Italian and Portuguese State at the nominal value of Euro 234,558 thousand, provided as collateral and recorded under the caption Investments held until maturity, as disclosed in note 36.

Impairment movements for other financial assets at amortised cost are analysed as follows:

	(Thousands of Euro)
	Jun 2018
Balance on 1 January	-
Charge for the period	1 364
Balance on 30 June	1 364

28 Investments in associates

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3 269	3 399
Montepio - Gestão de Activos Imobiliários, ACE	698	698
Naviser – Transportes Marítimos Internacionais, S.A.	150	150
	4 117	4 247
Impairment of investments in associated companies	(150)	(150)
	3 967	4 097

The subsidiaries and associated companies included in the Group's consolidation perimeter are presented in note 60.

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

(Thousands of Euro)

	Assets	Liabilities	Equity	Income	Net profit/ (loss)	Acquisition cost
30 June 2018						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	37 041	20 694	16 347	3 457	(214)	3 269
Montepio - Gestão de Ativos Imobiliários, ACE	3 525	1 076	2 450	2 065	-	698
CESource, ACE	340	340	-	-	-	-
31 December 2017						
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	37 789	20 796	16 993	10 427	1 304	3 399
Montepio - Gestão de Ativos Imobiliários, ACE	3 726	1 276	2 450	4 949	-	698

(Thousands of Euro)

	Percentage held		Book value		Associated companies net profit	
	Jun 2018	Dec 2017	Jun 2018	Dec 2017	Jun 2018	Dec 2017
HTA - Hóteis, Turismo e Animação dos Açores, S.A.	20.00%	20.00%	3 269	3 399	(214)	166
Montepio - Gestão de Ativos Imobiliários, ACE	28.50%	28.50%	698	698	-	-
Naviser - Transportes Marítimos Internacionais, S.A.	20.00%	20.00%	-	-	-	-
Cesource, ACE	18.00%	0.00%	-	-	-	-

The movement for this balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Balance on 1 January	4 247	4 192
Disposals	-	-
Share of profit of associated companies	(214)	166
Other reserves and retained earnings	84	(111)
Balance on 30 June	4 117	4 247

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

The evolution of the Group's associated companies is disclosed in note 60.

29 Non-current assets held for sale

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Interests arising from recovered loans	886 754	885 210
Impairment for non-current assets held for sale	(146 404)	(142 989)
	740 350	742 221

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

The balance Investments arising from recovered loans includes the amount of Euro 2,057 thousand (31 December 2017: Euro 2,177 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 2,047 thousand (31 December 2017: Euro 2,059 thousand).

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

The Group has implemented a plan to sale immediately the non-current assets held for sale. According to Group's expectation, these assets are available for sale in a period below 1 year and the Group has a strategy for its sale. Nevertheless, given the current market conditions, in some situations it is not possible to conclude these sales before the expected deadline. This balance includes buildings and other assets for which the Group has already established contracts for the sale in the amount of Euro 34,007 thousand (31 December 2017: Euro 32,729 thousand).

The movements, in the end of the first semester of 2018 and during 2017, for non-current assets held for sale are analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Balance at the beginning of the period	885 210	908 615
Acquisitions	58 859	133 805
Disposals	(57 587)	(156 952)
Other movements	272	(258)
Balance at the end of the period	886 754	885 210

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

(Thousands of Euro)

	Jun 2018	Jun 2017
Balance on 1 January	142 989	148 411
Charge for the period	9 572	9 136
Reversal of the period	(1 132)	(955)
Charge-off	(5 025)	(5,564)
Balance on 30 June	146 404	151 028

In addition to the impairment losses, in the first semester of 2018, the Group recognised in profit or loss, gains on real estate arising from its disposal in the amount of Euro 6,444 thousand (30 June 2017: Euro 1,511 thousand), as mentioned in note 9.

30 Investment properties

The balance Investment properties considers the real estate properties owned by "Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional", "Montepio Arrendamento II – Fundo de Investimento Fechado para Arrendamento Habitacional", "Montepio Arrendamento III – Fundo de Investimento Fechado para Arrendamento Habitacional", "Polaris – Fundo de Investimento Imobiliário Fechado de Subscrição Particular", "Portugal Estates Fund – Fundos de Investimento Imobiliário Fechado de Subscrição Particular" and "Carteira Imobiliária – Fundo Especial de Investimento Imobiliário Aberto" which are fully consolidated, according to the accounting policy described in note 1 b) and the real estate held by Ssagincentive – Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A. The real estate properties are measured in accordance with the accounting policy described in note 1 q), based on independent evaluations performed by experts registered in CMVM and in compliance with legal requirements.

The amount of income received related to investment properties amounts to Euro 4,773 thousand (30 June 2017: Euro 7,793 thousand) and maintenance costs of leased and not leased properties amounts to Euro 3,347 thousand (30 June 2017: Euro 4,910 thousand).

The movements in this balance are analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Balance at the beginning of the period	538 625	607 968
Acquisitions	-	3 545
Revaluations	1 009	5 646
Disposals	(23 373)	(78 534)
Change in the consolidation perimeter	(230 659)	-
Balance at the end of the period	285 602	538 625

31 Property and equipment

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Investment		
Real Estate		
For own use	217 115	218 292
Leasehold improvements in rented buildings	40 310	40 347
Equipment		
IT equipment	91 439	91 639
Interior installations	25 634	25 456
Furniture and materials	19 131	19 036
Security equipment	7 468	7 387
Machinery and tools	2 680	2 684
Transport equipment	1 525	1 620
Other equipment	5	5
Work in progress	4 218	3 402
Works of art	2 870	2 870
Other property and equipment	2 140	2 101
Assets in financial lease	190	323
	414 725	415 162
Accumulated depreciation		
Charge for the period	5 465	10 947
Accumulated charge in previous periods	179 030	169 748
	184 495	180 695
Impairment for property and equipment	1 155	1 155
	229 075	233 312

As at 30 June 2018, the Group recorded an impairment of other property and equipment in the amount of Euro 1,155 thousand (30 June 2017: Euro 1,400 thousand).

32 Intangible assets

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Investment		
Software	111 778	108 569
Work in progress	7 222	5 732
Other intangible assets	853	1 067
	119 853	115 368
Accumulated depreciation		
Charge for the period	6 634	13 862
Accumulated charge in previous periods	83 445	70 135
	29 774	31 371

33 Taxes

Deferred tax assets and liabilities as at 30 June 2018 and 31 December 2017 are analysed as follows:

(Thousands of Euro)

	Assets		Liabilities		Net	
	Jun 2018	Dec 2017	Jun 2018	Dec 2017	Jun 2018	Dec 2017
Deferred taxes not dependent on future profitability						
Impairment on loans granted	53 071	64 200	-	-	53 071	64 200
Benefits to employees	25 443	27 055	-	-	25 443	27 055
	78 514	91 255	-	-	78 514	91 255
Financial instruments	(6 879)	4 087	(1 221)	(10 657)	(8 100)	(6 570)
Provisions / Impairment						
Impairment on loans granted	189 929	139 665	-	-	189 929	139 665
Other risks and charges	8 786	7 611	-	-	8 786	7 611
Impairment in securities and non-financial assets	38 862	37 325	-	-	38 862	37 325
Benefits to employees	22 422	15 343	-	-	22 422	15 343
Other	1 976	2 049	(55)	(109)	1 921	1 940
Tax losses carried forward	182 052	179 431	-	-	182 052	179 431
Net deferred tax assets/ (liabilities)	515 662	476 766	(1 276)	(10 766)	514 386	466 000

Special regime applicable to deferred tax assets

On 6 July 2016, the Extraordinary General Meeting of CEMG was held, approving the admission to the special regime applicable to deferred tax assets, approved by Law No. 61/2014, of 26 August, which is applicable to expenses and negative equity changes recorded in tax periods beginning on or after 1 January 2015, as well as to deferred tax assets recorded in annual accounts for the last tax period prior to that date and to the part of the expenditure and related negative equity changes. In accordance with Law No. 23/2016, of 19 August, this special regime is not applicable to expenses and negative equity changes recorded in tax periods beginning on or after 1 January 2016 nor it is to related deferred tax assets.

Law No. 61/2014, of 26 August, determines an optional framework with a subsequent waiving option, in accordance with which, in some cases (i.e. negative net result in individual annual accounts or in settlement accounts by voluntary winding-up, insolvency decided by law or authorisation withdrawal), there will be a conversion into tax credits of deferred tax assets that resulted from the non deduction of expenses and deductions of assets resulting from credit impairment losses and post-employment benefits or long-term employee benefits. In such case, a special reserve corresponding to 110% of its amount shall be established, requiring the simultaneous conversion rights attributable to the State in the same amount. These rights can be acquired by the shareholders upon payment to the State in the same amount. Tax credits may be offset against tax debts of the beneficiaries (or from an entity based in Portugal of the same prudential consolidation perimeter) or reimbursable by the State. Under this regime, the recovery of deferred tax assets covered by the regime approved by Law No. 61/2014, of 26 August, is not dependent on future profits.

The aforementioned legal framework was densified by Ordinance No. 259/2016, of 4 October, on the control and use of tax credits, and by Ordinance No. 293-A / 2016, of 18 November, determining the conditions and procedures for the acquisition of those State rights by the shareholders. According to this legislation, State rights are, among other factors, subject to a right of acquisition by the shareholders on their inception date, exercisable in periods to be established by the Board of Directors up to 10 years after that date and the issuing bank shall deposit on the State's behalf the full amount corresponding to the rights issued, within 3 months from the confirmation date of the deferred tax asset conversion into tax credit. Such deposit shall be recovered when and to the extent that the State rights are acquired by the shareholders, or exercised by the State.

Deferred taxes are calculated using tax rates that are expected to be in force on the date of reversal of the temporary differences, which correspond to the rates approved or substantially approved on the balance sheet date.

The balance Benefits to employees includes, on 30 June 2018, the amount of Euro 9,444 thousand (31 December 2017: Euro 10,793 thousand) related to deferred taxes of actuarial losses recognised against reserves as a result of the change in the accounting policy. As at 30 June 2018, this balance also includes the amount of Euro 3,113 thousand (31 December 2017: Euro 3,235 thousand) related to deferred taxes associated with the expense generated with the transfer of liabilities with pensioners to the General Social Security System.

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

As at 30 June 2018, deferred taxes associated with Employee benefits include the amount of Euro 18,320 thousand (31 December 2017: 13,781 thousand) related with employee benefits in excess when compared with the existing limits.

As at 30 June 2018, and due to (i) tax rates effective after 1 January 2018 and ii) the expectation underlying the conversion into costs and tax-deductible profits and the estimation of tax profit or tax losses in each one of the subsequent periods, the Group changed the rate (base rate and surcharges) used for calculating deferred taxes, from 29.5% and 21% to 30% and 21%, respectively, depending on specific cases associated with temporary differences or tax losses carried forward.

Analysis of the recoverability of deferred tax assets

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

As referred in the accounting policy described in note 1 w) and in accordance with the requirements set in IAS 12, the deferred tax assets recognised in the Group's financial statements have an underlying high expectation of recoverability. The evaluation of the recoverability of deferred tax assets is based on the latest exercise prepared on the 2018 budget, assuming a pre-tax income growth assumption between 2019 and 2024.

Thus, the recoverability of deferred tax assets, namely related to tax losses carried forward, is supported in the Group's forecasted financial statements, prepared under the aforementioned budget, which considered the macroeconomic and competitive environment where the Group operates as well as the strategic priorities established in the Strategic Plan for the period between 2016 and 2018.

The recovery of profitability, liquidity and capital levels recommended in the Strategic Plan is fundamentally supported by favorable impacts induced by:

(i) recovery of the core banking product: by increasing the net interest income provided by the monitoring of turnover and pricing, particularly the cost of deposits, as well as by the increase in commissions, benefiting from the impact of the price increase to be implemented;

(ii) a reduction in operating costs: this is reflected in the positive effects associated with the downsizing of the branch network and the number of employees completed in 2016, as well as the reduction in the level of investments;

(iii) reinforcing risk management: materializing the favorable effects of the improvement introduced in the credit granting, monitoring and recovery processes that have been put into practice; and

(iv) strengthening of the institutional model.

Following this assessment, and as at 30 June 2018 and 31 December 2017, the Group recognised all deferred tax assets, thus, there are no deferred tax assets to be recognised.

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

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

(Thousands of Euro)

Expiry date	Jun 2018	Dec 2017
2022	5 429	4 751
2027	49 089	51 639
2028	127 534	123 041
	182 052	179 431

Tax recognised in the income statement and reserves during the first half of 2018 and in 2017 is analysed as follows:

(Thousands of Euro)

	Jun 2018		Dec 2017	
	Charged to net income/ (loss)	Charged to reserves and retained earnings	Charged to net income/ (loss)	Charged to reserves and retained earnings
Financial instruments	542	(578)	-	(18 829)
Provisions / Impairment	(13 652)	55 940	(38 102)	-
Employee benefits	5 555	(88)	(1 104)	(2 365)
Other	(19)	-	(41)	-
Tax losses carried forward	6 464	(4 247)	3 356	1 369
Deferred taxes/ recognised as profit/ (losses)	(1 110)	51 027	(35 891)	(19 825)
Current taxes	(1 118)	(1 154)	(6 470)	-
	(2 228)	49 873	(42 361)	(19 825)

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

(Thousands of Euro)

	Jun 2018		Jun 2017	
	%	Value	%	Value
Net income/ (loss) before taxes		8 365		22 108
Income tax based on the current nominal tax rate	29.5	(2 468)	21.0	(4 643)
State and municipal surcharge	-	-	(29.3)	(6 478)
Extraordinary contribution for the banking sector	(38.9)	(3 250)	10.4	2 296
Post-employment benefits and Pension Fund	66.7	5 580	(0.0)	(10)
Taxable provisions/ impairment	(20.9)	(1 747)	-	-
Autonomous taxation	(4.3)	(363)	(20.7)	(4 566)
Other	72.4	6 056	(4.8)	(1 060)
Corrections to previous periods	(0.0)	(2)	-	-
Effect of differences in income tax for the period	-	-	3.9	869
Deductions for taxable profit purposes (*)	(72.1)	(6 034)	2.0	443
Income taxes for the period	(26.6)	(2 228)	(59.5)	(13 149)

(*) Corresponds to losses determined by investment funds included in the perimeter and other correction adjustments.

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

CEMG was object of a Tax Authority's inspection up to and including the 2015 period.

In 2018, CEMG became the dominant company of the Tax Group subject to corporate income tax under the Regime for Taxation of Group Companies (RETGS), whose former dominant company was Montepio Holding, S.G.P.S., S.A.

In this context, the Group considers that the effects for the calculation of the taxable income according to RETGS are reflected in the calculation of the current tax of the period of each entity, including the effect in the calculation of the current tax of the period for using tax loss generated by another entity of the Group.

34 Other assets

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Other debtors	86 466	90 072
Other accrued income	3 431	3 563
Recoverable grants receivable from the Portuguese Government	5 258	4 991
Deferred costs	6 848	1 454
Sundry debtors	137 500	127 882
	239 503	227 962
Impairment for other assets	(32 577)	(35 689)
	206 926	192 273

As at 30 June 2018 and 31 December 2017, the balance Other debtors is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
SilverEquation	29 909	29 909
Supplementary capital contributions	14 910	14 910
Public entities	6 499	6 667
Other	35 148	38 586
	86 466	90 072

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

As at 31 December 2017, the balance Public Entities includes the amounts related to receivable amounts from public entities, mostly related with courts in the context of insolvency proceedings and lodge claims.

The balance Recoverable grants receivable from the Portuguese Government corresponds to recoverable grants referring to mortgage and PME's loans, in accordance with the legal provisions applicable to low-interest loan. These amounts do not bear interest and are claimed monthly.

As at 30 June 2018 and 31 December 2017, the balance Recoverable grants receivable from the Portuguese Government are presented as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Overdue grants unclaimed	3 332	3 224
Unsettled recoverable grants from the Portuguese Government	1 807	1 631
Unclaimed grants	119	136
	5 258	4 991

As at 30 June 2018, the balance Sundry debtors includes the amount of Euro 116,298 thousand (31 December 2017: Euro 106,182 thousand), related to outstanding securities transactions.

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

(Thousands of Euro)

	Jun 2018	Jun 2017
Balance on 1 January	35 689	37 848
IFRS 9 transition adjustment	4 497	-
Charge for the period	2 792	6 801
Reversal for the period	(1 868)	(4 807)
Charge-off	(939)	(3 085)
Change in the consolidation perimeter	(7 594)	-
Balance on 30 June	32 577	36 757

35 Deposits from central banks

As at 30 June 2018 and 31 December 2017, 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 25.

36 Deposits from other financial institutions

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018			Dec 2017		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from financial institutions in Portugal						
Deposits repayable on demand	15 517	39	15 556	4 480	-	4 480
Term deposits	-	8 888	8 888	-	7 995	7 995
OIC loans	-	7	7	-	8	8
Other deposits	-	-	-	1	-	1
	15 517	8 934	24 451	4 481	8 003	12 484
Deposits from financial institutions abroad						
EIB loan	-	360 407	360 407	-	460 433	460 433
Deposits repayable on demand	30 525	-	30 525	19 679	-	19 679
Term deposits	-	4 946	4 946	-	4 270	4 270
Sales operations with repurchase agreement	-	1 248 532	1 248 532	-	1 275 552	1 275 552
CSA's	3 970	-	3 970	50	-	50
Repos collaterals	-	42 194	42 194	-	13 405	13 405
Other deposits	706	-	706	844	-	844
	35 201	1 656 079	1 691 280	20 573	1 753 660	1 774 233
Adjustments arising from fair value option operations	-	-	-	-	-	-
	50 718	1 665 013	1 715 731	25 054	1 761 663	1 786 717

As part of derivative financial instruments operations with institutional counterparties, according to the signed contracts, CSA has, on 30 June 2018, the amount of Euro 3,970 thousand (31 December 2017: Euro 50 thousand) deposits from other credit institutions received as collateral for these operations.

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

The amount of the EIB loan is collateralised by Portuguese, Spanish and Italian states securities in the amount of Euro 466,288 thousand (31 December 2017: Euro 517,939 thousand), recorded in the balance Financial assets held for trading, Financial assets at fair value through other comprehensive income and Other financial assets at amortised cost, as described in notes 23, 25 and 27, respectively.

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

37 Deposits from customers

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018			Dec 2017		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits repayable on demand	3 473 520	399 641	3 873 161	3 207 994	277 437	3 485 431
Term deposits	-	8 449 744	8 449 744	-	8 539 258	8 539 258
Saving accounts	-	116 004	116 004	-	113 044	113 044
Other deposits	43 774	-	43 774	23 274	400 000	423 274
Adjustments arising from fair value option operations	25	-	25	33	-	33
	3 517 319	8 965 389	12 482 708	3 231 301	9 329 739	12 561 040

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 No. 11/94 of the Bank of Portugal, of 29 December.

The caption Term deposits includes, as at 30 June 2018, deposits at fair value through profit and loss, measured in accordance with internal evaluation techniques considering, mainly, observable market inputs, in the amount of Euro 14,597 thousand (31 December 2017: Euro 14,789 thousand). Thus, in accordance with the hierarchy of the valuation sources, as referred in IFRS 13, these instruments are categorized in Level 2.

As at 30 June 2018, deposits from customers were remunerated at an average rate of 0.53% (31 December 2017: 0.70%).

38 Debt securities issued

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Bonds	204 057	375 300
Covered bonds	753 564	746 238
Securitisations	278 451	422 516
	1 236 072	1 544 054

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

The balance Debt securities issued includes issues at fair value through profit or loss in the amount of Euro 6,622 thousand (31 December 2017: Euro 7,094 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.

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

As at 30 June 2018, the main characteristics of these issues are as follows:

(Thousands of Euro)

Description	Nominal value	Book value	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody´s/Fitch/Dbrs)
Covered bonds - 5S	500 000	500 126	December 2015	December 2020	quarterly	Euribor 3M + 0.80%	A3/AA-/A
Covered bonds - 6S	300 000	300 205	November 2016	November 2023	quarterly	Euribor 3M + 0.80%	A3/AA-/A
Covered bonds - 8S	500 000	500 097	December 2016	December 2026	quarterly	Euribor 3M + 0.90%	A3/AA-/A
Covered bonds - 9S	250 000	250 142	May 2017	May 2024	quarterly	Euribor 3M + 0.85%	A3/AA-/A
Covered bonds - 10S	750 000	753 564	October 2017	October 2022	annualy	Fixed at 0.875%	A3/AA-/A
	2 300 000	2 304 134					

As at 31 December 2017, the main characteristics of these issues are as follows:

(Thousands of Euro)

Description	Nominal value	Value at amortised cost	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody´s/Fitch/Dbrs)
Covered bonds - 5S	500 000	500 132	December 2015	December 2020	quarterly	Euribor 3M + 0.80%	A3/A+/A
Covered bonds - 6S	300 000	300 204	November 2016	November 2023	quarterly	Euribor 3M + 0.80%	A3/A+/A
Covered bonds - 8S	500 000	500 103	December 2016	December 2026	quarterly	Euribor 3M + 0.90%	A3/A+/A
Covered bonds - 9S	250 000	250 148	May 2017	May 2024	quarterly	Euribor 3M + 0.85%	A3/A+/A
Covered bonds - 10S	750 000	746 238	October 2017	October 2022	annualy	Fixed at 0.875%	A3/A+/A
	2 300 000	2 296 825					

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 of 20 June, No. 6/2006 of 11 October, No. 7/2006 of 11 October, No. 8/2006 of 11 October and Instruction of Bank of Portugal No. 13/2006 of 15 November.

At 30 June 2018, the amount of credits that collateralise these issues amounts to Euro 2,732,796 thousand (31 December 2017: Euro 2,726,854 thousand), as referred in note 22.

The movement in debt securities issued during period ended at 30 June 2018 is analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Issue	Reimbursements	Net purchases	Other movements [a]	Balance on 30 June
Bonds	375 300	-	(164 119)	-	(7 124)	204 057
Covered bonds	746 238	-	-	-	7 326	753 564
Securitisations	422 516	-	(144 065)	-	-	278 451
	1 544 054	-	(308 184)	-	202	1 236 072

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

The movement in debt securities issued during the period of 2017 is analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Issue	Reimbursements	Net purchases	Other movements [a]	Balance on 31 December
Bonds	1 040 534	-	(265 185)	(384 350)	(15 699)	375 300
Covered bonds	265 028	750 000	(265 000)	-	(3 790)	746 238
Securitisations	574 560	154 055	(306 099)	-	-	422 516
Euro Medium Term Notes (EMTN)	39 913	-	(39 750)	-	(163)	-
	1 920 035	904 055	(876 034)	(384 350)	(19 652)	1 544 054

(a) It includes the accrued interest income, corrections for operations at the fair value option and exchange variation.

As at 30 June 2018, the Group reimbursed securities in the amount of Euro 308,184 thousand (31 December 2017: Euro 876,034 thousand).

As at 31 December 2017, under the Covered Bond Programm, the Group issued an amount of Euro 750,000 thousand at 5 years and an interest rate of 0.875% and reimbursed an amount of Euro 265,000 thousand.

In accordance with the accounting policy described in note 1 d), the purchase of debt securities issued by the Group is withdrawn from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement. As a result of the purchases made during 2017, the Group recognised a gain of Euro 2,054 thousand, as at 31 December 2017.

As at 30 June 2018, bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 0.00% and 8.30% (31 December 2017: 0.00% and 7.84%).

39 Provisions

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Provisions for guarantees and commissions	17 867	16 147
Provisions for other risks and charges	11 528	10 949
	29 395	27 096

The movements in provisions for guarantees and commitments assumed in the first half of 2018 and in 2017 are analysed as follows:

(Thousands of Euro)

	Jun 2018	Jun 2017
Balance on 1 January	16 147	13 857
IFRS 9 transition adjustment	944	
Charge for the period		
Continuing operations	5 836	8 374
Discontinuing operations	437	24
Reversal for the period		
Continuing operations	(5 060)	(6 303)
Discontinuing operations	(529)	(33)
Transfers related to discontinuing operations	92	9
Balance on 30 June	17 867	15 928

The movements in provisions for other risks and charges are analysed as follows:

(Thousands of Euro)

	Jun 2018	Jun 2017
Balance on 1 January	10 949	7 963
Charge for the period		
Continuing operations	1 146	10 057
Discontinuing operations	1	-
Reversal for the period		
Continuing operations	(214)	(1 607)
Discontinuing operations	-	-
Charge-off	(353)	(3 769)
Transfers related to discontinuing operations	(1)	-
Balance on 30 June	11 528	12 644

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

40 Other subordinated debt

As at 30 June 2018, the main characteristics of Other subordinated debt, are analysed as follows:

(Thousands of Euro)

Description	Issue date	Maturity date	Issue amount	Interest rate	Book value
CEMG/08 2nd series	Jul 2008	Jul 2018	150 000	Euribor 6 months+1.5%	113 160
FNB 08/18 1st/2nd series	Dec 2008	Dec 2018	10 363	Euribor 6 months+0.15% (i)	7 502
					120 662

As at 31 December 2017, the main characteristics of Other subordinated debt, are analysed as follows:

(Thousands of Euro)

Description	Issue date	Maturity date	Issue amount	Interest rate	Book value
CEMG/08 1st series	Feb 2008	Feb 2018	150 000	Euribor 6 months+1.5%	111 321
CEMG/08 2nd series	Jul 2008	Jul 2018	150 000	Euribor 6 months+1.5%	113 169
CEMG/08 3rd series	Jun 2008	Jun 2018	28 000	Euribor 12 months+1.5%	4 200
FNB 08/18 1st/2nd series	Dec 2008	Dec 2018	10 363	Euribor 6 months+0.15% (i)	7 503
					236 193

(i) - Remuneration paid on a half-yearly basis.

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

As at 30 June 2018 and during 2017, the movement under Other subordinated debt was as follows:

(Thousands of Euro)

	Balance on 1 January 2018	Reimbursements	Net purchases	Other movements (a)	Balance on 30 June 2018
CEMG/08 1st series	111 321	(110 848)	-	(473)	-
CEMG/08 2nd series	113 169	-	-	(9)	113 160
CEMG/08 3rd series	4 200	(4 168)	-	(32)	-
FNB 08/18 1st/2nd series	7 503	-	-	(1)	7 502
	236 193	(115 016)	-	(515)	120 662

(a) It includes the accrued interest on the balance sheet.

(Thousands of Euro)

	Balance on 1 January 2017	Reimbursements	Net purchases	Other movements (a)	Balance on 31 December 2017
CEMG/08 1st series	111 348	-	-	(27)	111 321
CEMG/08 2nd series	113 216	-	-	(47)	113 169
CEMG/08 3rd series	4 202	-	-	(2)	4 200
FNB 08/18 1st/2nd series	7 504	-	-	(1)	7 503
Finicrédito Subordinated Covered Bonds	15 814	(15 814)	-	-	-
	252 084	(15 814)	-	(77)	236 193

(a) It includes the accrued interest on the balance sheet.

As at 30 June 2018, the subordinated debt bears postponed interest every three and six months and its effective interest rate range is set between 1.22% and 1.48% (31 December 2017: 1.23% and 1.48%).

Other subordinated debt portfolio is recorded at fair value, as presented in note 49.

41 Other liabilities

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
National and foreign outstanding operations	124 232	200 666
Staff costs	27 636	22 999
Other expenses	13 362	18 506
Administrative public sector	12 115	11 239
Suppliers	5 782	9 760
Deferred income	2 206	4 975
Sundry liabilities	26 835	102 575
	212 168	370 720

As at 30 June 2018, the balance Other sundry liabilities includes the amount of Euro 7,868 thousand (31 December 2017: Euro 86,855 thousand), resulting from stock exchange operations which are pending settlement.

As at 30 June 2018, the balance Staff costs includes the amount of Euro 113 thousand (31 December 2017: Euro 113 thousand), related to seniority bonus and the amount of Euro 719 thousand related to final career award (31 December 2017: Euro 479 thousand). Additionally, as at 30 June 2018, this balance also includes the amount of Euro 15,102 thousand (31 December 2017: Euro 20,188 thousand) related to holidays and holiday subsidies.

42 Share capital

CEMG's share capital, which is fully paid, amounts to Euro 2,420,000 thousand fully belonging to MGAM.

As at 14 September 2017, CEMG was transformed into a public limited company with CEMG's Participation Fund, in the amount of Euro 400,000 thousand, becoming extinct, by conversion into share capital and its mutual funds were converted into common shares, as described in note 43.

At 30 June 2017, the Group performed a capital increase subscribed by Montepio Geral Associação Mutualista, in accordance with the statutory resolutions of MGAM General Meeting, the General and Supervisory Board and the CEMG's Board of Directors.

This capital increase was materialised by MGAM, fully paid-up in cash, through the realization of institutional capital in the amount of Euro 250,000 thousand.

43 Other equity instruments

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

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

As at 30 June 2018 and 31 December 2017, the Group repurchased perpetual subordinated instruments in the amount of Euro 8,677 thousand. With this operation, the balance Other equity instruments amounted to Euro 6,323 thousand.

Payment

CEMG is prevented from proceeding to the interest payment if, in the Board of Directors or Bank of Portugal opinion, this payment endanger compliance with the Regulatory equity requirements regulation.

During the first half of 2018, the Group proceeded to the interest payment for this emission in the amount of Euro 163 thousand (31 December 2017: Euro 318 thousand).

Reimbursement

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

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

As at 30 June 2018 and 31 December 2017, these obligations are considered as a positive element of the CEMG's Core Capital (Tier 2), as required by Regulation No. 575/2013 of the European Union.

44 Legal reserve

In accordance with Article No. 97º of Legal Framework of Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras* – RGICSF), approved by the Decree-Law No. 298/92, of 31 December, and amended by the Decree-Law No. 201/2002, CEMG should reinforce annualy the legal reserve with, at least, 10% of annual net profits, until to the limit equal to the value of share capital or to the sum of the reserves and retained earnings, if higher. This reserve can not, normally, be distributed.

The variation of the legal reserve is analysed in note 45.

45 Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Fair value reserves		
Fair value reserves		
Financial assets at fair value through other comprehensive income	7 748	32 348
Loans and advances to customers	1 821	2 146
Own credit risk	287	-
	9 856	34 494
Taxes		
Financial assets at fair value through other comprehensive income	(543)	(5 937)
Loans and advances to customers	(537)	(633)
	(1 080)	(6 570)
Fair value reserve net of taxes	8 776	27 924
Other reserves and retained earnings		
Legal reserve	191 766	186 000
Consolidation exchange reserves	(63 604)	(29 049)
Other reserves and retained earnings	(977 393)	(887 549)
Realised gains on equity instruments	(37)	-
	(849 268)	(730 598)

Fair value reserves regarding financial assets at fair value through other comprehensive income represent the potential gains and losses on the portfolio of financial assets at fair value through other comprehensive income.

The balance Loans and advances to customers refers to the amount, of the fair value reserve, regarding the credit portfolio reclassified from Financial assets at fair value through other comprehensive income to Loans and advances to customers, as described in note 25.

The balance Other reserves and retained earnings includes the impact of Euro 96,670 thousand related to the IFRS 9 transition adjustment, according to note 58. This caption also includes the negative value of Euro 37 thousand related to realised gains on financial assets recorded at fair value through other comprehensive income.

The movements in the fair value reserve on financial assets at fair value through other comprehensive income, during the first half of 2018, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	IFRS 9 adjustment	Revaluation	Acquisitions	Disposals	Impairment recognised in the period	Balance on 30 June
Fixed income securities							
Bonds issued by Portuguese public entities	1 332	1 849	(36)	430	649	(965)	3 259
Bonds issued by foreign public entities	(4 074)	2 684	(8 150)	(847)	3 014	(662)	(8 035)
Bonds issued by other entities:							
Domestic	1 161	(1 666)	(2 004)	29	(17)	1 557	(940)
Foreign	605	49	(391)	(228)	(18)	(60)	(43)
	(976)	2 916	(10 581)	(616)	3 628	(130)	(5 759)
Variable income securities							
Shares							
Domestic	10 487	-	5 817	-	-	-	16 304
Foreign	2 609	-	(5 377)	-	(29)	-	(2 797)
	13 096	-	440	-	(29)	-	13 507
	12 120	2 916	(10 141)	(616)	3 599	(130)	7 748

As part of the IFRS 9 adoption, the Group's investment units held until 31 December 2017 classified in the portfolio of financial assets at fair value through other comprehensive income were reclassified to the portfolio of financial assets not held for trading mandatorily at fair value through profit or loss, as described in notes 24 and 25.

The movements in the fair value reserve on financial assets at fair value through other comprehensive income, during 2017, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Revaluation	Acquisitions	Disposals	Impairment change in the period	Balance on 31 December
Fixed income securities						
Bonds issued by Portuguese public entities	(59 940)	1 042	455	59 775	-	1 332
Bonds issued by foreign public entities	(7 210)	1 029	(3 834)	5 941	-	(4 074)
Bonds issue by other entities:						
Domestic	469	661	27	4	-	1 161
Foreign	973	(27 439)	275	(845)	27 641	605
	(65 708)	(24 707)	(3 077)	64 875	27 641	(976)
Variable income securities						
Shares						
Domestic	8 189	2 298	-	-	-	10 487
Foreign	14 722	(12 005)	48	(185)	29	2 609
Investment units	21 201	9 098	24	(1 775)	(8 320)	20 228
	44 112	(609)	72	(1 960)	(8 291)	33 324
	(21 596)	(25 316)	(3 005)	62 915	19 350	32 348

Fair value reserves on financial assets at fair value through other comprehensive income, are detailed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Amortised cost of financial assets at fair value through other comprehensive income	1 020 994	2 247 471
Recognised accumulated impairment	(36 381)	(78 926)
Amortised cost of financial assets at fair value through other comprehensive income net of impairment	984 613	2 168 545
Market value of financial assets at fair value through other comprehensive income	992 361	2 200 893
Potential realised gains/ (losses) recognised in the fair value reserve	7 748	32 348

46 Distribution of profit

As at 30 June 2018 and during 2017, CEMG did not distributed profits.

47 Non-controlling interests

This balance is analysed as follows:

(Thousands of Euro)

	Statement of Financial Position		Income Statement	
	Jun 2018	Dec 2017	Jun 2018	Jun 2017
Finibanco Angola, S.A.	16 087	20 955	2 253	1 361
Banco Terra, S.A.	11 811	11 880	27	(17)
	27 898	32 835	2 280	1 344

The movements of this balance are analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Opening balance	32 835	23 201
IFRS 9 transition adjustment	(387)	-
Foreign exchange differences	(8 768)	687
Other reserves	(109)	-
Dividends	(1 137)	(1 202)
Impact of the IAS 29 adoption	2 385	8 580
Change in the consolidation perimeter	799	193
	25 618	31 459
Net income attributable to non-controlling interests	2 280	1 376
	27 898	32 835

			Percentage held by non-controlling interests	
Name	**Head office**	**Segment**	**Jun 2018**	**Dec 2017**
Finibanco Angola, S.A.	Luanda	Banking	19.78%	18.63%
Banco Terra, S.A.	Maputo	Banking	54.22%	54.22%

The summary of the financial information for the Institutions mentioned above, prepared in accordance with the IFRS, is disclosed in note 61.

In accordance with IFRS 5, these entities are classified as to be discontinued.

48 Guarantees and other commitments

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Guarantees granted	512 107	500 063
Commitments to third parties	1 275 430	1 287 516
Deposit and custody of securities	8 137 287	8 439 037
	9 924 824	10 226 616

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

(Thousands of Euro)

	Jun 2018	Dec 2017
Guarantees granted		
Guarantees	457 004	444 564
Documentary credits	55 103	55 499
	512 107	500 063
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit lines	592 723	609 515
Term liabilitiy to the Guarantee Deposits Fund	22 768	22 768
Potential liability with the Investor's Indemnity System	1 533	1 499
Revocable commitments		
Revocable credit lines	658 406	653 734
	1 275 430	1 287 516

Bank guarantees granted are financial operations that do not necessarily result into mobilisation on Funds by the Group.

The balances Guarantees granted and Commitments to third parties - Irrevocable commitments – irrevocable credit lines include the amount of Euro 46,247 thousand (31 December 2017: Euro 53,008 thousand) regarding Finibanco Angola, S.A. and Banco Terra, S.A., both entities classified as discontinued, as described in note 61.

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

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

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

As at 30 June 2018 and 31 December 2017, the balance Term liability to the the Guarantee Deposits Fund is related with the irrevocable commitment assumed by the Group and required by law, to deliver the unrealised amounts of annual contributions required by the Fund.

As at 30 June 2018 and 31 December 2017, under the Deposit Guarantee Fund, the Group granted as pledge treasury bonds (OT 4.95% 25/10/2023), recorded as Financial assets at fair value through other comprehensive income, with a nominal value of Euro 22,200 thousand (31 December 2017: Euro 23,500 thousand), as described in note 25.

As at 30 June 2018 and 31 December 2017, the balance Potential liability with the Investors' Indemnity System refers to the irrevocable obligation that the Group assumed, under the applicable law, to deliver to that system, in case needed, the required amount to pay its share of the indemnities to be paid to investors.

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

49 Fair value

Fair value is based on market prices, whenever these are available. If market prices are not available, as it happens regarding many products sold to customers, fair value is estimated through internal models based on cash-flow discounting techniques. Cash flows for the different instruments sold are calculated according to its financial characteristics and the discount rates used include both the interest rate curve and the current conditions of the pricing policy of the Group.

Therefore, the fair value obtained is influenced by the parameters used in the evaluation model that, necessarily have some degree of judgement and reflect exclusively the value attributed to different financial instruments. However, it does not consider prospective factors, like the future business evolution. Under these conditions, the values presented cannot be understood as an estimate of the economic value of the Group.

The main methods and assumptions used in estimating the fair value for the financial assets and liabilities are presented as follows:

- *Cash and deposits at central banks, Loans and advances to credit institutions repayable on demand and Other loans and advances to credit institutions*

Considering the short maturity of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

- *Other loans and advances to credit institutions, Deposits from other financial institutions and Assets with repurchase agreements*

The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates.

For Deposits from Central Banks it was considered that the book value is a reasonable estimate of its fair value, given the nature of operations and the associated term. The rate of return of funding with the European Central Bank is of 0.0% for the operations negotiated at December 2017.

Regarding loans and advances not measured at fair value, the discount rate used reflects the current conditions applied by the Group on identical instruments for each of the different residual maturities. The discount rate includes the market rates for the residual maturity dates (rates from monetary market or from interest rate swap market, at the end of the period). For 30 June 2018, the average discount rate was 0.36% (31 December 2017: 0.36%) for Repos and 0.21% (31 December 2016: 0.30%) for the remaining resources.

For Loans and advances to the other credit instituions investments a discount rate reflecting the conditions in use by CEMG for the most significant residual term options was applied. Considering the short maturity of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

- Financial assets held for trading (except derivatives), Financial liabilities held for trading (except derivatives), Financial assets at fair value through other comprehensive income, Financial assets not held for trading mandatorily at fair value through profit or loss 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 (Bid-price), whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

Interest rates are determined based on information disseminated by the suppliers of financial contents - Reuters and Bloomberg - more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar sources but regarding interbank money market. The interest rate curve obtained is also calibrated against the values of short-term interest rate forwards. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are also used in the projection of the non-deterministic cash flows, such as indexes.

When optionality is involved, the standard models (Black-Scholes, Black, Ho and others) considering the volatility surfaces applicable are used. Whenever there are no references in the market of sufficient quality or that the available models do not fully apply to meet the characteristics of the financial instrument, it is applied specific quotations supplied by an external entity, typically a counterparty of the business.

- *Other financial assets at amortised cost*

These financial instruments are accounted at amortised cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the respective market conditions and terms.

- *Hedging and trading derivatives*

All derivatives are recorded at fair value.

In case of those who are quoted in organised markets their market price is used. As for derivatives traded "over the counter", the numerical methods based on techniques of discounted cash flow and options valuation models, considering market variables namely the market interest rates applicable to the instruments concerned, and where necessary, their volatility, shall apply.

Interest rates are determined based on information disseminated by the suppliers of financial contents - Reuters and Bloomberg - more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar sources but regarding interbank money market. The interest rate curve obtained is also calibrated against the values of short-term interest rate forwards. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are also used in the projection of the non-deterministic cash flows, such as indexes.

- *Loans and advances to customers without defined maturity date and Deposits from customers repayable on demand*

Considering the short maturity of this type of financial instruments, the conditions of this portfolio are similar to those in force at the reporting date. Therefore, the amount in the balance sheet is a reasonable estimate of its fair value.

- *Loans and advances to customers with defined maturity date*

The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates. For loans in default, the net impairment value of these operations is a reasonable estimate of its fair value, considering the economic valuation performed in the calculation of this impairment for individually significant customers. The discount rate used reflects the current conditions applied by the Group in similar instruments for each of the homogeneous classes of this type of instrument and with similar maturity. The discount rate includes the market rates for the residual maturity dates (rates from the monetary market or from the interest rate swap market, at the end of the year) and the spread used at the reporting date, which was calculated from the average of production for the last quarter. The average discount rate was 3.06% for mortgage loans (31 December 2017: 3.06%), 6.92% for individual credit (31 December 2017: 6.32%) and 4.42% for the remaining loans (31 December 2017: 3.69%), assuming the projection of variable rates according to the evolution of the forward rates implicit in the interest rate curves. The calculations also include the credit risk spread.

- *Deposits from customers*

The fair value of these financial instruments is calculated by discounting the expected principal and interest future cash flows, considering that payments occur in the contractually defined dates. The discount rate used reflects the current conditions applied by the Group in identical instruments with a similar maturity. The discount rate includes the market rates of the residual maturity dates (rates of monetary market or the interest rate swap market, at the end of the year) and the spread of the Group at the reporting date, which was calculated from the average production of the last quarter of 2018. The average discount rate at 30 June 2018 was of 0.50% (31 December 2017: 0.84%).

- *Debt securities issued and Other subordinated debt*

For these financial instruments, fair value was calculated for the components that are not yet reflected on the balance sheet. For the fixed interest rate instruments for which the Group applies a hedge-accounting policy, the fair value regarding the interest rate risk is already accounted for.

In fair value calculation, the other risk components were also considered, apart from the interest rate risk. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted by associated factors, predominantly the credit risk and trading margin, the latter only in the case of issues placed for non-institutional customers of the Group.

As original reference, the Group applies the curves resulting from the interest rate swaps markets for each specific currency. The credit risk (credit spread) is represented by an excess from the curve of interest rate swaps established specifically for each term and class of instruments based on the market prices on equivalent instruments.

In case of issues of covered bonds, the fair value is determined based on quotations disseminated by financial content provider Bloomberg.

In respect of subordinated issues the discount rate was of 3.92% (31 December 2017: 3.99%). The average discount rate calculated for senior issues placed on the retail market was 0.62% (31 December 2017: 0.72%).

Issues placed in the institutional market were revalued at the market value available on 31 December 2017.

As at 30 June 2018, the following table presents the values of the interest rate adopted in the calculation of the interest rate curve of the major currencies, including Euro, United States Dollar, Sterling Pound, Swiss Franc and Japanese Yen used to determine the fair value of financial assets and liabilities of the Group:

	Currencies				
	Euro	United States Dollar	Sterling Pound	Swiss Franc	Japanese Yen
1 day	-0.4500%	1.5050%	0.5000%	-0.8450%	-0.1700%
7 days	-0.3780%	1.4804%	0.5000%	-0.7950%	-0.0338%
1 month	-0.3680%	1.6500%	0.5050%	-0.7500%	-0.2600%
2 months	-0.3400%	1.6900%	0.5100%	-0.7500%	-0.2200%
3 months	-0.3290%	1.7600%	0.5100%	-0.7500%	-0.2200%
6 months	-0.2710%	1.9100%	0.5500%	-0.7200%	-0.2000%
9 months	-0.2710%	2.0200%	0.6600%	-0.6800%	-0.1500%
1 year	-0.1860%	2.1800%	0.7400%	-0.6200%	-0.1500%
2 years	-0.1500%	2.0770%	0.7860%	-0.4820%	0.0175%
3 years	-0.0110%	2.1680%	0.8870%	-0.3540%	0.0350%
5 years	0.3130%	2.2560%	1.0370%	-0.1390%	0.0900%
7 years	0.5610%	2.3210%	1.1460%	0.0380%	0.1625%
10 years	0.8800%	2.4050%	1.2770%	0.2710%	0.2975%
15 years	1.2440%	2.4960%	1.4100%	0.5380%	0.5250%
20 years	1.4188%	2.5313%	1.4100%	0.5380%	0.5250%
30 years	1.5013%	2.5388%	1.4100%	0.5380%	0.5250%

As at 31 December 2017, the following table presents the values of the interest rate adopted in the calculation of the interest rate curve of the major currencies, including Euro, United States Dollar, Sterling Pound, Swiss Franc and Japanese Yen used to determine the fair value of financial assets and liabilities of the Group:

	Currencies				
	Euro	United States Dollar	Sterling Pound	Swiss Franc	Japanese Yen
1 day	-0.4500%	1.5050%	0.5000%	-0.8450%	-0.1700%
7 days	-0.3780%	1.4804%	0.5000%	-0.7950%	-0.0338%
1 month	-0.3680%	1.6500%	0.5050%	-0.7500%	-0.2600%
2 months	-0.3400%	1.6900%	0.5100%	-0.7500%	-0.2200%
3 months	-0.3290%	1.7600%	0.5100%	-0.7500%	-0.2200%
6 months	-0.2710%	1.9100%	0.5500%	-0.7200%	-0.2000%
9 months	-0.2710%	2.0200%	0.6600%	-0.6800%	-0.1500%
1 year	-0.1860%	2.1800%	0.7400%	-0.6200%	-0.1500%
2 years	-0.1500%	2.0770%	0.7860%	-0.4820%	0.0175%
3 years	-0.0110%	2.1680%	0.8870%	-0.3540%	0.0350%
5 years	0.3130%	2.2560%	1.0370%	-0.1390%	0.0900%
7 years	0.5610%	2.3210%	1.1460%	0.0380%	0.1625%
10 years	0.8800%	2.4050%	1.2770%	0.2710%	0.2975%
15 years	1.2440%	2.4960%	1.4100%	0.5380%	0.5250%
20 years	1.4188%	2.5313%	1.4100%	0.5380%	0.5250%
30 years	1.5013%	2.5388%	1.4100%	0.5380%	0.5250%

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 2018	Dec 2017	1 month	3 months	6 months	9 months	12 months
EUR/USD	1.1658	1.1993	7.150	7.380	7.475	7.550	7.625
EUR/GBP	0.8861	0.8872	5.875	6.300	6.688	6.950	7.100
EUR/CHF	1.1569	1.1702	5.383	5.575	5.755	5.825	5.900
EUR/JPY	129.04	135.01	8.565	8.818	9.275	9.488	9.600

Concerning the exchange rates, the Group uses in its valuation models the spot rate observed in the market at the time of the valuation.

The fair value of the financial assets and liabilities of the Group, at 30 June 2018 and 31 December 2017, is presented as follows:

(Thousands of Euro)

	Jun 2018				
	At fair value through profit or loss	At fair value through reserves	Amortised cost	Book value	Fair value
Financial assets					
Cash and deposits at central banks	-	-	1 720 994	1 720 994	1 720 994
Loans and advances to credit institutions repayable on demand	-	-	54 018	54 018	54 018
Other loans and advances to credit institutions	-	-	317 203	317 203	317 203
Loans and advances to customers	18 997	-	12 606 833	12 625 830	12 551 595
Financial assets held for trading	52 450	-	-	52 450	52 450
Financial assets not help for trading mandatorily at fair value through profit or loss	488 926	-	-	488 926	488 926
Financial assets at fair value through other comprehensive income	-	992 361	-	992 361	992 361
Hedging derivatives	5 611	-	-	5 611	5 611
Other financial assets at amortised cost	-	-	620 891	620 891	622 849
	565 984	992 361	15 319 939	16 878 284	16 806 007
Financial liabilities					
Deposits from central banks	-	-	1 546 980	1 546 980	1 546 980
Deposits from other financial institutions	-	-	1 715 731	1 715 731	1 719 484
Deposits from customers	14 597	-	12 468 111	12 482 708	12 601 378
Debt securities issued	6 360	-	1 229 712	1 236 072	1 233 152
Financial liabilities held for trading	15 539	-	-	15 539	15 539
Other subordinated debt	-	-	120 662	120 662	120 437
	36 496	-	17 081 196	17 117 692	17 236 970

(Thousands of Euro)

	Dec 2017				
	At fair value through profit or loss	At fair value through reserves	Amortised cost	Book value	Fair value
Financial assets					
Cash and deposits at central banks	-	-	1 733 628	1 733 628	1 733 628
Loans and advances to credit institutions repayable on demand	-	-	50 205	50 205	50 205
Other loans and advances to credit institutions	-	-	312 203	312 203	310 088
Loans and advances to customers	24 633	-	13 004 685	13 029 318	12 954 403
Financial assets held for trading	184 076	-	-	184 076	184 076
Financial assets at fair value through other comprehensive income	-	2 200 893	-	2 200 893	2 200 893
	208 709	2 200 893	15 100 721	17 510 323	17 433 293
Financial liabilities					
Deposits from central banks	-	-	1 557 840	1 557 840	1 557 840
Deposits from other financial institutions	-	-	1 786 717	1 786 717	1 788 676
Deposits from customers	14 789	-	12 546 251	12 561 040	12 570 211
Debt securities issued	7 094	-	1 536 960	1 544 054	1 553 288
Financial liabilities held for trading	16 171	-	-	16 171	16 171
Hedging derivatives	1 663	-	-	1 663	1 663
Other subordinated debt	-	-	236 193	236 193	234 006
	39 717	-	17 663 961	17 703 678	17 721 855

The following table summarises, by valuation levels, the fair value of the Group's financial assets and liabilities, as at 30 June 2018:

(Thousands of Euro)

	Jun 2018				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial assets					
Cash and deposits at central banks	1 720 994	-	-	-	1 720 994
Loans and advances to credit institutions repayable on demand	54 018	-	-	-	54 018
Other loans and advances to credit institutions	-	-	317 203	-	317 203
Loans and advances to customers	-	18 997	12 532 598	-	12 551 595
Financial assets held for trading	28 490	23 960	-	-	52 450
Financial assets not held for trandig mandatorily at fair value through profit or loss	7 255	-	481 671	-	488 926
Financial assets at fair value through other comprehensive income	781 001	47 033	153 283	11 044	992 361
Hedging derivatives	-	5 611	-	-	5 611
Other financial assets at amortised cost	622 849	-	-	-	622 849
	3 214 607	95 601	13 484 755	11 044	16 806 007
Financial liabilities					
Deposits from central banks	1 546 980	-	-	-	1 546 980
Deposits from other financial institutions	-	-	1 719 484	-	1 719 484
Deposits from customers	-	14 597	12 586 781	-	12 601 378
Debt securities issued	-	6 360	1 226 792	-	1 233 152
Financial liabilities held for trading	1 395	14 144	-	-	15 539
Other subordinated debt	-	-	120 437	-	120 437
	1 548 375	35 101	15 653 494	-	17 236 970

The following table summarises, by valuation levels, the fair value of the Group's financial assets and liabilities, as at 31 December 2017:

(Thousands of Euro)

	Dec 2017				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial assets					
Cash and deposits at central banks	1 733 628	-	-	-	1 733 628
Loans and advances to credit institutions repayable on demand	50 205	-	-	-	50 205
Other loans and advances to credit institutions	-	-	310 088	-	310 088
Loans and advances to customers	-	24 633	12 929 770	-	12 954 403
Financial assets held for trading	38 194	24 553	121 329	-	184 076
Financial assets at fair value through other comprehensive income	1 618 616	43 306	533 744	5 227	2 200 893
	3 440 643	92 492	13 894 931	5 227	17 433 293
Financial liabilities					
Deposits from central banks	1 557 840	-	-	-	1 557 840
Deposits from other financial institutions	-	-	1 788 676	-	1 788 676
Deposits from customers	-	14 789	12 555 422	-	12 570 211
Debt securities issued	-	7 094	1 546 194	-	1 553 288
Financial liabilities held for trading	901	15 270	-	-	16 171
Hedging derivatives	-	1 663	-	-	1 663
Other subordinated debt	-	-	234 006	-	234 006
	1 558 741	38 816	16 124 298	-	17 721 855

The Group uses the following hierarchy for fair value with 3 levels in the evaluation of financial instruments (assets and liabilities), which reflects the level of judgment, the observability of the data used and the importance of the parameters used in determining the fair value measurement of the instrument, as referred in IRFS 13:

- Level 1: Fair value is determined based on unadjusted quoted prices, captured in transactions in active markets involving identical instruments to the ones being valued. If there is more than one active market for the same financial instrument, the relevant price is what prevails in the main market of the instrument, or most advantageous market for which there is access.
- Level 2: Fair value is determined based on evaluation techniques supported by observable inputs in active markets, being direct data (prices, rates, spreads, etc.) or indirect data (derivatives), and evaluation assumptions similar to what an unrelated party would use in estimating the fair value of that financial instrument.
- Level 3: Fair value is determined based on unobservable inputs in active markets, using techniques and assumptions that market participants would use do evaluate the same instruments, including assumptions about the inherent risks, the evaluation technique used and inputs used and review processes to test the accuracy of the values obtained.

The Group considers an active market where transactions of particular financial instruments occur with frequency and business volumes sufficient for providing information over prices continuously. The following minimum conditions should verify:

- Existence of frequent daily prices trading in the last year;
- The above quotations are exchanged regularly; and
- There are executable quotes from more than one entity.

A parameter used in a valuation technique is considered observable in the market, if the following conditions are met:

- If its value is determined in an active market;
- Or, if there is an OTC market and it is reasonable to assume that the conditions of an active market are met, with the exception of the condition of trading volumes; and
- Or, the parameter value can be obtained by the inverse calculation of prices of financial instruments or derivatives where the remaining parameters required for initial assessment are observable in a liquid market or an OTC market that comply with the preceding paragraphs.

50 Post-employment and long-term benefits

The Group assumed the responsibility to pay to their employees' seniority and disability retirement pensions and others benefits, in accordance with the accounting policy described in note 1 v). In addition, and in accordance with the same policy, the Group calculates on an annual basis, as of 31 December of each year, pension liabilities and other benefits. Therefore, the amounts presented in this note only reflect current service cost.

The general pension plan for the employees refers to liabilities for retirement benefits provided for in the Collective Labour Agreement for the banking sector and is a complementary plan of the public social security scheme.

Under the Collective Labour Agreement ("ACT") for the banking sector, the employees hired after 1 January 1995 contribute with 5% of their monthly remuneration to the Pension Fund.

The existing pension plan corresponds to a defined benefit plan, since it defines the criteria for determining the amount of pension that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and retribution.

The benefits provided by this pension plan are as follows:

- Retirement by presumable disability (old age);

- Retirement by disability;

- Survivor's pension.

All social benefits are granted to beneficiaries, according to the terms, conditions and values included in the pension plan, as employees of the Group at their retirement date, as well as those who have belonged to their effective board and on retirement meet all the requirements defined in the pension plan.

The pension provided by the fund corresponds to the employee level in reform and seniority, according to the salary scale applicable. In the case of employees entitled to a pension under the General Pension Fund or the National Pensions Centre, the latter will be reduced to the pension guaranteed by this plan.

In case of death of an active employee or a pensioner, the pension plan guarantees a survivor's pension of 40% of the remuneration to which the employee would be entitled if achieved the situation of retirement or the pension he would receive, respectively.

The Group's former employees, when placed in the old-age pension or disability status, are entitled to payment by the fund of a pension calculated in the previous terms, in proportion to the time of service provided to the Group.

Additionally, the pension plan guarantees the costs of Social-Medical Assistance Services (SAMS) and the death grant under the ACT.

The Group has no other mechanisms to ensure the coverage of liabilities assumed towards old-age pensions, disability, survivors, health benefits and death benefits of its employees.

In December 2016, the Group issued a new Collective Labor Agreement (ACT), introducing a number of changes in the employment benefits, such as the change in the retirement age, in line with the general Social Security system, and the attribution of an end-of-career premium which replaced the extinguished seniority award.

In addition to the change in the benefit plan, there were also a number of special temporary provisions which impact on the calculation of the current liabilities value, in particular the freezing of salary increases for 2016 and 2017 and the freeze on automatic career promotions. As a result of the amendment to the ACT, contributions to SAMS were made based on a fixed cost per employee and were no longer indexed to salaries.

The main actuarial assumptions used in calculating the current value of liabilities are as follows:

	Assumptions
	Dec 2017
Financial assumptions	
Wage growth rate	1.00%
Pension growth rate	0.50%
Rate of return of plan assets	2.10%
Discount rate	2.10%
Revaluation rate	
Wage growth rate - Social Security	1.50%
Pension growth rate	1.00%
Demographic assumptions and valuation methods	
Mortality table	
Men	TV 88/90
Women	TV 88/90 -3 years
Actuarial valuation method	UCP

The assumptions used in calculating the present value of liabilities, in accordance with the requirements of IAS 19. The determination of the discount rate considered: (i) the evolution of the main indices regarding high quality corporate brands and (ii) duration of the responsibilities.

As at 31 December 2017, the duration of liabilities amounts to 20.80 years.

The number of persons covered by the pension plan is as follows:

	Dec 2017
Active	3 593
Retirees and survivors	1 249
	4 842

Based on the accounting policy described in note 1 v), post-employment benefits, other benefits and respective coverage levels are presented as follows:

	(Thousands of Euro)
	Dec 2017
Net assets/ (liabilities) recognised in the statement of financial position	
Liabilities with pension benefits	
Pensioners	(272 594)
Active	(409 406)
	(682 000)
Liabilities with healthcare benefits	
Pensioners	(20 354)
Active	(35 205)
	(55 559)
Liabilities with death benefits	
Pensioners	(1 593)
Active	(1 605)
	(3 198)
Total liabilities	(740 757)
Coverages	
Pension Fund value	733 850
Net assets/ (liabilities) in the statement of financial position	(6 907)
Accumulated actuarial losses recognised in other comprehensive income	187 637

Changes in the defined benefit obligation can be analysed as follows:

				(Thousands of Euro)
	Dec 2017			
	Pension benefits	**Healthcare benefits**	**Death benefits**	**Total**
Liabilities at the beginning of the period	657 255	51 658	3 105	712 018
Current service cost	(1 859)	1 866	57	64
Interest cost	13 145	1 033	63	14 241
Actuarial gains/ (losses)				
- Changes in the assumptions	28 148	31	(2)	28 177
- Not related to changes in the assumptions	3 255	785	(2)	4 038
Pensions paid by the Fund	(16 629)	-	-	(16 629)
Pensions paid by CEMG	(4 781)	-	-	(4 781)
Early retirement, mutually agreed termination and others	1 155	186	(23)	1 318
Participant contributions	2 311	-	-	2 311
Liabilities at the end of the period	682 000	55 559	3 198	740 757

As mentioned, CEMG amended the ACT, and changed the retirement age. This represents a cut in employees' benefits, in accordance with IAS 19, and its impact was recorded against the income statement.

The evolution of the Pension fund's value in the years ended 31 December 2017 is analysed as follows:

(Thousands of Euro)

	Dec 2017
Balance of the Fund at the beginning of the period	698 718
Expected return	13 975
Actuarial losses	35 475
Participant contribution	2 311
Pensions paid by the Fund	(16 629)
Balance of the Fund at the end of the period	733 850

As at 31 December 2017, the assets of the pension fund, divided between quoted and non-quoted, can be analysed as follows:

(Thousands of Euro)

	Dec 2017		
	Assets of the Fund	Quoted	Non-quoted
Variable income securities			
Shares	73 029	73 029	-
Shares investment fund	107 302	-	107 302
Bonds	500 124	452 355	47 769
Real estate	6 603	-	6 603
Real estate investment fund	24 914	475	24 439
Venture capital fund	10 652	-	10 652
Hedge funds - Uncorrelated investments	14	-	14
Investments in banks and other	11 212	-	11 212
Total	733 850	525 859	207 991

The assets of the pension fund used by the Group or representative of securities issued by other Group entities are analysed as follows:

(Thousands of Euro)

	Dec 2017
Investments in banks and other	11 212
Real estate	6 603
Bonds	2 234
	20 049

The costs with pensions, healthcare benefits and death subsidies are analysed as follows:

(Thousands of Euro)

	Jun 2018	Jun 2017
Current service cost	4 539	1 144
Net interest income/ (expense) in the liabilities coverage balance	(1 193)	-
Costs for the period	3 346	1 144

The actuarial assumptions have a significant impact in the pension liabilities and other benefits. Considering, this impact, the Group proceeded to a sensitivity analysis to a positive and negative change of 25 basis points in some of the actuarial assumptions with the purpose of calculating the impact in the value of pension liabilities, whose impact is analysed as follows:

(Thousands of Euro)

	Dec 2017	
	Liabilities	
	Increase	Decrease
Discount rate (0.25% change)	(40 740)	40 485
Wage growth rate (0.25% change)	26 156	(23 285)
Pension growth rate (0.25% change)	25 467	(23 371)
SAMS contribution (0.25% change)	3 664	(3 510)

As a result of the ACT's change, as at 30 June 2018, the cost associated with the final career award amounted to Euro 239 thousand (31 December 2017: Euro 458 thousand), which replaced the extinguished seniority premium.

As at 30 June 2018, the SAMS cost associated to the defined contribution plan amount to Euro 53 thousand (31 December 2017: Euro 543 thousand).

51 Assets under management

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

As at 30 June 2018 and 31 December 2017, the amount of the investment funds managed by Group companies is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Securities investment fund	164 032	169 202
Real estate investment fund	292 180	292 058
Pension fund	223 444	220 773
Bank and insurance	22 319	26 913
	701 975	708 946

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

52 Transactions with related parties

As defined in IAS 24, are considered related parties of the Group the companies detailed in note 60, the Pension Fund, the members of the Board of Directors and the key management personnel. In addition to the members of the Board of Directors and key management personnel, are also considered related parties their family and entities controlled by them or those whose management have significant influence.

According to Portuguese law, in particular under Articles No. 85 and 109 of the General Law for Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras* - RGICSF), are also considered related parties the members of the supervisory board and the shareholder of CEMG, which holds 100% of the voting rights, as well as individuals related to these categories and entities controlled by them or whose management have significant influence.

The Group's first-line directors are considered in Other key management personnel.

On this basis, the list of related parties considered by the Group is presented as follows:

Shareholder
Montepio Geral Associação Mutualista

Board of Directors (after 20 March 2018)
Carlos Manuel Tavares da Silva (Chairman)
Luís Eduardo Henriques Guimarães (Non-executive member)
Amadeu Ferreira de Paiva (Non-executive member)
Manuel Ferreira Teixeira (Non-executive member)
Vítor Manuel do Carmo Martins (Non-executive member)
Rui Pedro Brás de Matos Heitor (Non-executive member)
Nuno Cardoso Correia da Mota Pinto (Executive member)
José Carlos Sequeira Mateus (Executive member)
Pedro Miguel Nunes Ventaneira (Executive member)
Carlos Miguel López Leiria Pinto (Executive member)
Helena Catarina Gomes Soares de Moura Costa Pina (Executive member)
Pedro Jorge Gouveia Alves (Non-executive member)

Audit Committee (after 20 March 2018)
Luís Eduardo Henriques Guimarães (Chairman)
Amadeu Ferreira de Paiva (Member)
Manuel Ferreira Teixeira (Member)
Vítor Manuel do Carmo Martins (Member)

Executive Board of Directors (until 20 March 2018)
José Manuel Félix Morgado (Chairman)
João Carlos Martins da Cunha Neves
Luís Gabriel Moreira Maia Almeida
Fernando Ferreira Santo
João Belard da Fonseca Lopes Raimundo
Jorge Manuel Viana de Azevedo Pinto Bravo
Luís Miguel Resende de Jesus

General and Supervisory Board (until 20 March 2018)
Álvaro João Duarte Pinto Correia (Chairman)
António Fernando Menezes Rodrigues
José António de Arez Romão
Vitor Manuel do Carmo Martins
Francisco José Fonseca da Silva
Acácio Jaime Liberato Mota Piloto
Luís Eduardo Henriques Guimarães
Rui Pedro Bras Matos Heitor
Eugénio Óscar Garcia Rosa

Other Related Parties' Board of Directors
Alberto Carlos Nogueira Fernandes da Silva
Amândio Manuel Carrilho Coelho
Ana Lúcia Louro Palhares
António Almeida Porto
António Francisco de Araújo Pontes
António Manuel Jesus Gouveia
António Paulo da Silva Gonçalves Raimundo
António Tomás Correia
Artur Luís Martins
Bernard Johannes Christiaanse
Carlos Vicente Morais Beato
Eduardo José da Silva Farinha
Fernando Dias Nogueira
Fernando Ferreira Santo
Fernando Paulo Pereira Magalhães
Fernando Ribeiro Mendes
Fernão Vasco de Almeida Bezerra Fernandes Thomaz
Francisco António Laranjeira Souto
Francisco José Gonçalves Simões
Isabel Maria Loureiro Alves Brito
João Andrade Lopes

Other Related Parties' Board of Directors (cont.)
João Carlos Carvalho das Neves
João Carlos Martins da Cunha Neves
João Filipe Milhinhos Roque
João Francisco Mendes Almeida de Gouveia
Joaquim Manuel Marques Cardoso
Johannes Hendricus de Roo
Jorge Manuel Santos Oliveira
Jorge Rafael Torres Gutierrez de Lima
José António Fonseca Gonçalves
José de Almeida Serra
José Joaquim Fragoso
José Luís Esparteiro da Silva Leitão
José Manuel Félix Morgado
Luís Filipe dos Santos Costa
Luís Filipe Pocinho Coutinho Antunes
Luís Miguel Marques Ferreira Cardoso
Manuel Aranda da Silva
Manuel de Pinho Baptista
Margarida Maria Pinto Rodrigues D'Archambeau Duarte
Maria Lúcia Ramos Bica
Maria Manuela Traquina Rodrigues
Maria Rosa Almas Rodrigues
Mário José Brandão Ferreira
Miguel Alexandre Teixeira Coelho
Nuno da Silva Figueiredo
Nuno Henrique Serra Mendes
Paulo José Martins Jorge da Silva
Pedro António Castro Nunes Coelho
Pedro Miguel Moura Líbano Monteiro
Ricardo Canhoto de Carvalho
Tereza de Jesus Teixeira Barbosa Amado
Virgílio Manuel Boavista Lima
Vitor Guilherme de Matos Filipe

Other key management personnel
Alexandra Manuela Quirino Pereira Silva
Alexandra Melo Ponciano
Ana Maria Guerreiro Almeida
António Fernando Figueiredo Lopes
António José Miranda Lopes Coutinho
Fernando Emanuel Mendes Teixeira
Fernando Jorge Lopes Centeno Amaro
Fernando Manuel Silva Costa Alexandre
Gabriel Fernando Sá Torres
Jaquelina Maria Almeida Rodrigues Miguens
João Eduardo Dias Fernandes
Joaquim António Canhoto Gonçalves Silva
Luís Miguel Oliveira Melo Correia
Luísa Maria Xavier Machado
Maria Carmo Martins Ventura Calvão
Maria Fernanda Infante Melo Costa Correia
Maria Margarida Carrusca Pontes Rosário Ribeiro Andrade
Nuno Augusto Pereira Coelho
Patricia Ester Carvalho Esteves Fernandes
Paulo Jorge Andrade Rodrigues
Pedro Jorge Ponte Araújo
Pedro Maria Corte Real Alarcão Júdice
Pedro Miguel Rodrigues Crespo
Pedro Nuno Coelho Pires
Rosária Fátima Miranda de Abreu
Rui Sérgio Carvalho Santos Calheiros Gama
Vasco Francisco Coelho Almeida
Vitor Fernando Santos Cunha

Other Related Parties
Bem Comum, Sociedade de Capital de Risco, S.A.
Bolsimo - Gestão de Activos, S.A.
CESource, ACE
Clínica CUF Belém, S.A
Clínica de Serviços Médicos Computorizados de Belém, S.A.
Empresa Gestora de Imóveis da Rua do Prior S.A.
Fundação Montepio Geral
Fundo de Pensões - Montepio Geral
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.
Germont – Empreendimentos Imobiliários, S.A.
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.
Leacock - Prestação de Serviços, LDA.
Lusitania Vida, Companhia de Seguros, S.A.
Lusitania, Companhia de Seguros, S.A.
Moçambique Companhia de Seguros, S.A.R.L.
Montepio Residências para Estudantes, S.A.
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.
Montepio Gestão de Ativos Imobiliários, ACE
Montepio Imóveis – Sociedade Imobiliária, S.A.
Montepio Seguros, S.G.P.S., S.A.
N Seguros, S.A.
NAVISER - Transportes Marítimos Internacionais, S.A.
Nebra Energias Renovables, S.L.
Nova Câmbios - Instituição de Pagamento, S.A.
Residências Montepio, Serviços de Saúde, S.A.
SAGIES - Segurança e Higiene no Trabalho, S.A.
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.
Sociedade Portuguesa de Administrações, S.A.
Valor Prime - Fundo de Investimento Imobiliário Aberto

As at 30 June 2018, assets held by the Group regarding related parties, under Article No. 109, represented or not by securities, included in the balances Loans and advances to customers, Impairment of loans and advances to customers, Financial assets at fair value through other comprehensive income, Impairment of financial assets at fair value through other comprehensive income, Other Assets and Guarantees and commitments provided to third parties, are presented as follows:

(Thousands of Euro)

	Jun 2018						
Companies	Loans and advances to customers	Impairment of loans and advances to customers	Financial assets at fair value through other comprehensive income	Impairment of financial assets at fair value through other comprehensive income	Other assets	Guarantees and commitments provided to third parties	Total
Board of Directors (after 20 March 2018)	345	-	-	-	-	-	345
Audi Committee (after 20 March 2018)	1	-	-	-	-	-	1
Executive Board of Directors (until 20 March 2018)	132	-	-	-	-	-	132
General and Supervisory Board (until 20 March 2018)	2 034	26	-	-	-	470	2 478
Other Related Parties' Board of Directors	1 902	2	-	-	-	-	1 900
Other key management personnel	4 071	4	-	-	-	8	4 075
Bolsimo - Gestão de Activos, S.A.	1	-	-	-	-	-	1
CESource, ACE	-	-	-	-	95		
Germont – Empreendimentos Imobiliários, S.A.	11 330	90	-	-	-	731	11 971
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	2 500	2 500
Lusitania Vida, Companhia de Seguros, S.A.	1	-	-	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	-	-	875	97	-	-	778
Moçambique Companhia de Seguros, S.A.R.L.	-	-	314	-	-	-	314
Montepio Geral Associação Mutualista	2 679	5	-	-	-	71	2 745
Montepio Gestão de Activos - S.G.F.I., S.A.	-	-	1	-	-	-	1
Montepio Imóveis – Sociedade Imobiliária, S.A.	7 656	64	-	-	-	-	7 592
NovaCâmbios - Instituição de Pagamento, S.A.	412	57	-	-	-	1 220	1 575
Residências Montepio, Serviços de Saúde, S.A.	450	4	-	-	-	-	446
Valor Prime - Fundo de Investimento Imobiliário Aberto	23 001	-	-	-	-	17 000	40 001
	54 015	252	1 190	97	95	22 000	76 856

As at 31 December 2017, assets held by the Group regarding related parties, under Article No. 109, represented or not by securities, included in the balances Loans and advances to customers (Gross), Impairment of loans and advances to customers, Financial assets at fair value through other comprehensive income, Impairment of financial assets at fair value through other comprehensive income, Other Assets and Guarantees and commitments provided to third parties, are presented as follows:

(Thousands of Euro)

	Dec 2017						
Companies	Loans and advances to customers	Impairment of loans and advances to customers	Financial assets at fair value through other comprehensive income	Impairment of financial assets at fair value through other comprehensive income	Other assets	Guarantess and commitments provided to third parties	Total
Executive Board of Directors (until 20 March 2018)	134	-	-	-	-	-	134
Board of Directors (after 20 March 2018)	141	-	-	-	-	-	141
General and Supervisory Board	2 323	24	-	-	-	282	2 581
Other Related Parties' Board of Directors	1 108	-	-	-	-	-	1 108
Other key managamente personnel	3 042	-	-	-	-	8	3 050
Clínica de Serviços Médicos Computorizados de Belém, S.A.	3	-	-	-	-	-	3
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	2	-	-	-	-	-	2
Germont – Empreendimentos Imobiliários, S.A.	11 330	207	-	-	-	731	11 854
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	3 500	3 500
Lusitania Vida, Companhia de Seguros, S.A.	1	-	-	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	1	-	3 207	1 807	-	-	1 401
Montepio Geral Associação Mutualista	62	23	-	-	945	72	1 056
Montepio Imóveis – Sociedade Imobiliária, S.A.	10 240	69	-	-	-	-	10 171
Nova Câmbios - Instituição de Pagamento, S.A.	501	7	-	-	-	1 559	2 053
Residências Montepio, Serviços de Saúde, S.A.	551	5	-	-	-	-	546
	29 439	335	3 207	1 807	945	6 152	37 601

For members of the current Governing Bodies, which were previously members, it was considered that, for reporting purposes, the engagement with CEMG should be included in the current Governing Bodies.

As at 30 June 2018, the Group's liabilities with related parties, under Article No. 109, included in the balances Deposits from customers, Liabilities represented by securities and Other subordinated debt, are analysed as follows:

(Thousands of Euro)

	Jun 2018		
Companies	Deposits from customers	Liabilities represented by securities and Other subordinated debt	Total
Board of Directors (after 20 March 2018)	266	-	266
Audit Committee (after 20 March 2018)	882	-	882
Executive Board of Directors (until 20 March 2018)	865	-	865
General and Supervisory Board (until 20 March 2018)	572	-	572
Other Related Parties' Board of Directors	5 455	-	5 455
Other key management personnel	1 398	-	1 398
Bolsimo - Gestão de Activos, S.A.	1 933	-	1 933
Clínica CUF Belém, S.A.	20	-	20
Clínica de Serviços Médicos Computorizados de Belém, S.A.	13	-	13
Empresa Gestora de Imóveis da Rua do Prior S.A	67	-	67
Fundação Montepio Geral	1 786	-	1 786
Fundo de Pensões - Montepio Geral	30 456	2 200	32 656
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	4 419	-	4 419
Germont – Empreendimentos Imobiliários, S.A.	200	-	200
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	19	-	19
Lusitania Vida, Companhia de Seguros, S.A.	12 222	-	12 222
Lusitania, Companhia de Seguros, S.A.	2 681	-	2 681
Montepio Geral Associação Mutualista	201 257	204 185	405 442
Montepio Gestão de Activos - Soc Gestora Fundos de Investimento, S.A.	2 063	-	2 063
Montepio Gestão de Activos Imobiliários, ACE	2 606	-	2 606
Montepio Imóveis – Sociedade Imobiliária, S.A.	236	-	236
Montepio Residências para Estudantes, S.A:	498	-	498
Montepio Seguros, S.G.P.S., S.A.	434	-	434
N Seguros, S.A.	544	-	544
NovaCâmbios - Instituição de Pagamento, S.A.	657	-	657
Residências Montepio, Serviços de Saúde, S.A.	181	-	181
SAGIES - Segurança e Higiene no Trabalho, S.A.	54	-	54
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	2 449	-	2 449
Sociedade Portuguesa de Administrações, S.A.	225	-	225
Valor Pime - Fundo de Investimento Imobiliário Aberto	2 366	-	2 366
	276 824	206 385	483 209

As at 31 December 2017, the Group's liabilities with related parties, under Article No. 109, included in the balances Deposits from customers, Liabilities represented by securities and Other subordinated debt, are analysed as follows:

(Thousands of Euro)

	Dec 2017		
Companies	**Deposits from customers**	**Liabilities represented by securities and Other subordinated debt**	**Total**
Board of Directors (after 20 March 2018)	914	55	969
Executive Board of Directors (until 20 March 2018)	947	-	947
General and Supervisory Board (until 20 March 2018)	524	-	524
Other Related Parties' Board of Directors	2 962	125	3 087
Other key management personnel	1 541	20	1 561
Bolsimo - Gestão de Activos, S.A.	850	-	850
Clínica CUF Belém, S.A.	29	-	29
Clínica de Serviços Médicos Computorizados de Belém, S.A.	8	-	8
Empresa Gestora de Imóveis da Rua do Prior S.A	5	-	5
Fundação Montepio Geral	882	-	882
Fundo de Pensões - Montepio Geral	13 671	2 250	15 921
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	4 063	-	4 063
Germont – Empreendimentos Imobiliários, S.A.	612	-	612
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	44	-	44
Lusitania Vida, Companhia de Seguros, S.A.	10 819	21 250	32 069
Lusitania, Companhia de Seguros, S.A.	3 386	13 000	16 386
Montepio Geral Associação Mutualista	217 230	386 344	603 574
Montepio Gestão de Activos - Soc Gestora Fundos de Investimento, S.A.	2 451	-	2 451
Montepio Gestão de Activos Imobiliários, ACE	2 182	-	2 182
Montepio Imóveis – Sociedade Imobiliária, S.A.	3 030	-	3 030
Montepio Seguros, S.G.P.S., S.A.	479	-	479
N Seguros, S.A.	442	-	442
Nova Câmbios - Instituição de Pagamento, S.A.	472	-	472
Residências Montepio, Serviços de Saúde, S.A.	225	-	225
SAGIES - Segurança e Higiene no Trabalho, S.A.	77	-	77
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	2 674	-	2 674
Sociedade Portuguesa de Administrações, S.A.	243	-	243
	270 762	423 044	693 806

As at 30 June 2018, the Group's income and expenses with related parties, under Article No. 109, included in the balances Interest and similar income, Interest and similar expense, Net fee and commission income, Other operating income and General and administrative expenses are analysed as follows:

(Thousands of Euro)

	Jun 2018				
Companies	Interest and similar income	Interest and similar expense	Net fee and commission income	Other operating income	General and administrative expenses
Board of Directors (after 20 March 2018)	-	-	-	-	-
Audit Committee (after 20 March 2018)	-	3	-	-	-
Executive Board of Directors (until 20 March 2018)	-	1	-	-	-
General and Supervisory Board (until 20 March 2018)	1	-	-	-	-
Other Related Parties' Board of Directors	3	12	2	-	-
Other key management personnel	7	5	1	-	-
Bolsimo -Gestão de Activos, S.A.	-	-	-	-	-
CESource, ACE	-	-	-	297	-
Fundação Montepio Geral	-	-	1	-	-
Fundo de Pensões - Montepio Geral	-	16	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	19	2	-	-
Germont – Empreendimentos Imobiliários, S.A.	201	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	14	-	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	170	212	-	-
Lusitania, Companhia de Seguros, S.A.	-	88	55	4	-
Montepio Geral Associação Mutualista	1	14 408	3	4 382	1 180
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	-	8	2	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	1 195	1 648
Montepio Imóveis – Sociedade Imobiliária, S.A.	137	1	-	-	-
Montepio Residências para Estudantes, S.A.	-	1	-	-	-
Montepio Seguros, S.G.P.S., S.A.	-	-	36	-	-
N Seguros, S.A.	-	-	5	-	-
NovaCâmbios - Instituição de Pagamento, S.A.	14	-	25	3	-
Residências Montepio, Serviços de Saúde, S.A.	13	-	18	4	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	10	-	-	-
Valor Prime - Fundo de Investimento Imobiliário Aberto	269	1	49	-	245
	660	14 743	411	5 885	3 073

As at 30 June 2017, the Group's income and expenses with related parties, under Article No. 109, included in the balances Interest and similar income, Interest and similar expense, Net fee and commission income, Other operating income and General and administrative expenses are analysed as follows:

(Thousands of Euro)

	Jun 2017				
Companies	Interest and similar income	Interest and similar expense	Net fee and commission income	Other operating income	General and administrative expenses
Executive Board of Directors	-	7	-	-	-
General and Supervisory Board	4	2	-	-	-
Other Related Parties' Board of Directors	1	9	1	-	-
Other key management personnel	5	6	1	-	-
Fundo de Pensões - Montepio Geral	-	32	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	17	3	-	-
Germont – Empreendimentos Imobiliários, S.A.	162	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	11	-	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	229	235	-	-
Lusitania, Companhia de Seguros, S.A.	3	87	85	4	-
Montepio Geral Associação Mutualista	4	21 629	3	249	1 255
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	-	6	2	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	1 287	1 535
Montepio Imóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	241	-	-	-	-
Montepio Seguros, S.G.P.S., S.A.	-	-	18	-	-
N Seguros, S.A.	-	1	15	-	-
Nova Câmbio - Instituição de Pagamento, S.A.	5	-	15	1	-
Residências Montepio, Serviços de Saúde, S.A.	15	-	16	4	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	10	-	-	-
	451	22 035	394	1 545	2 790

Remunerations, expenses and loans granted to the Board of Directors, Audit Committee, General and Supervisory Board and with Other key management personnel are detailed in note 11.

During the first semester of 2018 and during 2017, there were no transactions with the pension's fund of the Group.

53 Securitisation transactions

As at 30 June 2018, there are eight securitisation transactions, seven of which originated in the Group and one in Montepio Investimento, S.A., currently integrated into the Group, following the success of General and Voluntary Public Offering on the equity representative shares of Montepio Holding, S.G.P.S., S.A. (previously named Finibanco Holding, S.G.P.S., S.A.) and transmission of almost all assets and liabilities (business acquisitions) for the Group, as mentioned in the accounting policy described in note 1 a).

The following paragraphs present some additional details of these securitisation transactions.

As at 30 March, 2007, CEMG had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage No. 3. The referred agreement consists in a mortgage credit transfer for a period of 47 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 762,375 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0165% of the referred nominal value.

As at 20 May 2008, CEMG had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 4. The referred agreement consists in a mortgage credit transfer for a period of 48 years, without revolving period and with a fixed limit (Aggregate Principal Amount

Outstanding) of Euro 1,028,600 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.083% of the referred nominal value.

As at 9 December 2008, Montepio Investimento S.A. had settled a mortgage credit portfolio to Tagus – Sociedade de Titularização de Créditos, S.A. in the amount of Euro 236,500 thousand (Aqua Mortage No. 1). The total period of this operation is 55 years, with a revolving period of 2 years.

As at 25 March 2009, CEMG had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 5. The referred agreement consists in a mortgage credit transfer for a period of 52 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,027,500 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0564% of the referred nominal value.

As at 5 March 2012, CEMG had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage No. 6. The referred agreement consists in a mortgage credit transfer for a period of 51 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,107,000 thousand. The transfer price by which the loans were transferred was their nominal value, including the initial selling costs which represented 0.1083% of the Asset Backed Notes.

As at 7 May 2014, CEMG and Montepio Crédito celebrated with Tagus - Sociedade de Titularização, SA, a contract for the sale of consumer loans within a securitisation of credits (Pelican Finance No. 1). The total period of the operation is 14 years, with an initial revolving period of 18 months, amended in November 2015 to 42 months and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 308,700 thousand. The sale was made at their nominal value, including the initial selling costs which represented 0.1871% of Asset Backed Notes.

As at 5 March 2015, CEMG signed with Sagres - Sociedade de Titularização de Créditos, S.A a securitisation contract for small and medium size companies, Pelican SME No. 2. The total period of operation is 28 years with revolving period of 24 months and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,124,300 thousand. The sale was made at their nominal value with the cost of the initial sales process represented 0.0889% of Asset Backed Notes.

As at 11 July 2017, Montepio Crédito signed with Tagus - Sociedade de Titularização de Créditos, S.A., a securitisation contract for consumer loans Aqua Finance No. 4. The term of the operation is 18 years, with a revolving period of 18 months and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 200,200 thousand. The sale was made at par value, including the initial selling costs which represented 0.6991% of Asset Backed Notes.

The entity that guarantees the debt service (servicer) of these operations is CEMG assuming the collection of credits sold and assigned amounts received by deposits, to Sociedades de Titularização de Créditos (Pelican Mortgages No. 3, Pelican Mortgages No. 4, Pelican Mortgages No. 5, Pelican Mortgages No. 6, Aqua Mortgages No. 1, Pelican Finance No. 1 and Pelican SME No. 2). Montepio Crédito – Instituição Financeira de Crédito, S.A. assures the same functions for operation Pelican Finance No. 1.

As at 30 June 2018, the securitisation operations executed by the Group are presented as follows:

(Thousands of Euro)

Issue	Settlement date	Currency	Asset transferred	Loans: Initial amount	Loans: Current amount	Liabilities: Initial nominal amount	Liabilities: Current nominal amount	Liabilities: Third party amount *
Pelican Mortgages No. 3	March 2007	Euro	Mortgage loan	762 375	210 720	762 375	214 816	85 205
Pelican Mortgages No. 4	May 2008	Euro	Mortgage loan	1 028 600	585 016	1 028 600	612 534	-
Aqua Mortgage No. 1	December 2008	Euro	Mortgage loan	236 500	113 635	236 500	109 184	-
Pelican Mortgages No. 5	March 2009	Euro	Mortgage loan	1 027 500	584 702	1 027 500	608 090	-
Pelican Mortgages No. 6	February 2012	Euro	Mortgage loan	1 107 000	771 711	1 107 000	827 082	-
Pelican Finance No. 1	May 2014	Euro	Consumer credit	308 700	234 571	308 700	246 313	-
Pelican SME No. 2	March 2015	Euro	Small companies	1 124 300	581 517	1 124 300	634 577	39 094
Aqua Finance No. 4	July 2017	Euro	Consumer credit and other loans	200 200	180 017	200 200	200 200	154 152
				5 795 175	3 261 889	5 795 175	3 452 796	278 451

* It includes nominal amount, accrued interest and other adjustments.

In December 2017, CEMG settled Pelican Mortgages No.1 through the exercise of the existing call option.

As at 31 December 2017, the securitisation operations executed by the Group are presented as follows:

(Thousands of Euro)

Issue	Settlement date	Currency	Asset transferred	Loans: Initial amount	Loans: Current amount	Liabilities: Initial nominal amount	Liabilities: Current initial amount	Liabilities: Third party amount *
Pelican Mortgages No. 3	March 2007	Euro	Mortgage loan	762 375	222 997	762 375	227 114	90 178
Pelican Mortgages No. 4	May 2008	Euro	Mortgage loan	1 028 600	615 516	1 028 600	642 411	-
Aqua Mortgage No. 1	December 2008	Euro	Mortgage loan	236 500	120 699	236 500	115 566	-
Pelican Mortgages No. 5	March 2009	Euro	Mortgage loan	1 027 500	613 297	1 027 500	636 245	-
Pelican Mortgages No. 6	February 2012	Euro	Mortgage loan	1 107 000	812 326	1 107 000	863 990	-
Pelican Finance No. 1	May 2014	Euro	Consumer credit	308 700	286 927	308 700	299 342	-
Pelican SME No. 2	March 2015	Euro	Small companies	1 124 300	759 583	1 124 300	817 141	178 283
Aqua Finance No. 4	July 2017	Euro	Consumer credit and other loans	200 200	191 695	200 200	200 200	154 055
				5 795 175	3 623 040	5 795 175	3 802 009	422 516

* It includes nominal amount, accrued interest and other adjustments.

Additionally, the detail of debt securities issued not derecognised, by securitisation operation and nature of the contracts, at 30 June 2018, is presented as follows:

(Thousands of Euro)

	Securitisation transactions not derecognised: 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	Aqua Finance n.º 4	Total
Domestic credit									
Corporate									
Loans and advances	-	-	-	-	-	-	489 262	-	489 262
Pledged current account	-	-	-	-	-	-	4 140	-	4 140
Other loans	-	-	-	-	-	-	23 289	97 560	120 849
Retail									
Mortgage	209 562	581 896	109 348	581 557	759 694	-	-	-	2 242 057
Consumer credit and other loans	-	-	-	-	-	229 531	44 428	81 880	355 839
	209 562	581 896	109 348	581 557	759 694	229 531	561 119	179 440	3 212 147
Loans and overdue interest									
Below 90 days	75	1 122	845	874	3 609	372	1 113	214	8 224
Above 90 days	1 083	1 998	3 442	2 271	8 408	4 668	19 285	363	41 518
	1 158	3 120	4 287	3 145	12 017	5 040	20 398	577	49 742
	210 720	585 016	113 635	584 702	771 711	234 571	581 517	180 017	3 261 889

Additionally, the detail of debt securities issued not derecognised, by securitisation operation and nature of the contracts, at 31 December 2017, is presented as follows:

(Thousands of Euro)

	Securitisation transaction not derecognised								
	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	Aqua Finance n.º 4	Total
Domestic credit									
Corporate									
Loans and advances	-	-	-	-	-	-	589 601	-	589 601
Pledged current account	-	-	-	-	-	-	65 442	-	65 442
Other loans	-	-	-	-	-	-	32 422	108 932	141 354
Retail									
Mortgage	221 813	612 642	116 676	610 494	801 579	-	-	-	2 363 204
Consumer credit and other loans	-	-	-	-	-	282 643	55 149	82 413	420 205
	221 813	612 642	116 676	610 494	801 579	282 643	742 614	191 345	3 579 806
Loans and overdue interest									
Below 90 days	53	1 153	670	815	3 210	419	1 046	286	7 652
Above 90 days	1 131	1 721	3 353	1 988	7 537	3 865	15 923	64	35 582
	1 184	2 874	4 023	2 803	10 747	4 284	16 969	350	43 234
	222 997	615 516	120 699	613 297	812 326	286 927	759 583	191 695	3 623 040

As at 30 June 2018, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bonds	Initial nominal amount Euro	Current nominal amount Euro	Interest held by CEMG (nominal amount) Euro	Maturity date	Rating (initial) Fitch	Rating (initial) Moodys	Rating (initial) S&P	Rating (initial) DBRS	Rating (current) Fitch	Rating (current) Moodys	Rating (current) S&P	Rating (current) DBRS
Pelican Mortgages No 3	Class A	717 375 000	198 932 214	113 728 358	2054	AAA	Aaa	AAA	n.a.	BBB-	A3	BBB-	n.a.
	Class B	14 250 000	5 136 148	5 136 148	2054	AA-	Aa2	AA-	n.a.	BBB-	Ba1	B-	n.a.
	Class C	12 000 000	4 325 177	4 325 177	2054	A	A3	A	n.a.	BB	B2	B-	n.a.
	Class D	6 375 000	2 297 750	2 297 750	2054	BBB	Baa3	BBB	n.a.	BB	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	460 528 520	460 528 520	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	A (h)
	Class B	55 500 000	40 767 709	40 767 709	2056	AA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	44 073 199	44 073 199	2056	A-	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	25 000 000	18 363 833	18 363 833	2056	BBB	n.a.	n.a.	n.a.	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	20 200 216	20 200 216	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	403 782 703	403 782 703	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	141 419 704	141 419 704	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	19 943 804	19 943 804	2061	B	n.a.	n.a.	n.a.	BBB-	n.a.	n.a.	n.a.
	Class D	27 500 000	19 943 804	19 943 804	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	471 881 767	471 881 767	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	80 586 842	80 586 842	2063	n.a.	n.a.	AAA	n.a.	n.a.	n.a.	A+	AA (h)
	Class B	29 824 000	25 097 523	25 097 523	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	3 500 000	3 500 000	3 500 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Finance No 1	Class A	202 900 000	143 724 397	143 724 397	2028	A	n.a.	n.a.	A	A	n.a.	n.a.	A
	Class B	91 100 000	87 888 897	87 888 897	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	51 276 711	12 182 799	2043	A+	n.a.	n.a.	A (lo)	A+	n.a.	n.a.	AA
	Class B	76 400 000	76 400 000	76 400 000	2043	A	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	87 300 000	87 300 000	87 300 000	2043	BBB	n.a.	n.a.	n.a.	A+	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 2017, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bonds	Initial nominal amount Euro	Current nominal amount Euro	Interest held by CEMG (nomina amount) Euro	Maturity date	Rating (Initial)				Rating (current)			
						Fitch	Moodys	S&P	DBRS	Fitch	Moodys	S&P	DBRS
Pelican Mortgages No 3	Class A	717 375 000	210 543 589	120 365 825	2054	AAA	Aaa	AAA	n.a.	BBB-	A3	BBB-	n.a.
	Class B	14 250 000	5 435 937	5 435 937	2054	AA-	Aa2	AA-	n.a.	BBB-	Ba1	B-	n.a.
	Class C	12 000 000	4 577 631	4 577 631	2054	A	A3	A	n.a.	BB	B2	B-	n.a.
	Class D	6 375 000	2 431 867	2 431 867	2054	BBB	Baa3	BBB	n.a.	B	Caa1	B-	n.a.
	Class E	8 250 000	-	-	2054	BBB-	n.a.	BBB-	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	4 125 000	4 125 000	4 125 000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 4	Class A	832 000 000	484 091 607	484 091 607	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	A (h)
	Class B	55 500 000	42 853 602	42 853 602	2056	AA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	46 328 218	46 328 218	2056	A-	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	25 000 000	19 303 424	19 303 424	2056	BBB	n.a.	n.a.	n.a.	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	21 233 767	21 233 767	2056	BB	n.a.	n.a.	n.a.	B	n.a.	n.a.	n.a.
	Class F	28 600 000	28 600 000	28 600 000	2056	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 5	Class A	750 000 000	423 213 189	423 213 189	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	148 224 982	148 224 982	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	20 903 523	20 903 523	2061	B	n.a.	n.a.	n.a.	BBB-	n.a.	n.a.	n.a.
	Class D	27 500 000	20 903 523	20 903 523	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	4 500 000	-	-	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	23 000 000	23 000 000	23 000 000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 6	Class A	750 000 000	508 789 579	508 789 579	2063	A	n.a.	A-	AA	A+	n.a.	A	AA (h)
	Class B	250 000 000	250 000 000	250 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	1 800 000	-	-	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class D	65 000 000	65 000 000	65 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	40 200 000	40 200 000	40 200 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua Mortgage No 1	Class A	203 176 000	85 732 409	85 732 409	2063	n.a.	n.a.	AAA	n.a.	n.a.	n.a.	A+	AA (h)
	Class B	29 824 000	26 333 982	26 333 982	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	3 500 000	3 500 000	3 500 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Finance No 1	Class A	202 900 000	193 541 835	193 541 835	2028	A	n.a.	n.a.	A	A	n.a.	n.a.	A
	Class B	91 100 000	91 100 000	91 100 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	14 700 000	14 700 000	14 700 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican SME No 2	Class A	545 900 000	233 840 775	55 558 072	2043	A+	n.a.	n.a.	A (lo)	A+	n.a.	n.a.	AA
	Class B	76 400 000	76 400 000	76 400 000	2043	A	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	87 300 000	87 300 000	87 300 000	2043	BBB	n.a.	n.a.	n.a.	BBB+	n.a.	n.a.	n.a.
	Class D	398 500 000	398 500 000	398 500 000	2043	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	16 200 000	21 100 000	21 100 000	2043	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua Finance n.º 4	Class A	140 000 000	139 146 000	-	2035	n.a.	A3	n.a.	A(lo)	n.a.	A3	n.a.	A(lo)
	Class B	15 000 000	14 909 000	-	2035	n.a.	Ba2	n.a.	BBB(lo)	n.a.	Ba2	n.a.	BBB(lo)
	Class C	45 200 000	45 200 000	45 200 000	2035	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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

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

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

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

As at 30 June 2018, the Group had a network of 324 branches in Portugal, a local bank in Cape Verde, one financial institution in Angola with 24 branches and one financial institution in Mozambique with 10 branches.

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

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

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

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

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

Segments description

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

Retail Bank

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

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

Corporate and Institutional

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

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

Other segments

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

Allocation criteria of the activity and results to the operating segments

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

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

Measurement of profit or loss from operating segments

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

Autonomous Operating Segments

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

Group structures dedicated to the segment

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

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

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

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

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

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

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

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

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

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

Interest and similar income/expense

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

Consolidated Investments under the equity method

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

Non-current assets

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

Post Employment Benefits

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

Domestic and International Areas

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

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

The report by operating segments as at 30 June 2018, is presented as follows:

(Thousands of Euro)

Income Statement	Retail	Corporate	Other segments				Total
			Markets	*Non core assets* (Real Estate and NPL)	Discontinuing operations	Other operating segments	
Interest and similar income	109 212	48 017	27 489	9 470	-	3 175	**197 363**
Interest and similar expense	25 404	4 208	31 568	4 087	-	(2 142)	**63 125**
Net interest income	**83 808**	**43 809**	**(4 079)**	**5 383**	**-**	**5 317**	**134 238**
Dividends from equity instruments	-	-	7 935	-	-	-	**7 935**
Fee and commission income	49 195	10 486	-	-	-	(2 282)	**57 399**
Net gains/ (losses) arising from assets and liabilities at fair value through profit or loss	-	-	1 956	-	-	-	**1 956**
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	-	-	4 001	-	-	-	**4 001**
Net gains/ (losses) arising from foreign exchange differences	-	-	(793)	-	-	-	**(793)**
Net gains/ (losses) arising from sale of other financial assets	-	-	-	6 444	-	(945)	**5 499**
Other operating income/ (expenses)	3 373	370	(308)	3 895	-	(16 887)	**(9 557)**
Total operating income	**136 376**	**54 665**	**8 712**	**15 722**	**-**	**(14 797)**	**200 678**
Staff costs	55 851	8 337	1 369	4 738	-	13 923	**84 218**
General and administrative expenses	20 562	3 202	933	8 498	-	3 186	**36 381**
Depreciation and amortisation	-	-	-	-	-	12 099	**12 099**
	76 413	**11 539**	**2 302**	**13 236**	**-**	**29 208**	**132 698**
Total provisions and impairment	(9 564)	629	2 517	63 298	-	2 631	**59 511**
Total operating profit	**69 527**	**42 497**	**3 893**	**(60 812)**	**-**	**(46 636)**	**8 469**
Share of profits of associates under equity method	**-**	**-**	**-**	**-**	**-**	**(104)**	**(104)**
Income before taxes and non-controlling interests	**69 527**	**42 497**	**3 893**	**(60 812)**	**-**	**(46 740)**	**8 365**
Current and deferred taxes	**(20 510)**	**(12 537)**	**(1 148)**	**17 939**	**-**	**14 028**	**(2 228)**
Net gains/ (losses) arising from continuing operations					**-**	**-**	**6 137**
Net gains/ (losses) arising from discontinuing operations	**-**	**-**	**-**	**-**	**11 940**	**-**	**11 940**
Consolidated net gains/ (losses) after taxes	**-**	**-**	**-**	**-**	**11 940**	**-**	**18 077**
Non-controlling interests	**-**	**-**	**-**	**-**	**2 280**	**-**	**2 280**
Consolidate net profit attributable to the Shareholder	**49 017**	**29 960**	**2 745**	**(42 873)**	**9 660**	**(32 712)**	**15 797**
Net assets	8 624 643	2 875 021	2 154 628	2 470 458	355 341	2 769 151	**19 249 242**
Liabilities	10 519 502	1 963 206	1 356 734	-	257 145	3 523 129	**17 619 716**
Investments in associates	-	-	3 967	-	-	-	**3 967**

Other segments - Discontinuing operations includes the contribution of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A., whose impact on the several balances of the Income Statement is disclosed in note 61.

The report by operating segments as at 30 June 2017, is presented as follows:

(Thousands of Euro)

Income Statement	Retail	Corporate	Other segments: Markets	Other segments: Non core assets (Real Estate)	Other segments: Discontinuing operations	Other segments: Other operating segments	Total
Interest and similar income	116 768	52 771	65 005	17 928	-	1 698	254 170
Interest and similar expense	37 991	4 032	60 973	3 846	-	4 021	110 863
Net interest income	78 777	48 739	4 032	14 082	-	(2 323)	143 307
Dividends from equity instruments	-	-	7 744	-	-	-	7 744
Fee and commission income	48 428	11 744	-	-	-	(4 954)	55 218
Net gains/ (losses) arising from assets and liabilities at fair value through profit or loss	-	-	3 973	-	-	-	3 973
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	-	-	21 545	-	-	-	21 545
Net gains/ (losses) arising from foreign exchange differences	-	-	1 079	-	-	-	1 079
Net gains/ (losses) arising from sale of other financial assets	-	-	14 375	4 294	-	485	19 154
Other operating income/ (expenses)	4 903	522	(2 580)	10 238	-	(16 547)	(3 464)
Total operating income	132 108	61 005	50 168	28 614	-	(23 339)	248 556
Staff costs	54 340	10 710	2 510	6 613	-	10 495	84 668
General and administrative expenses	20 696	3 014	1 073	11 262	-	4 020	40 065
Depreciation and amortisation	-	-	-	-	-	12 479	12 479
	75 036	13 724	3 583	17 875	-	26 994	137 212
Total provisions and impairment	7 260	6 578	4 905	57 888	-	12 515	89 146
Total operating profit	49 812	40 703	41 680	(47 149)	-	(62 848)	22 198
Share of profits of associates under equity method	-	-	-	-	-	(90)	(90)
Income before taxes and non-controlling interests	49 812	40 703	41 680	(47 149)	-	(62 938)	22 108
Current and deferred taxes	(14 695)	(12 007)	(12 296)	13 909	-	11 940	(13 149)
Non-controlling interests	-	-	-	-	1 344	-	1 344
Net gains/ (losses) arising from discontinuing operations	-	-	-	-	5 434	-	5 434
Consolidated net profit for the period attributable to the holders of Institutional capital and Participation Fund	35 117	28 696	29 384	(33 240)	4 090	(50 998)	13 049
Net assets	9 567 591	2 986 332	2 929 523	3 373 552	445 805	903 090	20 205 893
Liabilities	9 950 000	1 678 000	1 314 269	-	319 652	5 170 843	18 432 764
Investments in associates	-	-	3 698	-	-	-	3 698

Other segments - Discontinuing Operations includes the contribution of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A., whose impact on the several balances of the Income Statement is disclosed in note 61.

As at 30 June 2018, the net contribution of the main geographical areas is as follows:

(Thousands of Euro)

Income Statement	Activity Domestic	Activity Foreign	Total
Interest and similar income	195 838	1 525	197 363
Interest and similar expense	61 721	1 404	63 125
Net interest income	134 117	121	134 238
Dividends from equity instruments	7 935	-	7 935
Fee and commission income	57 399	-	57 399
Net gains/ (losses) arising from assets and liabilities at fair value through profit or loss	1 956	-	1 956
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	4 001	-	4 001
Net gains/ (losses) arising from foreign exchange differences	(796)	3	(793)
Net gains/ (losses) arising from sale of other financial assets	5 499	-	5 499
Other operating income/ (expenses)	(9 558)	1	(9 557)
Total operating income	200 553	125	200 678
Staff costs	84 118	100	84 218
General and administrative expenses	36 111	270	36 381
Amortisation and depreciation	12 096	3	12 099
	132 325	373	132 698
Loans impairment	45 842	-	45 842
Other financial assets impairment	2 597	-	2 597
Other assets impairment	9 364	-	9 364
Other provisions	1 708	-	1 708
Total operating profit	8 717	(248)	8 469
Share of profits of associates under the equity method	(104)	-	(104)
Profit before income tax and non-controlling interests	8 613	(248)	8 365
Current taxes	(1 118)	-	(1 118)
Deferred taxes	(1 110)	-	(1 110)
Profit/ (loss) from discontinuing operations	-	11 940	11 940
Non-controlling interests	-	2 280	2 280
Consolidated net profit attributable to the Shareholder	6 385	9 412	15 797

Foreign Activity includes in the balance Income from discontinuing operations, the contribution of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A., whose impact on the several balances of the Income Statement is disclosed in note 61.

As at 30 June 2018, the net contribution of the main geographical areas is as follows:

(Thousands of Euro)

Statement of Financial Position	Activity		Total
	Domestic	Foreign	
Cash and deposits at credit institutions	1 906 438	185 777	2 092 215
Loans and advances to customers	12 625 830	-	12 625 830
Investments in financial assets and associated companies	2 164 206	-	2 164 206
Non-current assets held for sale	740 350	-	740 350
Investment properties	285 602	-	285 602
Non-current assets held for sale - discontinuing operations	-	355 341	355 341
Other assets	985 457	241	985 698
Total Assets	18 707 883	541 359	19 249 242
Deposits from central banks and credit institutions	3 262 711	-	3 262 711
Deposits from customers	12 307 805	174 903	12 482 708
Debt securities issued and other subordinated debt	1 356 732	2	1 356 734
Non-current liabilities held for sale - discontinuing operations	-	257 145	257 145
Other liabilities	258 611	1 807	260 418
Total Liabilities	17 185 859	433 857	17 619 716
Non-controlling interests	-	27 898	27 898
Total Equity attributable to the Shareholder	1 522 024	79 604	1 601 628
Total Equity	1 522 024	107 502	1 629 526
Total Liabilities and Equity	18 707 883	541 359	19 249 242

Foreign Activity includes in the balances Non-current assets and liabilities held for sale – discontinuing operations, the contribution of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A., whose impact on the several balances of the Statement of Financial Position is disclosed in note 61.

As at 30 June 2017, the net contribution of the main geographical areas is as follows:

(Thousands of Euro)

Income Statement	Activity Domestic	Activity Foreign	Total
Interest and similar income	254 170	-	254 170
Interest and similar expense	109 142	1 721	110 863
Net interest income	145 028	(1 721)	143 307
Dividends from equity instruments	7 744	-	7 744
Fee and commission income	55 218	-	55 218
Net gains/ (losses) arising from assets and liabilities at fair value through profit or loss	3 973	-	3 973
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	21 545	-	21 545
Net gains/ (losses) arising from foreign exchange differences	976	103	1 079
Net gains/ (losses) arising from sale of other financial assets	19 154	-	19 154
Other operating income	(3 462)	(2)	(3 464)
Total operating income	250 176	(1 620)	248 556
Staff costs	84 656	12	84 668
General and administrative expenses	39 949	116	40 065
Depreciation and amortisation	12 474	5	12 479
	137 079	133	137 212
Loans impairment	63 545	-	63 545
Other financial assets impairment	4 905	-	4 905
Other assets impairment	10 175	-	10 175
Other provisions	10 521	-	10 521
Total operating profit	23 951	(1 753)	22 198
Share of profits of associates under the equity method	(90)	-	(90)
Profit before income tax and non-controlling interests	23 861	(1 753)	22 108
Current taxes	(3 890)	-	(3 890)
Deferred taxes	(9 259)	-	(9 259)
Profit/ (loss) from discontinuing operations	-	5 434	5 434
Non-controlling interests	-	1 344	1 344
Consolidated net profit for the period attributable to the holders of Institutional Capital and Participation Fund	10 712	2 337	13 049

The International Activity includes in the balance Net gains/ (losses) arising from discontinuing operations, the contribution of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A., whose impact on the several balances of the Income Statement is disclosed in note 61.

As at 31 December 2017, the net contribution of the main geographical areas is as follows:

(Thousands of Euro)

Statement of Financial Position	Activity		
	Domestic	Foreign	Total
Cash and deposits at credit institutions	1 902 913	193 123	2 096 036
Loans and advances to customers	13 029 318	-	13 029 318
Investments in financial assets and associated companies	2 389 066	-	2 389 066
Non-current assets held for sale	742 221	-	742 221
Investment properties	538 625	-	538 625
Non-current assets held for sale - discontinuing operations	-	474 475	474 475
Other assets	930 203	80	930 283
Total Assets	19 532 346	667 678	20 200 024
Deposits from central banks and credit institutions	3 344 085	472	3 344 557
Deposits from customers	12 379 697	181 343	12 561 040
Debt securities issued and subordinated debt	1 780 245	2	1 780 247
Non-current liabilities held for sale - discontinuing operations	-	330 392	330 392
Other liabilities	419 034	1 833	420 867
Total Liabilities	17 923 061	514 042	18 437 103
Non-controlling interests	-	32 835	32 835
Total Equity attributable to the holders of Institutional Capital and Participation Fund	1 609 285	120 801	1 730 086
Total Equity	1 609 285	153 636	1 762 921
Total Liabilities and Equity	19 532 346	667 678	20 200 024

Foreign Activity includes in the balances Non-current assets and liabilities held for sale – discontinuing operations, the contribution of the subsidiaries Finibanco Angola, S.A. and Banco Terra, S.A., whose impact on the several balances of the Statement of Financial Position is disclosed in note 61.

55 Risk management

Objectives of the Risk Management Policy

CEMG is exposed to a number of risks, including credit, concentration, market, interest rate, currency, liquidity, real estate, operational and pension fund risks. Aditionally, the Group is subject to other risks of non-financial nature, namely the operating, reputation, strategy and business risks. Depending on the nature and relevance of the risk, plans, programs or actions are designed, supported by information systems and procedures providing a high degree of reliability regarding risk management measures that have been established in due course. All risks identified as material are subject to regular monitoring and mitigation actions in order to reduce potential losses to CEMG.

Control and efficient risk management have played a key role in CEMG's balanced and sustained development. In addition, it contributes to the optimisation of the profitability / risk binomial of the various lines of business, they also ensure the maintenance of a conservative risk profile in solvency and liquidity.

The monitoring of these risks is centralised in the Risk Department, which informs the Board of its development and proposes action measures when necessary.

CEMG's risk management policy is the responsibility of the Board of Directors, which defines the tolerance levels and maximum risk limits, for each specific risk considered materially relevant, in accordance with the defined strategic objectives and business plans, which is reviewed regularly. It is also the responsibility of the Board to ensure the existence of risk control suitable to the Group, namely through its supervisory boards. The Risk Committee is the non-executive body with the role of risk management supervisory, whose mission is to monitor the design and implementation of the risk strategy and risk appetite of CEMG Group and to verify if these are aligned with the sustainable strategy in the medium and long term, providing advice to the Board of Directors in these areas.

The Board of Directors seeks to ensure sufficient capital to meet regulatory requirements to cover potential losses, with an optimised balance sheet structure that maintains a stable funding capacity and strong liquidity, allowing them to face stress situations and ensuring the continuity of its operations and the protection of its depositors and holders of non-subordinated debt.

Particularly, CEMG Group has clear objectives, determined in its strategic plan, for capital ratios, ratio of transformation of deposits into credit and liquidity and financing ratios, in addition to a feasible and sustainable business model aligned with risk appetite.

Risk appetite is based on certain principles - namely consistency, sustainability and profitability - and is defined in terms of the strategic plan and the intended market positioning. CEMG analyzes the risks it faces in its activities and identifies those that are materially relevant. For these, objectives are set according to the desired level of return and strategy, tolerance levels, that is, ranges of risk variation that can lead to discussions and decisions about corrective measures, and limits that are exceeded can lead to immediate corrective measures.

The main concern of the Board of Directors in determining risk appetite is its alignment with other organisational components (business strategy and global vectors of risk strategy). In addition, the Board of Directors seeks to ensure that risk appetite is well understood across the entire organization, especially the business units responsible for decision making and which may affect risk exposure and its monitoring.

CEMG's risk management policy is designed to ensure adequate relationship at all times between its own funds and the business it carries on, and also to evaluate the risk/return profile by business line, thus, monitoring and control of the main types of financial risk – credit, market, liquidity real estate and operational – to which CEMG's business is subject are of particular importance.

In order to ensure an effective management of the risks associated with the Group's activities, the Risk Department is responsible for promoting that all CEMG Group companies, including those located abroad, implement risk management systems that are consistent with each other and in accordance with the requirements set forth in the Internal Regulations of the CEMG risk management function, in the CEMG Group's Global Risk Policy and in other applicable internal policies and regulations, without prejudice to its legal and regulatory framework. The Risk Department is responsible for monitoring the risk management activity of CEMG's companies, on a consolidated and individual basis, ensuring the consistency of risk concepts used, the methodologies for risk identification, measurement and control, the supporting standards and respective risk profile monitoring processes, as well as compliance with applicable regulatory and prudential requirements, specially on a consolidated basis. These activities should be directly executed by the risk management functions of those entities, except in those cases where CEMG's Board of Directors decides that the development of these responsibilities by CEMG's Risk Department is more effective and efficient.

Credit risk

Credit risk is associated with the uncertainty of expected returns due to the inability of both the lessee (and his guarantor, if any), or the issuer of a security or counterparty to comply with its obligations.

The credit risk management process is based on the existence of a solid process of credit analysis and decision, prepared on a set of tools supporting the credit decision process. The quantification of credit risk is also supported in the model for calculating impairment losses.

The fundamental principle of credit risk analysis is independence towards business decisions. In this analysis instruments are used and rules defined according to the materiality of the exposures, familiarity with the types of risk involved (e.g. the modeling capacity of such risks) and the liquidity of the instruments.

Credit risk models play a significant role in credit decision process. Indeed, the decision process concerning the credit portfolio depends on a group of policies based on scoring models developed to individual and business clients and the rating for the corporate sector.

Regarding the analysis methodologies, within the credit risk, the credit risk techniques and models are based on econometric modeling, based on the institution's experience in granting various types of credit facilities and, where possible, recovery.

Credit decisions are dependent upon risk ratings and compliance with various rules governing financial capacity and applicants' behavior.

There are scoring models for credit to individual credit portfolios, namely to mortgage loans, individual loans and credit cards.

Individual Entrepreneurs (Empresários em nome individual - ENI) and Micro businesses are considered retail, and therefore the respective scoring models are applied.

There are also behavioral scoring models for retail portfolios, which are used to monitor the credit portfolio and to evaluate new credit proposals, and these are coupled with reactive scoring information, where applicable.

Regarding non-retail credit portfolios, internal rating models are used for small, medium and large companies, distinguished by business sectors, such as the third sector, or by seniority of the company's activity, namely start-up companies.

Regardless of the typology of the applicable model, any proposal, contract or credit customer is classified into a single risk scale class, in ascending order of Probability of Default, and this scale composed of 19 classes, of which the first 15 correspond to performing risk classes, classes 16 to 18 to credit incidents and 19th to non-compliance, in accordance with the applicable internal definition, which follows the regulators' prudential requirements.

It is possible to exceed the response of scoring systems, internal ratings and internal price lists, only by higher decision levels, in accordance with principles of delegation of responsibilities set out. Rejection situations are defined in order to minimise the risk of adverse selection, however there is always a risk class for rejection.

Intervention limits are also defined for the different decisions, by amount of operation and global customer exposure, type of operation / collateral and assigned risk class. In this context, the principle that higher hierarchical positions have to approve operations with lower adjusted ROE risk or higher exposures is highlighted. These limits are approved by the Board of Directors, and the highest decision scale corresponds to the Board of Directors. At intermediate stages, it is compulsory to intervene in a collegial system of at least two players, one belonging to the commercial network and the other to the Department of Credit Analysis (independent body of the commercial structure) as well as the Risk Department, which is responsible for the development of credit risk models (scoring and rating), and for the monitoring of CEMG's risk control, on a global basis.

Risk analysis also involves regular internal reporting on key types of risk. Within credit risk, monthly internal reports are prepared, with the main risk indicators of credit portfolios and metrics on the use of rating / scoring models. In terms of preventive monitoring, an alert system is in place for the main indicators of credit risk tightening (Early Warning Signs).

In July 2014, IASB released the final version of IFRS 9 which replaces IAS 39, which entered into force on 1 January 2018. IFRS 9 is based on three pillars:

- Classification and Measurement;
- Impairment; and
- Hedge accounting.

With respect to impairment, IFRS 9 establishes the need to recognise Expected Credit Losses (ECL) as impairment for all financial assets that meet the SPPI (Solely Payment of Principal and Interest) criteria, considering the expected loss of credit at one year, or the expected loss of credit until the maturity of the financial instrument (ECL lifetime).

The Expected Loss Model (IFRS9) replaces the Incurred Loss Model (IAS39).

According to this amendment, financial assets are classified into segments, based on the evolution of their credit risk:

- *Stage* 1: Regular financial assets, that is, without any sign of a significant increase in credit risk since its initial recognition and which are not in default;
- *Stage* 2: Financial assets with a significant increase in credit risk since initial recognition, based on the criteria set out in internal regulations on the recognition of a significant increase in credit risk or other financial assets (in particular, Amounts receivable, Other debtors, Other receivables or Sundry debtors). It should be noted that credit restructured due to financial difficulties is considered a significant increase driver in credit risk, and therefore, the restructured credit portfolio is included in stage 2;
- *Stage* 3: Financial assets in default, based on default indicators which are defined in internal regulations on default or financial assets purchased or generated with impairment, are considered as impaired financial assets, for the purposes of current requirements.

The calculation of expected losses (ECL) for homogeneous populations results from the product of the default probability (PD), the default loss (LGD) and the exposure at default (EAD), deducted from the contract's effective interest rate until the reporting date.

The main difference between impairment losses measured for financial assets classified in the stages refers to PD's time horizon.

The probability of default (PD) is one of the main differences in the impairment calculation under IFRS9 (ECL), and two types of PD can be expected:

- ✓ 12-month PD: the probability of a default occurring within the next 12 months (for contracts belonging to stage 1);
- ✓ Lifetime PD: it is the probability of a default occurring during the remaining life of the credit (for stage 2 contracts). In such case, lifetime parameters are used and forward looking information is considered;
- ✓ PD=100% to all stage 3 contracts.

In the group of individually significant clients, client exposures are subject to individual analysis. This analysis focuses on the credit quality of the debtor, as well as on the expectations of recovering the credit, considering collateral and existing collateral, as well as the remaining relevant factors.

Impairment value for Individually Significant Clients is determined using the discounted cash-flows method, that is, the impairment value corresponds to the difference between the credit value and the sum of the expected cash flows for the client's various operations, updated according to the interest rates of each operation.

The following information is related to the exposure of the CEMG to the credit risk, where the most relevant item in terms of exposure is, so as in terms of the associated risk, is loans to customers. It should be noted that the portfolio of financial assets at fair value through other comprehensinve income is essentially composed of public debt securities of the European Union.

The information contained in the tables presented excludes the balance componente of entities to the application of the IFRS 5, which correspond to the subsidiaries in Angola and Mozambique, which is recorded under the caption Non-current assets held for sale in discontinuing operations.

The Group's credit risk exposure can be analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Loans and advances to credit institutions repayable on demand	54 018	50 205
Other loans and advances to credit institutions	317 203	312 203
Loans and advances to customers	12 625 830	13 029 318
Financial assets held for trading	43 358	174 175
Financial assets not held for trading mandatorily at fair value through profit or loss	22 059	-
Financial assets at fair value through other comprehensive income	833 185	1 658 409
Hedging derivatives	5 611	-
Other financial assets at amortised cost	620 891	-
Investments in associates	3 967	4 097
Other assets	194 216	184 245
Guarantees granted	512 107	500 063
Irrevocable credit lines	592 723	609 515
	15 825 168	16 522 230

The analysis of the credit risk exposure by sector of activity, for the period ended as at 30 June 2018, can be analysed as follows:

(Thousands of Euro)

Activity	Jun 2018 Loans and advances to credit institutions repayable on demand	Other loans and advances to credit institutions		Loans and advances to customers		Financial assets held for trading	Financial assets not held for trading mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Hedging derivatives	Other financial assets at amortised cost		Investments in associates	Guarantees granted	Irrevocable credit lines	Provisions for off-balance sheet liabilities
	Book value	Book value	Impairment	Gross amount	Impairment	Book value	Book value	Gross amount	Impairment	Book value	Gross amount	Impairment	Book value	Off-balance sheet value	Book value	Provisions
Corporate																
Agriculture, forestry and fishing	-	-	-	82 984	5 726	-	-	-	-	-	-	-	-	2 337	4 609	112
Mining	-	-	-	18 076	1 868	-	-	-	-	-	-	-	-	1 077	1 338	270
Food, beverage and tobacco	-	-	-	227 676	16 978	-	-	-	-	-	-	-	-	3 187	33 388	143
Textiles	-	-	-	90 930	11 654	-	-	-	-	-	-	-	-	1 965	7 265	3
Shoes	-	-	-	46 281	4 613	-	-	-	-	-	-	-	-	23	5 567	-
Wood and cork	-	-	-	33 239	4 804	-	844	-	-	-	-	-	-	414	4 338	39
Printing and publishing	-	-	-	38 933	6 061	-	-	2 497	5	-	-	-	-	392	3 703	31
Petroleum refining	-	-	-	1 678	257	-	-	1 480	2	-	-	-	-	-	-	-
Chemicals and rubber	-	-	-	95 840	6 512	-	-	-	-	-	-	-	-	3 183	9 538	92
Non-metallic minerals	-	-	-	142 966	7 045	-	-	-	-	-	-	-	-	2 102	5 448	130
Basic metalurgic industries and metallic products	-	-	-	163 319	16 280	-	-	-	-	-	-	-	-	15 177	20 012	128
Production of machinery	-	-	-	44 660	4 041	-	684	-	-	-	-	-	-	1 357	3 742	174
Production of transport material	-	-	-	47 459	1 714	-	-	3 013	3	-	-	-	-	3 135	1 171	199
Other manufacturing industries	-	-	-	50 212	10 420	-	-	-	-	-	-	-	-	447	3 832	2
Energy, gas and water	-	-	-	144 282	2 847	-	10 574	20 184	20	-	-	-	-	3 087	23 081	107
Construction	-	-	-	847 966	290 108	-	322	-	-	-	-	-	-	116 394	83 996	6 575
Wholesale and retail	-	-	-	948 009	127 138	-	4 288	10 228	21	-	-	-	-	70 654	123 697	2 523
Tourism	-	-	-	451 960	22 255	-	-	-	-	-	-	-	3 269	9 416	15 393	373
Transports	-	-	-	425 193	36 898	-	-	-	-	-	-	-	-	11 096	16 391	325
Communication and information	-	-	-	71 542	6 848	-	-	4 926	6	-	-	-	-	6 203	22 257	265
Financial activities	54 018	318 058	855	576 163	41 517	23 960	-	21 460	7 679	5 611	-	-	-	156 775	44 890	104
Real estate activities	-	-	-	779 106	128 416	-	-	4 280	4	-	-	-	-	19 637	86 025	1 543
Services rendered to companies	-	-	-	439 680	31 894	-	-	30 051	63	-	-	-	698	36 898	39 751	406
Public services	-	-	-	88 453	4 450	19 398	5 147	736 229	1 627	-	622 255	1 364	-	368	3 006	10
Other collective activities	-	-	-	183 291	25 864	-	200	-	-	-	-	-	-	11 796	7 847	4 230
Other				272 626	13 692	-	-	-	-	-	-	-	-	35 414	2 427	83
Retail																
Mortgage loans	-	-	-	6 497 678	170 421	-	-	35 218	26 951	-	-	-	-	-	-	-
Other	-	-	-	916 693	100 744	-	-	-	-	-	-	-	-	-	20 011	-
	54 018	318 058	855	13 726 895	1 101 065	43 358	22 059	869 566	36 381	5 611	622 255	1 364	3 967	512 534	592 723	17 867

The analysis of the credit risk exposure by sector of activity, for the period ended as at 31 December 2017, can be analysed as follows:

(Thousands of Euro)

	Dec 2017										
Activity	Loans and advances to credit institutions repayable on demand	Other loans and advances to credit institutions	Loans and advances to customers		Financial assets held for trading	Financial assets at fair value through other comprehensive income		Investments in associates	Guarantees granted	Irrevocable credit lines	Provisions for off-balance sheet liabilities
	Book value	Book value	Gross amount	Impairment	Book value	Gross amount	Impairment	Book value	Off-balance sheet value	Off-balance sheet value	Provisions
Agriculture, forestry and fishing	-	-	145 289	8 724	-	-	-	-	2 012	5 301	125
Mining	-	-	21 136	1 849	-	-	-	-	975	1 438	68
Food, beverage and tobacco	-	-	228 414	13 473	-	1 020	-	-	2 964	57 796	94
Textiles	-	-	89 048	10 120	-	-	-	-	1 218	8 688	2
Shoes	-	-	43 446	4 418	-	-	-	-	31	5 437	-
Wood and cork	-	-	34 965	4 338	-	-	-	-	476	4 624	39
Printing and publishing	-	-	44 155	7 889	-	907	-	-	426	3 667	36
Petroleum refining	-	-	501	45	-	2 489	-	-	-	-	-
Chemicals and rubber	-	-	88 731	5 438	-	-	-	-	4 681	18 305	95
Non-metallic minerals	-	-	142 817	5 017	-	-	-	-	1 985	5 440	140
Basic metalurgic industries and metallic products	-	-	172 151	18 497	-	-	-	-	10 325	21 695	99
Production of machinery	-	-	43 878	3 159	-	-	-	-	2 071	5 277	127
Production of transport material	-	-	44 188	1 517	-	1 037	-	-	3 109	3 723	190
Other transforming industries	-	-	48 013	5 315	-	-	-	-	514	4 481	3
Energy, gas and water	-	-	153 367	2 588	-	14 302	-	-	2 823	26 513	70
Construction	-	-	965 577	304 865	-	-	-	-	109 740	74 753	6 053
Wholesale and retail	-	-	1 062 786	121 547	-	10 142	-	-	72 651	130 969	3 082
Tourism	-	-	497 335	20 032	-	-	-	3 399	10 628	18 244	238
Tranports	-	-	475 750	64 268	-	-	-	-	10 580	17 748	327
Communication and information activities	-	-	89 760	6 984	-	2 864	-	-	4 954	21 799	275
Financial activities	50 205	312 203	640 830	75 643	24 553	24 816	9 307	-	157 813	40 313	714
Real estate activities	-	-	808 053	129 612	121 329	4 277	-	-	15 266	61 335	818
Services rendered to companies	-	-	630 039	41 075	-	27 963	-	698	35 304	44 325	237
Public services	-	-	143 085	3 927	28 293	1 573 685	-	-	527	3 551	11
Other activities of collective services	-	-	449 885	29 586	-	-	-	-	14 203	20 349	3 134
Mortgage loans	-	-	6 738 833	133 346	-	31 158	26 944	-	4 017	445	148
Other	-	-	261 107	10 549	-	-	-	-	30 770	3 299	22
	50 205	312 203	14 063 139	1 033 821	174 175	1 694 660	36 251	4 097	500 063	609 515	16 147

The Group's total loans portfolio, includes Loans and advances to customers (entities subject to the adoption of IFRS 5), guarantees provided in the amount of Euro 512,107 thousand (31 December 2017: Euro 500,063 thousand) and irrevocable credits amounting to Euro 592,723 thousand (31 December 2017: Euro 609,515 thousand), broken down between loans with impairment and loans without impairment, is presented as follows:

(Thousands of Euro)

	Jun 2018		
Stage impacts	**Gross amount**	**Impairment**	**Net amount**
Collective Analysis	**9 973 492**	**548 225**	**9 425 267**
Stage 1	*7 917 539*	17 820	7 899 719
Stage 2	*1 154 925*	88 153	1 066 772
Stage 3	*901 028*	442 252	458 776
Individual Analysis	**4 880 292**	**570 707**	**4 309 585**
	14 853 784	**1 118 932**	**13 734 852**

As at 30 June 2018 and 31 December 2017, the fair value analysis of collaterals associated to the CEMG's total portfolio:

(Thousands of Euro)

Jun 2018			
Segment	**Gross amount**	**Impairment**	**Net amount**
Retail	**7 288 354**	**261 967**	**7 026 387**
Mortgage loans	*6 486 148*	*167 783*	*6 318 365*
Stage 1	*5 517 661*	*4 885*	*5 512 776*
Stage 2	*636 417*	*52 311*	*584 106*
Stage 3	*332 070*	*110 587*	*221 483*
Consumer credit	*746 122*	*89 843*	*656 279*
Stage 1	*519 177*	*3 693*	*515 484*
Stage 2	*99 289*	*12 061*	*87 228*
Stage 3	*127 656*	*74 089*	*53 567*
Credit cards	*56 084*	*4 341*	*51 743*
Stage 1	*25 855*	*206*	*25 649*
Stage 2	*25 979*	*2 058*	*23 921*
Stage 3	*4 250*	2 077	*2 173*
Corporate	**2 685 138**	**286 258**	**2 398 880**
Non Construction	*2 410 901*	*223 405*	*2 187 496*
Stage 1	*1 709 986*	*8 332*	*1 701 654*
Stage 2	*358 479*	*20 197*	*338 282*
Stage 3	*342 436*	*194 876*	*147 560*
Construction	*274 237*	*62 853*	*211 384*
Stage 1	*144 860*	*704*	*144 156*
Stage 2	*34 761*	*1 526*	*33 235*
Stage 3	*94 616*	*60 623*	*33 993*
	9 973 492	**548 225**	**9 425 267**

(Thousands of Euro)

	Dec 2017
Total loans	15 119 708
Individually significant	
Gross amount	4 948 126
Impairment	(643 356)
Net amount	4 304 770
Collective Analysis	
Loans with signs of impairment	
Gross amount	1 503 842
Impairment	(393 134)
Net amount	1 110 708
Loans without signs of impairment	8 667 740
Impairment (IBNR)	(13 477)
Net amount	14 069 741

As at 30 June 2018 and 31 December 2017, impairment determined according to the accounting policy described in note 1 c), is presented as follows:

(Thousands of Euro)

	Jun 2018						
	Impairment calculated on an individual basis		Impairment calculated on a portfolio basis		Total		
	Loans amount	Impairment	Loans amount	Impairment	Loans amount	Impairment	Loans net of impairment
Corporate loans	4 830 946	556 169	2 685 137	286 193	7 516 083	842 362	6 673 721
Mortgage loans	17 721	432	6 486 149	167 848	6 503 870	168 280	6 335 590
Other loans	31 625	14 106	802 206	94 184	833 831	108 290	725 541
	4 880 292	570 707	9 973 492	548 225	14 853 784	1 118 932	13 734 852

(Thousands of Euro)

	Dec 2017						
	Impairment calculated on an individual basis		Impairment calculated on a portfolio basis		Total		
	Loans amount	Impairment	Loans amount	Impairment	Loans amount	Impairment	Loans net of impairment
Corporate loans	4 896 424	628 961	2 690 531	253 499	7 586 955	882 460	6 704 495
Mortgage loans	18 140	818	6 676 715	72 914	6 694 855	73 732	6 621 123
Other loans	33 563	13 577	804 335	80 198	837 898	93 775	744 123
	4 948 127	643 356	10 171 581	406 611	15 119 708	1 049 967	14 069 741

As at 30 June 2018 and 31 December 2017, the fair value analysis of collaterals associated to the Group's total portfolio:

(Thousands of Euro)

Fair value of collaterals	30 June 2018
Individual Analysis	
Securities and other financial assets	*155 466*
Real Estate - Mortgage loans	*29 809*
Real Estate - Construction and CRE	*2 570 142*
Other real estate	*1 656 164*
Other guarantees	*530 374*
Collective Analysis - Stage 1	
Securities and other financial assets	*230 534*
Real Estate - Mortgage loans	*11 310 638*
Real Estate - Construction and CRE	*301 609*
Other real estate	*809 728*
Other guarantees	*329 934*
Collective Analysis - Stage 2	
Securities and other financial assets	*41 112*
Real Estate - Mortgage loans	*1 312 721*
Real Estate - Construction and CRE	*67 322*
Other real estate	*249 063*
Other guarantees	*18 598*
Collective Analysis - Stage 3	
Securities and other financial assets	*9 266*
Real Estate - Mortgage loans	*419 764*
Real Estate - Construction and CRE	*252 821*
Other real estate	*174 265*
Other guarantees	*12 856*
	20 482 186

	(Thousands of Euro)
	2017
Individual Analysis	
Securities and other financial assets	165 407
Real Estate - Mortgage loans	29 290
Real Estate - Construction and CRE	2 548 752
Other real estate	1 613 007
Other guarantees	494 691
	4 851 147
Collective Analysis with signs of impairment	
Securities and other financial assets	17 203
Real Estate - Mortgage loans	1 110 592
Real Estate - Construction and CRE	275 404
Other real estate	293 260
Other guarantees	26 612
	1 723 071
Collective Analysis without signs of impairment	
Securities and other financial assets	263 485
Real Estate - Mortgage loans	12 099 298
Real Estate - Construction and CRE	364 851
Other real estate	961 873
Other guarantees	329 875
	14 019 382
	20 593 600

The CEMG Group uses physical and financial collaterals as instruments for mitigating credit risk. The physical collaterals correspond mainly to mortgages on residential properties in the course of the mortgage and other types of mortgages on properties in other types of loans. To reflect the market value of them, these effects are reviewed regularly based on evaluations conducted by certified independent testing organizations or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are re-evaluated based on market values of their assets, when available, and certain coefficients applied depreciation to reflect its volatility. Most of the physical collaterals are revaluated at least once a year.

The CEMG's Group total loans portfolio, by segment and respective impairment, as of 30 June 2018 and during 2017, is presented as follows:

(Thousands of Euro)

Segment	Jun 2018 Total exposure	Jun 2018 Total impairment	Dec 2017 Total exposure	Dec 2017 Total impairment
Corporate	5 225 773	385 364	5 271 773	421 957
Construction and CRE	2 290 310	456 998	2 315 182	460 503
Retail - Mortgage loans	6 503 870	168 280	6 694 855	73 732
Retail - Other loans	833 831	108 290	837 898	93 775
	14 853 784	1 118 932	15 119 708	1 049 967

The loans portfolio, by segment and by production year, as of 30 June 2018, is presented as follows:

(Thousands of Euro)

	Corporate			Construction and CRE			Retail - Mortgage loans			Retail - Other loans		
Production year	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment
2004 and previous	1 548	124 940	18 226	1 228	205 056	92 242	55 049	1 859 245	51 408	38 125	27 400	6 963
2005	509	27 826	6 036	338	67 744	37 485	13 014	684 407	19 707	4 567	6 658	1 227
2006	640	58 877	7 534	455	98 685	43 606	15 772	846 893	29 166	6 528	23 305	5 924
2007	986	80 084	14 445	582	102 712	36 256	15 981	847 373	27 804	36 848	37 641	14 559
2008	3 786	72 874	12 453	997	65 940	19 514	8 309	441 696	14 589	49 622	34 023	7 040
2009	3 749	116 214	16 434	1 188	97 036	29 882	4 537	272 270	6 668	35 495	31 307	8 243
2010	4 203	192 867	32 447	985	77 316	26 927	4 705	314 251	5 960	16 661	30 589	12 324
2011	5 244	146 677	18 744	1 181	52 074	17 286	1 741	115 590	1 771	18 454	29 151	10 329
2012	5 064	193 601	32 083	1 127	53 817	16 179	1 131	75 236	1 313	10 471	24 872	6 974
2013	10 350	482 570	59 182	1 477	124 216	25 880	1 453	98 989	1 481	15 641	39 727	7 627
2014	14 916	656 973	53 696	3 366	210 895	31 970	1 722	119 631	1 085	23 740	73 481	8 998
2015	16 622	677 009	38 086	2 629	198 286	10 298	2 024	149 620	1 172	26 226	93 264	5 771
2016	16 355	903 599	26 807	3 281	307 148	36 722	2 738	225 632	1 322	35 724	134 175	5 174
2017	16 830	738 678	28 547	3 183	438 397	22 083	3 626	302 553	1 228	34 360	153 904	3 452
2018	14 781	752 984	20 644	2 798	190 988	10 668	1 816	150 484	3 606	17 913	94 334	3 685
	115 583	5 225 773	385 364	24 815	2 290 310	456 998	133 618	6 503 870	168 280	370 375	833 831	108 290

The loans portfolio, by segment and by production year, during 2017, is presented as follows:

(Thousands of Euro)

	Corporate			Construction and CRE			Retail - Mortgage loans			Retail - Other loans		
Production year	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment
2004 and previous	1 598	79 477	16 500	1 299	230 918	101 909	57 062	1 981 156	23 529	40 811	29 555	6 943
2005	523	29 153	4 793	352	71 822	35 012	13 371	717 741	8 388	4 892	8 291	1 511
2006	672	61 818	6 816	466	105 640	41 557	16 225	887 657	13 597	6 883	23 924	4 446
2007	1 033	88 252	11 503	605	114 853	38 944	16 419	887 473	12 363	37 843	39 186	13 912
2008	4 921	80 578	10 822	1 069	82 843	20 440	8 586	462 685	7 219	51 150	36 211	6 758
2009	4 105	127 641	16 936	1 194	107 176	31 851	4 689	287 817	2 997	36 646	34 059	8 108
2010	4 456	206 304	32 045	1 207	83 307	24 753	4 900	331 142	2 837	18 595	34 659	12 842
2011	5 657	219 133	59 977	1 292	72 890	20 338	1 834	123 740	556	19 390	33 081	10 929
2012	5 438	218 607	35 977	1 135	57 986	17 404	1 179	80 250	707	11 146	28 535	7 512
2013	12 240	605 203	91 266	1 653	125 558	25 337	1 514	105 868	735	16 881	45 987	6 796
2014	17 680	753 462	54 051	3 970	233 030	31 922	1 822	129 600	333	25 542	85 271	7 294
2015	17 575	750 926	39 174	2 647	212 154	9 920	2 113	159 667	158	28 458	109 209	3 320
2016	17 159	920 163	22 843	3 480	329 984	35 230	2 829	235 225	188	39 387	154 993	2 387
2017	23 272	1 131 056	19 254	4 084	487 021	25 886	3 695	304 834	125	37 690	174 937	1 017
	116 329	5 271 773	421 957	24 453	2 315 182	460 503	136 238	6 694 855	73 732	375 314	837 898	93 775

The loans gross exposure and impairment, individual and collective, by segment, as of 30 June 2018 and during 2017, is analysed as follows:

(Thousands of Euro)

	Jun 2018									
	Corporate		Construction and CRE		Retail - Mortgage loans		Retail - Other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	3 093 824	195 315	1 737 122	360 854	17 721	432	31 625	14 106	4 880 292	570 707
Collective	2 131 949	190 049	553 188	96 144	6 486 149	167 848	802 206	94 184	9 973 492	548 225
	5 225 773	385 364	2 290 310	456 998	6 503 870	168 280	833 831	108 290	14 853 784	1 118 932

(Thousands of Euro)

	Dec 2017									
	Corporate		Construction and CRE		Retail - Mortgage loans		Retail - Other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	3 135 592	249 951	1 760 832	379 010	18 140	818	33 563	13 577	4 948 127	643 356
Collective	2 136 181	172 006	554 350	81 493	6 676 715	72 914	804 335	80 198	10 171 581	406 611
	5 271 773	421 957	2 315 182	460 503	6 694 855	73 732	837 898	93 775	15 119 708	1 049 967

The loans gross exposure and impairment, individual and collective, by business sector, as of 30 June 2018 and during 2017, is analysed as follows:

(Thousands of Euro)

	Jun 2018											
	Construction		Industries		Trade		Real Estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	773 758	232 859	585 986	40 306	378 874	45 114	769 611	113 748	2 322 717	124 142	4 830 946	556 169
Collective	274 237	62 853	574 530	53 743	797 061	83 867	129 591	15 988	909 718	69 742	2 685 137	286 193
	1 047 995	295 712	1 160 516	94 049	1 175 935	128 981	899 202	129 736	3 232 435	193 884	7 516 083	842 362

(Thousands of Euro)

	Dec 2017											
	Construction		Industries		Trade		Real estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	816 276	251 653	581 217	34 930	355 471	37 998	784 348	117 793	2 359 112	186 587	4 896 424	628 961
Collective	278 473	53 468	588 945	47 638	809 218	81 097	128 871	11 432	885 024	59 864	2 690 531	253 499
	1 094 749	305 121	1 170 162	82 568	1 164 689	119 095	913 219	129 225	3 244 136	246 451	7 586 955	882 460

The loans gross exposure, performing and non-performing, by business sector, as of 30 June 2018 and during 2017, is analysed as follows:

(Thousands of Euro)

	Jun 2018												
	Gross carrying amounts of performing and non-performing							Accumulated impairment and other negative fair value adjustments related to credit risk				Collaterals and financial guarantees received	
		of which performing but past due >30 days and <= 90 days	of which performing forborne	of which non-performing				on performing exposures		on non-performing exposures		on non-performing exposures	of which forborne exposures
					of which defaulted	of which impaired	of which forborne		of which forborne		of which forborne		
Loans represented by securities (a)	1 991 719	-	-	38 699	38 699	38 699	-	6 728	-	37 125	-	-	-
Other balance sheet credit exposures(b)	15 301 273	60 343	117 916	2 129 603	2 060 056	2 129 213	926 088	135 475	7 609	960 337	395 999	813 822	473 783
Off-balance sheet exposures (c)	1 763 236	2 698	1 778	174 967	172 945	174 967	30 733	5 242	15	12 625	32	-	-

(a) It includes Debt instruments of the financial assets at fair value through other comprehensive income portfolio and commercial paper and bonds recognised under Loans and advances to customers.
(b) It includes Loans and advances to customers, Cash and deposits at central banks and Other loans and advances to credit institutions and Foreign exchange operatins to be settled.
(c) It includes revocable and irrevocable credit, Guarantees and Documentary credits provided.

(Thousands of Euro)

	Dec 2017												
	Gross carrying amounts of performing and non-performing							Accumulated impairment and other negative fair value adjustments related to credit risk				Collaterals and financial guarantees received	
		of which performing but past due >30 days and <= 90 days	of which performing forborne	of which non-performing				on performing exposures		on non-performing exposures		on non-performing exposures	of which forborne exposures
					of which defaulted	of which impaired	of which forborne		of which forborne		of which forborne		
Loans represented by securities (a)	2 192 561	-	-	4 300	4 300	4 300	-	36 387	-	1 806	-	-	-
Other balance sheet credit exposures(b)	15 587 390	71 678	122 416	2 300 459	2 300 459	2 257 078	1 036 712	46 858	4 433	983 877	397 897	970 986	582 138
Off-balance sheet exposures (c)	1 763 312	2 284	1 419	157 188	157 188	155 574	3 590	4 526	131	11 620	44	-	-

(a) It includes Debt instruments of the financial assets at fair value through other comprehensive income portfolio and commercial paper and bonds recognised under Loans and advances to customers.
(b) It includes Loans and advances to customers, Cash and deposits at central banks and Other loans and advances to credit institutions and Foreign exchange operatins to be settled.
(c) It includes revocable and irrevocable credit, Guarantees and Documentary credits provided.

The fair value of the collateral underlying the loans portfolio of the Construction and Commercial Real Estate (CRE) and Mortgage segments, as at 30 June 2018, is presented as follows:

(Thousands of Euro)

	Construction and CRE				Mortgage			
	Real Estate		Other collateral		Real Estate		Other collateral	
Fair Value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	3 807	443 068	1 739	73 716	104 200	12 772 885	348	10 315
>= 0,5 M€ and <1M€	246	168 872	26	16 744	367	227 262	1	500
>= 1 M€ and <5M€	235	502 935	18	34 239	45	67 685	-	-
>= 5 M€ and <10M€	37	271 300	3	21 690	-	5 099	-	-
>= 10 M€ and <20M€	28	381 704	1	13 491	1	-	-	-
>= 20 M€ and <50M€	17	499 099	2	66 000	-	-	-	-
>= 50M€	5	924 916	-	-	-	-	-	-
	4 375	3 191 894	1 789	225 880	104 613	13 072 931	349	10 815

The fair value of the collateral underlying the loans portfolio of the Construction and Commercial Real Estate (CRE) and Mortgage segments, as at 31 December 2017, is presented as follows:

(Thousands of Euro)

	Construction and CRE				Mortgage			
	Real Estate		Other collateral		Real Estate		Other collateral	
Fair Value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	4 162	503 249	1 739	69 641	106 171	12 961 920	340	11 351
>= 0,5 M€ and <1M€	244	168 262	29	18 105	347	214 551	1	500
>= 1 M€ and <5M€	250	529 758	18	30 669	39	62 709	-	-
>= 5 M€ and <10M€	37	266 903	4	27 453	-	-	-	-
>= 10 M€ and <20M€	29	399 339	2	26 099	-	-	-	-
>= 20 M€ and <50M€	14	396 579	2	66 000	-	-	-	-
>= 50M€	5	924 916	-	-	-	-	-	-
	4 741	3 189 006	1 794	237 967	106 557	13 239 180	341	11 851

The LTV (loan to value) ratio of the Corporate, Construction and CRE and Mortgage segments, as of 30 June 5018 and 31 December 2017, is presented as follows:

(Thousands of Euro)

Segment/ Ratio	Jun 2018 No. of real estate	Jun 2018 Total exposure	Jun 2018 Impairment	Dec 2017 No. of real estate	Dec 2017 Total exposure	Dec 2017 Impairment
Corporate						
Without real estate (*)		4 090 152	260 065	-	4 146 160	312 618
< 60%	2 214	361 692	28 448	2 201	374 454	20 752
>= 60% and < 80%	935	458 228	27 379	984	412 304	20 961
>= 80% and < 100%	921	240 316	36 701	1 015	264 699	23 259
>= 100%	112	75 385	32 771	107	74 156	28 418
Construction and CRE						
Without real estate (*)		1 006 095	179 862	-	1 005 725	183 922
< 60%	1 577	466 052	85 385	1 784	479 582	74 311
>= 60% and < 80%	1 045	326 691	51 623	988	315 003	47 311
>= 80% and < 100%	1 221	344 870	41 474	1 387	327 548	44 686
>= 100%	532	146 602	98 654	582	187 325	105 079
Mortgage						
Without real estate (*)		566 829	40 677	-	585 242	22 868
< 60%	64 699	2 564 065	25 064	64 940	2 582 221	6 230
>= 60% and < 80%	26 493	2 161 241	35 545	27 096	2 208 224	8 255
>= 80% and < 100%	11 731	1 064 508	35 562	12 735	1 163 967	12 708
>= 100%	1 690	147 227	31 432	1 786	155 829	23 672

(*) It includes operations with other associated collaterals, namely financial collaterals.

The fair value and net value of real estate receivables, by type of asset, as of 30 June 2018 and 31 December 2017, are presented as follows:

(Thousands of Euro)

Assets	Jun 2018 No. of real estate	Jun 2018 Fair value	Jun 2018 Book value
Land	**1 996**	**397 109**	**350 216**
Urban	1 706	277 470	245 854
Rural	290	119 639	104 362
Buildings under construction	**759**	**110 131**	**99 346**
Commercial	87	7 807	6 107
Housing	542	100 998	91 977
Other	130	1 326	1 262
Constructed buildings	**2 786**	**328 246**	**290 778**
Commercial	945	126 270	111 342
Housing	1 306	188 756	167 471
Other	535	13 220	11 965
	5 541	835 486	740 340

(Thousands of Euro)

Assets	dez 2017 No. of real estate	Fair value	Book value
Land	**2 018**	**406 480**	**357 622**
Urban	1 738	292 405	266 534
Rural	280	114 075	91 088
Buildings under construction	**698**	**99 167**	**89 599**
Commercial	86	7 267	6 527
Housing	486	90 442	81 687
Other	126	1 458	1 385
Constructed buildings	**2 827**	**333 351**	**294 882**
Commercial	920	128 474	113 019
Housing	1 395	187 965	167 379
Other	512	16 912	14 484
	5 543	838 998	742 103

The time lapse since the transfer / execution of properties received, as of 30 June 2018 and 31 December 2017, is presented as follows:

(Thousands of Euro)

	Jun 2018				
Elapsed time since transfer/ execution	< 1 year	>= 1 year and < 2.5 year	>= 2.5 years and < 5 years	>= 5 years	Total
Land	**63 114**	**56 944**	**129 398**	**100 760**	**350 216**
Urban	55 397	43 127	84 261	63 069	245 854
Rural	7 717	13 817	45 137	37 691	104 362
Buildings under construction	**18 481**	**12 453**	**37 557**	**30 855**	**99 346**
Commercial	161	809	2 518	2 619	6 107
Housing	18 230	11 644	34 579	27 524	91 977
Other	90	-	460	712	1 262
Constructed buildings	**49 135**	**52 620**	**127 006**	**62 017**	**290 778**
Commercial	12 998	16 973	58 540	22 831	111 342
Housing	35 417	33 477	60 522	38 055	167 471
Other	720	2 170	7 944	1 131	11 965
	130 730	122 017	293 961	193 632	740 340

Elapsed time since the transfer/ execution	Dec 2017 (Thousands of Euro)				
	< 1 year	>= 1 year and < 2,5 years	>= 2,5 years and < 5 years	>= 5 years	Total
Land	**61 556**	**81 483**	**163 349**	**51 234**	**357 622**
Urban	63 844	57 167	101 551	43 972	266 534
Rural	(2 288)	24 316	61 798	7 262	91 088
Buildings under construction	**5 374**	**20 558**	**42 334**	**21 333**	**89 599**
Commercial	114	1 508	3 147	1 758	6 527
Housing	5 260	18 628	38 485	19 314	81 687
Other	-	422	702	261	1 385
Constructed buildings	**45 651**	**62 538**	**131 280**	**55 413**	**294 882**
Commercial	14 023	17 954	63 169	17 873	113 019
Housing	30 446	37 978	62 870	36 085	167 379
Other	1 182	6 606	5 241	1 455	14 484
	112 581	164 579	336 963	127 980	742 103

Concentration Risk

The concentration risk results from the existence of common or correlated risk factors between different entities or portfolios. The deterioration of any of these factors may have a simultaneous negative impact on the credit quality of each of the counterparties or in the results of each class of assets and liabilities. In a concentration scenario, the loss effects on a small number of exposures may be disproportionate, confirming the importance of managing and maintaining this risk in suitable solvability levels. In CEMG Group, concentration risk monitoring focuses mainly on credit concentration, investment portfolio, financing, interest rate and operating risks.

Concentration risk in credit is the most important risk to CEMG Group and, as such, there are several procedures related to its identification, measurement and management. In order to control concentration risk of exposure to a related customer / group of customers, maximum exposure limits were set for the aggregate positions of credit and investment portfolios for the various CEMG's entities.

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

The concentration risk management is carried out in a centralized way, with regular monitoring of the concentration indexes by the Risk Department. In particular, the level of concentration of the largest depositors and, with respect to the credit portfolio, the degree of regional diversification, the individual concentration level and the degree of diversification of the quality of the portfolio of companies are regularly monitored by the Risk Department. Maximum exposure limits are established per client / group of clients related to each other, as well as limits for the concentration of the largest depositors.

Market Risk

The concept of market risk reflects the potential loss that can be registered by a given portfolio as a result of changes in rates (interest and exchange rates) and / or prices of the different financial instruments that comprise it, considering both existing correlations between them, and respective volatilities.

The Group calculates its own portfolios "VaR", given a 10-day horizon and a 99% confidence interval, by the method of historical simulation. The types of risk considered in this methodology are the risk of interest rate, exchange rate risk, price risk, CDS risk, the options risk and specific credit risk.

The Group's investment portfolio is mainly concentrated in bonds, and as of 30 June 2018 represented 69.9% (31 December 2017: 76.6%) of the total portfolio, maintaining its dominant position in bonds of sovereign issuers, essentially of the Portuguese, Italian and Spanish Republics.

With regard to credit derivatives, CEMG held no position in these instruments at 30 June 2018 and 31 December 2017.

Regarding the credit quality of debt securities, it is important to note the improvement of the Portuguese public debt rating (rated B-). Concerning the composition of the portfolio, the major changes resulted from a reduction in exposure to Italian and Spanish sovereign debt. It should also be noted the exclusion of the senior note Évora (Euro 121,3 million) from the trading portfolio, rated with BBB-.

The distribution of the bond portfolio, recognised under Financial assets held for trading, Financial assets at fair value through other comprehensive income and Other financial assets at amortised cost (which excludes positions held by subsidiaries subject to the application of IFRS 5), is presented as follows:

(Thousands of Euro)

Rating	Jun 2018		Dec 2017		Change	
	Amount	%	Amount	%	Amount	%
AA+	1 172	0.1	-	-	1 172	-
AA	-	-	1 798	0.1	(1 798)	(100.0)
AA-	-	-	1 728	0.1	(1 728)	(100.0)
A+	956	0.1	1 528	0.1	(572)	(37.4)
A	1 297	0.1	2 086	0.1	(789)	(37.8)
A-	2 494	0.2	2 018	0.1	476	23.6
BBB+	221 996	13.8	297 348	15.1	(75 352)	(25.3)
BBB	434 760	27.1	577 539	29.3	(142 779)	(24.7)
BBB-	760 375	47.3	859 844	43.7	(99 469)	(11.6)
BB	265	-	-	-	265	-
B-		-	17 164	0.9	(17 164)	(100.0)
NR	50 159	3.1	46 978	2.3	3 181	6.8
Subtotal	1 473 474	91.8	1 808 031	91.8	(334 557)	(18.5)
Discontinuing subsidiaries	131 677	8.2	161 589	8.2	(29 912)	(18.5)
Total	1 605 151	100.0	1 969 620	100.0	(364 469)	(18.5)

As at 30 June 2018, the amount of Euro 1,605,151 thousand (31 December 2017: Euro 1,969,620 thousand) includes the amount of Euro 131,677 thousand (31 December 2017: Euro 161,589 thousand), which corresponds to the securities portfolio of Finibanco Angola and Banco Terra, which belong to the subsidiaries subject to the application of IFRS 5 and which are consequently recorded in discontinued operations.

The amount of securities recognised in the trading portfolio amounts to Euro 19,398 thousand (31 December 2017: Euro 149,622 thousand), the amount of securities recognised in the Financial assets at fair value through other comprehensive income portfolio amounts to Euro 833,185 thousand (31 December 2017: Euro 1,658,409 thousand) and the amount of securities recognised in Financial assets at amortised cost amounts to Euro 620,891 thousand.

Regarding trading portfolio, the main VaR indicators are as follows:

(Thousands of Euro)

	Jun 2018	Average	Minimum	Maximum	Dec 2017
Market VaR	552	775	304	1 100	508
Interest rate risk	102	588	162	899	121
Exchange risk	193	94	82	100	93
Price risk	498	367	384	488	479
Diversification risk	*(241)*	*(274)*	*(324)*	*(387)*	*(185)*
Credit VaR	387	296	169	597	2 349
Total VaR	**939**	**1 071**	**473**	**1 697**	**2 857**

Bank Portfolio Interest Rate Risk

The assessment of interest rate risk caused by banking portfolio operations is performed by a sensitivity analysis to the risk, in a consolidated view for the Group's entities (including subsidiaries recognised in discontinuing operations).

Interest rate risk is measured according to the impact on net interest income, net worth and equity caused by changes in market interest rates. The main risk factors arise from the term adjustments of the interest rate reset and / or residual maturities between assets and liabilities (repricing risk), non-parallel variations in yield curve risk, the lack of a perfect correlation between different indexes with the same term of repricing (basis risk) and the options associated with instruments enabling a different performance of the players/participants depending on the level of rates contracted and practiced at the moment (option risk).

Based on the financial characteristics of each contract, it is made its projection of expected cash flows, according to the dates of rate reset and any behavioral assumptions considered.

Aggregation, for each currency analysed the expected cash flows in each of the time intervals to determine the interest rate gaps by repricing period.

The following tables present the interest rates gaps, from a consolidated perspective, in the first half of 2018 and in during 2017:

(Thousands of Euro)

	Below 3 months	3 to 6 months	6 months to 12 months	1 to 5 years	Above 5 years
30 June 2018					
Assets	9 460 750	3 126 699	662 494	1 210 088	1 231 177
Off-balance sheet	4 497	-	14 850	767 770	-
Total	9 465 247	3 126 699	677 344	1 977 858	1 231 177
Liabilities	3 387 477	1 533 201	2 871 495	4 857 117	68 108
Off-balance sheet	761 597	9 850	-	14 470	1 200
Total	4 149 074	1 543 051	2 871 495	4 871 587	69 308
GAP (Assets - Liabilities)	5 316 173	1 583 648	(2 194 151)	(2 893 729)	1 161 869
31 December 2017					
Assets	8 090 272	3 323 150	638 092	1 796 706	1 022 751
Off-balance sheet	9 990	-	-	782 972	-
Total	8 100 262	3 323 150	638 092	2 579 678	1 022 751
Liabilities	4 732 106	1 903 838	2 509 450	8 049 434	274 933
Off-balance sheet	758 550	9 850	9 740	14 822	-
Total	5 490 656	1 913 688	2 519 190	8 064 256	274 933
GAP (Assets - Liabilities)	2 609 606	1 409 462	(1 881 098)	(5 484 578)	747 818

(Thousands of Euro)

	Jun 2018				Dec 2017			
	June	Annual average	Maximum	Minimum	December	Annual average	Maximum	Minimum
Interest rate gap	2973 810	970 141	2973 810	(1033 527)	(2598 790)	(2071 755)	(1544 721)	(2598 790)

Sensitivity to the balance sheet interest rate risk is calculated by the difference between the current value of the mismatch interest rate discounted at market interest rates and the discounted value of these cash flows simulating parallel shifts of the market interest rate curve.

As at 30 June 2018, based on interest rate gaps observed, an instantaneous and parallel positive variation in the interest rates by 100 bp would cause a decrease in the economic value expected in the banking portfolio in Euro 28,351 thousand (31 December 2017: reduction of Euro 12,243 thousand).

The following table presents the average interests, in relation to the Group's major assets and liabilities categories for the periods ended 30 June 2018 and during 2017, as well as the average balances and income and expense for the period:

(Thousands of Euro)

	Jun 2018			Dec 2017		
	Average balance	Average interest rate (%)	Interest	Average balance	Average interest rate (%)	Interest
Interest assets generators						
Loans and advances to central banks and OIC	1 186 775	1.82	10 870	468 753	-	12
Loans and advances to OIC	339 672	1.38	2 350	414 059	0.94	3 966
Loans and advances to customers	13 944 119	2.39	167 533	14 738 284	2.43	363 701
Securities portfolio	1 914 335	0.72	6 966	2 470 694	1.46	36 477
Other (includes derivatives)	-	-	9 644	-	-	16 475
	17 384 901	**2.26**	**197 363**	**18 091 790**	**2.29**	**420 631**
Interest liabilities generators						
Deposits from ECB	1 556 289	0.27	2 095	2 322 365	0.04	1 003
Deposits from OCI	1 766 595	0.95	8 449	2 057 221	0.66	13 689
Deposits from customers	12 297 088	0.53	32 872	11 918 658	0.70	84 696
Senior debt	1 392 499	1.51	10 575	1 540 062	2.44	38 110
Subordinated debt	155 868	1.22	959	248 745	1.20	3 038
Other (includes derivatives)	-	-	8 175	-	-	13 869
	17 168 339	**0.73**	**63 125**	**18 087 051**	**0.84**	**154 405**
Net interest income		**1.54**	**134 238**	**13 220**	**1.45**	**266 226**

Currency Risk

Regarding currency risk, the procedure is the application of funds raised in various currencies through active money market and for terms not exceeding those of the resources. Thus, existing exchange rate gaps are essentially due to possible mismatches between the terms of the applications and of the resources.

The breakdown of assets and liabilities, by currency, as at 30 June 2018 and 31 December 2017, is analysed as follows:

(Thousands of Euro)

	Jun 2018							
	Euro	United States Dollar	Angolan Kwanza	Mozambican Metical	Sterling Pound	Brazilian Real	Other foreign currencies	Total
Assets by currency								
Cash and deposits at central banks	1 710 354	7 663	-	-	856	-	2 121	1 720 994
Loans and advances to credit institutions repayable on demand	22 359	20 035	6 815	-	353	-	4 456	54 018
Other loans and advances to credit institutions	279 761	10 757	-	-	3 719	-	22 966	317 203
Loans and advances to customers	12 504 720	120 883	-	-	206	-	21	12 625 830
Financial assets held for trading	47 559	4 587	-	-	304	-	-	52 450
Financial assets nor held for trading mandatorily at fair value through profit or loss	488 926	-	-	-	-	-	-	488 926
Financial assets at fair value through other comprehensive income	931 854	-	-	-	-	60 507	-	992 361
Hedging derivatives	5 611	-	-	-	-	-	-	5 611
Other financial assets at amortised cost	620 891							620 891
Investments in associates	3 967	-	-	-	-	-	-	3 967
Non-current assets held for sale	740 350	-	-	-	-	-	-	740 350
Non-current assets held for sale - - Discontinuing operations	-	136 119	172 465	46 584	1	-	172	355 341
Investment properties	285 602	-	-	-	-	-	-	285 602
Property and equipment	229 075	-	-	-	-	-	-	229 075
Intangible assets	29 774	-	-	-	-	-	-	29 774
Current tax assets	5 537	-	-	-	-	-	-	5 537
Deferred tax assets	514 386	-	-	-	-	-	-	514 386
Other assets	203 758	593	-	-	283	-	2 292	206 926
Total Assets	**18 624 484**	**300 637**	**179 280**	**46 584**	**5 722**	**60 507**	**32 028**	**19 249 242**
Liabilities by currency								
Deposits from central banks	1 546 980	-	-	-	-	-	-	1 546 980
Deposits from other financial institutions	1 656 033	31 179	-	-	3 871	-	24 648	1 715 731
Deposits from customers	12 327 620	101 810	-	-	10 142	-	43 136	12 482 708
Debt securities issued	12 206 442	29 630	-	-	-	-	-	12 236 072
Financial liabilities held for trading	14 765	774	-	-	-	-	-	15 539
Non-current liabilities held for sale - - Discontinuing operations	32 192	60 605	136 770	27 564	7	-	7	257 145
Provisions	29 395	-	-	-	-	-	-	29 395
Current tax liabilities	3 316	-	-	-	-	-	-	3 316
Other subordinated debt	120 662	-	-	-	-	-	-	120 662
Other liabilities	186 057	24 443	-	-	4	-	1 663	212 167
Total Liabilities	**28 123 462**	**248 441**	**136 770**	**27 564**	**14 024**	**-**	**69 454**	**28 619 716**
Exchange forward transactions		(48 444)	-	-	8 690	(58 383)	39 943	
Exchange gap		3 752	42 510	19 020	388	2 124	2 517	
Stress Test		**(750)**	**(8 502)**	**(3 804)**	**(78)**	**(425)**	**(503)**	

(Thousands of Euro)

	Dec 2017							
	Euro	United States Dollar	Angolan Kwanza	Mozambican Metical	Sterling Pound	Brazilian Real	Other foreign currencies	Total
Assets by currency								
Cash and deposits at central banks	1 715 640	11 761	-	-	1 473	102	4 652	1 733 628
Loans and advances to credit institutions repayable on demand	25 928	17 697	4 448	-	447	-	1 685	50 205
Other loans and advances to credit institutions	271 844	12 385	-	-	3 707	-	24 267	312 203
Loans and advances to customers	12 910 078	119 045	-	-	167	-	28	13 029 318
Financial assets held for trading	180 662	3 006	-	-	-	-	408	184 076
Financial assets at fair value through other comprehensive income	2 142 810	372	-	-	-	57 614	97	2 200 893
Investments in associates	4 097	-	-	-	-	-	-	4 097
Non-current assets held for sale	742 221	-	-	-	-	-	-	742 221
Non-current assets held for sale - - Discontinuing operations	6 373	132 202	287 430	48 138	1	-	331	474 475
Investment properties	538 625	-	-	-	-	-	-	538 625
Property and equipment	233 312	-	-	-	-	-	-	233 312
Intangible assets	31 371	-	-	-	-	-	-	31 371
Current tax assets	7 327	-	-	-	-	-	-	7 327
Deferred tax assets	466 000	-	-	-	-	-	-	466 000
Other assets	192 011	259	-	-	3	-	-	192 273
Total Assets	**19 468 299**	**296 727**	**291 878**	**48 138**	**5 798**	**57 716**	**31 468**	**20 200 024**
Liabilities by currency								
Deposits from central banks	1 557 840	-	-	-	-	-	-	1 557 840
Deposits from other financial institutions	1 726 127	31 885	-	-	3 847	-	24 858	1 786 717
Deposits from customers	12 409 969	96 967	-	-	11 339	-	42 765	12 561 040
Debt securities issued	1 514 465	29 589	-	-	-	-	-	1 544 054
Financial liabilities held for trading	15 694	477	-	-	-	-	-	16 171
Hedging derivatives	1 663	-	-	-	-	-	-	1 663
Non-current liabilities held for sale - - Discontinuing operations	34 409	68 058	199 430	28 478	7	-	10	330 392
Provisions	27 096	-	-	-	-	-	-	27 096
Current tax liabilities	5 217	-	-	-	-	-	-	5 217
Other subordinated debt	236 193	-	-	-	-	-	-	236 193
Other liabilities	367 937	1 338	-	-	287	-	1 158	370 720
Total Liabilities	**17 896 610**	**228 314**	**199 430**	**28 478**	**15 480**	**-**	**68 791**	**18 437 103**
Exchange forward transactions		(49 974)	-	-	9 919	-	40 313	
Exchange gap		18 439	92 448	19 660	237	57 716	2 990	
Stress Test		**(3 688)**	**(18 490)**	**(3 932)**	**(47)**	**(11 543)**	**(598)**	

The result of the stress test performed corresponds to the estimate impact (before tax) in equity, including minority interests, due to a devaluation of 20% in exchange rate of each currency against Euro.

Liquidity risk

Liquidity risk reflects the Group's inability to meet its obligations at due date, without incurring significant losses arising from a deterioration in financing conditions (financing risk) and / or the sale of its assets at lower values to market values (market liquidity risk).

The assessment of the liquidity risk is made using regulatory indicators defined by the supervisory authorities, as well as other internal metrics for which are defined exposure limits. This control is reinforced with weekly execution of stress tests, in order to characterize the risk profile of CEMG and ensure that the Group fulfills its obligations in a liquidity crisis scenario. The calculation of the CRL prudential ratio is performed on a weekly basis.

As at 30 June 2018, the recorded amount in LCR was 152.0%. (31 December 2017: 153.2%).

As at 30 June 2018, the Group's financing was as follows:

(Thousands of Euro)

	Jun 2018	Undetermined	Below 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 546 980	-	-	-	-	1 546 980
Deposits from other financial institutions	1 715 731	-	260 181	747 575	8 416	699 559
Deposits from customers	12 482 708	-	4 830 157	2 504 066	2 783 483	2 365 002
Debt securities issued	1 235 785	-	101	82 546	125 446	1 027 692
Financial liabilities held for trading	15 539	-	1 482	50	241	13 766
Non-current liabilities held for sale - - Discontinuing operations	257 145	257 145	-	-	-	-
Other subordinated debt	120 662	-	113 160	7 502	-	-
Other liabilities	212 168	212 168	-	-	-	-
Total Financing	**17 586 718**	**469 313**	**5 205 081**	**3 341 739**	**2 917 586**	**5 652 999**

As at 31 December 2017, the Group's financing was as follows:

(Thousands of Euro)

	Dec 2017	Undetermined	Até 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 557 840	-	-	-	-	1 557 840
Deposits from other financial institutions	1 786 717	-	142 919	65 982	415 169	1 162 647
Deposits from customers	12 561 040	-	4 717 147	3 514 898	2 287 697	2 041 298
Debt securities issued	1 544 054	-	109 036	65 201	80 578	1 289 239
Financial liabilities held for trading	16 171	-	902	1	221	15 047
Hedging derivatives	1 663	-	-	-	-	1 663
Non-current liabilities held for sale - - Discontinuing operations	330 392	330 392	-	-	-	-
Other subordinated debt	236 193	-	111 934	4 206	120 053	-
Other liabilities	370 720	370 720	-	-	-	-
Total Financing	**18 404 790**	**701 112**	**5 081 938**	**3 650 288**	**2 903 718**	**6 067 734**

Within the instruction No. 28/2014 of Bank of Portugal, of 15 January 2015, which focuses on the guidance of the European Banking Authority in relation to the disclosure of encumbered and unencumbered assets (EBA/GL/2014/3) and considering the recommendation by the European Systemic Risk Committee, we present the following information, as at 30 June 2018 and 31 December 2017 on the assets and collaterals:

(Thousands of Euro)

Assets	Jun 2018 Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets from the reporting institution	5 179 759		14 069 483	
Equity instruments	-	-	635 135	662 936
Debt securities	760 685	755 165	1 206 579	936 972
Other assets	-		2 441 383	

(Thousands of Euro)

Assets	Dec 2017 Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets from the reporting institution	5 721 933	-	14 478 091	-
Equity instruments	-	-	552 385	636 068
Debt securities	1 177 559	1 173 674	1 126 431	3 086 521
Other assets	-	-	2 786 993	-

(Thousands of Euro)

Collateral received	Jun 2018 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	57 471	-
Equity instruments	-	-
Debt securities	57 471	-
Other collateral received	-	-
Own securities issued that are not own covered bonds or ABS	-	-

(Thousands of Euro)

Collateral received	Dec 2017 Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Assets from the reporting institution	77 463	-
Equity instruments	-	-
Debt securities	77 463	-
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 2018 Carrying amount of selected financial liabilities
Associated liabilities, contingent liabilities and securities borrowed	3 168 795
Assets, collateral received and own debt securities issued other than own covered bonds or encumbered ABS	5 208 507

(Thousands of Euro)

Encumbered assets, encumbered collateral received and associated liabilities	Dec 2017 Carrying amount of selected financial liabilities
Associated liabilities, contingent liabilities and securities borrowed	3 709 616
Assets, collateral received and own debt securities issued other than own covered bonds or encumbered ABS	5 711 477

The encumbered assets are mostly related to collateralise financing of the Group, in particular the ECB's, repo transactions, issuance of covered bonds and securitization programs. The type of assets used as collateral of these financing transactions, whether placed outside the Group, whether to improve the pool of collateral with the ECB, are customer's loans contracts. Repo transactions in the money market are collaterised, mainly by covered bonds and securitisation programs in which CEMG is the originator, and by debt securities issued operations.

The amounts presented previously correspond to the position as at 30 June 2018 and 31 December 2017 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 2018 amounts to Euro 1,122,472 thousand (31 December 2017: Euro 1,036,095 thousand).

It should be noted that the total amount of collateral available at the European Central Bank (BCE) on 30 June 2018 amounted to Euro 2,619,175 thousand (31 December 2017: Euro 2,557,271 thousand) with a usage of Euro 1,546,997 thousand (31 December 2017: Euro 1,557,840 thousand):

(Thousands of Euro)

	Jun 2018	Dec 2017
Total eligible collateral	**3 863 652**	**4 272 244**
Total collateral in the pool	2 619 175	2 557 271
Collateral outside the pool	1 244 477	1 714 973
Used collateral	**2 741 180**	**3 236 149**
Collateral used for ECB	1 546 997	1 557 840
Collateral committed to other financing operations	1 194 183	1 678 309
Available collateral for ECB	**1 072 178**	**999 431**
Total available collateral	**1 122 472**	**1 036 095**

Note: collateral amount considers the applied haircut

Real Estate Risk

Real estate risk results from possible negative impacts on CEMG's results or equity due to fluctuations in the market price of real estate.

The real estate risk results from exposure in real estate, whether from credit recovery processes or from real estate fund units held in securities portfolio. These exposures are monitored through scenario analyses that attempt to estimate potential impacts of changes in real estate markets in portfolios of these real estate assets and make available the information elements needed for the definition of the policy for real estate management.

As at 30 June 2018 and 31 December 2017, exposure to real estate and investments real estate fund units presented the following value:

(Thousands of Euro)

	Jun 2018	Dec 2017
Real estate received as loan guarantee	740 340	742 103
Investment properties	285 602	538 625
Real estate investment fund units	297 688	213 546
	1 323 630	1 494 274
	(132 363)	(149 427)

Stress Test

Stress test results correspond to the estimated impact in equity (before taxes) of a 10% variation in values of real estate and real estate funds.

Operating Risk

Operating risk is the potential loss resulting from failures or inadequacies in internal processes, people or systems, or potential losses resulting from external events.

The Group has the approval from Bank of Portugal for the use of the standard method for quantifying its own capital requirements for operating risk. An integrated continuing business plan is implanted, based on the identification, evaluation, monitoring, measurement, mitigation and reporting of this type of risk.

The risk department has the corporate function of operational risk management of CEMG which is supported by the existence of responsible employees in the different organic units that ensure the proper implementation of CEMG's operating risk management.

The operating risk profile assessment for new products, processes and systems and the consequent follow-up, on a regular basis, has allowed the prior identification and mitigation of operating risk situations.

Regarding risk monitoring, the main activities carried out were the collection and analysis of operating risk loss events, the analysis of Key Risk Indicators, the evaluation of the exposure to Operating Risk and the preparation of periodic reports on the profile of Operational risk of the Institution. In particular, quarterly monitoring reports of operating risk loss events and mitigation measures are prepared. An annual report is prepared annually, which includes the analysis of all operating risk management instruments.

Within the mitigation phase, Action Plans were suggested for the most significant risks, identified based on the operating risk management tools previously mentioned.

In addition, CEMG has implemented a business continuity management process, supported by a set of evaluation, design, implementation and monitoring activities, integrated into a cycle of continuous improvement.

This process is crucial as a risk mitigation tool, making the business processes more resilient and allowing to ensure the continuity of operations in the event situations that cause the interruption of the activity, considering the established Recovery Time Objective (RTO).

Pension Fund Risk

The pension fund risk results from the potential devaluation of the fund's assets portfolio or the decrease in the expected returns. In such scenarios, CEMG will have to make unplanned contributions in order to maintain the benefits defined by the Fund.

Regular monitoring and analysis of CEMG’s Pension Fund management is carried out by the Pension Fund Monitoring Committee. In addition, the Risk Department ensures the production of monthly reports with the evolution of the Pension Fund portfolio’s market value and associated risk indicators.

Considering the provisions of the investment policy of the Montepio Geral Pension Fund relating to the exposure to various risks and different legal provisions, the control of these limits is monitored daily by means of a detailed analysis of "legal limits and investments exceeded", with a set of procedures that are performed may the limits be exceeded.

Subsequently, the Risk Department monitors the effect of the measures adopted and their impact on the investment policy. At the same time, the levels of exposure to the legal and prudential limits that regulate the Montepio Geral Pension Fund are also monitored.

Besides verifying compliance with the investment policy and the legal and prudential limits, the management entity (Futuro) has decided to strengthen control and monitoring through a variety of risk measures and a set of internal procedures aimed at maintaining the prudent management of the risk. On this basis, a risk management model based on the technical perspective of EIOPA's "QIS Pension Funds" studies is used. The development of tolerance indicators for this model allows monitoring the variations of these indicators, in accordance with the investment policy defined for the Pension Fund.

Market risk monitoring is based on VaR calculation, with a confidence/reliability interval of 99.5% for one-year time horizon. Since VaR does not totally guarantees that risks do not exceed the probability used, Stress Tests are also carried out, with the purpose to calculate the impact of several extreme scenarios on the value of the portfolio.

The shareholder liquidity level and bond component of the Pension Fund is assessed through a liquidity test. With shares, this analysis is done based on the number of days to settle, considering the assets in the portfolio. This test consists of verifying the liquidity of the shareholder segment, assessing how many days are necessary for its settlement in the market, considering the costs associated with these transactions and the average historical volume of transactions in the various markets. In addition, in the bond segment, the cash receipts (positive cash-flows) resulting from bond coupon (interest) payments and amortisations or possible call exercises for one month are calculated. All these tests allow to assess the degree of liquidity in the short term and to monitor or act before a possible shortage of liquidity in a timely manner.

Other risks

With regard to other risks – reputation, compliance, strategy and business risk - these are also monitored by the Board of Directors, and risks are controlled and corrective measures taken based on the results obtained against the objectives / limits established in the risk appetite, namely the monitoring and control of deviations from the approved strategic plan and budget.

Hedging Policies and Risk Reduction

For the purpose of reducing credit risk, the risk mitigation elements associated with each operation are considered. In particular, real mortgage guarantees and financial collateral are relevant, as well as the provision of personal credit protection, namely collateral.

In terms of direct reduction of the exposure value, credit transactions collateralised by financial collateral are considered, namely, term deposits and securities. In financial collaterals, the market risk and foreign exchange risk of the assets is considered, and, when applicable, the value adjustment of the collateral is carried out.

Regarding real mortgage guarantees, CEMG has defined valuation and revaluation models to be applied to properties that may constitute collateral for credit operations. The asset evaluation is carried out by independent experts, and the management of evaluations and inspection is centralised in a structuring unit of the Institution, regardless of the commercial area. In accordance with (EU) Regulation No. 575/2013 (CRR), the requirements for the validation and reassessment of the asset's value, depending on the cases, either by statistical and computerised methods or by review or revaluation of the valuation value by the expert.

For credit guarantees, the principle of substitution of the customer's risk by that of the protection provider is applied, provided that does not originate credit derivatives on the portfolio exposure.

The Group does not usually use on-balance sheet and off-balance sheet processes, nor does it generate credit derivatives on exposure in its portfolio.

Trading portfolio market risk mitigation techniques essentially consist of hedging exposures for financial products with symmetric risk to decrease the total risk of operations or the partial or total sale of exposures to reduce exposure or cancel it completely.

With regard to banking portfolio, interest rate and foreign exchange risk mitigation techniques are the negotiation of hedging transactions with derivatives and closing exposures through the sale of open exposures.

Own Funds and Capital Ratios

The own funds of the Group are established in accordance with the applicable regulatory standards, namely Directive 2013/36/EU (CRD IV) and Regulation (EU) No. 575/2013 (CRR) adopted by the European Parliament and by the Council, and the Notice No. 6/2013 of Bank of Portugal. Own funds include own funds of level 1 (tier 1) and own funds of level 2 (tier 2). Tier 1 includes own funds core of level 1 (common equity tier 1 – CET1) and the additional own funds of level 1 with the following composition:

- *Own Funds Core of Level 1 or Common Equity Tier 1 (CET1)*: this category includes the realised capital (with deduction of own funds), eligible reserves (including fair-value reserves), retained earnings, positive and certified retained earnings for the period or wholly if negative. The value of reserves and retained earnings is adjusted by reversal of the results in financial liabilities at fair value through profit or loss in the part corresponding to the risk of the institution's own credit. Non-controlling interests are only eligible to the extent necessary to cover the Group's capital requirements attributable to minority shareholders. The balance value of the amounts related to goodwill, other intangible assets, as well as the gap, if positive, is deducted between the asset and the pension fund responsibility. The amount of the prudent valuation calculated in accordance with CRR Articles No. 34 and 105 is also deducted. The deferred tax assets related to tax losses are also deducted. Concerning financial investments on financial sector entities and deferred tax assets arising from 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 realised on the respective held capital levels. As part of the implementation of this new prudential regulation (EU No. 575/2013), a transition period will be set out that will allow to gradually acknowledge the majors impacts of this new regulation. This transition plan reached total recognition in 2018 (i.e. 100%) for almost all captions. For deferred tax assets, which do not depend on future profitability, the transitional cumulative recognition plan is maintained on a 10% annual basis, on the balance sheet as at 1 January 2014. In 2018 it will be of 40%;
- Own Funds of Level 1 or Tier 1 (T1): includes capital equivalent instruments, whose conditions are in accordance with Article No. 52 from Regulation No. 575/2013 and approved by Bank of Portugal. Non-controlled interests relating to additional own funds minimum requirements of the institutions for which the Group does not hold full ownership are also eligible. The eventual detentions of capital T1 from financial institutions subjected to deduction are deducted from this capital.
- Own Funds of Level 2 or Tier 2 (T2): includes capital equivalent instruments, whose conditions are in accordance with the Article No. 63 and approved by Bank of Portugal. Non-controlled interests relating to the minimum own fund’s requirements of the institutions for which CEMG does not hold

full ownership are also eligible. The eventual detentions of capital T2 from financial institutions subjected to deduction are deducted from this capital.

Totals Own Funds or Total Capital are constituted by the sum of the three levels previous referred.

Regarding the calculation of risk-weighted assets, in addition to credit, operating 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. With respect to deferred tax assets arising from temporary differences that do not depend on future profitability, these are subject to a 100% weighting for capital requirements. CVA requirement (Credit Valuation Adjustment) is also determined.

With the adoption of International Financial Reporting Standard IFRS 9 - Financial Instruments, applicable from 1 January 2018, and considering Regulation (EU) 2017/2395 of the European Parliament and of the Council, CEMG has chosen to apply the phasing-in prudential plan defined in the Regulation, on an ongoing basis, over a 5-year period. Therefore, in 2018, CEMG recognises prudently only 5% of the impact related to the IRS 9 adoption.

As referred in 2018, the effects of Basel III's new regulation will gradually being introduced. This process is usually named as Phasing-in. The full assumption of the new regulation, without considering transitory plans, is named as Full Implementation. Phasing-in process is currently in force, and it is on this basis that an entity verifies that has its own funds for an amount not below its own funds, thus certifying the adequacy of its capital. This relation is reflected on the different capital ratios, namely CET1 ratio, T1 ratio and total capital ratio (formerly designated by solvability ratio, represented by the percentage of capital level correspondent to the amount of 12.5 times the own funds requirements).

For these ratios, regulatory minimums are indicated by CRD IV / CRR of 4.5% for CET1, 6% for Tier 1 and 8% for total Capital. However, on these regulatory minimums, reserves of own funds (such as Conservation Reserve, Counter-Cyclical Reserve and Reserves for Other Systemic Institutions) are applied, the value of which is defined by Bank of Portugal. In 2018, Bank of Portugal defined a 0% Counter-cyclical Reserve. Regarding Conservation Reserve, the Bank of Portugal, in its Notice 6/2016, defines its application according to the transition plan set out in Article no. 160 of CRD IV, thus the value of this reserve in 2018 is 1.875% and 2.5% after 1 January 2019. With respect to the Reserve for Other Systemic Institutions, Bank of Portugal has set a reserve for CEMG, on a consolidated basis, of 0,0625% in 2018, 0.125% in 2019, 0.1875% in 2020 and 0.25% by 2021.

Under the SREP, Bank of Portugal defined for CEMG an additional 2.75% Pillar 2 requirement to be met on a consolidated basis.

Pursuant to these provisions, as of 30 June 2018, the Common Equity Tier 1, Tier 1 and Total regulatory minimum ratios were 9.188%, 10.688% and 12.688%, respectively, including Own Fund Reserves, referred to above.

The summary of the calculation for the Group's capital requirements as at 30 June 2018 and 31 December 2017, under phasing-in, is presented as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Capital Common Equity Tier 1		
Realised capital	2 420 000	2 420 000
Net profit, reserves and retained earnings	(824 695)	(696 238)
Non-controlling interests eligible for CET1	9 723	11 921
Other regulatory adjustments	(83 683)	(163 520)
	1 521 345	1 572 163
Capital Tier 1		
Non-controlling interests eligible for Tier 1	4 067	3 158
Regulatory adjustments	-	(3 158)
	1 525 412	1 572 163
Capital Tier 2		
Subordinated loans	8 401	24 250
Non-controlling interests eligible for Tier 2	416	-
Regulatory adjustments	-	(16 166)
	8 817	8 084
Total own funds	1 534 229	1 580 247
Own funds requirements		
Credit risk	790 659	825 814
Market risk	7 517	28 093
Operating risk	57 748	57 748
Other requirements	44 796	38 325
	900 720	949 980
Prudential ratio		
Common Equity Tier 1 ratio	13.51%	13.24%
Tier 1 ratio	13.55%	13.24%
Total capital ratio	13.63%	13.31%

It should be noted that ratios, as at 30 June 2018, consider the impact of admission to the deferred tax assets special regime, as described in note 33.

With the adoption of International Financial Reporting Standard IFRS 9 - Financial Instruments, applicable from 1 January 2018, and considering Regulation (EU) 2017/2395 of the European Parliament and of the Council, CEMG has chosen to apply the phasing-in prudential plan defined in the Regulation, on an ongoing basis, over a 5-year period. Therefore, in 2018, CEMG recognises prudently only 5% of the impact related to the IRS 9 adoption. If CEMG did not applied this transition plan, CEMG's prudential ratios in June 2018 would be:

(Thousands of Euro)

	Jun 2018
Capital Common Equity Tier 1	1 382 787
Capital Tier 1	1 386 854
Total own funds	1 395 671
Own funds requirements	891 738
Prudential Ratios	
Ratio Common Equity Tier 1	12,41%
Ratio Tier 1	12,44%
Total Capital Ratio	12,52%

56 Sovereign debt of European Union countries subject to bailout

During the first half of 2018, all Greek debt securities were sold in the amount of Euro 17,021 thousand, with a loss of Euro 412 thousand.

As at 31 December 2017, the exposure of the Group to sovereign debt of European Union countries subject to bailout is as follows:

(Thousands of Euro)

	Dec 2017						
Issuer / Portfolio	Book value	Fair value	Fair value reserve	Impairment	Average interest rate (%)	Average maturity (years)	Measurement level
Greece							
Financial assets at fair value through other comprehensive income	17 164	17 164	(1 128)	-	2.51%	20.28	1

As at 31 December 2017, the value of the securities includes accrued interest in the amount of Euro 52 thousand.

57 Transfer of assets

The Group performed a set of transactions of sale of financial assets (namely loans and advances to customers) for specialised Funds in the recovery of loans. These funds take the responsibility for management of the companies or assets received as collateral with the objective of ensuring a pro-active management through the implementation of plans to explore/increase the value of the companies/assets.

The financial assets sold under these transactions are derecognised from the balance sheet of the Group, since the transactions result in the transfer to the Funds of a substantial portion of the risks and benefits associated with the assets as well as the control on the assets.

The specialised funds that acquire financial assets to the Group are closed funds, in which the holders of the mutual funds have no possibility to request the reimbursement of its investment throughout the useful life of the Funds.

These mutual funds are held by several banks, which are the sellers of the loans, in percentages that vary through the useful life of the Funds, ensuring however that, separately, none of the Group's entities holds more than 50% of the capital of the Funds.

The Funds have a specific management structure (General Partner), fully independent from the Group's entities and that is selected on the date of establishment of the Funds.

The management structure of the Funds has as main responsibilities:

- determine the objective of the Funds; and
- manage exclusively the Fund, determining the objectives and investment policy and the conduct in management and business of the Funds.

The management structure is remunerated through management commissions charged to the Funds.

These funds, in most transactions (in which the Group holds minority positions) establish companies under the Portuguese law in order to acquire the loans to CEMG's, which are financed through the issuance of senior and junior bonds.

The value of the senior bonds fully subscribed by the funds that hold the share capital of the companies match the fair value of the asset sold, determined in accordance with a negotiation based on valuations performed by both parties. These bonds are remunerated at an interest rate that reflects the risk of the company that holds the assets. The value of the junior bonds is equivalent to the difference between the fair value based on the valuation of the senior bonds and the sale value.

These junior bonds, when subscribed by the Group, provide the right to a contingent positive value if the recovered amount for the assets transferred is above the nominal value amount of senior bonds plus it related interest.

However, considering that these junior bonds reflect a difference between the valuations of the assets sold based on the appraisals performed by independent entities and the negotiation between the parties, the junior bonds are fully provided.

Therefore, following the transactions that occurred, the Group subscribed:

- Mutual funds of the Funds, for which the cash-flows that allow the recovery arise mainly from a set of assets transferred from the participant banks (where the Group has clearly a minority interest). These securities are booked in the Financial assets at fair value through other comprehensive income portfolio and are accounted for at fair value based on the market value, as disclosed by the Funds and audited at each 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)

	Jun 2018			Dec 2017		
	Values associated with the transfer of assets			Values associated with the transfer of assets		
	Net assets transferred	Amount received	Result obtained with the transfer	Net assets transferred	Amount received	Result obtained with the transfer
Fundo Vega, FCR	27 857	43 124	15 267	27 857	43 124	15 267
Vallis Construction Sector Fund	23 506	26 776	3 270	23 506	26 776	3 270
Discovery Portugal Real Estate Fund	13 698	15 415	1 717	13 698	15 415	1 717
Fundo Aquaris, FCR	13 060	13 485	425	13 060	13 485	425
Fundo de Reestruturação Empresarial, FCR	45 349	45 509	160	45 349	45 509	160
	123 470	144 309	20 839	123 470	144 309	20 839

As at 30 June 2018 and 31 December 2017, the assets received under these transactions are as follows:

(Thousands of Euro)

	Jun 2018		
	Senior securities	Junior securities	Total
Fundo Vega, FCR	26 796	-	26 796
Vallis Construction Sector Fund	-	-	-
Discovery Portugal Real Estate Fund	14 701	-	14 701
Fundo Aquarius, FCR	13 260	-	13 260
Fundo de Reestruturação Empresarial, FCR	41 729	-	41 729
	96 486	-	96 486

(Thousands of Euro)

	Dec 2017				
	Senior securities	**Junior securities**	**Total**	**Impairment**	**Net amount**
Fundo Vega, FCR	28 839	-	28 839	(2 043)	26 796
Vallis Construction Sector Fund	19 269	7 838	27 107	(27 107)	-
Discovery Portugal Real Estate Fund	14 515	-	14 515	-	14 515
Fundo Aquarius, FCR	14 370	-	14 370	(1 110)	13 260
Fundo de Reestruturação Empresarial, FCR	44 484	-	44 484	(2 878)	41 606
	121 477	7 838	129 315	(33 138)	96 177

As at 31 December 2017, impairment losses amounting to Euro 5,864 thousand, Euro 2,043 thousand, Euro 508 thousand and Euro 209 thousand were recorded relating to the devaluation of the mutual funds in Vallis Construction Sector Fund, Fundo Vega, FCR, Fundo de Reestruturação Empresarial, FCR and Fundo Aquarius, FCR respectively.

As at 31 December 2017, junior securities refer to mutual funds on the amount of Euro 7,838 thousand, which are fully provided.

As at 1 January 2018, the investment units in the Vallis Construction Sector Fund were transferred from the portfolio of Financial assets at fair value through other comprehensive income to the portfolio of Financial assets not held for trading mandatorily at fair value through profit or loss in accordance with the IFRS 9 adoption. It should be noted that as at 1 January 2018 (reclassification date) and 30 June 2018, the fair value of these investment units is nil.

Although junior bonds are fully provided, the Group still holds an indirect exposure to financial assets transferred, under the minority investment that holds in the pool of assets transferred by all financial institutions involved, through the holding of shares of the funds (denominated in the table as senior bonds).

58 Transition to IFRS 9 – Financial instruments

As referred in the accounting policy described in Note 1 a), CEMG adopted IFRS 9 "Financial Instruments" for the first time on 1 January 2018. This led to changes in the classification and valuation of certain financial assets and liabilities, with the following impacts:

(Thousands of Euro)

1 January 2018	IAS 39 Measurement basis	IAS 39 Book value	Reclassification	Notes	Remeasurement	Notes	IFRS 9 Book value	IFRS 9 Measurement basis	
Assets		**20 200 024**	**-**		**(95 726)**		**20 104 298**		-
Cash and deposits at central banks	Amortised cost	1 733 628	-		-		1 733 628	Amortised cost	Cash and deposits at central banks
Loans and advances to credit institutions repayable on demand	Amortised cost	50 205	-		-		50 205	Amortised cost	Loans and advances to credit institutions repayable on demand
Financial assets held for trading	Fair value through P/L	184 076	-		-		184 076	Fair value through P/L	Financial assets held for trading
Financial assets available for sale	Fair value through OCI	2 200 893	(382 056)	A	-		1 818 837	Fair value through OCI	Financial assets at fair value through other comprehensive income
			407 379	A and B	(1 496)	B	405 883	Fair value through P/L	Financial assets not held for trading mandatorily at fair value through profit or loss
Other loans and advances to credit institutions	Amortised cost	312 203	-		(935)	C	311 268	Amortised cost	Other loans and advances to credit institutions
Loans and advances to customers	Amortised cost	13 029 318	(25 323)	B	(144 833)	D	12 859 162	Amortised cost	Loans and advances to customers
Non-current assets held for sale		742 221	-		-		742 221		Non-current assets held for sale
Non-current assets held for sale - Discontinuing operations		474 475	-		-		474 475		Non-current assets held for sale - Discontinuing operations
Investment properties		538 625	-		-		538 625		Investment properties
Property and equipment		233 312	-		-		233 312		Property and equipment
Intangible assets		31 371	-		-		31 371		Intangible assets
Investments in associates		4 097	-		-		4 097		Investments in associates
Current tax assets		7 327	-		-		7 327		Current tax assets
Deferred tax assets		466 000	-		56 035	G	522 035		Deferred tax assets
Other assets		192 273	-		(4 497)	E	187 776		Other assets
Liabilities		**18 437 103**	**-**		**944**		**18 438 047**		
Deposits from central banks	Amortised cost	1 557 840	-		-		1 557 840	Amortised cost	Deposits from central banks
Financial liabilities held for trading	Fair value through P/L	16 171	-		-		16 171	Fair value through P/L	Financial liabilities held for trading
Deposits from other financial institutions	Amortised cost	1 786 717	-		-		1 786 717	Amortised cost	Deposits from other financial institutions
Deposits from customers	Amortised cost	12 561 040	-		-		12 561 040	Amortised cost	Deposits from customers
Debt securities issued	Amortised cost	1 544 054	-		-		1 544 054	Amortised cost	Debt securities issued
Hedging derivatives	Fair value through P/L	1 663	-		-		1 663	Fair value through P/L	Hedging derivatives
Non current liabilities held for sale - Discontinuing operations		330 392					330 392		Non-current liabilities held for sale - Discontinuing operations
Provisions		27 096	-		944	D	28 040		Provisions
Current tax liabilities		5 217	-		-		5 217		Current tax liabilities
Other subordinated debt	Amortised cost	236 193	-		-		236 193		Other subordinated debt
Other liabilities		370 720	-		-		370 720		Other liabilities
Equity		**1 762 921**	**-**		**(96 670)**		**1 666 251**		
Share capital		2 420 000					2 420 000		Share capital
Other equity instruments		6 323					6 323		Other equity instruments
Fair value reserves		27 924	(9 800)	F			18 124		Fair value reserves
Other reserves and retained earnings		(730 598)	9 800	F	(96 670)	H	(817 468)		Other reserves and retained earnings
Net profit/ (loss) for the period		6 437					6 437		Net profit/ (loss) for the period
Non-controlling interests		32 835					32 835		Non-controlling interests
Total Liabilities and Equity		**20 200 024**	**-**		**(95 726)**		**20 104 298**		

On 1 January 2018, CEMG reclassified its financial assets to the portfolios established in IFRS 9:

A. Reclassification of investment fund units in the amount of Euro 382,056 thousand classified, in accordance with IAS 39, in the Available-for-sale financial assets portfolio, to the portfolio of Financial assets not held for trading mandatorily at fair value through profit or loss. This reclassification resulted from CEMG's assessment on the characteristics of these financial instruments, in accordance with the requirements and classification criteria of IFRS 9.

B. Reclassification of loans and advances to customers in the amount of Euro 25,323 thousand, whose contractual cash flows do not represent solely payments of principal and interest (SPPI) over the outstanding capital, and that according to the IFRS 9 requirements, should be classified to Financial assets not held for trading mandatorily at fair value through profit or loss. The remeasurement of this caption in the amount of Euro 1,496 thousand, results from the revaluation of these loans at fair value.

C. Impact arising from the application of the "expected credit losses" (ECL) model to the portfolio of Other loans and advances to credit institutions, in accordance with IFRS 9.

D. Remeasurements of Loans and advances to customers and Provisions, in the amount of Euro 144,833 thousand and Euro 944 thousand, respectively, result from the replacement of the "incurred losses" model of IAS 39 with a forward looking model of "expected credit losses" (ECL), in accordance with IFRS 9.

E. Impairment increase arising from the application of the "expected credit losses" (ECL) model to the debtors's balance classified under Other assets, in accordance with IFRS 9.

F. The breakdown of reclassifications made between fair value reserve and retained earnings is presented as follows:

	(Thousands of Euro)
Reclassification of the investment units' fair value reserve, net of taxes	(14 159)
Impairment increase for debt instruments - ECL	4 072
Recognition of own credit risk in other comprehensive income	287
	(9 800)

G. Impact on deferred tax assets, in the amount of Euro 56,035 thousand, as a result of the IFRS 9 adoption as of 1 January 2018.

H. Total effect of the IFRS 9 adoption in equity.

The impairment reconciliation in accordance with IAS 39 and 37 as at 31 December 2017 with impairment as at 1 January 2018:

(Thousands of Euro)

	IAS 39 and 37 impairment 31 December 2017	**Amendment introduced by adoption of IFRS 9**	**IFRS 9 impairment 1 January 2018**
Financial assets at fair value through other comprehensive income			
- Fixed income securities	36 251	4 072	40 323
- Variable income securities	42 675	(42 675)	-
Other loans and advances to credit institutions	-	935	935
Loans and advances to customers	1 033 821	144 833	1 178 654
Other assets	35 689	4 497	40 186
Provisions	16 147	944	17 091
	1 164 583	**112 606**	**1 277 189**

Financial assets at fair value through other comprehensive income – Variable income securities records the amount related to the charge-off of impairment recorded for investment fund units classified in accordance with IAS 39 in the portfolio of Available-for-sale financial assets and reclassified in accordance with the classification criteria of IFRS 9 for the portfolio of Financial assets not held for trading mandatorily at fair value through profit or loss. All other items record the remeasurement effect calculated in accordance with IFRS 9 criteria.

59 Contingences

Resolution Fund

Resolution measure of Banco Espírito Santo, S.A. (BES)

Bank of Portugal applied a resolution measure to Banco Espírito Santo, SA on 3 August 2014, pursuant to the provisions of Article 145 C (1.b) of the General Regime for Credit Institutions and Financial Companies (RGICSF), in the partial transfer method of assets, liabilities, off-balance sheet assets and assets under management to a transition bank, Novo Banco, SA (Novo Banco). As part of this process, the Resolution Fund made a capital injection in Novo Banco in the amount of Euro 4,900,000 thousand, becoming the sole shareholder, and contracted loans in the amount of Euro 4,600,000 thousand, of which Euro 3,900,000 thousand were granted by the Portuguese State and Euro 700,000 thousand were granted by a group of credit institutions, of which Euro 70,000 thousand were granted by the Group.

On 29 December 2015, Bank of Portugal transferred to the Resolution Fund the emerging liabilities from possible negative effects of future decisions arising from the resolution process, resulting in liabilities or contingencies.

On 7 July 2016, the Resolution Fund stated that it would review and assess the proceedings to take following the disclosure of the report on the results of the independent evaluation exercise, which was carried out to estimate the level of credit recovery for each class of creditors in the possible scenario of a normal BES insolvency procedure on 3 August 2014.

Thus, under the applicable law, and where it is found that at the time of BES settlement, creditors whose credit facilities have not been transferred to Novo Banco, assume a loss higher than would have been hypothetically if BES had entered into a settlement procedure immediately prior to the application of the resolution measure, these creditors are entitled to receive the difference from the Resolution Fund. To date, there is a relevant body of legal proceedings underway against the Resolution Fund.

Bank of Portugal announced on 20 February 2017 that it has decided to choose the potential Lone Star investor for a definitive phase of negotiations and in conditions of exclusivity aiming to complete the terms in which the sale of the Fund's share Resolution on Novo Banco, SA would come about/will be held, and on 31 March 2017, a further statement was issued stating:

"Today, the Bank of Portugal choose Lone Star to complete the sale of the Novo Banco and the Resolution Fund signed the transaction's contract documents.

Under the terms of the agreement, Lone Star will make capital injections in Novo Banco for a total amount of Euro 1,000,000 thousand, of which Euro 750,000 thousand at the time of the transaction completion and Euro 250,000 thousand within a period of up to 3 years.

Due to this capital injection, Lone Star will hold 75% of the capital stock of the Novo Banco and the Resolution Fund will maintain 25% of the capital.

The conditions agreed also include the existence of a contingent capitalisation mechanism, under which the Resolution Fund, as a shareholder, commits to make capital injections in the event of certain cumulative conditions, related to: i) the performance of a delimited set of assets of Novo Banco and ii) with the development of the Bank's capitalisation levels.

Possible capital injections to be made pursuant to this contingent mechanism benefit from a capital buffer resulting from the planned injection to be made under the terms of the operation and are subject to an absolute ceiling.

The agreed conditions also provide for mechanisms to safeguard the interests of the Resolution Fund, the alignment of benefits and supervision, despite the restrictions arising from the application of the State aid rules.

The completion of the sale is dependent on obtaining the usual regulatory authorizations (including the European Central Bank and the European Commission) and a liability management exercise, subject to the approval of the bondholders, which will cover non-subordinated bonds of Novo Banco and that, by offering new bonds, it will generate at least Euro 500 million of own funds eligible for the calculation of the CET1 ratio. "

On 18 October 2017, the Bank of Portugal announced the sale of the Novo Banco, stating that:

- "Bank of Portugal and the Resolution Fund concluded today the sale of Novo Banco to Lone Star through the injection of Euro 750 million by the new shareholder, which will be followed by a new capital injection of Euro 250 million, to be completed by the end of 2017".
- "The conclusion of this operation entails a complex process of negotiations with the new shareholder, the European institutions and other national institutions, in close cooperation with the Government."
- "The completion of the operation announced on 31 March allows a very significant strengthening of the equity of Novo Banco and ceases the transition status applicable to the bank since its inception."
- "As of this date, Novo Banco will be held by Lone Star and by the Resolution Fund, with holdings of 75% and 25%, respectively, and will be provided with the necessary means to execute a plan guaranteeing that the bank will continue to play its decisive role in financing the national economy."

On 28 March 2018, the Resolution Fund issued a statement on the payment to be made to Novo Banco about the results of 2017, from which is about the activation of the contingent capitalisation mechanism provided for in the contracts celebrated for Novo Banco's sale. The amount to be paid to Novo Banco in 2018 by the Resolution Fund in relation to 2017 financial statements amounts to Euro 792 million.

The conditions agreed with the sale of Novo Banco, S.A. also include a contingent capitalisation mechanism, under which the Resolution Fund undertakes to make payments to Novo Banco, S.A. if certain cumulative conditions materialise, related to: i) the performance of a delimited set of assets and ii) an increase of the Bank's capitalisation levels. In case these conditions are met, the payments are subject to a maximum limit of Euro 3,890 thousand. However, payment will only be made after the statutory clearance of accounts and after a verification procedure to be made by an independent entity, which aims to confirm that the amount to be paid by the Fund is correctly calculated.

Firstly, the Fund will use the available financial resources, resulting from contributions paid, directly or indirectly by the banking sector. These resources will be complemented by a loan to be obtained from the State, on the agreed terms in October 2017, as it was disclosed back then. The concrete amount of this loan is not yet accurate, but it is estimated to be a maximum Euro 450 million, below the annual limit of Euro 850 million, with budget.

The Fund has already disbursed a total of Euro 4,900 million of financial support to the resolution measure applied to Banco Espírito Santo, S.A., corresponding to the realization of capital of the new bank in August 2014. The Fund did not made any other payment, but has already registered in it's 2017 accounts a provision of Euro 792 million, payment due in 2018.

Resolution measure of Banif – Banco Internacional do Funchal, S.A. (Banif)

The Board of Directors of Bank of Portugal decided on 19 December 2015 to declare that Banif was "at risk or in a situation of insolvency" and to start an urgent resolution of the institution by the partial or total disposal method of its activity, which has materialized, on 20 December 2015, in the disposal of rights and obligations, representing assets, liabilities, off-balance sheet assets and assets under management of Banif to Banco Santander Totta S.A. (BST).

Most of the assets that were not disposed of were transferred to an asset management vehicle called Oitante, S.A. (Oitante), created specifically for this purpose, which has as sole shareholder the Resolution Fund, with the Oitante proceeding to the issuance of debt bonds in the amount of Euro 746,000 thousand, and a guarantee provided by the Resolution Fund and a counter-guarantee by the Portuguese State.

The transaction involved public support, of which Euro 489,000 thousand by the Resolution Fund. The Euro 489,000 thousand assumed by the Resolution Fund were financed through a mutual agreement granted by the State.

Other relevant conditions

The resolution measures applied to BES and Banif referred to above determined that, as at 31 December 2016, the Resolution Fund held the entire capital stock of Novo Banco and Oitante, at the same time as the Resolution Fund contracted a loan and assumed other liabilities and contingent liabilities, namely:

- Effects of the application of the principle that no institutions' creditor under resolution may incur greater loss than it would have assumed may that institution had entered into settlement.
- Negative effects arising from the resolution process resulting in additional liabilities or contingencies for the Novo Banco, S.A., which must be neutralized by the Resolution Fund.
- Legal proceedings against the Resolution Fund.
- Guarantee provided to the bonds issued by Oitante SA for a total amount of Euro 746,000 thousand, counter-guaranteed by the Portuguese State, for which Oitante, S.A. made an early repayment of Euro 90,000 thousand.

In order to satisfy the responsibilities of the Resolution Fund, in particular to repay the loans obtained and to meet other responsibilities that may arise, the Resolution Fund essentially has revenues from initial and periodic contributions of the participating institutions and the banking sector established by Law No. 55-A /2010. In this regard, the possibility of the Government establishing, through an ordinance, that participating institutions make special contributions is also expected, in the situations provided for in applicable legislation, particularly in the event that the Resolution Fund does not have its own resources to satisfy its obligations.

CEMG's financial statements of 30 June 2018 mirror the expectation that no new special or extraordinary contributions will be required to the institutions participating in the Resolution Fund.

According to non confidential information from the European Comission, the three support measures of the Resolution Fund and the State that compose the sale agreement of Novo Banco and that are connected to a portfolio of loans with uncertain coverage are as follows:

(i) Lone Star has the right to claim from the Resolution Fund the financing costs, losses and provisioning of that portfolio until the maximum of Euro 3,89 thousand million, subject to several conditions, namely in terms of reduction of the capital ratio CET1;
(ii) Novo Banco may issue debt until Euro 400 million, from Tier 2, that the Resolution Fund will subscribe for lack of investors, and which is deducted from the Euro 3,89 billion related to the contingent capital mechanism;
(iii) In case the total capital ratio reaches values below those defined in the Supervisory Review and Evaluation Process ("SREP"), the Portuguese State may inject adicional capital in Novo Banco, subject to determined conditions.

In the future, in case of need to use these contributions, may have relevance to the financial statements.

Since 2013, the Group has made mandatory contributions, as established in Decree-Law No. 24/2013, of 19 February, which establishes the method for determining the initial, periodic and special contributions to the Resolution Fund provided for in the RGICSF.

On 3 November 2015, the Bank of Portugal issued a Circular Letter under which clarified that the periodic contribution to the Resolution Fund should be recognised as an expense at the time of the occurrence of the event which creates the obligation to pay the contribution, i.e. on the last day of April of each year, as stipulated in the Article 9 of the aforementioned Decree-Law. CEMG is recognising as an expense the contribution to the Resolution Fund in the year in which it becomes due.

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

In accordance with Decree-Law No. 24/2013, it is Bank of Portugal's responsibility to determine, by instruction, the rate to be applied in each year based on the objective incidence of periodic contributions. Bank of Portugal Instruction No. 19/2015, published on 29 December, stipulates that Portuguese banks paid contributions to the Resolution Fund in 2016, calculated at a 0.02% base rate. Instruction No. 21/2016 of the Bank of Portugal, of 26 December, sets the base rate to be effective in 2017 for the determination of periodic contributions to the Resolution Fund by 0.0291%.

As at 31 December 2017, the Group made regular contributions to the Resolution Fund in the amount of Euro 3,612 thousand (31 December 2016: Euro 3,005 thousand) and paid the contribution to the banking sector in the amount of Euro 11,875 thousand (31 December 2016: Euro 13,226 thousand) and were recognised as expense in April and June, in accordance with IFRIC 21 – Levies.

On 28 September 2016, the Resolution Fund announced that it had agreed with the Ministry of Finance to review the loan of Euro 3,900,000 thousand originally granted by the Portuguese State to the Resolution Fund in 2014 to finance the resolution measure applied to BES. According to the Resolution Fund, the maturity extension of the loan was intended to ensure the ability of the Resolution Fund to meet its obligations through its regular revenues, regardless of the contingencies to which the Resolution Fund is exposed. On the same day, the Minister of Finance announced that increases in liabilities arising from materialization of future contingencies will determine the maturity adjustment of Portuguese State and Bank loans to the Resolution Fund in order to maintain the required contribution to the banking sector at current levels.

The announcement made by the Resolution Fund at 21 March 2017 states:

- "The conditions of the loans obtained by the Fund for the financing of the resolution measures applied to Banco Espírito Santo, SA and Banif - Banco Internacional do Funchal, SA have been changed." These loans amounted to Euro 4,953,000 thousand, of which Euro 4,253,000 thousand were granted by the Portuguese State and Euro 700,000 thousand were granted by a set of banks.
- "Those loans will due in December 2046, without loss/prejudice to the possibility of early/anticipated repayment based on the use of revenues/receipts from the Resolution Fund. The maturity will be adjusted in conditions that guarantee the ability of the Resolution Fund to fully meet its obligations based on regular revenues/income and without the need for special contributions or any other extraordinary contributions. Following the resolution measures of BES and Banif, liabilities arising from contracts obtained by the Resolution Fund with the Portuguese State and the banks, compete in pari passu among themselves."
- "The review of loan conditions aimed to ensure the sustainability and financial balance of the Resolution Fund."
- "The new conditions allow for full payment of the Resolution Fund's liabilities and their remuneration, without the need for special contributions or any other extraordinary contributions from the banking sector."

Following these changes to the loans contracted by the Resolution Fund, as at 30 June 2018, the amount of credit and interest owed to the Group amounted to Euro 70,704 thousand (31 December 2017: Euro 70,000 thousand).

In this context, considering the above-mentioned exposure, it is not possible at this date to estimate the effects on the Resolution Fund arising from the application of the principle that no creditor of the credit institution under resolution may incur greater loss than the one it would have assumed may that institution entered into settlement of liabilities or additional contingences for Novo Banco, S.A. that have to be neutralized by the Resolution Fund, legal proceedings against the Resolution Fund, including the so-called Harmed BES process; and the guarantee given to the bonds issued by Oitante.

Thus, and regardless the possibility provided for in the applicable legislation for the collection of special contributions, given the recent developments regarding the renegotiation of the conditions of loans granted to the Resolution Fund by the Portuguese State and by a group of banks, CEMG included, and to the public announcements made by the Resolution Fund and by the Minister of Finance which state that this possibility will not be used. The financial statements, as of 31 December 2017, reflect CEMG's expectation that the institutions participating in the Resolution Fund will not be required to make special contributions or any other extraordinary contributions to finance the resolution measures applied to BES and Banif.

Single Resolution Fund

Under the Single European Resolution Fund ('FUR') the Group made an initial contribution of Euro 8,590 thousand in 2015, which, under the Intergovernmental Agreement on the transfer of the mutualisation of contributions to FUR, was not transferred to FUR but used for the compliance with obligations of the Resolution Fund resulting from the application of resolution measures prior to the date of application of the Agreement. This amount will have to be re-set over an 8-year period (starting in 2016) through periodic contributions to FUR. The amount of the cash contribution as at 30 June 2018 attributable to the Group was Euro 8,113 thousand (31 December 2017: Euro 9,702 thousand). The Group also opted for the settlement of Euro 4,886 thousand (31 December 2017: Euro 3,475 thousand) in the form of irrevocable payment commitment, in accordance with notes 10 and 21.

60 Subsidiary and associated companies

As at 30 June 2018, the Group's subsidiary companies consolidated under the full method, are as follows:

Subsidiary	Head Office	Share Capital	Currency	Activity	Group	
					% of control	% of effective participation
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	Praia	992 000 000	Cape Verde Escudo	Banking	100.00%	100.00%
Banco Terra, S.A.	Maputo	2 627 743 000	Metical	Banking	45.78%	45.78%
Finibanco Angola, S.A.	Luanda	7 516 296 830	Kwanza	Banking	51.00%	80.22%
Montepio Crédito - Instituição Financeira de Crédito, S.A.	Porto	30 000 000	Euro	Specialised loans	100.00%	100.00%
Montepio Geral Corp.	Newark	150 000	USD	Money Transmitter Office	100.00%	100.00%
Montepio Holding, S.G.P.S., S.A.	Lisboa	175 000 000	Euro	Management of shareholdings	100.00%	100.00%
Montepio Investimento, S.A.	Lisboa	180 000 000	Euro	Banking	100.00%	100.00%
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	Lisboa	1 550 000	Euro	Management of investment funds	100.00%	100.00%
SSAGINCENTIVE - Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A.	Lisboa	100 000	Euro	Real Estate management	100.00%	100.00%

As at 30 June 2018, the Group's associated companies accounted using the equity method, held directly or indirectly, are as follows:

Subsidiary	Head Office	Share Capital	Activity	% held
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	São Miguel island	Euro 10 000 000	Accommodation, catering and similar / Hotels with restaurant	20.00%
Montepio Gestão de Activos Imobiliários, A.C.E.	Lisboa	Euro 2 449 707	Real Estate asset management	28.50%
Cesource, ACE	Lisboa	-	IT resources management	18.00%

Finibanco Angola

In 2015, a contract was signed for the sale of 1,727,782 shares of Finibanco Angola S.A., representing 30.57% of the share capital, for US 26,346,178 million.

The Group analysed the effectiveness of regulatory and legal requirements, and decided not to recognise the disposal of the financial investment until the settlement has been made.

In May 2018, a financial settlement corresponding to 65,040 shares, representing 1.15% of the share capital, was made in the amount of USD 991,764, with the Group becoming the holder of 80.22% of the subsidiary Finibanco Angola, S.A.

In 2017, the financial settlement corresponding to 11,476 shares, representing 0.20% of the share capital, was made in the amount of USD 174,984, with the Group holding 80.37% of the subsidiary Finibanco Angola, S.A.

Upon completion of the transaction, the Group will continue to control Finibanco Angola, S.A.

As at 30 June 2018, the consolidation perimeter of the Group includes the following special purpose entities and investment funds:

Subsidiary	Establishment year	Acquisition year	Head Office	% of controlling interest	Consolidation method
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto (FEIIA)	2013	2013	Lisboa	100%	Full
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2011	2011	Lisboa	100%	Full
Montepio Arrendamento II – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2013	2013	Lisboa	100%	Full
Montepio Arrendamento III – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2013	2013	Lisboa	100%	Full
PEF - Portugal Estates Fund	2013	2013	Lisboa	100%	Full
Polaris - Fundo de Investimento Imobiliário Fechado	2009	2012	Lisboa	100%	Full

On 31 March 2018, the Group deconsolidated the Valor Prime – Fundo de Investimento Imobiliário Aberto.

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 until 30 June 2018.

61 Non-current assets and liabilities held for sale – Discontinuing operations

CEMG is in a negotiating process with a group of investors with the purpose to refocusing the approach to the African market in view of the deconsolidation of the current financial holdings held in Finibanco Angola, S.A. and Banco Terra, S.A.

Considering the deliberations already taken by the Board of Directors, as well as the provisions of IFRS 5, the activities performed by these subsidiaries were considered as discontinuing operations in 2016.

At the level of the income statement, the results of these subsidiaries were recognised in "Results from discontinuing operations" and, at the balance sheet level, under "Non-current assets held for sale - Discontinuing operations" and "Non-current liabilities held for sale - Discontinuing operations".

In accordance with paragraph 33(a) of IFRS 5, net cash flows attributable to operating, investing and financing activities of discontinued operations shall be disclosed, but shall not be mandatory for groups of newly acquired assets held for sale that meet the criteria for classification as available for sale in the acquisition.

In addition, it should be noted that as mentioned in the accounting policies, on 30 June 2018, the Group applied IAS 29 to Finibanco Angola on the grounds that the relevant conditions to consider the Angolan economy as a hyperinflationary economy were met.

Thus, before the functional currency was translated into the reporting currency in the financial statements of Finibanco Angola, S.A., the amounts relating to assets, liabilities, equity, income and expenses were monetarily restated based on the general price index which reflects the changes in the purchasing power of the currency of the country in which the operations are generated, as follows:

(i) monetary items are not restated because they are already stated in the current monetary unit at the reporting date;

(ii) assets and liabilities linked by agreement to price changes are adjusted under the terms of the agreement in order to determine the amount outstanding at the date of the statement of financial position;

(iii) all other assets and liabilities are non-monetary and are restated (except for certain items that are recorded at current amounts at the reporting date, such as net realizable value and market value);

(iv) all other items of the income statement are restated by applying the change in the general price index from the dates on which income and expense items were initially recorded in the financial statements.

The price index used was the National Consumer Price Index (IPCN) disclosed by the National Statistical Institute (INE) of Angola, in its Rapid Information Sheet for December 2017. The table below presents the index and the accumulated percentage variation over the last 3 years:

	2015	2016	2017
IPCN (Basis - 31 December 2014 = 100)	114.27	162.20	204.79
Annual variation	14%	48%	42%

It should be noted that as at 30 June 2018, IPCN stood at 220.45, representing an increase of 7.6% compared to 31 December 2017.
In this context, proforma accounts of the subsidiary Finibanco Angola, S.A. were prepared, considering the effects of applying IAS 29, namely for non-monetary assets and liabilities, including goodwill, and equity items were restated by applying the price index from the date of acquisition or date of the last revaluation. If restated asset amounts exceed their recoverable amount, these are reduced to their recoverable amount.

The effects of applying IAS 29 calculated with reference to 1 January 2016 were recorded under equity items, without impact on the income statement. The effects of applying IAS 29 for the 2017 period were recorded in the income statement.

The Group's consolidated accounts also considered the following aspects:

- The restatement of non-monetary assets and liabilities and equity items of Finibanco Angola, S.A., in accordance with the requirements of IAS 29;

- After considering the effects of applying IAS 29 described above, the book value of the investment in Finibanco Angola, S.A. was compared to its recoverable amount on 1 January 2017 and 31 December 2017, in order to assess on the need for impairment recognition regarding the investment in this associate.

The application of IAS 29 to the shareholding held by the Group in Finibanco Angola, S.A. had equity impacts in 2018, involving:

(i) an increase in reserves and retained earnings of Euro 25,181 thousand (31 December 2017: Euro 37,474 thousand); and

(ii) a decrease of net income in the amount of Euro 772 thousand (31 December 2017: Euro 4,084 thousand).

The statement of financial position of Finibanco Angola, S.A. and Banco Terra, S.A., as at 30 June 2018, is presented as follows:

(Thousands of Euro)

	Jun 2018			
	Finibanco Angola	**Banco Terra**	**Adjustments**	**Total**
Cash and deposits at central banks and credit institutions	79 600	5 835	(30 573)	54 862
Other loans and advances to credit institutions	16 674	92	(1 082)	15 684
Loans and advances to customers	68 097	31 830	-	99 927
Securities portfolio and derivatives	126 970	6 349	-	133 319
Intangible assets	1 479	370	-	1 849
Other assets	66 618	6 585	(23 503)	49 700
Total assets	**359 438**	**51 061**	**(55 158)**	**355 341**
Deposits from other credit institutions	1 573	3 965	-	5 538
Deposits from customers	243 026	24 436	(23 868)	243 594
Other subordinated debt	26 346	-	(26 193)	153
Provisions	810	34	-	844
Other liabilities	6 360	839	(183)	7 016
Total liabilities	**278 115**	**29 274**	**(50 244)**	**257 145**

The statement of financial position of Finibanco Angola, S.A. and Banco Terra, S.A., as at 31 December 2017, is presented as follows:

(Thousands of Euro)

	Dec 2017			
	Finibanco Angola	Banco Terra	Adjustments	Total
Cash and deposits at central banks and credit institutions	81 602	5 803	(11 334)	76 071
Other loans and advances to credit institutions	5 273	1 227	(5 273)	1 227
Loans and advances to customers	122 636	34 144	-	156 780
Securities portfolio and derivatives	155 468	6 287	-	161 755
Intangible assets	1 149	456	9 931	11 536
Other assets	94 689	5 850	(33 433)	67 106
Total assets	**460 817**	**53 767**	**(40 109)**	**474 475**
Deposits from other credit institutions	4 036	5 194	(3 760)	5 470
Deposits from customers	309 420	26 154	(20 446)	315 128
Other subordinated debt	27 331	-	(25 497)	1 834
Provisions	2 175	34	-	2 209
Other liabilities	5 378	472	(99)	5 751
Total liabilities	**348 340**	**31 854**	**(49 802)**	**330 392**

The main income statement items related to these discontinuing operations are analysed as follows:

(Thousands of Euro)

	Jun 2018			Dec 2017				
				Finibanco Angola		Banco Terra		
	Finibanco Angola	Banco Terra	Total	Initial	Adjustment	Initial	Adjustment	Total
Net interest income	12 603	2 797	15 400	31 608	-	6 190	-	37 798
Dividends from equity instruments	-	-	-	-	-	-	-	-
Fee and commission income	6 278	217	6 495	8 213	-	497	-	8 710
Net gains/ (losses) arising from financial operations	10 749	23	10 772	4 468	-	(235)	-	4 233
Other operating income/ (expense)	(748)	(139)	(887)	(7 952)	(925)	123	-	(8 754)
Total operating income	**28 882**	**2 898**	**31 780**	**36 337**	**(925)**	**6 575**	**-**	**41 987**
Staff costs	3 720	1 639	5 359	9 812	-	3 320	-	13 132
Other general and administrative expenses	3 146	1 207	4 353	9 602	(10)	2 472	-	12 064
Depreciation and amortisation	594	290	884	1 805	-	548	-	2 353
Total operating expense	**7 460**	**3 136**	**10 596**	**21 219**	**(10)**	**6 340**	**-**	**27 549**
Loans, other assets and other provisions impairment	5 622	(287)	5 335	5 934	269	49	1 919	8 171
Operating profit/ (loss)	**15 800**	**49**	**15 849**	**9 184**	**(1 184)**	**186**	**(1 919)**	**6 267**
Profit before income tax	**15 800**	**49**	**15 849**	**9 184**	**(1 184)**	**186**	**(1 919)**	**6 267**
Taxes	3 909		3 909	2 059	-	96	-	2 155
Net profit/ (loss) for the period	**11 891**	**49**	**11 940**	**7 125**	**(1 184)**	**90**	**(1 919)**	**4 112**

Finibanco Angola, S.A.

The assessment performed for Finibanco Angola was based on a study considering: market multiples, comparable transactions and discounted dividend method. In addition, the estimated amount on the sale of Finibanco Angola was considered, in accordance with the acquisition proposal submitted by a third party.

On this basis, the valuation of 80.22% position held by Montepio Holding in Finibanco Angola stood at USD 83,615 thousand, approximately Euro 67,075 thousand.

In the assessment methodologies used the following assumptions were considered:

- The peer group selection process considered the following criteria (by the following order): market share, capitalisation, country, country risk premium (Damodaran), non-performing loans/total loans ratio, net interest income/total assets ratio and cost/income ratio;

- For application of the comparable transactions methodology purposes it was considered to be a transaction executed in the Angolan market; and
- In the dividend method assessment it was considered the business plan of Finibanco Angola for the 2017/2019 period and a growth rate of 3% for 2020.

These assessments above also include a forward of 200.3 for the calculation of the foreign exchange rate AOA/EUR as of 31 December 2017.

Banco Terra, S.A.

The fair value estimate of Banco Terra, S.A. was determined based on the fair value net of selling costs which corresponds to a multiple of 1 on the equity amount as of 30 June 2018.

As at 31 December 2017, the amounts recorded in the balance sheet, related to goodwill and consolidation differences, correspond to the difference between the cost of acquisition and the total fair value of the assets and liabilities and contingent liabilities of: (i) Finibanco Angola, S.A. acquired at 31 March 2011 from Montepio Geral Associação Mutualista, as described in note 1 a), in the amount of Euro 53,024 thousand and; (ii) of Banco Terra, acquired in December 2014, in the amount of Euro 3,280 thousand. It should be noted that these amounts are fully provided.

62 Relevant facts

Election of the Corporate Bodies

CEMG's General Meeting, in its extraordinary session of 16 March 2018, changed the nature of its governance model, leading CEMG governing bodies to include, namely, a Board of Directors and an Audit Committe, and elected new members of governing bodies for the 2018-2021 period.

On 4 April 2018, the Bank of Portugal granted the final endorsement, including its composition, of the following corporate bodies: General Meeting, Board of Directors and Audit Committee.

The above-mentioned corporate bodies came into effect on the 21 March 2018 and Dr. Carlos Manuel Tavares da Silva will exercise, under the authorised terms of the Bank of Portugal, functions of Chairman of the Board of Directors and Chairman of the Executive Committee.

Banco Terra, S.A.

On 31 August 2018, CEMG announced that its subsidiary Montepio Holding, SGPS, SA agreed to sell 45.78% of the share capital of Banco Terra, S.A. to Arise, a joint venture formed together by the Norwegian sovereign trust fund Norfund, by the Dutch development bank FMO and by Rabobank to support growth in Africa through investments in African financial institutions.

As a result of this disposal, CEMG ceased to hold any interest in Banco Terra S.A., under the strategic redefinition of its international holdings.

It should be noted that the transfer of the ownership of these shares will only take place after some steps have been completed, either with other shareholders or with Mozambican authorities.

Admission to the special regime applicable to deferred tax assets

In the first half of 2018, CEMG adhered to the special regime applicable to deferred tax assets approved by Law No. 61/2014, of 26 August, which is applicable to expenses and negative equity changes recorded in tax periods beginning on or after 1 January 2015, as well as deferred tax assets recorded in the annual accounts relating to the last tax period prior to that date and to the share of associated expenses and negative equity changes, in accordance with the General Shareholders' Meeting Extraordinary Meeting of the CEMG held on 6 July 2016.

63 Subsequent events

In addition to the information disclosed in this document, there were no significant transactions and / or relevant events to be disclosed.

FINANCIAL STATEMENTS AND NOTES TO THE FINANCIAL STATEMENTS

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

Interim Individual Income Statement
for the six-month periods ended at 30 June 2018 and 2017

(Thousands of Euro)

	Notes	30 June 2018	30 June 2017
Interest and similar income	3	189 535	244 662
Interest and similar expense	3	62 648	108 616
Net interest income		126 887	136 046
Dividends from equity instruments	4	8 293	8 197
Net Fee and commission income	5	58 371	58 825
Net gains/ (losses) arising from financial assets and liabilities at fair value through profit or loss	6	(86)	4 724
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	7	4 129	21 130
Net gains/ (losses) arising from foreign exchange differences	8	774	921
Net gains/ (losses) arising from sale of other financial assets	9	5 160	21 065
Other operating income / (expenses)	10	(12 946)	(15 417)
Total operating income		190 582	235 491
Staff costs	11	80 520	80 856
General and administrative expenses	12	31 565	32 870
Depreciation and amortisation	13	10 856	11 467
		122 941	125 193
Loans impairment	14	46 919	63 691
Other financial assets impairment	15	2 597	9 271
Other assets impairment	16	7 917	15 017
Other provisions	17	1 728	6 602
Operating profit		8 480	15 717
Taxes			
Current	31	(329)	(2 808)
Deferred	31	(641)	(8 831)
Net profit/ (loss) for the period		7 510	4 078

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

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

Interim Individual Balance Sheet as at 30 June 2018 and 31 December 2017

(Thousands of Euro)

	Notes	30 June 2018	31 December 2017
Assets			
Cash and deposits at central banks	18	1 720 991	1 733 626
Loans and advances to credit institutions repayable on demand	19	63 095	59 472
Other loans and advances to credit institutions	20	554 727	558 711
Loans and advances to customers	21	12 311 058	12 748 717
Financial assets held for trading	22	52 449	184 076
Financial assets not held for trading mandatorily at fair value through profit or loss	23	808 812	-
Financial assets at fair value through other comprehensive income	24	939 593	2 602 791
Hedging derivatives	25	5 611	-
Other financial assets at amortised cost	26	620 891	-
Invesments in subsidiaries and associated companiess	27	316 662	315 903
Non-current assets held for sale	28	707 724	714 133
Property and equipment	29	216 637	220 002
Intangible assets	30	28 453	30 092
Current tax assets	-	5 324	6 589
Deferred tax assets	31	508 478	458 864
Other assets	32	189 903	176 615
Total Assets		19 050 408	19 809 591
Liabilities			
Deposits from central banks	33	1 546 980	1 557 840
Deposits from other financial institutions	34	1 935 777	2 011 197
Deposits from customers	35	12 489 530	12 555 325
Debt securities issued	36	1 081 920	1 389 999
Financial liabilities held for trading	22	15 539	16 171
Hedging derivatives	25	-	1 663
Provisions	37	28 879	26 207
Current tax liabilities	-	1 433	1 104
Other subordinated debt	38	121 487	237 016
Other liabilities	39	198 833	284 058
Total Liabilities		17 420 378	18 080 580
Equity			
Share capital	40	2 420 000	2 420 000
Other equity instruments	41	6 323	6 323
Fair value reserves	43	7 561	27 976
Other reserves and retained earnings	42 and 43	(811 364)	(782 948)
Net profit/ (loss) for the period		7 510	57 660
Total Equity		1 630 030	1 729 011
Total Liabilities and Equity		19 050 408	19 809 591

CHIEF ACCOUNTANT

THE BOARD OF DIRECTORS

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

Caixa Económica Montepio Geral,

caixa económica bancária, S.A.

Interim Individual Statement of Cash Flows
for the six-months periods ended at 30 June 2018 and 2017

(Thousands of Euro)

	30 June 2018	30 June 2017
Cash flows arising from operating activities		
Interest income received	153 569	256 644
Commissions income received	70 937	72 046
Interest expense paid	(102 490)	(165 296)
Commissions expense received	(11 832)	(13 088)
Payments to employees and suppliers	(112 454)	(122 283)
Recovery of loans and interests	2 608	1 926
Other payments and receivables	(15 128)	42 126
Income tax payment	112	1 623
	(14 678)	73 698
(Increase) / decrease in operating assets		
Loans and advances to credit institutions and customers	224 184	291 936
Deposits held for monetary control purposes	(9 142)	(94 438)
Other assets	(3 145)	(40 395)
	211 897	157 103
(Increase) / decrease in operating liabilities		
Deposits from customers	(54 380)	(771 786)
Deposits from credit institutions	(75 526)	(107 683)
Deposits from central banks	-	377 840
	(129 906)	(501 629)
	67 313	(270 828)
Cash flows arising from investing activities		
Dividends received	8 293	8 197
(Acquisition) / sale of financial assets held for trading	133 224	(8 658)
(Acquisition) / sale of financial assets at fair value through other comprehensive income	771 681	(343 323)
Interest received from financial assets at fair value through other comprehensive income	46 910	50 074
(Acquisition) / sale of hedge derivatives	(1 665)	-
(Acquisition) / sale of other financial assets at amortised cost	(615 382)	1 119 599
Increase of investments in associated companies	-	(10 000)
(Acquisition) / sale of other financial assets	(705)	424
Acquisition of real estate properties	(5 852)	(8 007)
	336 504	808 306
Cash flows arising from financing activities		
Capital increase	-	250 000
Other equity instruments	(163)	(162)
Proceeds from issuance of bonds and subordinated debt	-	500 000
Reimbursement of bonds and subordinated debt	(423 297)	(1345 186)
Increase / (decrease) in other sundry liabilities	-	(4 112)
	(423 460)	(599 460)
Effect of changes in exchange rate on cash and cash equivalents	1 489	349
Net changes in cash and cash equivalents	(18 154)	(61 633)
Cash and cash equivalents at the beginning of the period:		
Cash (note 18)	178 925	211 646
Loans and advances to credit institutions repayable on demand (note 19)	59 472	71 039
	238 397	282 685
Cash and cash equivalents at the end of the period:		
Cash (note 18)	157 148	159 559
Loans and advances to credit institutions repayable on demand (note 19)	63 095	61 493
	220 243	221 052

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

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

Interim Individual Statement of Changes in Equity
for the six-month periods ended at 30 June 2018 and 2017

(Thousands of Euro)

	Share Capital	Participation Fund	Other equity instruments	General / Legal reserve	Fair value reserves	Retained earnings	Total Equity
Balance on 31 December 2016	**1 770 000**	**400 000**	**6 323**	**186 000**	**(2 303)**	**(970 158)**	**1 389 862**
Other comprehensive income:							
Actuarial gains/ (losses) for the period (note 47)	-	-	-	-	-	-	-
Deferred taxes related to equity changes recorded against retained earnings (note 31)	-	-	-	-	-	(640)	(640)
Changes in fair value (note 43)	-	-	-	-	79 888	-	79 888
Deferred taxes related to fair value changes (note 31)	-	-	-	-	(26 388)	-	(26 388)
Net profit/ (loss) for the period	-	-	-	-	-	4 078	4 078
Total comprehensive income for the period	-	-	-	-	53 500	3 438	56 938
Costs related to the issue of perpetual subordinated instruments (note 41)	-	-	-	-	-	(162)	(162)
Own perpetual subordinated instruments (note 41)	-	-		-	-	-	-
Capital increase (note 40)	250 000	-	-	-	-	-	250 000
Balance on 30 June 2017	**2 020 000**	**400 000**	**6 323**	**186 000**	**51 197**	**(966 882)**	**1 696 638**
Other comprehensive income:							
Actuarial gains/ (losses) for the period (note 47)	-	-	-	-	-	2 524	2 524
Deferred taxes related to equity changes recorded against retained earnings (note 31)	-	-	-	-	-	(356)	(356)
Changes in fair value (note 43)	-	-	-	-	(32 350)	-	(32 350)
Deferred taxes related to fair value changes (note 31)	-	-	-	-	9 129	-	9 129
Net profit/ (loss) for the period	-	-	-	-	-	53 582	53 582
Total comprehensive income for the period	-	-	-	-	(23 221)	55 750	32 529
Costs related to the issue of perpetual subordinated instruments (note 41)	-	-	-	-	-	(156)	(156)
Conversion of the Participation Fund into share capital (note 41)	400 000	(400 000)	-	-	-	-	-
Balance on 31 December 2017	**2 420 000**	**-**	**6 323**	**186 000**	**27 976**	**(911 288)**	**1 729 011**
IFRS 9 transition adjustment							
Gross amount	-	-	-	-	(19 095)	(128 748)	(147 843)
Taxes	-	-	-	-	6 657	47 953	54 610
Balance on 1 January 2018	**2 420 000**	**-**	**6 323**	**186 000**	**15 538**	**(992 083)**	**1 635 778**
Other comprehensive income:							
Deferred taxes related to equity changes recorded against retained earnings (note 31)	-	-	-	-	-	(5 081)	(5 081)
Changes in fair value (note 43)	-	-	-	-	(7 549)	-	(7 549)
Gains related to equity instruments	-	-	-	-	-	(37)	(37)
Deferred taxes related to fair value changes (note 31)	-	-	-	-	(428)	-	(428)
Net profit/ (loss) for the period	-	-	-	-	-	7 510	7 510
Total comprehensive income for the period	-	-	-	-	(7 977)	2 392	(5 585)
Costs related to the issue of perpetual subordinated instruments (note 41)	-	-	-	-	-	(163)	(163)
Legal reserve	-	-	-	5 766	-	(5 766)	-
Balance on 30 June 2018	**2 420 000**	**-**	**6 323**	**191 766**	**7 561**	**(995 620)**	**1 630 030**
							-

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

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

Interim Individual Statement of Comprehensive Income
for the six-month periods ended at 30 June 2018 and 2017

(Thousands of Euro)

	Notes	30 June 2018	30 June 2017
Items that may be reclassified into the Income Statement			
Fair value reserve			
Financial assets at fair value through other comprehensive income			
Debt instruments	43	(7 635)	80 021
Loans and advances to customers	43	(325)	(133)
Taxes related to fair value changes	31 and 43	(428)	(26 388)
		(8 388)	53 500
Items that won't be reclassified into the Income Statement			
Fair value reserve			
Financial assets at fair value through other comprehensive income			
Equity instruments	43	413	-
Gains related to equity instruments	43	(37)	-
Deferred taxes related to changes in equity recorded against retained earnings	31	(5 083)	(640)
		(4 707)	(640)
Other comprehensive income		(13 095)	52 860
Net profit/ (loss) for the period		7 510	4 078
Total comprehensive income/ (loss) for the period		(5 585)	56 938

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

1 Accounting policies

a) Basis of presentation

Caixa Económica Montepio Geral, caixa económica bancária, S.A. (hereinafter "CEMG") is a credit institution, based at Rua Áurea, 219-241, Lisbon, held by Montepio Geral Associação Mutualista (hereinafter "MGAM"), established on 24 March, 1844, and authorised to operate in accordance with Decree-Laws no. 298/92 of 31 December, and no. 136/79 of 18 May, which regulate the activity of savings banks and establish some restrictions to their activities. However, CEMG is authorised to perform banking operations in addition to those mentioned in its by-laws, if previously authorised by the Bank of Portugal. This fact conducts to the practice of banking operations in general.

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

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

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

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

On 10 September 2015 it was published the Decree-Law no. 190/2015, which introduces amendments in the Legal Framework of Credit Institutions and Financial Companies and in the Mutual Association Code. Following the publication of this Decree-Law, CEMG changed its classification to "caixa económica bancária".

In accordance with Regulation (EC) no. 1606/2002 from the European Parliament and the Counsel, of 19 July and Regulation no. 5/2015 of Bank of Portugal, from 7 December, CEMG's financial statements are required to be prepared in accordance with International Financial Reporting Standards ("IFRS") as endorsed by the European Union ("EU") from 2017 onwards. IFRS comprise accounting standards issued by the International Accounting Standards Board ("IASB") and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body.

The interim individual condensed financial statements presented herein were approved by the Board of Directors of CEMG on 26 September 2018. The condensed financial statements are presented in Euro rounded to the nearest thousand.

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

The financial statements of CEMG for the six-month period ended at 30 June 2018 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. The condensed financial statements for the six-month period ended at 30 June 2018 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 2017.

The accounting policies presented in this note were applied consistently to all entities and are consistent with those used in the preparation of the financial statements of the previous period, except for the changes arising from the adoption of IFRS 9 - Financial Instruments and IFRS 15 – Revenue from contracts with customers. IFRS 9 replaces IAS 39 Financial instruments – Recognition and Measurement and establishes new rules for the accounting of financial instruments introducing significant modifications mainly regarding impairment requirements. Requirements introduced by IFRS 9 are, in general, applied retrospectively through the restatement of the opening balance up to the initial application date.

CEMG benefit from the exception which allows that comparative information of previous periods may not be restated if related to modifications in classification and measurement (including impairment). Differences in financial assets and liabilities recorded in the balance sheet as a result from the application of IFRS 9 where recognised in Other Reserves and Retained Earnings as of 1 january 2018, as described in note 53.

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 financial assets at fair value through other comprehensive income, except those for which a reliable measure of fair value is not available. Financial assets and liabilities that are classified under hedge accounting are stated at fair value in respect of the risk that is being hedged.

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

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

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

Impairment of debt instruments

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

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

IFRS 9 establishes a new asset impairment model based on "expected credit losses", which replaces the "incurred loss" model followed in IAS 39, which considers the expected losses throughout the life of financial instruments. Thus, macroeconomic factors are considered when determining ECL, whose changes have impact in expected losses.

The new impairment model is applicable to the following instruments of CEMG, which are not measured at fair value through profit or loss:

- Financial assets classified as debt instruments;
- Commitments and financial guarantees issued.

Under IFRS 9 no impairment is recognised in equity instruments.

Instruments that are subject to impairment calculations are divided in three stages considering its credit risk level, as follows:

- Stage 1: no significant increase in credit risk since its initial recognition. In this case, impairment losses will correspond to expected credit losses resulting from default events that may occur within 12 months after the reporting date;

- Stage 2: instruments in which there is a significant increase in credit risk since its initial recognition, however no objective evidence of impairment exists. In this case, impairment losses will correspond to expected credit losses resulting from default events that may occur over the expected residual life of the instrument;

- Stage 3: instruments for which there is objective evidence of impairment losses as a consequence of events that resulted in losses. In this case, impairment losses will correspond to expected credit losses over the expected residual life of the instrument.

The calculation of impairment losses in accordance with IFRS 9 is complex and requires decisions from Management, estimates and assumptions, particularly in the following areas:

- Assessment of the existence of a significant increase in credit risk since the initial recognition; and
- Incorporation of forward-looking information in ECL calculation.

ECLs Calculation

ECL correspond to unbiased weighted estimates of credit losses that will be determined as follows:

- Financial assets without signs of impairment at the reporting date: the actual value of the difference between the contractual cash flows and the cash flows that CEMG expects to receive;
- Financial assets with signs of impairment at the reporting date: difference between the gross book value and the actual value of the estimated cash flows;
- Unused credit commitments: the actual value of the difference between the contractual cash flows that would result if the commitment is used and the cash flows that CEMG expects to receive;
- Financial guarantees: the actual value of expected reimbursement payments deducted from the amounts that CEMG expects to recover.

IFRS 9 defines financial assets with signs of impairment in a similar way as IAS 39 defined impaired financial assets.

Definition of default

Under IFRS 9, CEMG considered that its financial assets classified in stage 3 are in default by applying the same definition used in the regulatory view to the accounting view.

Significant increase in credit risk

Under IFRS 9, in order to determine if a significant increase in credit risk has occurred (risk of default) since the financial instrument´s initial recognition, CEMG considers as relevant information all the information available and without costs and/or excessive effort, including either quantitative and qualitative information or an analysis based in CEMG´s history, expert judgment.

Under IFRS 9, the identification of a significant increase in credit risk is performed by comparing:

- The remaining PD lifetime at the reporting date, and
- The remaining PD lifetime at this moment, that has been estimated at the initial moment of the exposure´s recognition.

CEMG identifies the occurrence of a significant increase in credit risk through the comparison of the actual 12 months PD and the 12 months PD estimated at the contract's inception, as a proxy for the comparison between the actual remaining PD lifetime and the remaining PD lifetime calculated at the contract's inception.

When evaluating the significant increase in credit risk, CEMG considers as a backstop the existence of more than 30 days of delay, amongst others.

Degrees of credit risk

In accordance with the current management of CEMG´s credit risk, each customer and consequently its exposures are classified with a degree of risk from its masterscale.

CEMG uses this degrees of risk as a primary factor for the identification of a significant increase in credit risk, in accordance with IFRS 9.

Inputs for the measurement of ECL

The main inputs used for measuring ECLs in a collective basis include the following parameters:

- Probability of Default – PD;
- Loss Given Default – LGD; and
- Exposure at Default – EAD.

These parameters are obtained through internal statistic models and other relevant historical data considering the existing regulatory models adjusted in order to reflect the forward-looking information.

The PD´s are estimated based on a certain historical period and are calculated using statistical models. These models are based in internal data, including qualitative and quantitative factors. If a change in the degree of risk of the counterparty or the exposure occurs, the estimate of the related PD is also changed.

The degrees of risk are highly important for the determination of the PDs for each exposure. CEMG collects default and performance indicators regarding its credit risk exposures through analysis by type of customers and type of product.

LGD is the magnitude of the loss that is expected to occur if the exposure enters in default. CEMG estimates LGD´s parameters based on historical recovery rates after the counterparties entry into default. The LGD´s models considers existing collaterals and time of default as well as recovery costs. In case of contracts collaterised by real estate, LTV ratios (loan to value) are an extremely important parameter in the determination of the LGD.

The EAD represents the expected exposure if the exposure and/or customer entry into default. CEMG obtains the EAD values from the counterparty´s current exposure and potential changes to its current value in accordance with the contractual conditions, including amortization and prepayments. For commitments and financial guarantees, the value of EAD includes both the amount of credit used and the expectation of the future potential value that may be used in accordance with the contract.

As described above, except for the financial assets that consider a 12month PD as they do not present a significant increase in credit risk, CEMG calculates the ECL considering the risk of default during the maximum contractual maturity period of the contract or, in certain specific situations, based on the behavior maturity.

Forward-looking information

Under IFRS 9, CEMG includes forward looking information both in its assessment of the significant increase in credit risk and in the measurement of the ECL, using an external entity for the acquisition of relevant macroeconomic variables. This approach represents a forecast of what is more likely to occur and will be in line with other data used by CEMG for other purposes, such a strategic planning and budgeting.

Write-offs policy

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

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, in the following categories:

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

1a) Financial assets held for trading

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

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

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

b) Financial assets, not held for trading, mandatorily at fair value through profit or loss

In this category are included Financial Instruments managed in a fair value basis, not held for trading, or debt instruments whose cash flows do not comply with the criteria of solely reimbursement of principal and payment of interests over the outstanding principal ("SPPI – *Solely Payments of Principal and Interest").*

At inception, an entity may irrevocably recognise a financial asset measured at fair value through profit or loss if it eliminates or significantly reduces an inconsistency in measurement or recognition (sometimes referred to as "accounting mismatch") that otherwise would result in the measurement of financial assets and liabilities or in the recognition of gains and losses from them, in different basis.

However, at inception, IFRS 9 allows that an entity makes an irrevocably selection (instrument by instrument) in order to present as comprehensive income the subsequent fair value changes from an investment in an equity instrument that meets the definition criteria of IFRS 9. This option only applies to instruments not for trading nor the contingent retribution recognised by an acquirer in a business combination to which IFRS 3 applies.

c) 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 and deposits from customers which contain embedded derivatives or with hedge derivatives associated.

The changes in fair value attributable to changes in the credit risk of these liabilities was recognised in the income statement in 2017, under Net gains / (losses) arising from assets and liabilities at fair value through profit or loss in accordance with IAS 39. According to IFRS 9, this fair value changes are recognised in other comprehensive income, where the amount recognised in other comprehensive income in each year will be variable. The accumulated amount recognised in other comprehensive income will be nil if these liabilities are reimbursed at maturity date.

The designation of other financial assets and liabilities at fair value through profit and loss (Fair Value Option) is performed whenever at least one of the following requirements is fulfilled:

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

Considering that the transactions performed by CEMG in the normal course of business are fulfilled at market prices, the financial assets and liabilities at fair value through profit or loss are initially accounted at their fair value, with the expenses or income related to the transactions being recognised in profit and loss in the initial moment and subsequent fair value changes under IFRS 9 according to the following:

- the amount related to the fair value change attributable to changes in the credit risk of the liability is presented in Other comprehensive income; and

- the remaining amount of the fair value change is presented in the income statement.

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 accrual of interest from derivatives associated to financial instruments classified in this category.

2) Financial assets at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met and if is not designated at fair value through profit or loss by option (use of Fair value option):

- the financial asset is held within a business model whose objective is to both collect contractual cash flows and the sale of that financial asset; and
- the contractual cash flows occur on specified dates and correspond solely to payments of principal and interest on the principal amount outstanding (SPPI).

Financial assets held with the purpose of being maintained by CEMG, namely bonds, treasury bills or shares, are classified as at fair value through other comprehensive income, except if they are classified in another category of financial assets. The financial assets at fair value through other comprehensive income 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.

i) Debt instruments

On the sale, or if impairment is determined, the accumulated gains or losses recognised in fair value reserves are recognised in the income statement under "Net gains / (losses) arising from assets and liabilities at fair value through other comprehensive income" or under "Impairment losses from other financial assets", respectively. Interest income from debt instruments is recognised in Net interest income based on the effective interest rate, including a premium or discount when applicable.

ii) Equity instruments

In accordance with IFRS 9, no impairment is recognised in equity instruments recorded at fair value through other comprehensive income, being the corresponding accumulated gains or losses recognised in the fair value reserve transferred into Retained earnings when its sale occurs.

In the initial recognition of an equity instrument that is not held for trading, CEMG may irrevocably choose to classify it as at fair value through other comprehensive income. This option is exercised on a case-by-case basis, instrument by instrument. This option is only available for financial instruments that comply with the definition of equity instruments provided for in IAS 32, and cannot be used for financial instruments whose classification as an equity instrument under the scope of the issuer is made under the exceptions provided for in paragraphs 16A and 16D of IAS 32.

Dividends are recognised in the income statement when the right to receive the dividends is attributed.

3) Other financial assets at amortised cost

A financial asset is measured at amortised cost if both of the following criteria are met and if is not designated at fair value through profit or loss by option (use of Fair value option):

- the financial asset is held within a business model whose main objective is to hold financial assets in order to collect contractual cash flows; and
- the contratual cash flows occur in specified dates and correspond solely to payments of principal and interest on the principal amount outstanding (SPPI). In this category are included non-derivative financial assets with fixed or determinable payments and fixed maturity, for which CEMG has the intention and capacity to maintain until the maturity of the assets and that were not included in any other category of financial assets. These financial assets are initially recognised at fair value and subsequently measured at amortised cost. The interest is calculated using the effective interest rate method and recognised in Net interest income. The impairment losses are recognised in profit and loss when identified.

4) Loans and receivables - Loans represented by securities

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

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

Impairment losses are recognised in profit and loss when identified.

5) Other financial liabilities

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

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

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

(ii) Impairment

At each balance sheet date, an assessment over the impairment of debt instruments classified at amortised cost or at fair value through other comprehensive income is made in accordance with the ECL methodology.

(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) Hedge accounting

(i) Hedge accounting

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

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

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

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

(ii) Fair value hedge

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

(iii) Hedge effectiveness

For a hedge relationship to be classified as such according to IFRS 9, 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) Reclassification between financial instruments categories

Reclassifications of financial assets can only occur when the entity changes its business model used in the management of financial assets, which it is expected to be very unusual. In this case, all financial assets affected must be reclassified. The reclassification must be applied prospectively from the date of reclassification, and any gains, losses (including gains or losses from impairment) or interest previously recognised should not be restated. IFRS 9 does not allow the reclassification of investments in equity instruments measured at fair value through other comprehensive income or when then fair value option was exercised for financial assets and liabilities. An entity should not reclassify any financial liability.

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 derecognises financial liabilities when these are 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 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.

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 customers or credit institutions. 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 interest 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 are not recognised on the balance sheet. The amounts paid are recognised in loans and advances to customers or loans and advances to credit institutions. The receivables are collateralised by the related securities. Securities sold through repurchase agreements continue to be recognised in the balance sheet and are revaluated in accordance with the applicable accounting policy. The amounts received from the proceeds of these securities are considered as deposits from customers and deposits from credit institutions.

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

i) Investments in subsidiaries and associates

Investments in subsidiaries and associated companies are recorded in CEMG's individual financial statements at their historical cost less any impairment losses.

Subsidiaries are entities (including investment funds and securitisation vehicles) controlled by CEMG. CEMG controls an entity when has exposure, or rights, to variable returns derived of its involvement with this entity, and can reclaim them with the power that have over the entity relevant activities (*de facto* control).

Associates are those entities, in which CEMG has significant influence, but not control, over the financial and operating policy decisions of the investee. It is assumed that CEMG has significant influence when it holds, directly or indirectly, 20% or more of the voting rights of the investee. If CEMG holds, directly or indirectly less than 20% of the voting rights of the investee, it is presumed that CEMG does not have significant influence, unless such influence can be clearly demonstrated.

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

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

Impairment

The recoverable amount of the instruments in subsidiaries and associates is assessed whenever there are signs of evidence of impairment. Impairment losses are calculated based on the difference between the recoverable amounts of the investments in subsidiaries and associated and their book value. Impairment losses identified are charged against results and subsequently, if there is a reduction of the estimated impairment loss, the charge is reversed, in a subsequent period. The recoverable amount is determined based on the higher between the assets value in use and the fair value deducted of selling costs, calculated using valuation methodologies supported by discounted cash flow techniques, considering market conditions, the time value of money and the business risks.

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 based in market values being determined based on the expected selling price estimated through periodic valuations performed by independent experts registered with CMVM.

The subsequent measurement of these assets is determined based on the lower of the carrying amount and the corresponding fair value net of selling costs, not subject to amortisation. In case of unrealised losses, these should be recognised as impairment losses against results for the period.

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 at fair value through other comprehensive income are calculated using the effective interest rate method and 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.

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 (Net gains/(losses) arising from financial assets at fair value through other comprehensive income, Net gains / (losses) arising from assets and liabilities at fair value through profit and loss and Net gains/ (losses) arising from other financial assets at amortised cost)

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 debt instruments of financial assets at fair value through other comprehensive income and of other financial assets at amortised cost. The changes in fair value of hedging derivatives and hedged items, when fair value hedge is applicable, are also recognised in this caption.

n) Fee and commission income

Income from fees and commissions is recognised in accordance with the following criteria:

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

o) Fiduciary activities

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

p) Property, plant and equipment

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

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

	Number of years
Building for own use	50
Expenditure on rented buildings	10
Other property and equipment	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.

r) Cash and cash equivalents

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

Cash and cash equivalents exclude restricted balances with Central Banks.

s) Offsetting

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

t) Foreign currency transactions

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

u) Post-employment and long-term benefits

Defined benefit plans

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

Arising from the signing of the Collective Labor Agreement (ACT) and subsequent amendments, CEMG set 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 CEMG, and 3% to employees, replacing the Caixa de Abono de Familia dos Empregados Bancários (CAFEB) extinguished by the same Decree-Law. As a result, the pension rights of the active employees started to be covered by the terms defined by Social Security System, considering the period of service rendered since 1 January 2011 until the retirement age. The difference to the minimum pension guaranteed is supported by the banks, in accordance with the terms defined in Collective Labor Agreement ("Acordo Colectivo de Trabalho").

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

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

In December 2016, CEMG issued a new Collective Labor Agreement/ACT, introducing a number of changes in the employment benefits, such as the change in the retirement age, in line with the general Social Security system, and the attribution of an end-of-career award which replaced the extinguished old-age bonus, as disclosed in Note 47.

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

CEMG´s liabilities with pension plans and other benefits are calculated annually, at 31 December of each year.

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

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

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

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

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

Defined contribution plan

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

Bonus to employees and to the Board of Directors

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

v) Income taxes

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

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

Income tax recognised in profit or loss comprises current and deferred tax effects. Income tax is recognised in the income statement, except to the extent that it relates to items recognised directly to reserves in which case it is recognised in reserves. Deferred taxes arising from the revaluation of financial assets at fair value through other comprehensive income and cash flow hedging derivatives are subsequently recognised in profit and loss in the moment 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 intangible assets without finite useful life not deductible for tax purposes, differences arising on initial recognition of assets and liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that probably they will not reverse in the foreseeable future.

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

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

In 2018, CEMG became the dominant company of the Group subject to Income tax under the Special Taxation Regime of Group Companies (*Regime Especial de Tributação dos Grupos de Sociedades*, hereinandafter "RETGS"), whose previously dominant company was Montepio Holding, S.G.P.S., S.A.

Thus, the Group considers that the effects arising from the calculation of the taxable income in accordance with RETGS are incorporated in the calculation of the current tax for the period of each one of the entities, including the effect in the current tax for the period by using a tax loss generated by another group entity.

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.

Considering that the individual financial statements are presented together with the Group's consolidated financial statements, in accordance with the paragraph 4 of IFRS 8, CEMG is dismissed to present individual information regarding Segmental Reporting.

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. In cases where the discount effect is material, provisions correspond to actual value of the expected future payments, discounted by a rate that considers the associated risk of the obligation.

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

y) Insurance and reinsurance brokerage services

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

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

Commission received for insurance brokerage services refers to:

- commission that includes a fixed and a variable component. The fixed component is calculated by applying a predetermined rate over the amounts of subscriptions made through CEMG and a variable component calculated based on predetermined criteria, total annual fees being the sum of the fees calculated monthly;

- 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 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 CEMG reported results and related disclosure.

Considering that in some cases there are several alternatives to the accounting treatment chosen by the Board of Directors, the CEMG´s reported results would differ if a different treatment was chosen. The Board of Directors believes that the choices made are appropriate and that the financial statements present the 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 financial assets at fair value through other comprehensive income

CEMG determines that financial assets at fair value through other comprehensive income 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.

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 derivative financial instruments

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

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

Impairment for investments in subsidiary and associated companies

CEMG assesses the recoverable amount whenever there are signs of evidence of impairment. Impairment losses are calculated based on the difference between the recoverable amounts of the investments in subsidiaries and associated and their book value. Impairment losses identified are charged against results and subsequently, if there is a reduction of the estimated impairment loss, the charge is reversed, in a subsequent period.

The recoverable amount is determined based on the higher between the assets value in use and the market value deducted of selling costs, calculated using valuation methodologies supported by discounted cash flow techniques, considering market conditions, the time value of money and the business risks, that may require assumptions or judgment in making estimates of fair value.

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

Entities included in the consolidation perimeter

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

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

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

Income taxes

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

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

The Portuguese Tax and Customs Authorities are entitled to review the CEMG´s determination of its annual taxable earnings, for a period of four years, save where any deduction or tax credit has been made in which the period is the exercise of that right. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law which for its probability, the Board of Directors considers that there is no relevant material effect at the level of the Financial Statements.

Pensions and other post employment and long-term benefits

Determining pension liabilities requires the use of assumptions and estimates, including the use of actuarial projections and others, such as discount rate, pensions' growth rate and wages and mortality table, estimated return on investments, and other factors that could impact the cost and liability of the pension plan.

Changes in these assumptions could materially affect these values.

Valuation of non-current assets held for sale

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

Provisions

The measurement of provisions considers the principles set out in IAS 37 regarding the best estimate of the expected cost, the most likely outcome of ongoing litigations and considering the risks and uncertainties of the process. Different assumptions and judgments would have an impact in determining the amount of provisions and consequently on the individual financial statements.

2 Net interest income and net gains arising from assets and liabilities at fair value through profit or loss and financial assets at fair value through other comprehensive income

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

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Net interest income	126 887	136 046
Net gains/ (losses) arising from assets and liabilities at fair value through profit or loss	(86)	4 724
Net gains/ (losses) arising from financial assets at fair value through other comprehensive income	4 129	21 130
	130 930	161 900

3 Net interest income

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Interest and similar income		
Interest from loans and advances to customers	161 211	178 847
Interest from deposits and other investments	12 529	1 347
Interest from financial assets held for trading	8 101	34 922
Interest from financial assets at fair value through other comprehensive income	4 261	16 797
Interest from hedging derivatives	3 254	-
Other financial assets at amortised cost	158	12 504
Other interest and similar income	21	245
	189 535	244 662
Interest and similar expense		
Interest from deposits of customers	31 667	41 349
Interest from securities issued	12 068	7 217
Interest from loans of central banks and other financial institutions	9 776	20 909
Interest from financial liabilities held for trading	6 349	36 285
Interest from hedging derivatives	1 822	-
Interest from subordinated liabilities	965	1 599
Other interest and similar expense	1	1 257
	62 648	108 616
Net interest income	126 887	136 046

The balance Interest and similar income – Loans and advances to customers includes, respectively, the amount of Euro 9,256 thousand and the amount of Euro 1,248 thousand (30 June 2017: Euro 9,804 thousand and Euro 1,256 thousand), related to commissions and other gains/losses which are accounted for under the effective interest rate method, as referred in the accounting policy described in note 1 l).

In addition, the balance Interest and similar income - Loans and advances to customers also includes the amount of Euro 131 thousand referring to loans that do not meet the SPPI criteria and which are recorded at fair value through profit or loss.

As at 30 June 2018, the balance Interest and similar income includes the amount of Euro 38,189 thousand related to customers classified under stages 2 and 3. As of 30 June 2017, this balance includes the amount of Euro 29,904 thousand related to customers with signs of impairment.

4 Dividends from equity instruments

This balance includes dividends and income from investment fund units received during the period, relating to financial assets at fair value through other comprehensive income.

5 Net fee and commission income

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Fee and commission income		
Banking services	50 480	48 846
Transactions on behalf of third parties	14 644	13 649
Guarantees provided	2 902	2 833
Insurance brokerage services	2 708	2 800
Other fee and commission income	122	4 475
	70 856	72 603
Fee and commission expense		
Bank services rendered by third parties	8 197	7 420
Transactions with securities	629	254
Other fee and commission expense	3 659	6 104
	12 485	13 778
Net fee and commission income	58 371	58 825

As at 30 June 2018 and 2017, the balance Insurance brokerage services are presented as follows:

(Thousands of Euro)

	Jun 2018	Jun 2017
Life insurance	1 544	1 575
Non-life insurance	1 164	1 225
	2 708	2 800

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 2018			Jun 2017		
	Gains	Losses	Total	Gains	Losses	Total
Assets and liabilities held for trading						
Securities						
Bonds and other fixed income securities						
Issued by public entities	3 489	1 779	1 710	9 307	9 146	161
Issued by other entities	13	854	(841)	46 532	44 582	1 950
Shares	1 318	1 426	(108)	7 162	6 662	500
Investment units	150	387	(237)	560	431	129
	4 970	4 446	524	63 561	60 821	2 740
Derivative financial instruments						
Interest rate contracts	34 594	34 602	(8)	47 053	44 164	2 889
Exchange rate contracts	15 765	16 147	(382)	17 556	17 803	(247)
Future contracts	3 086	3 222	(136)	2 033	2 367	(334)
Option contracts	831	631	200	1 549	1 466	83
Commodities contracts	447	-	447	-	-	-
	54 723	54 602	121	68 191	65 800	2 391
Financial assets not held for trading at fair value through profit or loss						
Investment units	2 613	3 709	(1 096)	-	-	-
Loans and advances to customers	119	-	119	-	-	-
	2 732	3 709	(977)	-	-	-
Other financial assets at fair value through profit or loss						
Loans and advances to customers	13	176	(163)	44	303	(259)
	13	176	(163)	44	303	(259)
Hedging derivatives						
Interest rate contracts	33 686	29 509	4 177	-	-	-
	33 686	29 509	4 177	-	-	-
Financial liabilities at fair value through profit or loss						
Deposits from credit institutions	-	-	-	3	-	3
Deposits from customers	9	-	9	19	44	(25)
Debt securities issued	58	55	3	275	401	(126)
	67	55	12	297	445	(148)
Hedged financial liabilities						
Liabilities represented by securities	5 835	9 615	(3 780)	-	-	-
	5 835	9 615	(3 780)	-	-	-
	102 026	102 112	(86)	132 093	127 369	4 724

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

CEMG recognises in the income statement the gains arising from the built-in fee (day one profit), generated, namely, on the trading of derivative and foreign exchange financial products, considering that the fair value of these instruments 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 financial assets at fair value through other comprehensive income

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018			Jun 2017		
	Gains	Losses	Total	Gains	Losses	Total
Fixed income securities						
Bonds						
Issued by public entities	10 821	6 905	3 916	18 836	2 750	16 086
Issued by other entities	213	-	213	3 701	207	3 494
Shares	-	-	-	352	19	333
Other variable income securities	-	-	-	1 996	779	1 217
	11 034	6 905	4 129	24 885	3 755	21 130

As at 30 June 2018, the balance Fixed income securities – Bonds – Issued by public entities includes the amount of Euro 6,017 thousand related with capital gains generated with the sale of Portuguese public debt bonds and the amount of Euro 2,101 thousand related with capital losses related to the Spanish, Italian and Greek public debt. As at 30 June 2017, this balance includes the amount of Euro 15,833 thousand, related with capital gains generated with the sale of Portuguese public debt bonds.

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

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018			Jun 2017		
	Gains	Losses	Total	Gains	Losses	Total
Foreign exchange differences	12 805	12 031	774	16 797	15 876	921

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 2018	Jun 2017
Sale of non-current assets held for sale	5 484	3 641
Sale of loans and advances to customers	-	2 783
Sale of other assets	(324)	14 641
	5 160	21 065

As at 30 June 2017, the balance Sale of other assets includes the amount of Euro 14,375 thousand related to the gain generated on the sale of part of the portfolio of the Portuguese public debt bonds which was transferred to the portfolio of financial assets at fair value through other comprehensive income and that was previously recorded in the portfolio of other financial assets at amortised cost

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/ (expenses)

The amount of this account is comprised of:

	(Thousands of Euro)	
	Jun 2018	**Jun 2017**
Other operating income		
Staff transfer	6 747	7 336
Profits arising from deposits on demand management	3 680	5 357
Services rendered	2 845	2 574
Reimbursement of expenses	1 235	879
Other	3 872	3 623
	18 379	19 769
Other operating expense		
Contributions:		
Banking sector	10 642	11 406
Ex-ante for the Single Resolution Fund	8 051	9 645
Resolution Fund	2 535	3 473
Deposit Guarantee Fund	21	13
Despesas com imóveis de negociação	4 142	4 070
Servicing and credit recovery expenses	2 146	572
Taxes	382	371
Donations and membership	326	421
Issuance costs	308	1 553
Repurchase of debt securities issued	-	631
Other	2 772	3 031
	31 325	35 186
Other net operating income/ (expenses)	(12 946)	(15 417)

As at 30 June 2018, the balance Other operating income – Staff transfer includes the amount of Euro 6,653 thousand (30 June 2017: Euro 6,915 thousand) referring to the staff transfers from CEMG to MGAM and to entities under its control.

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

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

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

Additionally, the Single Resolution Council ("SRB"), in close cooperation with Bank of Portugal, as a national resolution authority, is responsible for the calculation of these contributions on an annual basis, according to and for the purposes of paragraph 2, Article 70, of Regulation MUR. In 2016, CEMG decided to use irrevocable payment commitments in the proportion of 15% of the contribution amount, in accordance with paragraph 3, Article 8, of the Implementing Regulation. On this basis, CEMG, as at 30 June 2018, opted for the settlement of Euro 4,886 thousand (30 June 2017: Euro 3,475 thousand) in the form of irrevocable payment commitments booked in the caption Loans and advances to credit institutions abroad - term deposits, as described in notes 20 and 55. It should be noted that only cash collateral is accepted as collateral for irrevocable payment commitments.

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

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

11 Staff costs

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Remunerations	60 196	56 479
Mandatory social security charges	15 421	14 628
Charges with the Pension Fund	3 225	1 144
Other staff costs	1 678	8 605
	80 520	80 856

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

In the first half of 2018, the amount of compensation paid to the previous Executive Board of Directors and to the General and Supervisory Board, which in both cases were fulfilling their function until 20 March 2018, amounted to Euro 1,148 thousand and Euro 455 thousand, respectively.

As at 30 June 2018 and 2017, the Management did not received any retribution of variable remuneration.

Other key management personnel are considered first-line managers.

The costs with salaries and other benefits attributed to the Board of Directors, Audit Committee, General Meeting Board, previous Executive Board of Directors, previous General and Supervisory Board and Other key management personnel, in the first half of 2018, are presented as follows:

(Thousands of Euro)

	Board of Directors	Audit Committee	General Meeting Board	Previous Executive Board of Directors	Previous General and Supervisory Board	Other key management personnel	Total
Remunerations and other short-term benefits	484	72	7	528	284	1 689	3 064
Pension costs	-	-	-	7	-	64	71
Costs with health-care benefits (SAMS)	2	-	-	10	-	28	40
Social Security charges	105	13	2	118	51	372	661
	591	85	9	663	335	2 153	3 836

As at 30 June 2018, the remuneration of the General and Supervisory Board amounted to Euro 335 thousand (30 June 2017: Euro 570 thousand).

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

(Thousands of Euro)

	Executive Board of Directors	General and Supervisory Board and General Meeting Board	Other key management personnel	Total
Remunerations and other short-term benefits	1 032	574	1 830	3 436
Pension costs	13	-	125	138
Costs with health-care benefits (SAMS)	6	-	32	38
Social Security charges	229	106	446	781
Seniority award	-	-	191	191
	1 280	680	2 624	4 584

As at 30 June 2018, loans granted to the Board of Directors amounted to Euro 345 thousand, to the Audit Committee amounted to Euro 1 thousand and to Other key management personnel amounted to Euro 4,071 thousand (31 December 2017: Euro 3,042 thousand). Loans granted to the Executive Board of Directors amounted to Euro 132 thousand (31 December 2017: Euro 134 thousand) and to the General and Supervisory Board amounted to Euro 2,034 thousand (31 December 2017: Euro 2,323 thousand), as referred in note 49.

12 General and administrative expenses

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Rental costs	5 159	5 638
Specialised services		
IT services	4 066	3 580
Independente work	1 527	1 676
Other specialised services	7 499	7 525
Communication costs	2 591	2 725
Maintenance and related services	2 092	2 351
Water, energy and fuel	2 005	2 016
Transportation	1 280	1 258
Advertising costs	1 182	1 311
Consumables	694	845
Insurance	496	1 007
Travel, hotel and representation costs	457	433
Training	236	7
Other general and administrative expenses	2 281	2 498
	31 565	32 870

The Rental costs balance includes the amount of Euro 3,897 thousand (30 June 2017: Euro 4,445 thousand) related to rents paid regarding buildings used by CEMG as lessee.

The balance Other administrative expenses includes the amount of Euro 1,411 thousand (30 June 2017: 1,535 thousand) related to services rendered by Montepio Gestão de Activos Imobiliários, A.C.E.

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

(Thousand of Euro)

	Jun 2018	Jun 2017
Below 1 year	1 260	1 501
1 to 5 years	2 684	394
	3 944	1 895

13 Depreciation and amortisation

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Intangible assets		
Software	6 347	6 965
Property and equipment		
Land and building		
For own service	1 520	1 537
Leasehold improvements in rented buildings	596	842
Equipment		
IT equipment	1 460	1 258
Interior installations	632	510
Furniture	187	201
Security equipment	102	125
Machinery and tools	5	5
Operating leases	6	21
Other property and equipment	1	3
	4 509	4 502
	10 856	11 467

14 Loans impairment

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Loans and advances to customers		
Charge for the period net of reversals	49 615	65 616
Recovery of loans and interest charged-off	(2 608)	(1 925)
	47 007	63 691
Other loans and advances to credit institutions		
Charge for the period net of reversals	(88)	-
	(88)	-
	46 919	63 691

The caption Loans and advances to customers relates to the estimate of the incurred losses determined according with note 1 b).

15 Other financial assets impairment

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Impairment for financial assets		
at fair value through other comprehensive income		
Charge for the period net of reversals	1 233	9 271
Impairment of other financial assets at amortised cost		
Charge for the period net of reversals	1 364	-
	2 597	9 271

As at 30 June 2017, the balance Impairment for financial assets at fair value through other comprehensive income includes a charge for the period in the amount of Euro 5,030 thousand that corresponds to impairment losses recognised for investment units in a Fund specialised in the recovery of loans, acquired under the sale of loans and advances to customers. In accordance with the classification criteria specified by IFRS 9, the investment units in these funds are classified, as at 1 January 2018, as Financial assets not held for trading mandatorily at fair value through profit or loss.

16 Other assets impairment

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Impairment for investments in subsidiaries and associated companies		
Charge for the period	322	7 915
Reversal for the period	(713)	-
	(391)	7 915
Impairment for non-current assets held for sale		
Charge for the period	8 502	5 649
Reversal for the period	(1 011)	-
	7 491	5 649
Impairment for other assets		
Charge for the period	2 030	1 455
Reversal for the period	(1 213)	(2)
	817	1 453
	7 917	15 017

17 Other provisions

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Jun 2017
Provisions for guarantees and commitments		
Charge for the period	5 836	8 374
Reversal for the period	(5 060)	(6 300)
	776	2 074
Provisions for other risks and charges		
Charge for the period	1 138	5 629
Reversal for the period	(186)	(1 101)
	952	4 528
	1 728	6 602

18 Cash and deposits at central banks

The amount of this account is comprised of:

(Thousands of Euro)

	Jun 2018	Dec 2017
Cash	157 148	178 925
Deposits at central banks		
Bank of Portugal	1 563 843	1 554 701
	1 720 991	1 733 626

As at 30 June 2018, the balance within Bank of Portugal in the amount of Euro 94,832 thousand (31 December 2017: Euro 92,448 thousand), to satisfy the legal requirements to maintain a minimum cash reserve, calculated based on the value of deposits and other effective liabilities. The cash reserve requirements, according with the European Central Bank System for Euro Zone, establishes the maintenance of a deposit with the Central Bank equivalent to 1% of the average value of deposits and other liabilities, during each reserve requirements period.

As at 30 June 2018 and during 2017, deposits from Bank of Portugal were not remunerated.

19 Loans and advances to credit institutions repayable on demand

This balance is analysed as follows:

	(Thousands of Euro)	
	Jun 2018	**Dec 2017**
Credit institutions in Portugal	1 325	1 295
Credit institutions abroad	25 936	18 535
Amounts due for collection	35 834	39 642
	63 095	59 472

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 2018	Dec 2017
Loans and advances to credit institutions in Portugal		
Loans	250 245	229 113
Term deposits	1 987	1 986
Repos	76	-
Other loans and advances	28 228	42 160
	280 536	273 259
Loans and advances to credit institutions abroad		
Short-term deposits	30 000	30 000
CSA's	28 103	40 226
Term deposits	9 221	7 659
Repos	8 068	3 405
Subordindated deposits	1 702	1 702
Other loans and advances	197 924	202 460
	275 018	285 452
Impairment for credit risks over investments in credit institutions	(827)	-
	554 727	558 711

The caption Loans and advances to credit institutions in Portugal – Loans includes the relationship engagements with CEMG's subsidiaries.

As at 30 June 2018, the caption Loans and advances to credit institutions abroad - Term deposits includes the amount of Euro 4,886 thousand (31 December 2017: Euro 3,475 thousand) regarding the deposit performed as collateral under the ex-ante contribution to the Single Resolution Fund, as described in notes 10, 20 and 55.

A rubrica Aplicações em instituições de crédito no estrangeiro – Aplicações de muito curto prazo refere-se a aplicações efetuadas no Finibanco Angola, S.A.

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

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

On this basis, and within operations of derivative financial instruments with institutional counterparties, and as defined in the respective contracts, CEMG holds an amount of Euro 28,103 thousand (31 December 2017: Euro 40,226 thousand) related to deposits in credit institutions given as collateral for the referred operations.

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

Impairment movements for credit risks on Other loans and advances to credit institutions are analysed as follows:

(Thousands of Euro)

	Jun 2018	Jun 2017
Balance on 1 January	-	-
IFRS 9 transition adjustment	915	
Charge for the period net of reversals	(88)	-
Balance on 30 June	827	-

21 Loans and advances to customers

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Corporate		
Loans not represented by securities		
Loans	2 795 174	2 810 474
Commercial lines of credit	474 990	470 134
Financial lease	288 424	297 272
Discounted bills	73 204	71 712
Factoring	157 437	143 889
Overdrafts	9 146	2 543
Other loans	678 853	727 366
Loans represented by securities		
Commercial paper	388 538	383 797
Bonds	237 534	242 388
Retail		
Mortgage loans	6 400 006	6 598 905
Financial lease	38 402	37 258
Consumer credit and other loans	758 409	780 937
	12 300 117	12 566 675
Correction value of assets subject to hedge operations	(164)	(1)
Overdue loans and interests		
Below 90 days	89 108	80 830
Above 90 days	996 081	1 109 474
	1 085 189	1 190 304
	13 385 142	13 756 978
Impairment for credit risks	(1 074 084)	(1 008 261)
	12 311 058	12 748 717

As at 30 June 2018, the balance Loans and advances to customers includes de amount of Euro 2,732,796 thousand (31 December 2017: Euro 2,726,854 thousand) related to the issue of covered bonds held BY CEMG, as referred in note 36.

As at 30 June 2018, the credit, guarantees and irrevocable credit lines (excluding interbank and money market transactions) that CEMG granted to the holder of institutional capital and to its subsidiaries was Euro 292,760 thousand (31 December 2017: Euro 372,809 thousand), as referred in note 49. The conclusion of businesses between CEMG and the holders of institutional capital or individual or collective persons related to them, according to Article 20 of the Portuguese Securities Code, regardless the value, it's always submitted to deliberation and examination of the Board of Directors and the Audit Committee, as proposed by the commercial network, supported by analysis and opinion about the compliance with the limit established in Article 109 of the General Law on Credit Institutions and Financial Companies General Law issued by the Risk Division. The impairment amount for credit risks related with these contracts amounts to Euro 252 thousand as at 30 June 2018 (31 December 2017: Euro 335 thousand).

During 2017, CEMG performed a sale operation of two customer loan portfolios which were in default. The capital gains amounted to: (i) Euro 2,783 thousand related to the sale operation of a customer loan portfolio that was in default recorded off-balance sheet, with a nominal value of Euro 215,288 thousand, as described in note 9 and (ii) Euro 13,424 thousand related to the sale operation of a customer loan portfolio that was in default recorded on and off-balance sheet, with a nominal value of Euro 475,136 thousand, as described in note 22.

It should be note that the latter disposed portfolio included other rights not recorded either on or off-balance sheet in the amount of Euro 105,590 thousand. In addition, and within this transaction, CEMG acquired all the Class A notes of the vehicle that purchased this portfolio and recorded the amount of Euro 121,329 thousand in the portfolio of financial assets held for trading, as mentioned in note 22.

As at 30 June 2018, the balance Loans and advances to customers included the amount of Euro 2,986,253 thousand (31 December 2017: Euro 3,314,738 thousand) related with loans object of securitisation and, in accordance with note 1 f), were not subject of derecognition, as described in note 50.

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

Loans and advances to customers include loans recorded at fair value through profit or loss in the amount of Euro 18,997 thousand (31 December 2017: Euro 24,633 thousand). The fair value adjustment amounted to Euro 164 thousand (31 December 2017: Euro 1 thousand), and the impact on income was negative in the amount of Euro 163 thousand (31 December 2017: negative in Euro 535 thousand), according to note 22.

The fair value of the loan portfolio is disclosed in note 46.

The analysis of Loans and advances to customers, by type of interest rate as at 30 June 2018 and 31 December 2017, is as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Variable interest rate contract	11 439 127	12 563 687
Fixed interest rate contract	1 946 015	1 193 291
	13 385 142	13 756 978

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

(Thousands of Euro)

	Jun 2018	Dec 2017
Asset-backed loans	734 564	818 998
Other guarantee loans	224 394	221 396
Financial leases	12 992	11 089
Secured loans	4 255	4 300
Other loans	108 984	134 521
	1 085 189	1 190 304

The analysis of loans and advances to customers, by maturity and by type of credit, as at 30 June 2018, is as follows:

(Thousands of Euro)

	Loans and advances to customers				
	Below 1 year	1 to 5 years	Above 5 years	Undetermined	Total
Asset-backed loans	189 053	539 252	8 572 310	734 564	10 035 179
Other guarantee loans	536 125	264 885	370 410	224 394	1 395 814
Financial leases	8 315	102 685	215 826	12 992	339 818
Secured loans	489 609	133 912	2 551	4 255	630 327
Other loans	308 869	86 458	479 693	108 984	984 004
	1 531 971	1 127 192	9 640 790	1 085 189	13 385 142

The analysis of loans and advances to customers, by maturity and by type of credit, as at 31 December 2017, is as follows:

(Thousands of Euro)

	Loans and advances to customers				
	Below 1 year	1 to 5 years	Above 5 years	Undetermined	Total
Asset-backed loans	190 621	921 266	8 464 320	818 998	10 395 205
Other guarantee loans	513 830	246 423	385 366	221 396	1 367 015
Financial leases	7 746	103 389	223 395	11 089	345 619
Secured loans	493 714	122 215	10 256	4 300	630 485
Other loans	308 389	103 865	471 879	134 521	1 018 654
	1 514 300	1 497 158	9 555 216	1 190 304	13 756 978

The balance Financial leases, by maturity as at 30 June 2018, is analysed as follows:

(Thousands of Euro)

	Financial leases			
	Below 1 year	1 to 5 years	Above 5 years	Total
Outstanding rents	57 873	139 771	119 282	316 926
Outstanding interests	(10 082)	(24 613)	(22 274)	(56 969)
Residual values	2 058	23 378	41 433	66 869
	49 849	138 536	138 441	326 826

The balance Financial leases, by maturity as at 31 December 2017, is analysed as follows:

(Thousands of Euro)

	Financial leases			
	Below 1 year	1 to 5 years	Above 5 yeas	Total
Outstanding rents	57 643	143 049	125 234	325 926
Outstanding interests	(10 536)	(26 273)	(22 241)	(59 050)
Residual values	2 577	22 894	42 183	67 654
	49 684	139 670	145 176	334 530

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

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

(Thousands of Euro)

	Jun 2018	Dec 2017
Corporate		
Construction/ Production	230 717	267 222
Investments	406 964	470 513
Treasury	198 494	212 935
Other loans	41 308	40 442
Retail		
Mortgage loans	97 672	91 863
Consumer credit	52 349	50 426
Other loans	57 685	56 903
	1 085 189	1 190 304

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

(Thousands of Euro)

	Jun 2018	Jun 2017
Balance on 1 January	1 008 261	1 151 260
IFRS 9 Transition adjustment	140 980	-
Charge for the period net of reversals	49 615	65 616
Impairment charged-off	(124 772)	(53 506)
Balance on 30 June	1 074 084	1 163 370

During 2017, and as previously mentioned, within the sale operation of two customer loan portfolios that were in default and recorded on and off-balance sheet, CEMG charged-off impairment for credit risk in the amount of Euro 249,299 thousand.

In compliance with the accounting policy described in note 1 l), interest on overdue loans for a period over 90 days not covered by asset-backed guarantees, 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 2018	Dec 2017
Asset-backed loans	699 349	635 830
Other guarantee loans	239 508	252 693
Unsecured loans	135 227	119 738
	1 074 084	1 008 261

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

(Thousands of Euro)

	Jun 2018	Jun 2017
Asset-backed loans	46 407	8 976
Other guarantee loans	31 192	31 814
Unsecured loans	47 173	12 716
	124 772	53 506

The total recovered loans and overdue interest as at 30 June 2018, amounted to Euro 2,608 thousand (30 June 2017: Euro 1,925 thousand), as mentioned in note 14.

In addition, the loan portfolio includes loans that, towards the financial difficulties of the customer, initial conditions of the contract were amended in the amount of Euro 1,042,234 thousand (31 December 2017: Euro 1,148,027 thousand) which have an impairment of Euro 402,213 thousand (31 December 2017: Euro 399,831 thousand).

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

Regarding the particular forbearance measures, CEMG adopted the ones included in Instruction 32/2013 of the Bank of Portugal, in 15 January 2014, namely contractual amendments (lack of capital, extension of the final date, deferral of capital, etc.) and consolidation of debts in another contract, with conditions adjusted to the customer's current situation.

The restructuring operations that were performed at 30 June 2018 and during 2017 were positive and allowed to mitigate the effect of the economic and financial crisis and within a situation in which is observed some economic recovery signs, adapting the debt service to the disposable income of customers.

Additionally, the loans portfolio includes contracts that resulted in a formal restructuring with the customers and the consequent establishment of a new funding to replace the previous. The restructuring may result in a reinforcement of guarantees and/or liquidation of part of the credit and involves an extension of maturities or a different interest rate. The analysis of restructured loans, performed in the first half of 2018 and during 2017, by type of credit, is as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Corporate		
Loans not represented by securities		
Loans	47 707	109 768
Commercial lines of credit	9 694	3 787
Fnancial lease	735	7 478
Other loans	2 731	39 184
Retail		
Mortgage loans	6 381	11 523
Consumer credit and other loans	2 189	3 269
	69 437	175 009

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

Regarding restructured loans, the impairment associated to these operations amounts to Euro 20,353 thousand (31 December 2017: Euro 28,207 thousand).

CEMG uses physical and financial collaterals as instruments for mitigating credit risk. The physical collaterals correspond mainly to mortgages on residential properties in the course of the mortgage and other types of mortgages on properties in other types of loans. To reflect the market value of them, these effects are reviewed regularly based on evaluations conducted by certified independent testing organizations or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are re-evaluated based on market values of their assets, when available, and certain coefficients applied depreciation to reflect its volatility.

Most of the physical collaterals are revaluated at least once a year.

22 Financial assets and liabilities held for trading

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

(Thousands of Euro)

	Jun 2018	Dec 2017
Financial assets held for trading		
Securities		
Shares	8 143	6 734
Bonds	19 398	149 622
Investment units	948	3 167
	28 489	159 523
Derivatives		
Derivative financial instruments with positive fair value	23 960	24 553
	52 449	184 076
Financial liabilities held for trading		
Securities		
Short sales	1 395	901
Derivatives		
Derivative financial instruments with negative fair value	14 144	15 270
	15 539	16 171

As at 31 December 2017, the balance Financial assets held for trading – Securities – Bonds includes the amount of Euro 121,329 thousand relating to a class A asset securitisation transaction which was acquired within a sale operation of a customer loan portfolio that was in default recorded on and off-balance sheet, with a nominal value of Euro 475,136 thousand, as described in note 21.

As at 31 December 2017, within an asset assignment performed in 2016 (loans and real estate) in the amount of Euro 288,232 thousand, CEMG acquired the right to return of a set of parameters of assigned assets, which amounted to Euro 12,000 thousand on 31 December 2016. As at 30 June 2018 and 31 December 2017, this transaction amounted to Euro 11,204 thousand and is recorded under the caption Financial instruments with positive fair value.

The balance Derivatives financial instruments with positive fair value includes, at 30 June 2018, the amount of Euro 12,027 thousand (31 December 2017: Euro 11,923 thousand) referred to instruments associated to assets or liabilities at fair value through profit and loss and to trading, with the exception of loans and advances to customers in the amount of Euro 164 thousand.

The balance Derivatives financial instruments with negative fair value includes, at 30 June 2018, the amount of Euro 2,374 thousand (31 December 2017: Euro 2,595 thousand) referred to instruments associated to assets or liabilities at fair value through profit and loss and trading.

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.

As referred in IFRS 13 financial instruments are measured in accordance with the following levels of valuation, described in note 46, as follows:

(Thousands of Euro)

	Jun 2018			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Shares	8 143	-	-	8 143
Bonds	19 398	-	-	19 398
Investment units	948	-	-	948
	28 489	-	-	28 489
Derivatives				
Derivative financial instruments with positive fair value	-	23 960	-	23 960
	28 489	23 960	-	52 449
Financial liabilities held for trading				
Securities				
Short sales	1 395	-	-	1 395
Derivatives				
Derivative financial instruments with negative fair value	-	14 144	-	14 144
	1 395	14 144	-	15 539

(Thousands of Euro)

	Dec 2017			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading				
Securities				
Shares	6 734	-	-	6 734
Bonds	28 293	-	121 329	149 622
Investment units	3 167	-	-	3 167
	38 194	-	121 329	159 523
Derivatives				
Derivative financial instruments with positive fair value	-	24 553	-	24 553
	38 194	24 553	121 329	184 076
Financial liabilities held for trading				
Securities				
Short sales	901	-	-	901
Derivatives				
Derivative financial instruments with negaive fair value	-	15 270	-	15 270
	901	15 270	-	16 171

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 Derivative financial instruments as at 30 June 2018, in comparison with the assets and liabilities associated, recorded at fair value, can be analysed as follows:

(Thousands of Euro)

		Jun 2018						
		Derivative			Related Asset/ Liability			
Derivative	Related financial asset/ liability	Notional	Fair value	Fair value changes in the period (1)	Fair value	Fair value changes in the period	Book value	Reimbursement amout at maturity
Interest rate swap	Liabilities represented by securities	3 300	232	(182)	113	(150)	3 354	3 300
Interest rate swap	Deposits from customers	14 850	(65)	42	24	(9)	14 597	14 597
Interest rate swap	Loans and advances to customers	18 967	164	209	(164)	(163)	18 997	18 967
Interest rate swap	Other	3 504 623	(2 262)	226	-	-	-	-
Currency swap (short)	-	49 145	140	(151)	-	-	-	-
Currency swap (long)	-	49 254						
Futures (Short)	-	14 883	(47)	(56)	-	-	-	-
Futures (Long)	-	3 520						
Forwards (Short)	-	60 190	-	-	-	-	-	-
Forwards (Long)	-	60 333						
Options (Short)	-	53 181	11 655	445	-	-	-	-
Options (Long)	-	361 163						
		4 193 409	9 817	533	(27)	(322)	36 948	36 864

(1) It includes the derivative gain/ (loss) disclosed in note 6.

The balance of Derivative financial instruments as at 31 December 2017, in comparison with the assets and liabilities associated, recorded at fair value, can be analysed as follows:

(Thousands of Euro)

		Dec 2017						
		Derivative			Related Asset/ Liability			
Derivative	Related financial asset/ liability	Notional	Fair value	Fair value changes in the period [(1)]	Fair value	Fair value changes in the period	Book value	Reimbursement amount at maturity date
Interest rate swap	Liabilities represented by securities and subordinated liabilities	3 300	414	(526)	263	215	3 460	3 300
Interest rate swap	Deposits from customers	15 100	(107)	(59)	33	21	14 789	14 789
Interest rate swap	Deposits from other credit institutions	-	-	(2 576)	-	(3)	-	-
Interest rate swap	Mortgage bonds	-	-	2 380	-	-	-	-
Interest rate swap	Loans and advances to customers	24 562	(45)	671	(1)	(535)	24 633	24 562
Interest rate swap	Other	3 669 577	(2 488)	1 741	-	-	-	-
Currency swap (Short)	-	50 481	291	(88)	-	-	-	-
Currency swap (Long)	-	50 744						
Futures (Short)	-	2 978	9	9	-	-	-	-
Futures (Long)	-	-						
Forwards (Short)	-	3 044	-	(4)	-	-	-	-
Forwards (Long)	-	3 051						
Options (Short)	-	54 809	11 209	(797)	-	-	-	-
Options (Long)	-	358 131						
		4 235 777	9 283	751	295	(302)	42 882	42 651

[(1)] It includes the derivative gain/ (loss) disclosed in note 6.

As at 30 June 2018, the amount of the loan obtained from EIB is collateralised by Spanish and Italian bonds at the nominal value of Euro 16,730 thousand (31 December 2017: Euro 10,000 thousand), provided as collateral and recorded under the caption Financial assets held for trading, as described in note 34.

23 Financial assets not held for trading mandatorily at fair value through profit or loss

(Thousands of Euro)

	Jun 2018
Variable income securities	
Investment units	786 753
Loans and advances to customers at fair value	
Loans not represented by securities	22 059
	808 812

As part of the IFRS 9 adoption, CEMG's investment units held until 31 December 2017 in the portfolio of financial assets at fair value through other comprehensive income were reclassified to the portfolio of financial assets not held for trading mandatorily at fair value through profit or loss, as described in notes 24 and 43.

On 30 June 2018, the assets included in level 3, under Variable income securities – Investment units include investment units in real estate investment funds, specialised credit recovery funds and venture capital funds that are valued according to the amount disclosed over the Net Asset Value of the Fund (NAVF), determined by the management company, in the amount of Euro 779,498 thousand, of which Euro 679,434 thousand are related to real estate investment funds. The assets of specialised credit recovery funds result from a diversified set of assets and liabilities, which are valued at the respective funds' accounts at fair value through internal methodologies used by the management entity.

The assets of the real estate investment funds are valued by the management company based on evaluation reports prepared by real estate experts registered at CMVM.

For all financial assets recorded under level 3, the sensitivity analysis carried out considered a 10% change in the value of the financial asset and, consequently, an impact of Euro 77,950 thousand was calculated on 30 June 2018.

As mentioned in Note 53, the caption Variable income securities – Investment units includes, as at 30 June 2018, the amount of Euro 38,732 thousand related to investment units in specialised credit funds acquired within the transfer of loans and advances to customers.

In accordance with IFRS 13, financial instruments are measured according to the valuation levels described in note 46. Financial assets included in this balance were classified under levels 1 and 3.

(Thousands of Euro)

	Jun 2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Variable income securities				
Investment units	7 255	-	779 498	786 753
Loans and advances to customers at fair value				
Loans not represented by securities	-	-	22 059	22 059
	7 255	-	801 557	808 812

24 Financial assets at fair value through other comprehensive income

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018				
	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	359 287	2 447	(58)	(933)	360 743
Foreign	369 343	245	(8 307)	(660)	360 621
Bonds issued by other entities					
Domestic	44 179	143	(1 559)	(26 492)	16 271
Foreign	50 119	294	(582)	(7 044)	42 787
Variable income securities					
Shares					
Domestic	74 234	16 925	(621)	-	90 538
Foreign	71 430	11 501	(14 298)	-	68 633
	968 592	31 555	(25 425)	(35 129)	939 593

(1) Acquisition cost related to variable income securities and amortised costs by debt securities.

(Thousands of Euro)

	Dec 2017				
	Cost [1]	Fair value reserve		Impairment losses	Book value
		Positive	Negative		
Fixed income securities					
Bonds issued by public entities					
Domestic	702 901	1 567	(1 111)	-	703 357
Foreign	861 203	1 024	(5 131)	-	857 096
Bonds issued by other entities					
Domestic	41 293	795	(76)	(28 107)	13 905
Foreign	37 875	471	(86)	(7 000)	31 260
Variable income securities					
Shares					
Domestic	76 153	12 113	(1 626)	(1 920)	84 720
Foreign	73 144	10 326	(7 719)	(48)	75 703
Unidades de participação	949 809	22 451	(261)	(135 249)	836 750
	2 742 378	48 747	(16 010)	(172 324)	2 602 791

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

As part of the IFRS 9 adoption, the investment units were reclassified to Financial assets not held for trading mandatorily at fair value through profit and loss, as described in note 23.

The main assumptions in the evaluation of shares whose book value is determined based on CEMG internal models are as follows:

Monteiro Aranha

The valuation of Monteiro Aranha S.A. was carried out considering the fact the main assets are holdings in listed companies of the Brasilian Stock Exchange. Based on this, the Adjusted Amount in Equity was calculated based on the fair value of those listed companies, assuming the price quote on the last 12 months.

Almina

The evaluation of Almina with reference to 31 December 2017 was carried out based on Almina Holding Group business plan, as well as other information provided by Almina's management.

The two relevant businesses for Almina's evaluation correspond to ore exploitation: zinc and copper. The main assumptions that have been used were: use of a discount rate between 10% and 11% and the determination of ore market prices based on international indexes.

As at 30 June 2018 and 31 December 2017, the analysis of financial assets at fair value through other comprehensive income, net of impairment, by valuation levels, is analysed as follows:

(Thousands of Euro)

	Jun 2018				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Bonds issued by public entities					
Domestic	360 743	-	-	-	360 743
Foreign	360 621	-	-	-	360 621
Bonds issued by other entities				-	
Domestic	6 010	5 110	5 151	-	16 271
Foreign	33 955	8 832	-	-	42 787
	761 329	13 942	5 151	-	780 422
Variable income securities					
Shares					
Domestic	-	-	79 836	10 702	90 538
Foreign	-	-	68 296	337	68 633
	-	-	148 132	11 039	159 171
	761 329	13 942	153 283	11 039	939 593

(Thousands of Euro)

	Dec 2017				
	Level 1	Level 2	Level 3	Financial instruments at cost	Total
Fixed income securities					
Bonds issued by public entities					
Domestic	703 357	-	-	-	703 357
Foreign	857 096	-	-	-	857 096
Bonds issued by other entities				-	
Domestic	6 967	1 258	5 680	-	13 905
Foreign	22 246	9 014	-	-	31 260
	1 589 666	10 272	5 680	-	1 605 618
Variable income securities					
Shares					
Domestic	-	-	79 836	4 884	84 720
Foreign	1 693	-	73 672	338	75 703
Investment units	7 500	-	829 250	-	836 750
	9 193	-	982 758	5 222	997 173
	1 598 859	10 272	988 438	5 222	2 602 791

As referred in IFRS 13, financial instruments are measured according to the valuation levels described in note 46.

As part of the IFRS 9 adoption, the CEMG's investment units held until 31 December 2017 classified in the portfolio of financial assets at fair value through other comprehensive income were reclassified to the portfolio of financial assets not held for trading mandatorily at fair value through profit or loss, according to note 23.

For all financial assets recorded in level 3, the sensitivity analysis carried out considered a 10% change in the value of the financial asset and, consequently, an impact of Euro 15,328 thousand was calculated on 30 June 2018 (31 December 2017: Euro 98,844 thousand).

Instruments classified as level 3 have associated unrealised gains and losses in the positive amount of Euro 6,165 thousand (31 December 2017: positive amount of Euro 34,325 thousand) recognised in fair value reserves.

On 30 June 2018, the impairment amount recorded for these securities amounted to Euro 33,401 thousand (31 December 2017: Euro 169,266 thousand).

The movements occurred in financial assets at fair value through other comprehensive income recorded in level 3 are analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Balance on 1 January	988 438	1 095 624
Acquisitions	-	4 527
Revaluations	(5 901)	(28 841)
Disposals	-	(82 872)
Transfers to financial assets not held for trading at fair value through profit or loss	(829 254)	-
Balance on 30 June	153 283	988 438

The revaluation of Visa Inc preference shares (Series C), as at 30 June 2018, resulted in the recognition of a positive fair value reserve in the amount of Euro 1,996 thousand (31 December 2017: Euro 1,205 thousand).

The movements occurred in impairment of financial assets at fair value through other comprehensive are analysed as follows:

(Thousands of Euro)

	Jun 2018	Jun 2017
Balance on 1 January	172 324	190 428
IFRS 9 transition adjustment	(134 408)	-
Charge for the period	1 272	10 390
Reversal for the period	(39)	(1 119)
Charge-off	(4 020)	(1 708)
Balance on 30 June	35 129	197 991

As at 31 December 2017, impairment for investment units of real estate investment funds amounts to Euro 103,163 thousand.

Securities pledged as collateral recorded in Financial assets at fair value through other comprehensive income, are presented as follows:

- The market value of the assets pledged as collateral to the European Central Bank under liquidity providing operations amounts to Euro 2,601,495 thousand at 30 June 2018 after hair cut (31 December 2017: Euro 2,539,595 thousand);

- Securities pledged as collateral to the CMVM under the Investors' Compensation Fund in the nominal amount of Euro 1,000 thousand at 30 June 2018 and 31 December 2017;

- The amount of the EIB loan obtained is collateralised by securities of Italian state in the nominal amount of Euro 215,000 thousand (31 December 2017: 507,939 thousand), recorded under the balance Financial assets at fair value through other comprehensive income;

- Securities pledged as collateral to the Deposit Guarantee Fund in the nominal amount of Euro 22,200 thousand at 30 June 2018 (31 December 2017: Euro 23,500 thousand).

These financial assets pledged as collateral can be executed in case of default of contractual obligations assumed by the Group under the terms and conditions of signed contracts, as referred in notes 33 and 34.

25 Hedging derivatives

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Assets		
Interest rate swap	5 611	-
Liabilities		
Interest rate swap	-	1 663

CEMG contracted an interest rate swap to hedge its interest rate risks. The accounting method depends on the nature of the hedged risk, namely if CEMG is exposed to fair value changes, cash flows changes or probable forecast transactions.

CEMG performs periodical effectiveness tests of the hedging relationships.

The analysis of the hedging derivatives portfolio by maturity date, as at 30 June 2018, is as follows:

(Thousands of Euro)

	Jun 2018							
	Notional by maturity date				Fair value			
	Below 3 months	3 to 12 months	Above 12 months	Total	Below 3 months	3 to 12 months	Above 12 months	Total
Fair value hedge derivatives with interest rate risk:								
Interest rate swap	-	-	750 000	750 000	-	-	5 611	5 611
	-	-	750 000	750 000	-	-	5 611	5 611

The analysis of the hedging derivatives portfolio by maturity date, as at 31 December 2017, is as follows:

(Thousands of Euro)

	Dec 2017							
	Notional by maturity date				Fair value			
	Below 3 months	3 to 12 months	Above 12 months	Total	Below 3 months	3 to 12 months	Above 12 months	Total
Fair value hedge derivatives with interest rate risk:								
Interest rate swap	-	-	750 000	750 000	-	-	1 663	1 663
	-	-	750 000	750 000	-	-	1 663	1 663

As at 30 June 2018, the fair value hedge operations can be analysed as follows:

(Thousands of Euro)

	Jun 2018						
Derivative	Hedged item	Hedged risk	Notional	Fair value [1]	Changes in fair value of the derivative in the period	Hedged item fair value [2]	Changes in fair value of the hedged item in the period [2]
Interest rate swap	Liabilities represented by securities	Interest rate	750 000	5 611	7 274	(1 407)	(3 780)
			750 000	5 611	7 274	(1 407)	(3 780)

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

As at 31 December 2017, the fair value hedge operations can be analysed as follows:

(Thousands of Euro)

	Dec 2017						
Derivative	Hedged item	Hedged risk	Notional	Fair value [1]	Changes in fair value of the derivative in the period	Hedged item fair value [2]	Changes in fair value of the hedged item in the period [2]
Interest rate swap	Liabilities represented by securities	Interest rate	750 000	(1 663)	(1 663)	2 373	2 373
			750 000	(1 663)	(1 663)	2 373	2 373

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

26 Other financial assets at amortised cost

This balance is analysed as follows:

(Thousands of Eurc

	Jun 2018
Fixed income securities	
Bonds issue by Portuguese public entities	369 771
Bonds issue by Foreign public entities	252 484
	622 255
Impairment for other financial assets at amortised cost	(1 364)
	620 891

The fair value of the portfolio of Other financial assets at amortised cost is disclosed in note 46.

Other financial assets at amortised cost, as at 30 June 2018, can be analysed as follows:

(Thousands of Euro)

Issue	Issue date	Maturity date	Interest rate	Book value
BONOS 0,350% 30JUL2023	22 May 2018	30 July 2023	0.350%	139 421
BONOS 0,750% 30JUL2021	08 March 2016	30 July 2021	0.750%	36 027
BTP 0.10 15-APR-2019	15 April 2016	15 April 2019	0.100%	34 832
BTP 1,200% 01APR2022	01 March 2017	01 April 2022	1.200%	42 204
OT 2,200% 17-OCT-2022	09 September 2015	17 October 2022	2.200%	21 895
OT 4,95% 25-OCT-2023	10 June 2008	25 October 2023	4.950%	106 920
OT 5.65% 15-FEV-2024	14 May 2013	15 February 2024	5.650%	157 536
OT APR21	23 February 2005	15 April 2021	3.850%	83 420
				622 255

Other financial assets at amortised cost are recognised in accordance with the accounting policy described in note 1 c).

As at 30 June 2018, the amount of loans obtained from EIB is collateralised by bonds of the Spanish, Italian and Portuguese State at the nominal value of Euro 234,558 thousand, provided as collateral and recorded under the caption Held-to-maturity Investments, as disclosed in note 34.

Impairment movements for other financial assets at amortised cost are analysed as follows:

(Thousands of Euro)

	Jun 2018
Balance on 1 January	-
Charge for the period	1 364
Balance on 30 June	1 364

27 Investments in subsidiaries and associated companies

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Montepio Holding, S.G.P.S., S.A.	413 750	413 750
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	8 997	8 997
HTA – Hotéis, Turismo e Animação dos Açores, S.A.	3 200	3 200
Montepio Gestão de Activos Imobiliários, ACE	637	637
Montepio Geral Corp.	368	-
	426 952	426 584
Impairment of investments in subsidiaries and associated companies	(110 290)	(110 681)
	316 662	315 903

As at 31 December 2017, CEMG made supplementary capital contributions to its subsidiary Montepio Holding, SGPS, S.A. ("Montepio Holding"), amounting to Euro 10,000 thousand. These supplementary capital contributions were made in order to Montepio Holding could provide its subsidiaries with the development of each one's business.

CEMG analysed the impairment regarding investments made in its subsidiaries, considering the recoverable value of the businesses developed by each one. The recoverable amount, in accordance with the accounting policy described in this report, was determined by the higher of fair value net of selling costs and the value in use for continued subsidiaries and by the fair value of selling costs for discontinued subsidiaries.

The value in use was determined based on the business plan approved by the management, considering also the specificity of the businesses and markets where CEMG's subsidiaries operate, discount rate differentiated levels, for the solvency levels required for banking activity and for the perpetuity growth of net results.

The validation of the assumptions used and the evolution of the macroeconomic and market conditions may result in changes in these assumptions and, consequently, in the recoverable amount calculated for the subsidiaries that are subject of this analysis.

Financial statements were prepared based on the continuity of its operations, which depend on the future development of the assumptions underlying the recoverability of their shareholdings and on the success of the initiatives taken by the Board of Directors with the purpose to strengthen equity.

Montepio Geral Corp.

Following the analysis performed, we decided to recognise, in the financial statements of CEMG as at 30 June 2018, an impairment in CEMG the amount of Euro 322 thousand related with the shareholding held in Montepio Geral Corp.

Montepio Holding, S.G.P.S., S.A.

Following the analysis performed, we decided to recognise, in the financial statements of CEMG as at 30 June 2018, an impairment in the amount of Euro 109,968 thousand (31 December 2017: Euro 110,681 thousand) related with the shareholding held in Montepio Holding.

Montepio Holding S.G.P.S., S.A. holds 100% of the capital and voting rights of Montepio Investimento, S.A., Montepio Crédito – Instituição Financeira de Crédito, S.A., Montepio Valor – Sociedade Gestora de Fundos de Investimento, S.A. and Ssagincentive, Sociedade de Serviços Auxiliares e de Gestão de Imóveis, S.A., as well as a 80.22% shareholding in Finibanco Angola, S.A. and a 45.78% shareholding in Banco Terra, S.A.

The valuation of Montepio Holding SGPS, S.A. was carried out considering the value of its shareholders' equity adjusted for the potencial values of the entities in which Montepio Holding participates and are presented as follows:

Montepio Investimento, S.A.

Regarding Montepio Investimento S.A., it was considered that the value of equity corresponded to the best estimate of the recoverable amount.

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

Following the analysis of Montepio Crédito – Instituição Financeira de Crédito, S.A.'s balance sheet, the best estimate of the recoverable amount for this subsidiary would be its equity.

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

Following the analysis of Montepio Valor – Sociedade Gestora de Fundos de Investimento, S.A.'s balance sheet, the best estimate of the recoverable amount for this subsidiary would be its equity.

Finibanco Angola, S.A.

The valuation made for Finibanco Angola, S.A. was executed based on: market multiples, comparable transactions and discounted dividend method. In addition, the estimated value of the sale of Finibanco Angola, S.A., was considered, in accordance with the proposed acquisition made by a third party.

On this basis, the valuation of 80.22% of the shareholding held by Montepio Holding in Finibanco Angola amounted to USD 83,615 thousand, corresponding to approximately Euro 67,075 thousand.

The following assumptions were adopted in the evaluation methodologies applied:

- The selection process of the peer group had the following criteria in consideration (in order of application): market quote, capitalisation, country, country risk premium (Damodaran), non-performing loans/total loans ratio, net interest income/total assets ratio and cost/income ratio;
- For the purposes of the application of the comparable transactions methodology, was considered a transaction that took place in the Angolan market;
- The Finibanco Angola business plan for the triennium 2017/2019 and a growth rate of 3% for 2020 were considered in the valuation by the dividend method.

These evaluations also include account the clearance of a forward to the calculation of the exchange rate AOA/EUR at 31 December 2017 of 200.3.

Banco Terra, S.A.

The fair value estimate of Banco Terra, S.A. was determined based on the fair value net of selling costs, which corresponds to a multiple of 1 over the equity amount at 31 December 2017.

Impairment movements of investments in subsidiaries and associates are analysed as follows:

(Thousands of Euro)

	Jun 2018	Jun 2017
Balance on 1 January	110 681	157 297
Charge for the period	322	5 649
Reversal for the period	(713)	-
Balance on 30 June	110 290	162 946

The financial information concerning subsidiary and associated companies is presented in the following table:

(Thousands of Euro)

	Number of shares	Percentage of direct shares	Unit value Euro	Acquisition cost
30 June 2018				
Montepio Holding. S.P.G.S.. S.A.	175 000 000	100,00%	1,00	413 750
Banco Montepio Geral – Cabo Verde. Sociedade Unipessoal. S.A.	99 200	100,00%	90,69	8 997
HTA – Hotéis. Turismo e Animação dos Açores. S.A.	400 001	20,00%	5,00	3 200
Montepio - Gestão de Activos Imobiliários. ACE	636 924	26,00%	1,00	637
Montepio Geral Corp.	150	100,00%	0,00	368
CESource, ACE	-	18,00%	0,00	-
				426 952
31 December 2017				
Montepio Holding. S.P.G.S.. S.A.	175 000 000	100,00%	1,00	413 750
Banco Montepio Geral – Cabo Verde. Sociedade Unipessoal. S.A.	99 200	100,00%	90,69	8 997
HTA – Hotéis. Turismo e Animação dos Açores. S.A.	400 001	20,00%	5,00	3 200
Montepio - Gestão de Activos Imobiliários. ACE	636 924	26,00%	1,00	637
				426 584

CEMG holds 18.0% of CESource, ACE. This ACE has been incorporated without share capital.

The list of subsidiaries and associated CEMG's companies is presented in note 56.

28 Non-current assets held for sale

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Investments arising from recovered loans	848 642	852 440
Impairment for non-current assets held for sale	(140 918)	(138 307)
	707 724	714 133

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

The balance Investments arising from recovered loans includes the amount of Euro 1,461 thousand (31 December 2017: Euro 1,377 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 1,459 thousand (31 December 2017: Euro 1,375 thousand).

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

CEMG has implemented a plan to sale immediately the non-current assets held for sale. According to CEMG's expectation, these assets are available for sale in a period below 1 year and the Group has a strategy for its sale. Nevertheless, given the current market conditions, in some situations it is not possible to conclude these sales before the expected deadline. This balance includes buildings and other assets for which CEMG has already established contracts for its sale in the amount of Euro 33,769 thousand (31 December 2017: Euro 32,269 thousand).

The movements, in the end of the first semester of 2018 and during 2017, for non-current assets held for sale are analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Balance at the beginning of the period	852 440	867 174
Acquisitions	48 550	130 640
Disposals	(52 432)	(144 764)
Other movements	84	(610)
Balance at the end of the period	848 642	852 440

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

	(Thousands of Euro)	
	Jun 2018	**Jun 2017**
Balance on 1 January	138 307	143 432
Charge for the period	8 502	7 915
Reversal for the period	(1 011)	-
Charge-off	(4 880)	(5 153)
Balance on 30 June	140 918	146 194

In addition to the impairment losses, in the first semester of 2018, CEMG recognised in profit or loss, losses on real estate arising from its disposal in the amount of Euro 266 thousand and gains in the amount of Euro 5,750 thousand (30 June 2017: losses in the amount of Euro 568 thousand and gains in the amount of Euro 4,209 thousand), as mentioned in note 9.

29 Property and equipment

This balance is analysed as follows:

	(Thousands of Euro)	
	Jun 2018	**Dec 2017**
Investment		
Real Estate		
For own use	203 890	204 334
Leasehold improvements in rented buildings	28 966	29 152
Equipment		
IT equipment	89 942	90 120
Interior installations	25 128	24 950
Furniture and material	18 641	18 567
Security equipment	7 435	7 355
Machinery and tools	2 547	2 551
Transport equipment	621	677
Other equipment	1	1
Works of art	2 870	2 870
Other property and equipment	1 850	1 848
Assets in financial lease	190	323
Work in progress	4 217	3 403
	386 298	386 151
Accumulated depreciation		
Charged for the period	(4 509)	(9 065)
Accumulated charge in previous periods	(165 152)	(157 084)
	(169 661)	(166 149)
	216 637	220 002

30 Intangible assets

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Investment		
Software	107 988	104 718
Work in progress	7 092	5 653
	115 080	110 371
Accumulated depreciation		
Charge for the period	(6 347)	(13 726)
Accumulated charge in previous periods	(80 280)	(66 553)
	(86 627)	(80 279)
	28 453	30 092

31 Taxes

Deferred tax assets and liabilities as at 30 June 2018 and 31 December 2017 are analysed as follows:

(Thousands of Euro)

	Assets		Liabilities		Net	
	Jun 2018	Dec 2017	Jun 2018	Dec 2017	Jun 2018	Dec 2017
Deferred taxes not dependent on future profitability						
Impairment on loans granted	53 071	64 200	-	-	53 071	64 200
Benefits to employees	25 443	27 055	-	-	25 443	27 055
	78 514	91 255	-	-	78 514	91 255
Financial instruments	3 628	2 535	(10 687)	(9 442)	(7 059)	(6 907)
Provisions / Impairment						
Impairment on loans granted	186 401	136 367	-	-	186 401	136 367
Other risks and charges	8 576	7 394	-	-	8 576	7 394
Impairment in securities and non-financial assets	38 528	36 993	-	-	38 528	36 993
Benefits to employees	22 206	15 131	-	-	22 206	15 131
Other	84	84	(7)	(54)	77	30
Tax losses carried forward	181 235	178 601	-	-	181 235	178 601
Net deferred tax assets/ (liabilities)	519 172	468 360	(10 694)	(9 496)	508 478	458 864

Special regime applicable to deferred tax assets

On 6 July 2016, the Extraordinary General Meeting of CEMG was held, approving the admission to the special regime applicable to deferred tax assets, approved by Law No. 61/2014, of 26 August, which is applicable to expenses and negative equity changes recorded in tax periods beginning on or after 1 January 2015, as well as to deferred tax assets recorded in annual accounts for the last tax period prior to that date and to the part of the expenditure and related negative equity changes. In accordance with Law No.

23/2016, of 19 August, this special regime is not applicable to expenses and negative equity changes recorded in tax periods beginning on or after 1 January 2016 nor it is to related deferred tax assets.

Law No. 61/2014, of 26 August, determines an optional framework with a subsequent waiving option, in accordance with which, in some cases (i.e. negative net result in individual annual accounts or in settlement accounts by voluntary winding-up, insolvency decided by law or authorisation withdrawal), there will be a conversion into tax credits of deferred tax assets that resulted from the non deduction of expenses and deductions of assets resulting from credit impairment losses and post-employment benefits or long-term employee benefits. In such case, a special reserve corresponding to 110% of its amount shall be established, requiring the simultaneous conversion rights attributable to the State in the same amount. These rights can be acquired by the shareholders upon payment to the State in the same amount. Tax credits may be offset against tax debts of the beneficiaries (or from an entity based in Portugal of the same prudential consolidation perimeter) or reimbursable by the State. Under this regime, the recovery of deferred tax assets covered by the regime approved by Law No. 61/2014, of 26 August, is not dependent on future profits.

The aforementioned legal framework was densified by Ordinance No. 259/2016, of 4 October, on the control and use of tax credits, and by Ordinance No. 293-A / 2016, of 18 November, determining the conditions and procedures for the acquisition of those State rights by the shareholders. According to this legislation, State rights are, among other factors, subject to a right of acquisition by the shareholders on their inception date, exercisable in periods to be established by the Board of Directors up to 10 years after that date and the issuing bank shall deposit on the State's behalf the full amount corresponding to the rights issued, within 3 months from the confirmation date of the deferred tax asset conversion into tax credit. Such deposit shall be recovered when and to the extent that the State rights are acquired by the shareholders, or exercised by the State.

Deferred taxes are calculated using tax rates that are expected to be in force on the date of reversal of the temporary differences, which correspond to the rates approved or substantially approved on the balance sheet date.

The balance Benefits to employees includes, on 30 June 2018, the amount of Euro 9,444 thousand (31 December 2017: Euro 10,793 thousand) related to deferred taxes of actuarial losses recognised against reserves as a result of the change in the accounting policy. As at 30 June 2018, this balance also includes the amount of Euro 3,113 thousand (31 December 2017: Euro 3,229 thousand) related to deferred taxes associated with the expense generated with the transfer of liabilities with pensioners to the general social security system.

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

As at 30 June 2018, deferred taxes associated with Employee benefits include the amount of Euro 15,143 thousand (31 December 2017: 13,781 thousand) related with employee benefits in excess when compared with the existing limits.

As at 30 June 2018, and due to (i) tax rates effective after 1 January 2018 and ii) the expectation underlying the conversion into costs and tax-deductible profits and the estimation of tax profit or tax losses in each one of the subsequent periods, CEMG changed the rate (base rate and surcharges) used for calculating deferred taxes, from 29.5% and 21% to 30% and 21%, respectively, depending on specific cases associated with temporary differences or tax losses carried forward.

Analysis of the recoverability of deferred tax assets

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

As referred in the accounting policy described in note 1 v) and in accordance with the requirements set in IAS 12, the deferred tax assets recognised in the CEMG's financial statements have an underlying high expectation of recoverability. The evaluation of the recoverability of deferred tax assets is based on the latest exercise prepared on the 2018 budget, assuming a pre-tax income growth assumption between 2019 and 2024.

Thus, the recoverability of deferred tax assets, namely related to tax losses carried forward, is supported in the CEMG's forecasted financial statements, prepared under the aforementioned budget, which considered the macroeconomic and competitive environment where CEMG operates as well as the strategic priorities established in the Strategic Plan for the period between 2016 and 2018.

The recovery of profitability, liquidity and capital levels recommended in the Strategic Plan is fundamentally supported by favorable impacts induced by:

(i) recovery of the core banking product: by increasing the net interest income provided by the monitoring of turnover and pricing, particularly the cost of deposits, as well as by the increase in commissions, benefiting from the impact of the price increase to be implemented;

(ii) a reduction in operating costs: this is reflected in the positive effects associated with the downsizing of the branch network and the number of employees completed in 2016, as well as the reduction in the level of investments;

(iii) reinforcing risk management: materializing the favorable effects of the improvement introduced in the credit granting, monitoring and recovery processes that have been put into practice; and

(iv) strengthening of the institutional model.

Following this assessment, and as at 30 June 2016 and 31 December 2017, CEMG recognised all deferred tax assets, thus, there are no deferred tax assets to be recognised.

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

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

(Thousands of Euro)

Expiry date	Jun 2018	Dec 2017
2022	5 384	3 922
2027	49 089	51 639
2028	126 762	123 040
	181 235	178 601

Tax recognised in the income statement and reserves during the first half of 2018 and in 2017 is analysed as follows:

(Thousands of Euro)

	Jun 2018		Dec 2017	
	Charged to net income/ (loss)	Charged to reserves and retained earnings	Charged to net income/ (loss)	Charged to reserves and retained earnings
Financial instruments	362	(514)	-	(17 259)
Provisions / Impairment	(13 074)	54 696	(38 147)	-
Employee benefits	5 548	(85)	(1 070)	(2 365)
Other	47	-	1	-
Tax losses carried forward	6 476	(3 842)	2 527	1 369
Deferred taxes recognised as profit/ (loss)	(641)	50 255	(36 689)	(18 255)
Current taxes recognised as profit/ (loss)	(329)	(1 154)	(293)	-
	(970)	49 101	(36 982)	(18 255)

The balance Provisions/ Impairment records the tax impact recognised in Reserves and retained earnings related to the IFRS 9 adoption, as at 1 January 2018, as described in note 54.

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

(Thousands of Euro)

	Jun 2018		Jun 2017	
	%	Value	%	Value
Net income/ (loss) before taxes		8 480		15 717
Income tax based on the current nominal tax rate	29.5	(2 502)	21.0	(3 301)
State and municipal surcharge	-	-	(7.4)	(1 164)
Extraordinary contribution for the banking sector	(37.0)	(3 139)	(15.2)	(2 395)
Post-employment benefits and Pension Fund	65.8	5 580	-	-
Taxable provisions/ impairment	(14.9)	(1 266)	(17.7)	(2 789)
Autonomous taxation	(3.9)	(329)	(2.1)	(327)
Effect of differences in income tax for the period	-	-	(4.9)	(768)
Other	8.1	686	(5.7)	(895)
Income taxes for the period	(11.4)	(970)	(74.1)	(11 639)

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 up to and including the 2015 period.

In 2018, CEMG became the dominant company of the Tax Group subject to corporate income tax under the Regime for Taxation of Group Companies (RETGS), whose former dominant company was Montepio Holding, S.G.P.S., S.A.

In this context, the Group considers that the effects for the calculation of the taxable income according to RETGS are reflected in the calculation of the current tax of the period of each entity, including the effect in the calculation of the current tax of the period for using tax loss generated by another entity of the Group.

32 Other assets

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Sundry debtors	130 408	120 469
Other debtors	75 506	72 575
Deferred costs	5 353	515
Recoverable grants from the Portuguese Government	5 258	4 991
Other amounts receivable	2 882	3 248
	219 407	201 798
Impairment for other assets	(29 504)	(25 183)
	189 903	176 615

As at 30 June 2018 and 31 December 2017, the balance Other debtors is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
SilverEquation	29 909	29 909
Supplementary capital contributions	14 910	14 910
Public entities	6 499	6 667
Other	24 188	21 089
	75 506	72 575

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

As at 30 June 2018, the balance Public Entities includes the amounts related to receivable amounts from public entities, mostly related with courts in the context of insolvency proceedings and lodge claims.

The balance Recoverable grants receivable from the Portuguese Government corresponds to recoverable grants referring to mortgage and PME’s loans, in accordance with the legal provisions applicable to low-interest loan. These amounts do not bear interest and are claimed monthly.

As at 30 June 2018, the balance Sundry debtors includes the amount of Euro 116,298 thousand (31 December 2017: Euro 106,182 thousand), related to outstanding securities transactions.

As at 30 June 2018 and 31 December 2017, the balance Recoverable subsidies receivable from the Portuguese Government are presented as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Overdue grans unclaimed	3 332	3 224
Unsettled recoverable grants from the Portuguese Government	1 807	1 631
Unclaimed grants	119	136
	5 258	4 991

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

(Thousands of Euro)

	Jun 2018	Jun 2017
Balance on 1 January	25 183	26 389
IFRS 9 transition adjustment	3 508	-
Charge for the period	2 030	1 455
Reversal for the period	(1 213)	(2)
Charge-off	(4)	(3 086)
Balance on 30 June	29 504	24 756

33 Deposits from central banks

As at 30 June 2018 and 31 December 2017, 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.

34 Deposits from other financial institutions

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018			Dec 2017		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits from financial institutions in Portugal						
Deposits repayable on demand	15 517	2 785	18 302	19 327	-	19 327
Term deposits	-	8 888	8 888	-	7 995	7 995
Other deposits	-	-	-	-	-	-
	15 517	11 673	27 190	19 327	7 995	27 322
Deposits from financial institutions abroad						
EIB loan	-	360 407	360 407	-	460 433	460 433
Deposits repayable on demand	64 865	-	64 865	33 051	-	33 051
Term deposits	-	187 913	187 913	-	200 540	200 540
Sales operations with repurchase agreement	-	1 248 532	1 248 532	-	1 275 553	1 275 553
CSA's	3 970	-	3 970	50	-	50
Repos collaterals	-	42 194	42 194	-	13 405	13 405
Other deposits	706	-	706	843	-	843
	69 541	1 839 046	1 908 587	33 944	1 949 931	1 983 875
Adjustments arising from fair value option operations	-	-	-	-	-	-
	85 058	1 850 719	1 935 777	53 271	1 957 926	2 011 197

As part of derivative financial instruments operations with institutional counterparties, according to the signed contracts, CSA has, on 30 June 2018, the amount of Euro 3,970 thousand (31 December 2017: Euro 50 thousand) deposits from other credit institutions received as collateral for these operations.

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

The amount of the EIB loan is collateralised by Portuguese, Spanish and Italian states securities in the amount of Euro 466,288 thousand (31 December 2017: Euro 517,939 thousand), recorded in the balance Financial assets held for trading, Financial assets at fair value through other comprehensive income and Other financial assets at amortised cost, as described in notes 22, 24 and 26, respectively.

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

35 Deposits from customers

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018			Dec 2017		
	Non-interest bearing	Interest bearing	Total	Non-interest bearing	Interest bearing	Total
Deposits repayble on demand	3 626 138	399 641	4 025 779	3 361 390	277 437	3 638 827
Term deposits	-	8 303 995	8 303 995	-	8 380 146	8 380 146
Saving accounts	-	115 957	115 957	-	113 044	113 044
Other deposits	43 774	-	43 774	23 275	400 000	423 275
Adjustments arising from fair value option operations	25	-	25	33	-	33
	3 669 937	8 819 593	12 489 530	3 384 698	9 170 627	12 555 325

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 No. 11/94 of the Bank of Portugal, of 29 December.

The caption Term deposits includes deposits at fair value through profit and loss, measured in accordance with internal evaluation techniques considering, mainly, observable market inputs, in the amount of Euro 14,597 thousand (31 December 2017: Euro 14,789 thousand). Thus, in accordance with the hierarchy of the valuation sources, as referred in IFRS 13, these instruments are categorised in Level 2. Financial liabilities included in this balance are revaluated against results, according with the accounting policy described in note 1 c), and on 30 June 2018, a gain in the amount of Euro 9 thousand was recognised relating to fair value changes (31 December 2017: loss in the amount of Euro 21 thousand).

As at 30 June 2018, deposits from customers were remunerated at an average rate of 0.51% (31 December 2017: 0.68%).

36 Debt securities issued

The balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Bonds	204 057	375 300
Covered bonds	753 564	746 238
Securitisations	124 299	268 461
	1 081 920	1 389 999

The fair value of the debt securities issued is presented in note 46.

The balance Debt securities issued includes issues at fair value through profit or loss, in the amount of Euro 6,622 thousand (31 December 2017: Euro 7,094 thousand), measured in accordance with internal valuation techniques and considering, mainly, observable market data. According with the hierarchy of the evaluation sources, as referred in IFRS 13, these instruments are classified in Level 2. Financial liabilities are revalued against the income statement, as referred in the accounting policy presented in note 1 c). As at 30 June 2018, a gain in the amount of Euro 3 thousand (31 December 2017: a loss in the amount of Euro 523 thousand) was recognised relating to fair value changes.

Under the Issuance of covered bonds program, with a maximum amount of Euro 5,000,000 thousand, CEMG issued a total of Euro 2,300,000 thousand at nominal value.

As at 30 June 2018, the main characteristics of these issues are as follows:

(Thousands of Euro)

Description	Nominal value	Book value	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody´s/Fitch/Dbrs)
Covered bonds - 5S	500 000	500 126	December 2015	December 2020	quarterly	Euribor 3M + 0.80%	A3/AA-/A
Covered bonds - 6S	300 000	300 205	November 2016	November 2023	quarterly	Euribor 3M + 0.80%	A3/AA-/A
Covered bonds - 8S	500 000	500 097	December 2016	December 2026	quarterly	Euribor 3M + 0.90%	A3/AA-/A
Covered bonds - 9S	250 000	250 142	May 2017	May 2024	quarterly	Euribor 3M + 0.85%	A3/AA-/A
Covered bonds - 10S	750 000	753 564	October 2017	October 2022	annual	Fixed at 0.875%	A3/AA-/A
	2 300 000	2 304 134					

As at 31 December 2017, the main characteristics of these issues are as follows:

(Thousands of Euro)

Description	Nominal value	Book value	Issue date	Maturity date	Interest payment	Interest rate	Rating (Moody´s/Fitch/Dbrs)
Covered bonds - 5S	500 000	500 132	December 2015	December 2020	quarterly	Euribor 3M + 0.80%	A3/A+/A
Covered bonds - 6S	300 000	300 204	November 2016	November 2023	quarterly	Euribor 3M + 0.80%	A3/A+/A
Covered bonds - 8S	500 000	500 103	December 2016	December 2026	quarterly	Euribor 3M + 0.90%	A3/A+/A
Covered bonds - 9S	250 000	250 148	May 2017	May 2024	quarterly	Euribor 3M + 0.85%	A3/A+/A
Covered bonds - 10S	750 000	746 238	October 2017	October 2022	annual	Fixed at 0.875%	A3/A+/A
	2 300 000	2 296 825					

The covered bonds are guaranteed by a cover pool assets, comprised of mortgage loans which are segregated as an autonomous asset in CEMG's accounts, thus providing a statutory special creditor privilege to the holders of these securities over any other creditor.

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

As at 30 June 2018, the amount of credits that collateralise these issues amounted to Euro 2,732,796 thousand (31 December 2017: EUR 2,726,854 thousand), according with note 21.

The movements in Debt securities issued during the first half of 2018 is analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Issues	Reimbursements	Net purchases	Other movements [a]	Balance on 30 June
Bonds	375 300	-	(164 119)	-	(7 124)	204 057
Covered bonds	746 238	-	-	-	7 326	753 564
Securitisations	268 461	-	(144 162)	-	-	124 299
	1 389 999	-	(308 281)	-	202	1 081 920

(a) These include the movement of accrued interest on the balance sheet, corrections for operations at the fair value option and exchange variation.

The movements in debt securities issued in the year ended 31 December 2017 is analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Issues	Reimbursements	Net purchases	Other movements (a)	Balance on 31 December
Bonds	1 040 533	-	(265 185)	(384 350)	(15 698)	375 300
Covered bonds	265 028	750 000	(265 000)	-	(3 790)	746 238
Securitisations	538 155	-	(269 694)	-	-	268 461
Euro Medium Term Notes (EMTN)	39 913	-	(39 750)	-	(163)	-
	1 843 716	750 000	(799 879)	(384 350)	(19 488)	1 389 999

(a) These include the movement of accrued interest on the balance sheet, corrections for operations at fair value and option exchange variation.

As at 30 June 2018, CEMG performed the reimbursement of Euro 308,281 thousand (31 December 2017: 839,629 thousand).

As at 31 December 2017, under the Covered Bond Programm, the Group issued an amount of Euro 750,000 thousand at 5 years and an interest rate of 0.875% and reimbursed an amount of Euro 265,000 thousand.

In accordance with the account policy described in note 1 c), debt issued repurchased by CEMG is withdrawn from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognised in the income statement. As a result of the purchases made during 2017, CEMG recognised a gain of Euro 1,423 thousand.

As at 30 June 2018, bonds issued bear postponed and anticipated interest at an effective interest rate ranging between 0.00% and 8.30% (31 December 2017: 0.00% and 7.48%).

37 Provisions

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Provisions for guarantees and commissions	17 867	16 147
Provisions for other risks and charges	11 012	10 060
	28 879	26 207

The movements in provisions for guarantees and commitments assumed in the first half of 2018 and in 2017 are analysed as follows:

(Thousands of Euro)

	Jun 2018	Jun 2017
Balance on 1 January	16 147	13 851
IFRS 9 transition adjustment	944	-
Charge for the period	5 836	8 374
Reversal for the period	(5 060)	(6 300)
Balance on 30 June	17 867	15 925

The movements in provisions for other risks and charges are analysed as follows:

(Thousands of Euro)

	Jun 2018	Jun 2017
Balance on 1 January	10 060	7 142
Charge for the period	1 138	5 629
Reversal for the period	(186)	(1 101)
Balance on 30 June	11 012	11 670

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

38 Other subordinated debt

As at 30 June 2018, the main characteristics of Other subordinated debt, are analysed as follows:

(Thousands of Euro)

Description	Issue date	Maturity date	Issue amount	Interest rate	Book value
CEMG/08 2nd series	Jul 2008	Jul 2018	150 000	Euribor 6 months+1.5%	113 160
FNB 08/18 1st/2nd series	Dec 2008	Dec 2018	10 363	Euribor 6 months+1.75% (i)	8 327
					121 487

In July 2018, CEMG repaid CEMG/08 2nd series issue.

As at 31 December 2017, the main characteristics of Other subordinated debt, are analysed as follows:

(Thousands of Euro)

Description	Issue date	Maturity date	Issue amount	Interest rate	Book value
CEMG/08 1st series	Feb 2008	Feb 2018	150 000	Euribor 6 months+1.5%	111 321
CEMG/08 2nd series	Jul 2008	Jul 2018	150 000	Euribor 6 months+1.5%	113 169
CEMG/08 3rd series	Jun 2008	Jun 2018	28 000	Euribor 12 months+1.5%	4 200
FNB 08/18 1st/2nd series	Dec 2008	Dec 2018	10 363	Euribor 6 months+1.75% (i)	8 326
					237 016

(i) - Remuneration paid on a half-yearly basis:

Coupon	Interest rate / Range
1st coupon	6.50% (annual rate)
Between the 2nd and the 10th coupon	Euribor 6M + 1.50% (annual rate)
Between the 11th coupon and subsequent	Euribor 6M + 1.75% (annual rate)

As at 30 June 2018 and 31 December 2017, the movement under Other subordinated debt was as follows:

(Thousands of Euro)

	Jun 2018				
	Balance on 1 January	Reimbursements	Net purchases	Other movements (a)	Balance on 30 June
CEMG/08 1st series	111 321	(110 848)	-	(473)	-
CEMG/08 2nd series	113 169	-	-	(9)	113 160
CEMG/08 3rd series	4 200	(4 168)	-	(32)	-
FNB 08/18 1st/2nd series	8 326	-	-	1	8 327
	237 016	(115 016)	-	(513)	121 487

(a) It includes the accrued interest on the balance sheet.

(Thousands of Euro)

	Dec 2017				
	Balance on 1 January	Reimbursements	Net purchases	Other movements (a)	Balance on 30 June
CEMG/08 1st series	111 348	-	-	(27)	111 321
CEMG/08 2nd series	113 216	-	-	(47)	113 169
CEMG/08 3rd series	4 202	-	-	(2)	4 200
FNB 08/18 1st/2nd series	8 328	-	-	(2)	8 326
	237 094	-	-	(78)	237 016

(a) It includes the accrued interest on the balance sheet.

As at 30 June 2018, the subordinated debt bears postponed interest every six and twelve months and its effective interest rate range is set between 1.22% and 1.48% (31 December 2017: 1.23% and 1.48%).

Other subordinated debt portfolio is recorded at fair value, as presented in note 46.

39 Other liabilities

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
National and foreign outstanding operations	124 232	200 666
Staff costs	26 566	21 852
Other expenses	11 388	16 244
Administrative public sector	10 990	10 419
Suppliers	2 493	5 692
Deferred income	573	492
Sundry liabilities	22 591	28 693
	198 833	284 058

As at 30 June 2018, the balance Staff costs includes the amount of Euro 14,277 thousand (31 December 2017: Euro 19,084 thousand), related to holiday and holiday subsidies. Additionally, as at 30 June 2018, this balance also includes the amount of Euro 113 thousand (31 December 2017: Euro 113 thousand) related to seniority award and the amount of Euro 687 thousand related to final career award (31 December 2017: Euro 458 thousand).

40 Share capital

As at 30 June 2018, CEMG's share capital, which is fully paid, amounts to Euro 2,420,000 thousand fully belonging to MGAM.

As at 14 September 2017, CEMG was transformed into a public limited company with CEMG's Participation Fund, in the amount of Euro 400,000 thousand, becoming extinct, by conversion into share capital and its mutual funds were converted into common shares.

At 30 June 2017, the Group performed a capital increase subscribed by Montepio Geral Associação Mutualista, in accordance with the statutory resolutions of MGAM General Meeting, the General and Supervisory Board and CEMG's Executive Board of Directors.

This capital increase was materialised by MGAM, fully paid-up in cash, through the realisation of institutional capital in the amount of Euro 250,000 thousand.

41 Other equity instruments

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

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

In 2013 and in 2016 , CEMG made repurchases of Subordinated Perpetual Securities in the amount of Euro 6,727 thousand and Euro 1,950 thousand, respectively. Following these operations, the balance Other equity instruments includes the amount of Euro 6,323 thousand.

Payment

CEMG is prevented from proceeding to the interest payment if, in the Board of Directors or Bank of Portugal opinion, this payment endanger compliance with the Regulatory equity requirements regulation.

During the first half of 2018, the Group proceeded to the interest payment for this emission in the amount of Euro 163 thousand (31 December 2017: Euro 318 thousand).

Reimbursement

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

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

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

In the disqualification event as Core Capital (Tier 1) is defined as a change in any legal document or its official interpretation implies these securities values may no longer be classified as Core Capital of the Issuer.

As at 30 June 2018 and 31 December 2017, these obligations are considered as a positive element of the CEMG's Core Capital (Tier 2), as required by Regulation No. 575/2013 of the European Union.

42 Legal reserve

In accordance with Article No. 97º of Legal Framework of Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras* – RGICSF), approved by the Decree-Law No. 298/92, of 31 December, and amended by the Decree-Law No. 201/2002, CEMG should reinforce annualy the legal reserve with, at least, 10% of annual net profits, until to the limit equal to the value of share capital or to the sum of the reserves and retained earnings, if higher. This reserve can not, normally, be distributed.

The variation of the legal reserve is analysed in note 43.

43 Fair value reserves, other reserves and retained earnings

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Fair value reserves		
Fair value reserves		
Financial assets at fair value through other comprehensive income	6 130	32 737
Loans and advances to customers	1 821	2 146
Own credit risk	287	-
	8 238	34 883
Taxes		
Financial assets at fair value through other comprehensive income	(140)	(6 274)
Loans and advances to customers	(537)	(633)
	(677)	(6 907)
Fair value reserves net of taxes	7 561	27 976
Other reserves and retained earnings		
Legal reserve	191 766	186 000
Other reserves and retained earnings	(1 003 093)	(968 948)
Realised gains on equity instruments	(37)	-
	(811 364)	(782 948)

Fair value reserves regarding financial assets at fair value through other comprehensive income represent the potential gains and losses on the portfolio of financial assets at fair value through other comprehensive income.

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

The balance Other reserves and retained earnings includes the impact of Euro 93,233 thousand related to the IFRS 9 transition adjustment, according to note 54. This caption also includes the negative value of Euro 37 thousand related to realised gains on financial assets recorded at fair value through other comprehensive income.

The movements in the fair value reserve on financial assets at fair value through other comprehensive income, during the first half of 2018, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	IFRS 9 adjustment	Revaluation	Acquisitions	Disposals	Impairment recognised in the period	Balance on 30 June
Fixed income securities							
Bonds issued by Portuguese public entities	456	1 821	(32)	429	648	(933)	2 389
Bonds issued by foreign public entities	(4 107)	2 683	(8 147)	(845)	3 014	(660)	(8 062)
Bonds issued by other entities:							
Domestic	719	(1 730)	(2 032)	29	(17)	1 615	(1 416)
Foreign	385	35	(395)	(251)	(18)	(44)	(288)
	(2 547)	2 809	(10 606)	(638)	3 627	(22)	(7 377)
Variable income securities							
Shares							
Domestic	10 487	-	5 817	-	-	-	16 304
Foreign	2 607	-	(5 375)	-	(29)	-	(2 797)
	13 094	-	442	-	(29)	-	13 507
	10 547	2 809	(10 164)	(638)	3 598	(22)	6 130

As part of the IFRS 9 adoption, the CEMG's investment units held until 31 December 2017 classified in the portfolio of financial assets at fair value through other comprehensive income were reclassified to the portfolio of financial assets not held for trading mandatorily at fair value through profit or loss, as described in notes 23 and 24.

The movements in the fair value reserve on financial assets at fair value through other comprehensive income, during 2017, are analysed as follows:

(Thousands of Euro)

	Balance on 1 January	Revaluation	Acquisitions	Disposals	Impairment change in the period	Balance on 31 December
Fixed income securities						
Bonds issued by Portuguese public entities	(59 774)	-	456	59 774	-	456
Bonds issued by Foreign public entities	(7 254)	1 030	(3 824)	5 941	-	(4 107)
Bonds issued by other entities:						
Domestic	(126)	661	75	109	-	719
Foreign	6 652	(27 437)	184	(6 655)	27 641	385
	(60 502)	(25 746)	(3 109)	59 169	27 641	(2 547)
Variable income securities						
Shares						
Domestic	8 189	2 298	-	-	-	10 487
Foreign	14 722	(12 005)	29	(168)	29	2 607
Investment units	22 460	11 640	(1)	(2 343)	(9 566)	22 190
	45 371	1 933	28	(2 511)	(9 537)	35 284
	(15 131)	(23 813)	(3 081)	56 658	18 104	32 737

Fair value reserves on financial assets at fair value through other comprehensive income, are detailed as follows:

(Thousands of Euro)	Jun 2018	Dec 2017
Amortised cost of financial assets at fair value through other comprehensive income	968 592	2 742 378
Recognised accumulated impairment	(35 129)	(172 324)
Amortised costs of financial assets at fair value through other comprehensive income net of impairment	933 463	2 570 054
Market value of financial assets at fair value through other comprehensive income	939 593	2 602 791
Potential realised gains/ (losses) recognised in the fair value reserve	6 130	32 737

44 Distribution of profit

As at 30 June 2018 and during 2017, CEMG did not distributed profits.

45 Guarantees and other commitments

This balance is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Guarantees granted	472 708	463 770
Commitments to third parties	1 338 430	1 429 131
Deposit and custody of securities	7 967 880	8 266 489
	9 779 018	10 159 390

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

(Thousands of Euro)

	Jun 2018	Dec 2017
Guarantees granted		
Guarantees	451 177	443 108
Documentary credits	21 531	20 662
	472 708	463 770
Commitments to third parties		
Irrevocable commitments		
Irrevocable credit lines	661 205	762 361
Potential liability - Investor's Indemnity System	1 533	1 499
Term liability to the Guarantee Deposits Fund	22 768	22 768
Revocable commitments		
Revocable credit lines	652 924	642 503
	1 338 430	1 429 131

Bank guarantees granted are financial operations that do not necessarily result into mobilisation on Funds by CEMG.

Documentary credits correspond to irrevocable commitments on behalf of the CEMG’s customer, which ensure the payment of a determined amount to the customer’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 CEMG’s customers (for example unused credit lines). These agreements are generally, contracted for fixed periods of time or with other expiring requirements, and usually require the payment of a commission. Substantially, all credit commitments require that clients maintain certain conditions verified at the time the credit was granted.

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

As at 30 June 2018 and 31 December 2017, the balance Term liability to the the Guarantee Deposits Fund is related with the irrevocable commitment assumed by CEMG and required by law, to deliver the unrealised amounts of annual contributions required by the Fund.

As at 30 June 2018, under the Deposit Guarantee Fund, CEMG granted as pledge treasury bonds (OT 4.95% 25/10/2023), recorded as Financial assets at fair value through other comprehensive income, with a nominal value of Euro 22,200 thousand (31 December 2017: Euro 23,500 thousand), as described in note 24.

As at 30 June 2018 and 31 December 2017, the balance Potential liability with the Investors' Indemnity System refers to the irrevocable obligation that CEMG assumed, under the applicable law, to deliver to that system, in case needed, the required amount to pay its share of the indemnities to be paid to investors.

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

46 Fair value

Fair value is based on market prices, whenever these are available. If market prices are not available, as it happens regarding many products sold to customers, fair value is estimated through internal models based on cash-flow discounting techniques. Cash flows for the different instruments sold are calculated according to its financial characteristics and the discount rates used include both the interest rate curve and the current conditions of the pricing policy of CEMG.

Therefore, the fair value obtained is influenced by the parameters used in the evaluation model that, necessarily have some degree of judgement and reflect exclusively the value attributed to different financial instruments. However, it does not consider prospective factors, like the future business evolution. Under these conditions, the values presented cannot be understood as an estimate of the economic value of GEMG.

The main methods and assumptions used in estimating the fair value for the financial assets and liabilities are presented as follows:

- *Cash and deposits at central banks, Loans and advances to credit institutions repayable on demand*

  Considering the short maturity of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

- *Other loans and advances to credit institutions, Deposits from central banks, Other financial institutions and Assets with repurchase agreements*

  The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates.

  For Deposits from Central Banks it was considered that the book value is a reasonable estimate of its fair value, given the nature of operations and the associated term. The rate of return of funding with the European Central Bank is of 0.0% for the operations negotiated at 30 June 2018.

  Regarding loans and advances not measured at fair value, the discount rate used reflects the current conditions applied by the Group on identical instruments for each of the different residual maturities. The discount rate includes the market rates for the residual maturity dates (rates from monetary market or from interest rate swap market, at the end of the period). For 30 June 2018, the average discount rate was 0.36% (31 December 2017: 0.36%) for Repos and 0.21% (31 December 2016: 0.30%) for the remaining resources.

  For Loans and advances to the other credit instituions investments a discount rate reflecting the conditions in use by CEMG for the most significant residual term options was applied. Considering the short maturity of these financial instruments, the amount in the balance sheet is a reasonable estimate of its fair value.

- *Financial assets held for trading (except derivatives), Financial liabilities held for trading (except derivatives), Financial assets at fair value through other comprehensive income, Financial assets not held for trading mandatorily at fair value through profit or loss 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 (Bid-price), whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the market conditions and time frame.

  Interest rates are determined based on information disseminated by the suppliers of financial contents - Reuters and Bloomberg - more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar sources but regarding interbank money market. The interest rate curve obtained is also calibrated against the values of short-term interest rate forwards. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are also used in the projection of the non-deterministic cash flows, such as indexes.

  When optionality is involved, the standard models (Black-Scholes, Black, Ho and others) considering the volatility surfaces applicable are used. Whenever there are no references in the market of sufficient quality or that the available models do not fully apply to meet the characteristics of the financial instrument, it is applied specific quotations supplied by an external entity, typically a counterparty of the business.

- *Other financial assets at amortised cost*

These financial instruments are accounted at amortised cost net of impairment. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted for factors associated, predominantly the credit risk and liquidity risk, determined in accordance with the respective market conditions and terms.

- *Hedging and trading derivatives*

All derivatives are recorded at fair value.

In case of those who are quoted in organised markets their market price is used. As for derivatives traded "over the counter", the numerical methods based on techniques of discounted cash flow and options valuation models, considering market variables namely the market interest rates applicable to the instruments concerned, and where necessary, their volatility, shall apply.

Interest rates are determined based on information disseminated by the suppliers of financial contents - Reuters and Bloomberg - more specifically as a result of prices of interest rate swaps. The values for the very short-term rates are obtained from similar sources but regarding interbank money market. The interest rate curve obtained is also calibrated against the values of short-term interest rate forwards. Interest rates for specific periods of the cash flows are determined by appropriate interpolation methods. The same interest rate curves are also used in the projection of the non-deterministic cash flows, such as indexes.

- *Loans and advances to customers without defined maturity date and Deposits from customers repayable on demand*

Considering the short maturity of this type of financial instruments, the conditions of this portfolio are similar to those in force at the reporting date. Therefore, the amount in the balance sheet is a reasonable estimate of its fair value.

- *Loans and advances to customers with defined maturity date*

The fair value of these financial instruments is calculated discounting the expected principal and interest future cash flows for these instruments, considering that the payments of the instalments occur in the contractually defined dates. For loans in default, the net impairment value of these operations is a reasonable estimate of its fair value, considering the economic valuation performed in the calculation of this impairment for individually significant customers. The discount rate used reflects the current conditions applied by the Group in similar instruments for each of the homogeneous classes of this type of instrument and with similar maturity. The discount rate includes the market rates for the residual maturity dates (rates from the monetary market or from the interest rate swap market, at the end of the year) and the spread used at the reporting date, which was calculated from the average of production for the last quarter. The average discount rate was 3.06% for mortgage loans (31 December 2017: 3.06%), 6.64% for individual credit (31 December 2017: 6.38%) and 4.42% for the remaining loans (31 December 2017: 3.71%), assuming the projection of variable rates according to the evolution of the forward rates implicit in the interest rate curves. The calculations also include the credit risk spread.

- *Deposits from customers*

The fair value of these financial instruments is calculated by discounting the expected principal and interest future cash flows, considering that payments occur in the contractually defined dates. The discount rate used reflects the current conditions applied by the Group in identical instruments with a similar maturity. The discount rate includes the market rates of the residual maturity dates (rates of monetary market or the interest rate swap market, at the end of the year) and the spread of the Group at the reporting date, which was calculated from the average production of the last quarter. The average discount rate at 30 June 2018 was of 0.50% (31 December 2017: 0.84%).

- *Debt securities issued and Other subordinated debt*

For these financial instruments, fair value was calculated for the components that are not yet reflected on the balance sheet. For the fixed interest rate instruments for which the Group applies a hedge-accounting policy, the fair value regarding the interest rate risk is already accounted for.

In fair value calculation, the other risk components were also considered, apart from the interest rate risk. Fair value is based on market prices, whenever these are available. If market prices are not available, fair value is estimated through numerical models based on cash-flow discounting techniques, using the interest rate curve adjusted by associated factors, predominantly the credit risk and trading margin, the latter only in the case of issues placed for non-institutional customers of the Group.

As original reference, the Group applies the curves resulting from the interest rate swaps markets for each specific currency. The credit risk (credit spread) is represented by an excess from the curve of interest rate swaps established specifically for each term and class of instruments based on the market prices on equivalent instruments.

In case of issues of covered bonds, the fair value is determined based on quotations disseminated by financial content provider Bloomberg.

In respect of subordinated issues the discount rate was of 3.92% (31 December 2017: 3.99%). The average discount rate calculated for senior issues placed on the retail market was 0.62% (31 December 2017: 0.72%).

Issues placed in the institutional market were revalued at the market value available on 30 June 2018.

As at 30 June 2018, the following table presents the values of the interest rate adopted in the calculation of the interest rate curve of the major currencies, including Euro, United States Dollar, Sterling Pound, Swiss Franc and Japanese Yen used to determine the fair value of financial assets and liabilities of the Group:

	Currencies				
	Euro	**United States Dollar**	**Sterling Pound**	**Swiss Franc**	**Japanese Yen**
1 day	-0.450%	2.0250%	0.5000%	-0.8450%	-0.1850%
7 days	-0.380%	1.9791%	0.5000%	-0.7950%	-0.0650%
1 month	-0.370%	2.1350%	0.5200%	-0.7500%	-0.3500%
2 months	-0.337%	2.2300%	0.5500%	-0.7500%	-0.2300%
3 months	-0.321%	2.3900%	0.6700%	-0.7500%	-0.2600%
6 months	-0.270%	2.5600%	0.7500%	-0.7200%	-0.3200%
9 months	-0.214%	2.7000%	0.8500%	-0.6800%	-0.1700%
1 year	-0.181%	2.8300%	0.9400%	-0.5800%	-0.1500%
2 years	-0.175%	2.7920%	1.0100%	-0.5400%	0.0125%
3 years	-0.035%	2.8570%	1.1250%	-0.3975%	0.0350%
5 years	0.271%	2.8860%	1.2970%	-0.1250%	0.0800%
7 years	0.545%	2.8940%	1.4040%	-0.1150%	0.1450%
10 years	0.875%	2.9200%	1.5190%	0.4025%	0.2625%
15 years	1.239%	2.9520%	1.6130%	0.7050%	0.4575%
20 years	1.399%	2.9350%	1.6130%	0.7050%	0.4575%
30 years	1.464%	2.9020%	1.6130%	0.7050%	0.4575%

As at 31 December 2017, the following table presents the values of the interest rate adopted in the calculation of the interest rate curve of the major currencies, including Euro, United States Dollar, Sterling Pound, Swiss Franc and Japanese Yen used to determine the fair value of financial assets and liabilities of the Group:

	Currencies				
	Euro	United States Dollar	Sterling Pound	Swiss Franc	Japanese Yen
1 day	-0.4500%	1.5050%	0.5000%	-0.8450%	-0.1700%
7 days	-0.3780%	1.4804%	0.5000%	-0.7950%	-0.0338%
1 month	-0.3680%	1.6500%	0.5050%	-0.7500%	-0.2600%
2 months	-0.3400%	1.6900%	0.5100%	-0.7500%	-0.2200%
3 months	-0.3290%	1.7600%	0.5100%	-0.7500%	-0.2200%
6 months	-0.2710%	1.9100%	0.5500%	-0.7200%	-0.2000%
9 months	-0.2710%	2.0200%	0.6600%	-0.6800%	-0.1500%
1 year	-0.1860%	2.1800%	0.7400%	-0.6200%	-0.1500%
2 years	-0.1500%	2.0770%	0.7860%	-0.4820%	0.0175%
3 years	-0.0110%	2.1680%	0.8870%	-0.3540%	0.0350%
5 years	0.3130%	2.2560%	1.0370%	-0.1390%	0.0900%
7 years	0.5610%	2.3210%	1.1460%	0.0380%	0.1625%
10 years	0.8800%	2.4050%	1.2770%	0.2710%	0.2975%
15 years	1.2440%	2.4960%	1.4100%	0.5380%	0.5250%
20 years	1.4188%	2.5313%	1.4100%	0.5380%	0.5250%
30 years	1.5013%	2.5388%	1.4100%	0.5380%	0.5250%

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 2018**	**Dec 2017**	**1 month**	**3 months**	**6 months**	**9 months**	**12 months**
EUR/USD	1.1658	1.1993	7.150	7.380	7.475	7.550	7.625
EUR/GBP	0.8861	0.8872	5.875	6.300	6.688	6.950	7.100
EUR/CHF	1.1569	1.1702	5.383	5.575	5.755	5.825	5.900
EUR/JPY	129.04	135.01	8.565	8.818	9.275	9.488	9.600

Concerning the exchange rates, the Group uses in its valuation models the spot rate observed in the market at the time of the valuation.

The fair value of the financial assets and liabilities of the Group, at 30 June 2018 and 31 December 2017, is presented as follows:

(Thousands of Euro)

	Jun 2018				
	At fair value through profit or loss	At fair value through reserves	Amortised cost	Book value	Fair value
Financial assets					
Cash and deposits at central banks	-	-	1 720 991	1 720 991	1 720 991
Loans and advances to credit institutions repayable on demand	-	-	63 095	63 095	63 095
Other loans and advances to credit institutions	-	-	554 727	554 727	554 131
Loans and advances to customers	18 997	-	12 292 061	12 311 058	12 275 293
Financial assets held for trading	52 449	-	-	52 449	52 449
Financial assets not held for trading mandatorily at fair value through profit or loss	808 812	-	-	808 812	808 812
Financial assets at fair value through other comprehensive income	-	939 593	-	939 593	939 593
Hedging derivatives	5 611	-	-	5 611	5 611
Other financial assets at amortised cost	-	-	620 891	620 891	622 849
	885 869	939 593	15 251 765	17 077 227	17 042 824
Financial liabilities					
Deposits from central banks	-	-	1 546 980	1 546 980	1 546 980
Deposits from other financial institutions	-	-	1 935 777	1 935 777	1 937 698
Deposits from customers	14 597	-	12 474 933	12 489 530	12 500 041
Debt securities issued	6 360	-	1 075 560	1 081 920	1 079 387
Financial liabilities held for trading	15 539	-	-	15 539	15 539
Other subordinated debt	-	-	121 487	121 487	121 302
	36 496	-	17 154 737	17 191 233	17 200 947

(Thousands of Euro)

	Dec 2017				
	At fair value through profit or loss	At fair value through reserves	Amortised cost	Book value	Fair value
Financial assets					
Cash and deposits at central banks	-	-	1 733 626	1 733 626	1 733 626
Loans and advances to credit institutions repayable on demand	-	-	59 472	59 472	59 472
Other loans and advances to credit institutions	-	-	558 711	558 711	557 781
Loans and advances to customers	24 633	-	12 724 084	12 748 717	12 670 411
Financial assets held for trading	184 076	-	-	184 076	184 076
Financial assets at fair value through other comprehensive income	-	2 602 791	-	2 602 791	2 602 791
	208 709	2 602 791	15 075 893	17 887 393	17 808 157
Financial liabilities					
Deposits from central banks	-	-	1 557 840	1 557 840	1 557 840
Deposits from other financial institutions	-	-	2 011 197	2 011 197	2 011 026
Deposits from customers	14 789	-	12 540 536	12 555 325	12 550 871
Debt securities issued	7 094	-	1 382 905	1 389 999	1 395 540
Financial liabilities held for trading	16 171	-	-	16 171	16 171
Hedging derivatives	1 663	-	-	1 663	1 663
Other subordinated debt	-	-	237 016	237 016	234 860
	39 717	-	17 729 494	17 769 211	17 767 971

The following table summarises, by valuation levels, the fair value of the Group's financial assets and liabilities, as at 30 June 2018:

(Thousands of Euro)

	Jun 2018				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial assets					
Cash and deposits at central banks	1 720 991	-	-	-	1 720 991
Loans and advances to credit institutions repayable on demand	63 095	-	-	-	63 095
Other loans and advances to credit institutions	-	-	554 131	-	554 131
Loans and advances to customers	-	18 997	12 256 296	-	12 275 293
Financial assets held for trading	28 489	23 960	-	-	52 449
Financial assets not held for trading mandatorily at fair value through profit or loss	7 255	-	801 557	-	808 812
Financial assets at fair value through other comprehensive income	761 329	13 942	153 283	11 039	939 593
Hedging derivatives	-	5 611	-	-	5 611
Other financial assets at amortised cost	622 849	-	-	-	622 849
	3 204 008	62 510	13 765 267	11 039	17 042 824
Financial liabilities					
Deposits from central banks	1 546 980	-	-	-	1 546 980
Deposits from other financial institutions	-	-	1 937 698	-	1 937 698
Deposits from customers	-	14 597	12 485 444	-	12 500 041
Debt securities issued	-	6 360	1 073 027	-	1 079 387
Financial liabilities held for trading	1 395	14 144	-	-	15 539
Other subordinated debt	-	-	121 302	-	121 302
	1 548 375	35 101	15 617 471	-	17 200 947

The following table summarises, by valuation levels, the fair value of the Group's financial assets and liabilities, as at 31 December 2017:

(Thousands of Euro)

	Dec 2017				
	Level 1	Level 2	Level 3	Financial instruments at cost	Fair value
Financial assets					
Cash and deposits at central banks	1 733 626	-	-	-	1 733 626
Loans and advances to credit institutions repayable on demand	59 472	-	-	-	59 472
Other loans and advances to credit institutions	-	-	557 781	-	557 781
Loans and advances to customers	-	24 633	12 645 778	-	12 670 411
Financial assets held for trading	38 194	24 553	121 329	-	184 076
Financial assets at fair value through other comprehensive income	1 598 859	10 272	988 438	5 222	2 602 791
	3 430 151	59 458	14 313 326	5 222	17 808 157
Financial liabilities					
Deposits from central banks	1 557 840	-	-	-	1 557 840
Deposits from other financial institutions	-	-	2 011 026	-	2 011 026
Deposits from customers	-	14 789	12 536 082	-	12 550 871
Debt securities issued	-	7 094	1 388 446	-	1 395 540
Financial liabilities held for trading	901	15 270	-	-	16 171
Hedging derivatives	-	1 663	-	-	1 663
Other subordinated debt	-	-	234 860	-	234 860
	1 558 741	38 816	16 170 414	-	17 767 971

CEMG uses the following hierarchy for fair value with 3 levels in the evaluation of financial instruments (assets and liabilities), which reflects the level of judgment, the observability of the data used and the importance of the parameters used in determining the fair value measurement of the instrument, as referred in IRFS 13:

- Level 1: Fair value is determined based on unadjusted quoted prices, captured in transactions in active markets involving identical instruments to the ones being valued. If there is more than one active market for the same financial instrument, the relevant price is what prevails in the main market of the instrument, or most advantageous market for which there is access.
- Level 2: Fair value is determined based on evaluation techniques supported by observable inputs in active markets, being direct data (prices, rates, spreads, etc.) or indirect data (derivatives), and evaluation assumptions similar to what an unrelated party would use in estimating the fair value of that financial instrument.
- Level 3: Fair value is determined based on unobservable inputs in active markets, using techniques and assumptions that market participants would use do evaluate the same instruments, including assumptions about the inherent risks, the evaluation technique used and inputs used and review processes to test the accuracy of the values obtained.

CEMG considers an active market where transactions of particular financial instruments occur with frequency and business volumes sufficient for providing information over prices continuously. The following minimum conditions should verify:

- Existence of frequent daily prices trading in the last year;
- The above quotations exchange regularly; and
- There are executable quotes from more than one entity.

A parameter used in a valuation technique is considered observable in the market, if the following conditions are met:

- If its value is determined in an active market;
- Or, if there is an OTC market and it is reasonable to assume that the conditions of an active market are met, with the exception of the condition of trading volumes; and
- Or, the parameter value can be obtained by the inverse calculation of prices of financial instruments and/or derivatives where the remaining parameters required for initial assessment are observable in a liquid market or an OTC market that comply with the preceding paragraphs.

47 Post-employment and long-term benefits

CEMG assumed the responsibility to pay to their employees' seniority and disability retirement pensions and others benefits, in accordance with the accounting policy described in note 1 u). In addition, and in accordance with the same policy, CEMG calculates on an annual basis, as of 31 December of each year, pension liabilities and other benefits. Therefore, the amounts presented in this note only reflect current service cost.

The general pension plan for the employees refers to liabilities for retirement benefits provided for in the Collective Labour Agreement for the Banking Sector and is a complementary plan of the Public Social Security Scheme.

Under the Collective Labour Agreement ("ACT") for the banking sector, the employees hired after 1 January 1995 contribute with 5% of their monthly remuneration to the Pension Fund.

The existing pension plan corresponds to a defined benefit plan, since it defines the criteria for determining the amount of pension that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and retribution.

The benefits provided by this pension plan are as follows:

- Retirement by presumable disability (old age);

- Retirement by disability;

- Survivor's pension.

All social benefits are granted to beneficiaries, according to the terms, conditions and values included in the pension plan, as employees of CEMG at their retirement date, as well as those who have belonged to their effective board and on retirement meet all the requirements defined in the pension plan.

The pension provided by the fund corresponds to the employee level in reform and seniority, according to the salary scale applicable. In the case of employees entitled to a pension under the General Pension Fund or the National Pensions Centre, the latter will be reduced to the pension guaranteed by this plan.

In case of death of an active employee or a pensioner, the pension plan guarantees a survivor's pension of 40% of the remuneration to which the employee would be entitled if achieved the situation of retirement or the pension he would receive, respectively.

CEMG’s former employees, when placed in the old-age pension or disability status, are entitled to payment by the fund of a pension calculated in the previous terms, in proportion to the time of service provided to CEMG.

Additionally, the pension plan guarantees the costs of Social-Medical Assistance Services (SAMS) and the death grant under the ACT.

CEMG has no other mechanisms to ensure the coverage of liabilities assumed towards old-age pensions, disability, survivors, health benefits and death benefits of its employees.

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

As a result of the amendment to the ACT, contributions to SAMS were made based on a fixed cost per employee and were no longer indexed to salaries.

The main actuarial assumptions used in calculating the current value of liabilities are as follows:

	Dec 2017
Financial assumptions	
Wage growth rate	1,00%
Pension growth rate	0,50%
Rate of return of plan assets	2,10%
Discount rate	2,10%
Revaluation rate	
Wage growth rate - Social Security	1,50%
Monetary correction rate	1,00%
Demographic assumptions and valuation methods	
Mortality table	
Men	TV 88/90
Women	TV 88/90 -3 years
Actuarial valuation method	UCP

The assumptions used in calculating the present value of liabilities, in accordance with the requirements of IAS 19. The determination of the discount rate considered: (i) the evolution of the main indices regarding high quality corporate brands and (ii) duration of the responsibilities.

As at 31 December 2017, the duration of liabilities amounts to 20.80 years.

The number of persons covered by the pension plan is as follows:

	Dec 2017
Active	3 389
Retirees and survivors	1 246
	4 635

Based on the accounting policy described in note 1 u), post-employment benefits, other benefits and respective coverage levels are presented as follows:

	(Thousands of Euro)
	2017
Net assets/ (liabilities) recognised in the statement of financial position	
Liabilities with pension benefits	
Pensioners	(272 275)
Active	(402 650)
	(674 925)
Liabilities with healthcare benefits	
Pensioners	(20 304)
Active	(34 167)
	(54 471)
Liabilities with death benefits	
Pensioners	(1 590)
Active	(1 569)
	(3 159)
Total liabilities	(732 555)
Coverages	
Pension Fund Value	723 130
Net assets/ (liabilities) in the statement of financial position	(9 425)
Accumulated actuarial losses recognised in other comprehensive income	179 003

Changes in the defined benefit obligation can be analysed as follows:

(Thousands of Euro)

	2017			
	Pension benefits	Healthcare benefits	Death benefits	Total
Liabilities at the beginning of the period	649 995	50 806	3 071	703 872
Current service cost	(1 834)	1 811	55	32
Interest cost	13 000	1 016	61	14 077
Actuarial gains/ (losses)				
- Changes in the assumptions	27 646	-	-	27 646
- Not related to changes in the assumptions	4 104	716	(5)	4 815
Pensions paid by the Fund	(16 615)	-	-	(16 615)
Pensions paid by CEMG	(4 781)	-	-	(4 781)
Early retirement, mutually agreed termination and other	1 155	122	(23)	1 254
Participant contributions	2 255	-	-	2 255
Liabilities at the end of the period	674 925	54 471	3 159	732 555

As mentioned, CEMG amended the ACT, and changed the retirement age. This represents a cut in employees' benefits, in accordance with IAS 19, and its impact was recorded against the income statement.

The evolution of the Pension fund's value in the years ended 31 December 2017 is analysed as follows:

(Thousands of Euro)

	Dec 2017
Balance of the Fund at the beginning of the period	688 730
Expected return	13 775
Actuarial losses	34 985
Participant contribution	2 255
Pensions paid by the Fund	(16 615)
Balance of the Fund at the end of the period	723 130

It should be noted that the Pension Fund is managed by Futuro – Sociedade Gestora de Fundos de Pensões, S.A. in which CEMG participates with 97.2%, as at 31 December 2017.

As at 31 December 2017, the assets of the pension fund, divided between quoted and non-quoted, can be analysed as follows:

(Thousands of Euro)

	Dec 2017		
	Assets of the Fund	**Quoted**	**Non-quoted**
Variable income securities			
Shares	71 962	71 962	-
Shares investment fund	105 735	-	105 735
Bonds	492 818	445 747	47 071
Real Estate	6 507	-	6 507
Real Estate investment fund	24 551	469	24 082
Venture capital fund	10 496	-	10 496
Hedge funds - Uncorrelated investments	13	-	13
Investments in banks and other	11 048	-	11 048
	723 130	518 178	204 952

The assets of the pension fund used by CEMG or representative of securities issued by other CEMG's entities are analysed as follows:

(Thousands of Euro)

	Dec 2017
Investments in banks and other	11 048
Real Estate	6 507
Bonds	2 201
	19 756

The costs with pensions, healthcare benefits and death subsidies are analysed as follows:

(Thousands of Euro)

	Jun 2018	**Jun 2017**
Current service cost	4 539	1 144
Net interest income/ (expense) in the liabilities coverage balance	(1 314)	-
Costs for the period	3 225	1 144

The actuarial assumptions have a significant impact in the pension liabilities and other benefits. Considering, this impact, the Group proceeded to a sensitivity analysis to a positive and negative change of 25 basis points in some of the actuarial assumptions with the purpose of calculating the impact in the value of pension liabilities, whose impact is analysed as follows:

(Thousands of Euro)

	Dec 2017	
	Liabilities	
	Increase	Decrease
Discount rate (0.25% change)	(40 481)	40 207
Wage growth rate (0.25% change)	25 664	(22 875)
Pension growth rate (0.25% change)	25 326	(23 238)
SAMS contribution (0.25% change)	3 586	(3 432)
Future mortality (1 year change)	(20 720)	20 066

As a result of the ACT's change, as at 30 June 2018, the cost associated with the final career award amounted to Euro 229 thousand (31 December 2017: Euro 458 thousand), which replaced the extinguished seniority award.

As at 30 June 2018, the SAMS cost associated to the defined contribution plan amount to Euro 53 thousand (31 December 2017: Euro 543 thousand).

48 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 2018 and 31 December 2017, the amount of the investment funds managed by CEMG is analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Securities investment fund	164 032	169 202
Real Estate investment fund	292 180	292 058
Pension fund	223 444	220 773
Bank and insurance	22 319	26 913
	701 975	708 946

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

49 Transactions with related parties

As defined in IAS 24, are considered related parties of CEMG the companies detailed in note 56, the Pension Fund, the members of the Management and the key management personnel. In addition to the members of the Management and key management personnel, their family and entities controlled by them or those whose management have significant influence are also considered related parties.

According to Portuguese law, in particular under Articles No. 85 and 109 of the General Law for Credit Institutions and Financial Companies (*Regime Geral das Instituições de Crédito e Sociedades Financeiras* - RGICSF), the members of the Audit Committee and the shareholder of CEMG, which holds 100% of the voting rights, as well as individuals related to these categories and entities controlled by them or whose management have significant influence are also considered related parties.

CEMG's first-line directors are considered in Other key management personnel.

On this basis, the list of related parties considered by CEMG is presented as follows:

Shareholder
Montepio Geral Associação Mutualista

Board of Directors (after 20 March 2018)
Carlos Manuel Tavares da Silva (Chairman)
Luís Eduardo Henriques Guimarães (Non-executive member)
Amadeu Ferreira de Paiva (Non-executive member)
Manuel Ferreira Teixeira (Non-executive member)
Vítor Manuel do Carmo Martins (Non-executive member)
Rui Pedro Brás de Matos Heitor (Non-executive member)
Nuno Cardoso Correia da Mota Pinto (Executive member)
José Carlos Sequeira Mateus (Executive member)
Pedro Miguel Nunes Ventaneira (Executive member)
Carlos Miguel López Leiria Pinto (Executive member)
Helena Catarina Gomes Soares de Moura Costa Pina (Executive member)
Pedro Jorge Gouveia Alves (Non-executive member)

Audit Committee (after 20 March 2018)
Luís Eduardo Henriques Guimarães (Chairman)
Amadeu Ferreira de Paiva (Member)
Manuel Ferreira Teixeira (Member)
Vítor Manuel do Carmo Martins (Member)

Executive Board of Directors (until 20 March 2018)
José Manuel Félix Morgado (Chairman)
João Carlos Martins da Cunha Neves
Luís Gabriel Moreira Maia Almeida
Fernando Ferreira Santo
João Belard da Fonseca Lopes Raimundo
Jorge Manuel Viana de Azevedo Pinto Bravo
Luís Miguel Resende de Jesus

General and Supervisory Board (until 20 March 2018)
Álvaro João Duarte Pinto Correia (Chairman)
António Fernando Menezes Rodrigues
José António de Arez Romão
Vitor Manuel do Carmo Martins
Francisco José Fonseca da Silva
Acácio Jaime Liberato Mota Piloto
Luís Eduardo Henriques Guimarães
Rui Pedro Bras Matos Heitor
Eugénio Óscar Garcia Rosa

Other Related Parties' Board of Directors
Alberto Carlos Nogueira Fernandes da Silva
Amândio Manuel Carrilho Coelho
Ana Lúcia Louro Palhares
António Almeida Porto
António Francisco de Araújo Pontes
António Manuel Jesus Gouveia
António Paulo da Silva Gonçalves Raimundo
António Tomás Correia
Artur Luís Martins
Bernard Johannes Christiaanse
Carlos Vicente Morais Beato
Eduardo José da Silva Farinha
Fernando Dias Nogueira
Fernando Ferreira Santo
Fernando Paulo Pereira Magalhães
Fernando Ribeiro Mendes
Fernão Vasco de Almeida Bezerra Fernandes Thomaz
Francisco António Laranjeira Souto
Francisco José Gonçalves Simões
Isabel Maria Loureiro Alves Brito
João Andrade Lopes

Other Related Parties' Board of Directors (cont.)
João Carlos Carvalho das Neves
João Carlos Martins da Cunha Neves
João Filipe Milhinhos Roque
João Francisco Mendes Almeida de Gouveia
Joaquim Manuel Marques Cardoso
Johannes Hendricus de Roo
Jorge Manuel Santos Oliveira
Jorge Rafael Torres Gutierrez de Lima
José António Fonseca Gonçalves
José de Almeida Serra
José Joaquim Fragoso
José Luís Esparteiro da Silva Leitão
José Manuel Félix Morgado
Luís Filipe dos Santos Costa
Luís Filipe Pocinho Coutinho Antunes
Luís Miguel Marques Ferreira Cardoso
Manuel Aranda da Silva
Manuel de Pinho Baptista
Margarida Maria Pinto Rodrigues D'Archambeau Duarte
Maria Lúcia Ramos Bica
Maria Manuela Traquina Rodrigues
Maria Rosa Almas Rodrigues
Mário José Brandão Ferreira
Miguel Alexandre Teixeira Coelho
Nuno da Silva Figueiredo
Nuno Henrique Serra Mendes
Paulo José Martins Jorge da Silva
Pedro António Castro Nunes Coelho
Pedro Miguel Moura Líbano Monteiro
Ricardo Canhoto de Carvalho
Tereza de Jesus Teixeira Barbosa Amado
Virgílio Manuel Boavista Lima
Vitor Guilherme de Matos Filipe

Other key management personnel
Alexandra Manuela Quirino Pereira Silva
Alexandra Melo Ponciano
Ana Maria Guerreiro Almeida
António Fernando Figueiredo Lopes
António José Miranda Lopes Coutinho
Fernando Emanuel Mendes Teixeira
Fernando Jorge Lopes Centeno Amaro
Fernando Manuel Silva Costa Alexandre
Gabriel Fernando Sá Torres
Jaquelina Maria Almeida Rodrigues Miguens
João Eduardo Dias Fernandes
Joaquim António Canhoto Gonçalves Silva
Luís Miguel Oliveira Melo Correia
Luísa Maria Xavier Machado
Maria Carmo Martins Ventura Calvão
Maria Fernanda Infante Melo Costa Correia
Maria Margarida Carrusca Pontes Rosário Ribeiro Andrade
Nuno Augusto Pereira Coelho
Patricia Ester Carvalho Esteves Fernandes
Paulo Jorge Andrade Rodrigues
Pedro Jorge Ponte Araújo
Pedro Maria Corte Real Alarcão Júdice
Pedro Miguel Rodrigues Crespo
Pedro Nuno Coelho Pires
Rosária Fátima Miranda de Abreu
Rui Sérgio Carvalho Santos Calheiros Gama
Vasco Francisco Coelho Almeida
Vitor Fernando Santos Cunha

Other Related Parties

Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.
Banco Terra, S.A.
Bem Comum, Sociedade de Capital de Risco, S.A.
Bolsimo - Gestão de Activos, S.A.
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto
CESource, ACE
Clínica CUF Belém, S.A.
Clínica de Serviços Médicos Computorizados de Belém, S.A.
Empresa Gestora de Imóveis da Rua do Prior, S.A.
Finibanco Angola, S.A.
Fundação Montepio Geral
Fundo de Pensões - Montepio Geral
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.
Germont – Empreendimentos Imobiliários, S.A.
HTA – Hotéis, Turismo e Animação dos Açores, S.A.
Leacock - Prestação de Serviços, Lda.
Lusitania Vida, Companhia de Seguros, S.A.
Lusitania, Companhia de Seguros, S.A.
Moçambique Companhia de Seguros, S.A.R.L.
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional
Montepio Geral Corp.
Montepio Crédito - Instituição Financeira de Crédito, S.A.
Montepio Gestão de Activos - S.G.F.I., S.A.
Montepio Gestão de Activos Imobiliários, A.C.E.
Montepio Holding, S.G.P.S., S.A.
Montepio Imóveis – Sociedade Imobiliária, S.A.
Montepio Investimento, S.A.
Montepio Residências para Estudantes, S.A.
Montepio Seguros, S.G.P.S., S.A.
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.
N Seguros, S.A.
Naviser - Transportes Marítimos Internacionais, S.A.
Nebra Energias Renovables, S.L.
NovaCâmbios - Instituição de Pagamento, S.A.
Polaris - Fundo de Investimento Imobiliário Fechado
Portugal Estates Fund - Fundo de Investimento Imobiliário Fechado
Residências Montepio, Serviços de Saúde, S.A.
SAGIES - Segurança e Higiene no Trabalho, S.A.
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.
Sociedade Portuguesa de Administrações, S.A.
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis S.A.
Valor *Prime* - Fundo de Investimento Imobiliário Aberto

As at 30 June 2018, assets held by CEMG regarding related parties, represented or not by securities, included in the balances Loans and advances to credit institutions repayable on demand, Other loans and advances to credit institutions, Loans and advances to customers, Impairment of loans and advances to customers, Financial assets at fair value through other comprehensive income, Impairment of financial assets at fair value through other comprehensive income, Other Assets and Guarantees and commitments provided, are presented as follows:

(Thousands of Euro)

	Jun 2018								
Companies	Loans and advances to credit institutions repayable on demand	Other loans and advances to credit institutions	Loans and advances to customers	Impairment of loans and advances to customers	Financial assets at fair value through other comprehensive income	Impairment of financial assets at fair value through other comprehensive income	Other assets	Guarantees and commitments provided	Total
Board of Directors (after 20 March 2018)	-	-	345	-	-	-	-	-	345
Audit Committee (after 20 March 2018)	-	-	1	-	-	-	-	-	1
Executive Board of Directors (until 20 March 2018)	-	-	132	-				-	132
General and Supervisory Board (until 20 March 2018)	-	-	2 034	26				470	2 478
Other Related Parties' Board of Directors	-	-	1 902	2	-	-	-	-	1 900
Other key management personnel	-	-	4 071	4	-	-	-	8	4 075
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	-	1 702	-	-	-	-	-	-	1 702
Bolsimo - Gestão de Activos, S.A.	-	-	1	-	-	-	-	-	1
CESource, ACE	-	-	-	-	-	-	95	-	95
Finibanco Angola, S.A.	9 355	-	-	-	-	-		944	10 299
Germont – Empreendimentos Imobiliários, S.A.	-	-	11 330	90	-	-	-	731	11 971
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	-	-	2 500	2 500
Lusitania Vida, Companhia de Seguros, S.A.	-	-	1	-	-	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	-	-	-	-	875	97	-	-	778
Moçambique Companhia de Seguros, S.A.R.L.	-	-	-	-	314	-	-	-	314
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	183	-	183
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	250 245	-	-	-	-	705	78 285	329 235
Montepio Geral Associação Mutualista	-	-	2 679	5	-	-	-	71	2 745
Montepio Geral Corp.	-	-	-	-	-	-	43	-	43
Montepio Gestão de Activos - S.G.F.I., S.A.	-	-	-	-	1	-	-	-	1
Montepio Holding, S.G.P.S., S.A.	-	-	130 429	-	-	-	69	-	130 498
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	-	7 656	64	-	-	-	-	7 592
Montepio Investimento, S.A.	-	17 648	-	-	-	-	384	181	18 213
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	-	-	-	-	-	137	-	137
NovaCâmbios - Instituição de Pagamento, S.A.	-	-	412	57	-	-	-	1 220	1 575
PEF - Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	-	200	200
Polaris-Fundo de Investimento Imobiliário Fechado	-	-	6 706	-	-	-	-	-	6 706
Residências Montepio, Serviços de Saúde, S.A.	-	-	450	4	-	-	-	-	446
Valor Prime - Fundo de Investimento Imobiliário Aberto	-	-	23 001	-	-	-	-	17 000	40 001
	9 355	269 595	191 150	252	1 190	97	1 616	101 610	574 167

As at 31 December 2017, assets held by CEMG regarding related parties, represented or not by securities, included in the balances Loans and advances to credit institutions repayable on demand, Other loans and advances to credit institutions, Loans and advances to customers (Gross), Impairment of loans and advances to customers, Financial assets at fair value through other comprehensive income, Impairment of financial assets at fair value through other comprehensive income, Other Assets and Guarantees and commitments provided, are presented as follows:

(Thousands of Euro)

	Dec 2017								
Companies	Loans and advances to credit institutions repayable on demand	Other loans and advances to credit institutions	Loans and advances to customers	Impairment of loans and advances to customers	Financial assets at fair value through other comprehensive income	Impairment of financial assets at fair value through other comprehensive income	Other assets	Guarantees and commitments provided	Total
Board of Directors (after 20 March 2018)	-	-	141	-	-	-	-	-	141
Executive Board of Directors (until 20 March 2018)	-	-	134	-	-	-	-	-	134
General and Supervisory Board (until 20 March 2018)	-	-	2 323	24	-	-	-	282	2 581
Other Related Parties' Board of Directors	-	-	1 108	-	-	-	-	-	1 108
Other key management personnel	-	-	3 042	-	-	-	-	8	3 050
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	-	2 174	-	-	-	-	-	-	2 174
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	-	3	-	-	-	-	-	3
Finibanco Angola, S.A.	9 371	3 759	-	-	-	-	99	961	14 190
Futuro - Sociedade Gestora de Fundo de Pensões, S.A.	-	-	2	-	-	-	-	-	2
Germont – Empreendimentos Imobiliários, S.A.	-	-	11 330	207	-	-	-	731	11 854
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	-	-	-	-	-	-	3 500	3 500
Lusitania Vida, Companhia de Seguros, S.A.	-	-	1	-	-	-	-	-	1
Lusitania, Companhia de Seguros, S.A.	-	-	1	-	3 207	1 807	-	-	1 401
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	229 113	-	-	-	-	857	163 220	393 190
Montepio Geral Associação Mutualista	-	-	62	23	-	-	945	72	1 056
Montepio Holding, S.G.P.S., S.A.	-	-	131 441	-	-	-	69	-	131 510
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	-	10 240	69	-	-	-	-	10 171
Montepio Investimento, S.A.	-	35 072	-	-	-	-	679	181	35 932
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	-	-	-	-	-	271	-	271
NovaCâmbios - Instituição de Pagamento, S.A.	-	-	501	7	-	-	-	1 559	2 053
PEF - Fundo de Investimento Imobiliário Fechado	-	-	-	-	-	-	-	200	200
Polaris-Fundo de Investimento Imobiliário Fechado	-	-	6 203	-	-	-	-	-	6 203
Residências Montepio, Serviços de Saúde, S.A.	-	-	551	5	-	-	-	-	546
Valor Prime - Fundo de Investimento Imobiliário Aberto	-	-	35 012	-	-	-	99	-	35 111
	9 371	270 118	202 095	335	3 207	1 807	3 019	170 714	656 382

As at 30 June 2018, the CEMG's liabilities with related parties, included in the balances Deposits from credit institutions, Deposits from customers and Liabilities represented by securities and Other subordinated debt, are analysed as follows:

(Thousands of Euro)

	Jun 2018			
Companies	Deposits from credit institutions	Deposits from customers	Liabilities represented by securities and Other subordinated debt	Total
Board of Directors (after 20 March 2018)	-	266	-	266
Audit Committee (after 20 March 2018)	-	882	-	882
Executive Board of Directors (until 20 March 2018)	-	865	-	865
General and Supervisory Board (until 20 March 2018)	-	572	-	572
Other Related Parties' Board of Directors	-	5 455	-	5 455
Other key management personnel	-	1 398	-	1 398
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	185 691	-	-	185 691
Banco Terra, S.A.	884	-	-	884
Bolsimo - Gestão de Activos, S.A.	-	1 933	-	1 933
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto	-	27 349	-	27 349
Clínica CUF Belém, S.A.	-	20	-	20
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	13	-	13
Empresa Gestora de Imóveis da Rua do Prior S.A	-	67	-	67
Finibanco Angola, S.A.	30 731	40	-	30 771
Fundação Montepio Geral	-	1 786	-	1 786
Fundo de Pensões - Montepio Geral	-	30 456	2 200	32 656
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	4 419	-	4 419
Germont – Empreendimentos Imobiliários, S.A.	-	200	-	200
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	19	-	19
Lusitania Vida, Companhia de Seguros, S.A.	-	12 222	-	12 222
Lusitania, Companhia de Seguros, S.A.	-	2 681	-	2 681
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	44 591	-	44 591
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	45 401	-	45 401
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	42 206	-	42 206
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	843	-	843
Montepio Geral Associação Mutualista	-	201 257	204 185	405 442
Montepio Gestão de Activos - Soc Gestora Fundos de Investimento, S.A.	-	2 063	-	2 063
Montepio Gestão de Activos Imobiliários, ACE	-	2 606	-	2 606
Montepio Holding, S.G.P.S., S.A.	-	5 804	826	6 630
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	236	-	236
Montepio Investimento, S.A.	2 747	-	-	2 747
Montepio Residências para Estudantes, S.A.	-	498	-	498
Montepio Seguros, S.G.P.S., S.A.	-	434	-	434
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	4 003	-	4 003
N Seguros, S.A.	-	544	-	544
NovaCâmbios - Instituição de Pagamento, S.A.	-	657	-	657
PEF - Fundo de Investimento Imobiliário Fechado	-	517	-	517
Polaris-Fundo de Investimento Imobiliário Fechado	-	10	-	10
Residências Montepio, Serviços de Saúde, S.A.	-	181	-	181
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	54	-	54
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	2 449	-	2 449
Sociedade Portuguesa de Administrações, S.A.	-	225	-	225
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.	-	10 961	-	10 961
Valor *Prime* - Fundo de Investimento Imobiliário Aberto	-	2 366	-	2 366
	220 053	458 549	207 211	885 813

As at 31 December 2017, the CEMG's liabilities with related parties, included in the balances Deposits from other credit instituions, Deposits from customers, Liabilities represented by securities and Other subordinated debt, are analysed as follows:

(Thousands of Euro)

Companies	Dec 2017				
	Deposits from credit institutions	Deposits from customers	Liabilities represented by securities and Other subordinated debt	Other liabilities	Total
Board of Directors (after 20 March 2018)	-	914	55	-	969
Executive Board of Directors (until 20 March 2018)	-	947	-	-	947
General and Supervisory Board (until 20 March 2018)	-	524	-	-	524
Other Related Parties' Board of Directors	-	2 962	125	-	3 087
Other key management personnel	-	1 541	20	-	1 561
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	193 074	-	-	-	193 074
Banco Terra, S.A.	978	-	-	-	978
Bolsimo - Gestão de Activos, S.A.	-	850	-	-	850
Carteira Imobiliária - Fundo Especial Investimento Imobiliário Aberto	-	23 639	-	-	23 639
Clínica CUF Belém, S.A.	-	29	-	-	29
Clínica de Serviços Médicos Computorizados de Belém, S.A.	-	8	-	-	8
Empresa Gestora de Imóveis da Rua do Prior S.A	-	5	-	-	5
Finibanco Angola, S.A.	15 589	40	-	-	15 629
Fundação Montepio Geral	-	882	-	-	882
Fundo de Pensões - Montepio Geral	-	13 671	2 250	-	15 921
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	4 063	-	-	4 063
Germont – Empreendimentos Imobiliários, S.A.	-	612	-	-	612
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	-	44	-	-	44
Lusitania Vida, Companhia de Seguros, S.A.	-	10 819	21 250	-	32 069
Lusitania, Companhia de Seguros, S.A.	-	3 386	13 000	-	16 386
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	39 248	-	-	39 248
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	42 931	-	-	42 931
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	35 488	-	-	35 488
Montepio Crédito - Instituição Financeira de Crédito, S.A.	-	3 637	-	236	3 873
Montepio Geral Associação Mutualista	-	217 230	386 344	-	603 574
Montepio Gestão de Activos - Soc Gestora Fundos de Investimento, S.A.	-	2 451	-	-	2 451
Montepio Gestão de Activos Imobiliários, ACE	-	2 182	-	-	2 182
Montepio Holding, S.G.P.S., S.A.	-	12 562	875	-	13 437
Montepio Imóveis – Sociedade Imobiliária, S.A.	-	3 030	-	-	3 030
Montepio Investimento, S.A.	13 216	-	-	259	13 475
Montepio Seguros, S.G.P.S., S.A.	-	479	-	-	479
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	4 615	-	-	4 615
N Seguros, S.A.	-	442	-	-	442
NovaCâmbios - Instituição de Pagamento, S.A.	-	472	-	-	472
PEF - Fundo de Investimento Imobiliário Fechado	-	297	-	-	297
Polaris-Fundo de Investimento Imobiliário Fechado	-	3	-	-	3
Residências Montepio, Serviços de Saúde, S.A.	-	224	-	-	224
SAGIES - Segurança e Higiene no Trabalho, S.A.	-	77	-	-	77
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	2 674	-	-	2 674
Sociedade Portuguesa de Administrações, S.A.	-	243	-	-	243
Ssagincentive - Sociedade de Serviços Auxiliares e Gestão de Imóveis, S.A.	-	8 716	-	-	8 716
Valor *Prime* - Fundo de Investimento Imobiliário Aberto	-	8 089	-	67	8 156
	222 857	450 026	423 919	562	1 097 364

As at 30 June 2018, the CEMG's income and expenses with related parties, included in the balances Interest and similar income, Interest and similar expense, Net fee and commission income, Other operating income and General and administrative expenses are analysed as follows:

	Jun 2018				
Companies	Interest and similar income	Interest and similar expense	Net fee and commission income	Other operating income	General and administrative expenses
Board of Directors (after 20 March 2018)	-	-	-	-	-
Audit Committee (after 20 March 2018)	-	3	-	-	-
Executive Board of Directors (until 20 March 2018)	-	1	-	-	
General and Supervisory Board (until 20 March 2018)	1	-	-	-	
Other Related Parties' Board of Directors	3	12	2	-	-
Other key management personnel	7	5	1	-	-
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	6	1 524	-	176	-
Bolsimo - Gestão de Ativos, S.A.	-	-	-	-	-
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	100	2	-	-
CESource, ACE	-	-	-	297	-
Finibanco Angola, S.A.	-	-	-	137	-
Fundação Montepio Geral	-	-	1		-
Fundo de Pensões - Montepio Geral	-	16	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	19	2	-	-
Germont – Empreendimentos Imobiliários, S.A.	201	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	14	-		-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	170	212	-	-
Lusitania, Companhia de Seguros, S.A.	-	88	55	4	-
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	31	101	1	-
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	34	88	1	-
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	25	107	1	-
Montepio Crédito - Instituição Financeira de Crédito, S.A.	1 925	-	19	36	313
Montepio Geral Associação Mutualista	1	14 408	3	4 382	1 180
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	-	8	2	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	1 195	1 411
Montepio Geral Corp.	-	-	-	-	9
Montepio Holding, S.G.P.S., S.A.	1 928	13	8	-	96
Montepio Imóveis – Sociedade Imobiliária, S.A.	137	1	-	-	-
Montepio Investimento, S.A.	120	-	9	364	-
Montepio Residências para Estudantes, S.A.	-	1	-	-	-
Montepio Seguros, S.G.P.S., S.A.	-	-	36	-	-
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	3	158	411	-
N Seguros, S.A.	-	-	5	-	-
NovaCâmbios - Instituição de Pagamento, S.A.	14	-	25	3	-
PEF - Fundo de Investimento Imobiliário Fechado		-	6	-	-
Polaris-Fundo de Investimento Imobiliário Fechado	111	-	2	-	-
Residências Montepio, Serviços de Saúde, S.A.	13	-	18	4	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	10	-	-	-
Valor Prime - Fundo de Investimento Imobiliário Aberto	269	1	49	-	245
	4 750	16 473	911	7 012	3 254

The balance Other administrative expenses includes the amount of Euro 1,411 thousand (31 December 2017: Euro 3,304 thousand) related to services rendered by Montepio Gestão de Activos Imobiliários, A.C.E.

As at 30 June 2017, CEMG's income and expenses with related parties, included in the balances Interest and similar income, Interest and similar expense, Net fee and commission income, Other operating income and General and administrative expenses are analysed as follows:

(Thousands of Euro)

	Jun 2017				
Companies	Interest and similar income	Interest and similar expense	Net fee annd commission income	Other operating income	General and administrative expenses
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	6	-	-	265	-
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto	-	49	-	-	-
Conselho de Administração de Outras Partes Relacionadas	1	9	1	-	-
Conselho de Administração Executivo	-	7	-	-	-
Conselho Geral e de Supervisão	4	2	-	-	-
Outros Elementos chave de Gestão	5	6	1	-	-
Finibanco Angola, S.A.	-	28	-	46	-
Valor Prime - Fundo de Investimento Imobiliário Aberto	506	1	102	-	-
Fundo de Capital de Risco Montepio Crescimento	-	-	-	-	-
Fundo de Pensões - Montepio Geral	-	32	-	-	-
Futuro – Sociedade Gestora de Fundos de Pensões, S.A.	-	17	3	-	-
Germont – Empreendimentos Imobiliários, S.A.	162	-	-	-	-
H.T.A. - Hoteis, Turismo e Animação dos Açores, S.A.	11	-	-	-	-
Lestinvest, S.G.P.S., S.A.	-	-	-	-	-
Lusitania Vida, Companhia de Seguros, S.A.	-	229	235	-	-
Lusitania, Companhia de Seguros, S.A.	3	87	85	4	-
Montepio Arrendamento - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	28	100	-	-
Montepio Arrendamento II - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	25	88	-	-
Montepio Arrendamento III - Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional	-	6	108	-	-
Montepio Crédito - Instituição Financeira de Crédito, S.A.	2 195	-	18	46	-
Montepio Geral Associação Mutualista	4	21 629	3	249	1 255
Montepio Gestão de Activos - Sociedade Gestora de Fundos de Investimento, S.A.	-	6	2	-	-
Montepio Gestão de Activos Imobiliários, ACE	-	-	-	1 287	1 535
Montepio Holding, S.G.P.S., S.A.	2 164	7	11	-	-
Montepio Imóveis – Sociedade Imobiliária de Serviços Auxilares, S.A.	241	-	-	-	-
Montepio Investimento, S.A.	247	64	9	172	-
Montepio Seguros, S.G.P.S., S.A.	-	-	18	-	-
Montepio Valor - Sociedade Gestora de Fundos de Investimento, S.A.	-	17	60	433	-
N Seguros, S.A.	-	1	15	-	-
Nova Câmbio - Instituição de Pagamento, S.A.	5	-	15	1	-
PEF - Fundo de Investimento Imobiliário Fechado	2	-	6	-	-
Polaris-Fundo de Investimento Imobiliário Fechado	91	-	2	-	-
Residências Montepio, Serviços de Saúde, S.A.	15	-	16	4	-
SILVIP - Sociedade Gestora de Fundos de Investimento Imobiliários, S.A.	-	10	-	-	-
	5 662	22 260	898	2 507	2 790

Remunerations, expenses and loans granted to the Board of Directors, Audit Committee, and with Other key management personnel are detailed in note 11.

During the first semester of 2018 and during 2017, there were no transactions with the pension's fund of CEMG.

50 Securitisation transactions

As at 30 June 2018, there are seven securitisation transactions, six of which originated in CEMG and one in Montepio Investimento, S.A., currently integrated into CEMG, following the success of General and Voluntary Public Offering on the equity representative shares of Montepio Holding, S.G.P.S., S.A. (previously named Finibanco Holding, S.G.P.S., S.A.) and transmission of almost all assets and liabilities (business acquisitions) for CEMG, as mentioned in the accounting policy described in note 1 a).

The following paragraphs present some additional details of these securitisation transactions.

As at 30 March, 2007, CEMG had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 3. The referred agreement consists in a mortgage credit transfer for a period of 47 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 762,375 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0165% of the referred nominal value.

As at 20 May 2008, CEMG had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 4. The referred agreement consists in a mortgage credit transfer for a period of 48 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,028,600 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.083% of the referred nominal value.

As at 9 December 2008, Montepio Investimento S.A. (Finibanco, S.A. at the time) had settled a mortgage credit portfolio to Tagus – Sociedade de Titularização de Créditos, S.A. in the amount of Euro 236,500 thousand (Aqua Mortage No. 1). The total period of this operation is 55 years, with a revolving period of 2 years. It should be noted that Montepio Investimento sold this securitisation to CEMG in 2011.

As at 25 March 2009, CEMG had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage no. 5. The referred agreement consists in a mortgage credit transfer for a period of 52 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,027,500 thousand. The transfer price by which the loans were transferred was their nominal value. The settlement costs have represented 0.0564% of the referred nominal value.

As at 5 March 2012, CEMG had settled a securitisation operation with Sagres – Sociedade de Titularização de Créditos, S.A., Pelican Mortgage No. 6. The referred agreement consists in a mortgage credit transfer for a period of 51 years, without revolving period and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,107,000 thousand. The transfer price by which the loans were transferred was their nominal value, including the initial selling costs which represented 0.1083% of the Asset Backed Notes.

As at 7 May 2014, CEMG and Montepio Crédito celebrated with Tagus - Sociedade de Titularização, SA, a contract for the sale of consumer loans within a securitisation of credits (Pelican Finance No. 1). The total period of the operation is 14 years, with an initial revolving period of 18 months, amended in November 2015 to 42 months and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 308,700 thousand. The sale was made at their nominal value, including the initial selling costs which represented 0.1871% of Asset Backed Notes.

As at 5 March 2015, CEMG signed with Sagres - Sociedade de Titularização de Créditos, S.A a securitisation contract for small and medium size companies, Pelican SME No. 2. The total period of operation is 28 years with revolving period of 24 months and with a fixed limit (Aggregate Principal Amount Outstanding) of Euro 1,124,300 thousand. The sale was made at their nominal value with the cost of the initial sales process represented 0.0889% of Asset Backed Notes.

The entity that guarantees the debt service (servicer) of these operations is CEMG assuming the collection of credits sold and assigned amounts received by deposits, to Sociedades de Titularização de Créditos (Pelican Mortgages No. 3, Pelican Mortgages No. 4, Pelican Mortgages No. 5, Pelican Mortgages No. 6, Aqua Mortgages No. 1 and Pelican SME No. 2).

As at 30 June 2018, the securitisation operations executed by CEMG are presented as follows:

(Thousands of Euro)

				Loans		Liabilities		
Issue	Settlement date	Currency	Asset transferred	Initial amount	Current amount	Initial nominal amount	Current nominal amount	Third party amounts *
Pelican Mortgages No. 3	March 2007	Euro	Mortgage loan	762 375	210 720	762 375	214 816	85 205
Pelican Mortgages No. 4	May 2008	Euro	Mortgage loan	1 028 600	585 016	1 028 600	612 534	-
Aqua Mortgage No. 1	December 2008	Euro	Mortgage loan	236 500	113 635	236 500	109 184	-
Pelican Mortgages No. 5	March 2009	Euro	Mortgage loan	1 027 500	584 702	1 027 500	608 090	-
Pelican Mortgages No. 6	February 2012	Euro	Mortgage loan	1 107 000	771 711	1 107 000	827 082	-
Pelican Finance No. 1	May 2014	Euro	Consumer credit	185 300	138 952	185 300	147 849	-
Pelican SME No. 2	March 2015	Euro	Small companies	1 124 300	581 517	1 124 300	634 577	39 094
				5 471 575	2 986 253	5 471 575	3 154 132	124 299

* It includes nominal amount, accrued interest and other adjustments.

Additionally, the detail of debt securities issued not derecognised, by securitisation operation and nature of the contracts, at 30 June 2018, is presented as follows:

(Thousands of Euro)

	Securitisation transactions not derecognised							
	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	-	-	-	-	-	-	489 262	489 262
Pledged current account	-	-	-	-	-	-	4 140	4 140
Other loans	-	-	-	-	-	-	23 289	23 289
Retail								
Mortgage	209 562	581 896	109 348	581 557	759 694	-	-	2 242 057
Consumer credit and other loan	-	-	-	-	-	136 379	44 428	180 807
	209 562	581 896	109 348	581 557	759 694	136 379	561 119	2 939 555
Loans and overdue interest								
Below 90 days	75	1 122	845	874	3 609	203	1 113	7 841
Above 90 days	1 083	1 998	3 442	2 271	8 408	2 370	19 285	38 857
	1 158	3 120	4 287	3 145	12 017	2 573	20 398	46 698
	210 720	585 016	113 635	584 702	771 711	138 952	581 517	2 986 253

As at 31 December 2017, the securitisation operations executed by CEMG are presented as follows:

(Thousands of Euro)

				Loans		Liabilities		
Issue	Settlement date	Currency	Asset transferred	Initial amount	Current amount	Initial nominal amount	Current nominal amount	Third party amounts *
Pelican Mortgages No. 3	March 2007	Euro	Mortgage loan	762 375	222 997	762 375	227 114	90 178
Pelican Mortgages No. 4	May 2008	Euro	Mortgage loan	1 028 600	615 516	1 028 600	642 411	-
Aqua Mortgage No. 1	December 2008	Euro	Mortgage loan	236 500	120 699	236 500	115 566	-
Pelican Mortgages No. 5	March 2009	Euro	Mortgage loan	1 027 500	613 297	1 027 500	636 245	-
Pelican Mortgages No. 6	February 2012	Euro	Mortgage loan	1 107 000	812 326	1 107 000	863 990	-
Pelican Finance No. 1	May 2014	Euro	Consumer credit	185 300	170 320	185 300	179 682	-
Pelican SME No. 2	March 2015	Euro	Small companies	1 124 300	759 583	1 124 300	817 141	178 283
				5 471 575	3 314 738	5 471 575	3 482 149	268 461

* It includes nominal amount, accrued interest and other adjustments.

Additionally, the detail of debt securities issued not derecognized, by securitisation operation and nature of the contracts, at 31 December 2017, is presented as follows:

(Thousands of Euro)

	Securitisation transaction not derecognised							
	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	-	-	-	-	-	-	589 601	589 601
Pledged current account	-	-	-	-	-	-	65 442	65 442
Other loans	-	-	-	-	-	-	32 422	32 422
Retail								
Mortgage	221 813	612 642	116 676	610 494	801 579	-	-	2 363 204
Consumer credit and other loan	-	-	-	-	-	168 180	55 149	223 329
	221 813	612 642	116 676	610 494	801 579	168 180	742 614	3 273 998
Loans and overdue interest								
Below 90 days	53	1 153	670	815	3 210	228	1 046	7 175
Above 90 days	1 131	1 721	3 353	1 988	7 537	1 912	15 923	33 565
	1 184	2 874	4 023	2 803	10 747	2 140	16 969	40 740
	222 997	615 516	120 699	613 297	812 326	170 320	759 583	3 314 738

As at 30 June 2018, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bonds	Initial nominal amount Euro	Current nominal amount Euro	Interest held by CEMG (nominal amount) Euro	Maturity date	Rating (initial)				Rating (current)			
						Fitch	Moodys	S&P	DBRS	Fitch	Moodys	S&P	DBRS
Pelican Mortgages No 3	Class A	717 375 000	198 932 214	113 728 358	2054	AAA	Aaa	AAA	n.a.	BBB-	A3	BBB-	n.a.
	Class B	14 250 000	5 136 148	5 136 148	2054	AA-	Aa2	AA-	n.a.	BBB-	Ba1	B-	n.a.
	Class C	12 000 000	4 325 177	4 325 177	2054	A	A3	A	n.a.	BB	B2	B-	n.a.
	Class D	6 375 000	2 297 750	2 297 750	2054	BBB	Baa3	BBB	n.a.	BB	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	460 528 520	460 528 520	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	A (h)
	Class B	55 500 000	40 767 709	40 767 709	2056	AA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	44 073 199	44 073 199	2056	A-	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	25 000 000	18 363 833	18 363 833	2056	BBB	n.a.	n.a.	n.a.	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	20 200 216	20 200 216	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	403 782 703	403 782 703	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	141 419 704	141 419 704	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	19 943 804	19 943 804	2061	B	n.a.	n.a.	n.a.	BBB-	n.a.	n.a.	n.a.
	Class D	27 500 000	19 943 804	19 943 804	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	471 881 767	471 881 767	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	80 586 842	80 586 842	2063	n.a.	n.a.	AAA	n.a.	n.a.	n.a.	A+	AA (h)
	Class B	29 824 000	25 097 523	25 097 523	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	86 277 140	86 277 140	2028	A	n.a.	n.a.	A	A	n.a.	n.a.	A
	Class B	54 700 000	52 771 928	52 771 928	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	51 276 711	12 182 799	2043	A+	n.a.	n.a.	A (lo)	A+	n.a.	n.a.	AA
	Class B	76 400 000	76 400 000	76 400 000	2043	A	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	87 300 000	87 300 000	87 300 000	2043	BBB	n.a.	n.a.	n.a.	A+	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 2017, the notes issued by the special purpose vehicles, are analysed as follows:

Issue	Bonds	Initial nominal amount Euro	Current nominal amount Euro	Interest held by CEMG (nominal amount) Euro	Maturity date	Rating (initial)				Rating (current)			
						Fitch	Moodys	S&P	DBRS	Fitch	Moodys	S&P	DBRS
Pelican Mortgages No 3	Class A	717 375 000	210 543 589	120 365 825	2054	AAA	Aaa	AAA	n.a.	BBB-	A3	BBB-	n.a.
	Class B	14 250 000	5 435 937	5 435 937	2054	AA-	Aa2	AA-	n.a.	BBB-	Ba1	B-	n.a.
	Class C	12 000 000	4 577 631	4 577 631	2054	A	A3	A	n.a.	BB	B2	B-	n.a.
	Class D	6 375 000	2 431 867	2 431 867	2054	BBB	Baa3	BBB	n.a.	B	Caa1	B-	n.a.
	Class E	8 250 000	-	-	2054	BBB-	n.a.	BBB-	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	4 125 000	4 125 000	4 125 000	2054	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 4	Class A	832 000 000	484 091 607	484 091 607	2056	AAA	n.a.	n.a.	AAA	A+	n.a.	n.a.	A (h)
	Class B	55 500 000	42 853 602	42 853 602	2056	AA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	60 000 000	46 328 218	46 328 218	2056	A-	n.a.	n.a.	n.a.	BBB	n.a.	n.a.	n.a.
	Class D	25 000 000	19 303 424	19 303 424	2056	BBB	n.a.	n.a.	n.a.	B+	n.a.	n.a.	n.a.
	Class E	27 500 000	21 233 767	21 233 767	2056	BB	n.a.	n.a.	n.a.	B	n.a.	n.a.	n.a.
	Class F	28 600 000	28 600 000	28 600 000	2056	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 5	Class A	750 000 000	423 213 189	423 213 189	2061	AAA	n.a.	n.a.	n.a.	A+	n.a.	n.a.	AA (h)
	Class B	195 000 000	148 224 982	148 224 982	2061	BBB-	n.a.	n.a.	n.a.	A-	n.a.	n.a.	n.a.
	Class C	27 500 000	20 903 523	20 903 523	2061	B	n.a.	n.a.	n.a.	BBB-	n.a.	n.a.	n.a.
	Class D	27 500 000	20 903 523	20 903 523	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class E	4 500 000	-	-	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class F	23 000 000	23 000 000	23 000 000	2061	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Mortgages No 6	Class A	750 000 000	508 789 579	508 789 579	2063	A	n.a.	A-	AA	A+	n.a.	A	AA (h)
	Class B	250 000 000	250 000 000	250 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	1 800 000	-	-	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class D	65 000 000	65 000 000	65 000 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	40 200 000	40 200 000	40 200 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Aqua Mortgage No 1	Class A	203 176 000	85 732 409	85 732 409	2063	n.a.	n.a.	AAA	n.a.	n.a.	n.a.	A+	AA (h)
	Class B	29 824 000	26 333 982	26 333 982	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	3 500 000	3 500 000	3 500 000	2063	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican Finance No 1	Class A	116 182 334	116 182 334	116 182 334	2028	A	n.a.	n.a.	A	A	n.a.	n.a.	A
	Class B	54 700 000	54 700 000	54 700 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class C	8 800 000	8 800 000	8 800 000	2028	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Pelican SME No 2	Class A	545 900 000	233 840 775	55 558 072	2043	A+	n.a.	n.a.	A (lo)	A+	n.a.	n.a.	AA
	Class B	76 400 000	76 400 000	76 400 000	2043	A	n.a.	n.a.	n.a.	A+	n.a.	n.a.	n.a.
	Class C	87 300 000	87 300 000	87 300 000	2043	BBB	n.a.	n.a.	n.a.	BBB+	n.a.	n.a.	n.a.
	Class D	398 500 000	398 500 000	398 500 000	2043	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Class S	16 200 000	21 100 000	21 100 000	2043	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

51 Risk management

Objectives of the Risk Management Policy

CEMG is exposed to a number of risks, including credit, concentration, market, interest rate, currency, liquidity, real estate, operational and pension fund risks. Aditionally, CEMG is subject to other risks of non-financial nature, namely the operating, reputation, strategy and business risks. Depending on the nature and relevance of the risk, plans, programs or actions are designed, supported by information systems and procedures providing a high degree of reliability regarding risk management measures that have been established in due course. All risks identified as material are subject to regular monitoring and mitigation actions in order to reduce potential losses to CEMG.

Control and efficient risk management have played a key role in CEMG's balanced and sustained development. In addition, it contributes to the optimisation of the profitability / risk binomial of the various lines of business, they also ensure the maintenance of a conservative risk profile in solvency and liquidity.

The monitoring of these risks is centralised in the Risk Department, which informs the Board of its development and proposes action measures when necessary.

CEMG's risk management policy is the responsibility of the Board of Directors, which defines the tolerance levels and maximum risk limits, for each specific risk considered materially relevant, in accordance with the defined strategic objectives and business plans, which is reviewed regularly. It is also the responsibility of the Board to ensure the existence of risk control suitable to CEMG, namely through its supervisory board. The Risk Committee is the non-executive body with the role of risk management supervision, whose mission is to monitor the design and implementation of the risk strategy and risk appetite of CEMG and to verify if these are aligned with the sustainable strategy in the medium and long term, providing advice to the Board of Directors in these areas.

The Board of Directors seeks to ensure sufficient capital to meet regulatory requirements to cover potential losses, with an optimised balance sheet structure that maintains a stable funding capacity and strong liquidity, allowing them to face stress situations and ensuring the continuity of its operations and the protection of its depositors and holders of non-subordinated debt.

Particularly, CEMG Group has clear objectives, determined in its strategic plan, for capital ratios, ratio of transformation of deposits into credit and liquidity and financing ratios, in addition to a feasible and sustainable business model aligned with risk appetite.

Risk appetite is based on certain principles - namely consistency, sustainability and profitability - and is defined in terms of the strategic plan and the intended market positioning. CEMG analyzes the risks it faces in its activities and identifies those that are materially relevant. For these, objectives are set according to the desired level of return and strategy, tolerance levels, that is, ranges of risk variation that can lead to discussions and decisions about corrective measures, and limits that are exceeded can lead to immediate corrective measures.

The main concern of the Board of Directors in determining risk appetite is its alignment with other organizational components (business strategy and global vectors of risk strategy). In addition, the Board of Directors seeks to ensure that risk appetite is well understood across the entire organization, especially the business units responsible for decision making and which may affect risk exposure and its monitoring.

CEMG's risk management policy is designed to ensure adequate relationship at all times between its own funds and the business it carries on, and also to evaluate the risk/return profile by business line, thus, monitoring and control of the main types of financial risk – credit, market, liquidity real estate and operational – to which CEMG's business is subject are of particular importance.

Credit risk

Credit risk is associated with the uncertainty of expected returns due to the inability of both the lessee (and his guarantor, if any), or the issuer of a security or counterparty to comply with its obligations.

The credit risk management process is based on the existence of a solid process of credit analysis and decision, prepared on a set of tools supporting the credit decision process. The quantification of credit risk is also supported in the model for calculating impairment losses.

The fundamental principle of credit risk analysis is independence towards business decisions. In this analysis instruments are used and rules defined according to the materiality of the exposures, familiarity with the types of risk involved (e.g. the modeling capacity of such risks) and the liquidity of the instruments.

Credit risk models play a significant role in credit decision process. Indeed, the decision process concerning the credit portfolio depends on a group of policies based on scoring models developed to individual and business clients and the rating for the corporate sector.

Regarding the analysis methodologies, within the credit risk, the credit risk techniques and models are based on econometric modeling, based on the institution's experience in granting various types of credit facilities and, where possible, recovery.

Credit decisions are dependent upon risk ratings and compliance with various rules governing financial capacity and applicants' behavior.

There are scoring models for credit to individual credit portfolios, namely to mortgage loans, individual loans and credit cards.

Individual Entrepreneurs (*Empresários em nome individual* - ENI) and Microbusinesses are considered retail, and therefore the respective scoring models are applied.

There are also behavioral scoring models for retail portfolios, which are used to monitor the credit portfolio and to evaluate new credit proposals, and these are coupled with reactive scoring information, where applicable.

Regarding non-retail credit portfolio, internal rating models are used for small, medium and large companies, distinguished by business sectors, such as the third sector, or by seniority of the company's activity, namely start-up companies.

Regardless of the typology of the applicable model, any proposal, contract or credit customer is classified into a single risk scale class, in ascending order of Probability of Default, and this scale composed of 19 classes, of which the first 15 correspond to performing risk classes, classes 16 to 18 to credit incidents and 19th to non-compliance, in accordance with the applicable internal definition, which follows the regulators' prudential requirements.

It is possible to exceed the response of scoring systems, internal ratings and internal price lists, only by higher decision levels, in accordance with principles of delegation of responsibilities set out. Rejection situations are defined in order to minimise the risk of adverse selection, however there is always a risk class for rejection.

Intervention limits are also defined for the different decisions, by amount of operation and global customer exposure, type of operation / collateral and assigned risk class. In this context, the principle that higher hierarchical positions have to approve operations with lower adjusted ROE risk or higher exposures is highlighted. These limits are approved by the Board of Directors, and the highest decision scale corresponds to the Board of Directors. At intermediate stages, it is compulsory to intervene in a collegial system of at least two players, one belonging to the commercial network and the other to the Department of Credit Analysis (independent body of the commercial structure) as well as the Risk Department, which is responsible for the development of credit risk models (scoring and rating), and for the monitoring of CEMG's risk control, on a global basis.

Risk analysis also involves regular internal reporting on key types of risk. Within credit risk, monthly internal reports are prepared, with the main risk indicators of credit portfolios and metrics on the use of rating / scoring models. In terms of preventive monitoring, an alert system is in place for the main indicators of credit risk tightening (Early Warning Signs).

In July 2014, IASB released the final version of IFRS 9 which replaces IAS 39, which entered into force on 1 January 2018. IFRS 9 is based on three pillars:

- Classification and Measurement;
- Impairment; and
- Hedge accounting.

With respect to impairment, IFRS 9 establishes the need to recognise Expected Credit Losses (ECL) as impairment for all financial assets that meet the SPPI (Solely Payment of Principal and Interest) criteria, considering the expected loss of credit at one year, or the expected loss of credit until the maturity of the financial instrument (ECL lifetime).

The Expected Loss Model (IFRS9) replaces the Incurred Loss Model (IAS39).

According to this amendment, financial assets are classified into segments, based on the evolution of their credit risk:

- *Stage* 1: Regular financial assets, that is, without any sign of a significant increase in credit risk since its initial recognition and which are not in default;
- *Stage* 2: Financial assets with a significant increase in credit risk since initial recognition, based on the criteria set out in internal regulations on the recognition of a significant increase in credit risk or other financial assets (in particular, Amounts receivable, Other debtors, Other receivables or Sundry debtors). It should be noted that credit restructured due to financial difficulties is considered a significant increase driver in credit risk, and therefore, the restructured credit portfolio is included in stage 2;

- *Stage* 3: Financial assets in default, based on default indicators which are defined in internal regulations on default or financial assets purchased or generated with impairment, are considered as impaired financial assets, for the purposes of current requirements.

The calculation of expected losses (ECL) for homogeneous populations results from the product of the default probability (PD), the default loss (LGD) and the exposure at default (EAD), deducted from the contract's effective interest rate until the reporting date.

The main difference between impairment losses measured for financial assets classified in the stages refers to PD's time horizon.

The probability of default (PD) is one of the main differences in the impairment calculation under IFRS9 (ECL), and two types of PD can be expected:

✓ 12-month PD: the probability of a default occurring within the next 12 months (for contracts belonging to stage 1);

✓ Lifetime PD: it is the probability of a default occurring during the remaining life of the credit (for stage 2 contracts). In such case, lifetime parameters are used and forward looking information is considered;

✓ PD=100% to all stage 3 contracts.

In the group of individually significant clients, client exposures are subject to individual analysis. This analysis focuses on the credit quality of the debtor, as well as on the expectations of recovering the credit, considering collateral and existing collateral, as well as the remaining relevant factors.

Impairment value for Individually Significant Clients is determined using the discounted cash-flows method, that is, the impairment value corresponds to the difference between the credit value and the sum of the expected cash flows for the client's various operations, updated according to the interest rates of each operation.

The following information is related to the exposure of the CEMG to the credit risk, where the most relevant item in terms of exposure is, so as in terms of the associated risk, is loans to customers. It should be noted that the portfolio of financial assets at fair value through other comprehensinve income is essentially composed of public debt securities of the European Union.

The information contained in the tables presented excludes the balance componente of entities to the application of the IFRS 5, which correspond to the subsidiaries in Angola and Mozambique, which is recorded under the caption Non-current assets held for sale in discontinuing operations.

CEMG's credit risk exposure can be analysed as follows:

(Thousands of Euro)

	Jun 2018	Dec 2017
Cash and deposits on credit institutions repayable on demand	63 095	59 472
Other loans and advances to credit institutions	554 727	558 711
Loans and advances to customers	12 311 058	12 748 717
Financial assets held for trading	43 358	174 175
Financial assets not held for trading mandatorily at fair value through profit or loss	22 059	-
Financial assets at fair value through other comprehensive income	780 422	1 605 618
Hedging derivatives	5 611	-
Other financial assets at amortised cost	620 891	-
Other assets	186 056	174 779
Guarantees granted	472 708	463 770
Irrevocable credit lines	661 205	762 361
	15 721 190	16 547 603

The analysis of the credit risk exposure by sector of activity, for the period ended as at 30 June 2018, can be analysed as follows:

(milhares de euros)

	Jun 2018														
Activity	Loans and advances to credit institutions repayable on demand	Other Loans and advances to credit institutions		Loans and and advances to customers		Financial assets held for trading	Financial assets not held for trading mandatorily at fair value through profit or loss	Financial assets at fair value through other comprehensive income		Hedging derivatives	Other financial assets at amortised cost		Guarantees granted	Irrevocable credit lines	Provisions for off-balance sheet liabilities
	Book value	Book value	Impairment	Gross amount	Impairment	Book value	Book value	Gross amount	Impairment	Book value	Gross amount	Impairment	Off-balance sheet value	Off-balance sheet value	Provisions
Corporate															
Agriculture, forestry and fishing	-	-	-	82 907	5 705	-	-	-	-	-	-	-	2 337	4 609	112
Mining	-	-	-	14 234	935	-	-	-	-	-	-	-	1 077	1 338	270
Food, beverage and tobacco	-	-	-	227 176	16 837	-	-	-	-	-	-	-	3 187	33 388	143
Textiles	-	-	-	88 635	11 015	-	-	-	-	-	-	-	1 965	7 265	3
Shoes	-	-	-	44 889	4 361	-	-	-	-	-	-	-	23	5 567	-
Wood and cork	-	-	-	32 281	4 654	-	844	-	-	-	-	-	414	4 338	39
Printing and publishing	-	-	-	38 033	5 733	-	-	2 497	5	-	-	-	392	3 703	31
Petroleum refininf	-	-	-	922	52	-	-	1 481	3	-	-	-	-	-	-
Chemicals and rubber	-	-	-	94 182	6 256	-	-	-	-	-	-	-	3 183	9 538	92
Non-metallic minerals	-	-	-	142 134	6 660	-	-	-	-	-	-	-	2 102	5 448	130
products	-	-	-	160 409	15 793	-	-	-	-	-	-	-	15 177	20 012	128
Production of machinery	-	-	-	43 546	4 001	-	684	-	-	-	-	-	1 357	3 742	174
Production of transport material	-	-	-	47 097	1 608	-	-	1 976	2	-	-	-	3 135	1 171	199
Other manufacturing industries	-	-	-	47 695	9 845	-	-	-	-	-	-	-	447	3 832	2
Energy, gas and water	-	-	-	143 382	2 815	-	10 574	19 099	20	-	-	-	3 087	23 081	107
Construction	-	-	-	837 183	287 826	-	322	-	-	-	-	-	116 394	83 996	6 575
Wholsesale and retail	-	-	-	916 308	122 593	-	4 288	5 114	11	-	-	-	66 165	123 697	2 523
Tourism	-	-	-	449 063	21 848	-	-	-	-	-	-	-	9 416	15 393	373
Transports	-	-	-	331 074	34 959	-	-	-	-	-	-	-	11 096	16 391	325
Communication and information	-	-	-	70 803	6 797	-	-	4 926	5	-	-	-	6 203	22 257	265
Financial activities	63 095	555 554	827	697 147	41 449	23 960	-	21 421	7 678	5 611	-	-	156 346	113 372	104
Real Estate activities	-	-	-	774 933	127 468	-	-	4 280	4	-	-	-	19 637	86 025	1 543
Services rendered to companies	-	-	-	418 558	30 900	-	-	2 005	5	-	-	-	36 898	39 751	406
Public services	-	-	-	87 116	4 395	19 398	5 147	722 958	1 594	-	622 255	1 364	368	3 006	10
Other collective services	-	-	-	177 428	25 484	-	200	-	-	-	-	-	11 796	7 847	4 230
Other	-	-	-	13 648	6 988	-	-	-	-	-	-	-	506	2 427	83
Retail															
Mortgage loans	-	-	-	6 497 678	167 372	-	-	29 794	25 802	-	-	-	-	-	-
Other	-	-	-	906 681	99 735	-	-	-	-	-	-	-	-	20 011	-
	63 095	555 554	827	13 385 142	1 074 084	43 358	22 059	815 551	35 129	5 611	622 255	1 364	472 708	661 205	17 867

The analysis of the credit risk exposure by sector of activity, for the period ended as at 31 December 2017, can be analysed as follows:

(Thousands of Euro)

Activity	Loans and advances to credit institutions repayable on demand	Other loans and advances to credit institutions	Loans and advances to customers		Financial assets held for trading	Financial assets at fair value through other comprehensive income		Guarantees granted	Irrevocable credit lines	Provisions for off-balance sheet liabilities
	Dec 2017									
	Book value	Book value	Gross amount	Impairment	Book value	Book value	Impairment	Off-balance sheet value	Off-balance sheet value	Value
	-	-	143 027	8 637	-	-	-	2 012	5 301	125
Mining	-	-	18 969	1 095	-	-	-	975	1 438	68
Food, beverage and tobacco	-	-	226 445	13 221	-	1 020	-	2 964	57 796	94
Textiles	-	-	86 223	9 500	-	-	-	1 218	8 688	2
Shoes	-	-	42 492	4 279	-	-	-	31	5 437	-
Wood and cork	-	-	34 298	4 267	-	-	-	476	4 624	39
Printing and publishing	-	-	41 464	6 479	-	907	-	426	3 667	36
Petroleum refining	-	-	501	45	-	2 489	-	-	-	-
Chemicals and rubber	-	-	86 888	5 246	-	-	-	4 681	18 305	95
Non-metallic minerals	-	-	141 906	4 743	-	-	-	1 985	5 440	140
Basic metalurgic industries and metallic products	-	-	168 997	18 137	-	-	-	10 325	21 695	99
Production of machinery	-	-	42 690	3 114	-	-	-	2 071	5 277	127
Production of transport material	-	-	43 763	1 435	-	-	-	3 109	3 723	190
Other manufacturing industries	-	-	45 361	4 861	-	-	-	514	4 481	3
Energy, gas and water	-	-	152 361	2 560	-	13 219	-	2 823	26 513	70
Construction	-	-	954 336	302 961	-	-	-	109 740	74 753	6 053
Wholesale and retail	-	-	1 029 245	117 154	-	5 071	-	72 651	130 969	3 082
Tourism	-	-	493 397	19 710	-	-	-	10 628	18 244	238
Transport	-	-	378 241	62 751	-	-	-	10 580	17 748	327
Communication and information	-	-	88 933	6 940	-	2 864		4 954	21 799	275
Financial activities	59 472	558 711	763 877	75 582	24 553	20 411	9 307	151 813	193 159	714
Real Estate activities	-	-	837 724	128 761	121 329	4 277	-	15 156	61 335	818
Services rendered to companies	-	-	611 169	40 248	-	-	-	35 304	44 325	237
Public services	-	-	141 654	3 910	28 293	1 560 453	-	527	3 551	11
Other collective services	-	-	435 815	28 656	-	-	-	14 203	20 349	3 134
Mortgage loans	-	-	6 731 514	132 657	-	30 014	25 800	4 017	445	148
Other	-	-	15 688	1 312	-	-	-	587	3 299	22
	59 472	558 711	13 756 978	1 008 261	174 175	1 640 725	35 107	463 770	762 361	16 147

Regarding credit risk, the financial assets portfolio maintain its dominant position in bonds issued by sovereign issuers, mainly from the Portuguese Republic.

In terms of credit quality, there was an increase of the average level counterparties, due to the improvement of the Portuguese public debt rating.

CEMG’s total loans portfolio, includes Loans and advances to customers, guarantees provided and documentary credit in the aggregate amount of Euro 472,708 thousand (31 December 2017: Euro 463,770 thousand) and irrevocable credits amounting to Euro 661,205 thousand (31 December 2017: Euro 762,361 thousand), is presented as follows:

(Thousands of Euro)

Stage impacts	Gross amount	Impairment	Net amount
	Jun 2018		
Collective analysis	**9 535 393**	**524 707**	**9 010 686**
Stage 1	*7 527 977*	*16 808*	*7 511 169*
Stage 2	*1 135 846*	*86 429*	*1 049 417*
Stage 3	*871 570*	*421 470*	*450 100*
Individual analysis	**5 005 721**	**567 244**	***4 438 477***
	14 541 114	**1 091 951**	**13 449 163**

(Thousands of Euro)

Jun 2018			
Segment	**Gross amount**	**Impairment**	**Net amount**
Retail	**7 044 182**	**252 584**	**6 791 598**
Mortgage loans	*6 470 218*	*166 954*	*6 303 264*
Stage 1	*5 506 385*	4 881	5 501 504
Stage 2	*634 202*	52 145	582 057
Stage 3	*329 631*	109 928	219 703
Consumer credit	*518 169*	*81 295*	*436 874*
Stage 1	*310 302*	3 147	307 155
Stage 2	*89 999*	11 110	78 889
Stage 3	*117 868*	67 038	50 830
Credit cards	*55 795*	*4 335*	*51 460*
Stage 1	*25 584*	202	25 382
Stage 2	*25 960*	2 056	23 904
Stage 3	*4 251*	2 077	2 174
Corporate	**2 491 211**	**272 123**	**2 219 088**
Non construction	*2 227 038*	*211 451*	*2 015 587*
Stage 1	*1 547 652*	7 899	1 539 753
Stage 2	*351 607*	19 645	331 962
Stage 3	*327 779*	183 907	143 872
Construction	*264 173*	*60 672*	*203 501*
Stage 1	*138 054*	679	137 375
Stage 2	*34 078*	1 473	32 605
Stage 3	*92 041*	58 520	33 521
	9 535 393	**524 707**	**9 010 686**

(Thousands of Euro)

	Dec 2017
Total loans	14 983 109
Individually significant	
Gross amount	5 195 864
Impairment	(638 275)
Net amount	4 557 589
Collective analysis	
Loans with signs of impairment	
Gross amount	1 456 431
Impairment	(373 726)
Net amount	1 082 705
Loans without signs of impairment	8 330 814
Impairment (IBNR)	(12 406)
Net amount	13 958 702

As at 30 June 2018 and 31 December 2017, impairment determined according to the accounting policy described in note 1 b), is presented as follows:

(Thousands of Euro)

	Jun 2018						
	Impairment calculated on an individual basis		Impairment calculated based on a portfolio basis		Total		
	Loans amount	Impairment	Loans amount	Impairment	Loans amount	Impairment	Loans net of impairment
Corporate loans	4 956 821	552 721	2 491 211	272 123	7 448 032	824 844	6 623 188
Mortgage loans	17 331	418	6 470 219	166 954	6 487 550	167 372	6 320 178
Other loans	31 569	14 105	573 963	85 630	605 532	99 735	505 797
	5 005 721	567 244	9 535 393	524 707	14 541 114	1 091 951	13 449 163

(Thousands of Euro)

	Dec 2017						
	Impairment calculated on an individual basis		Impairment calculated on a portfolio basis		Total		
	Loans amount	Impairment	Loans amount	Impairment	Loans amount	Impairment	Loans net of impairment
Corporate loans	5 144 642	623 899	2 537 837	241 383	7 682 479	865 282	6 817 197
Mortgage loans	17 741	805	6 661 662	72 294	6 679 403	73 099	6 606 304
Other loans	33 481	13 571	587 746	72 455	621 227	86 026	535 201
	5 195 864	638 275	9 787 245	386 132	14 983 109	1 024 407	13 958 702

As at 30 June 2018 and 31 December 2017, the fair value analysis of collaterals associated to CEMG's total portfolio:

(Thousands of Euro)

Fair value of collaterals	Jun 2018
Individual Analysis	
Securities and other financial assets	*155 466*
Real Estate - Mortgage loans	*29 809*
Real Estate - Construction and CRE	*2 569 825*
Other real estate	*1 656 164*
Other guarantees	*509 546*
Collective Analysis - Stage 1	
Securities and other financial assets	*230 534*
Real Estate - Mortgage loans	*11 310 567*
Real Estate - Construction and CRE	*301 610*
Other real estate	*808 903*
Other guarantees	*35 071*
Collective Analysis - Stage 2	
Securities and other financial assets	*41 112*
Real Estate - Mortgage loans	*1 312 721*
Real Estate - Construction and CRE	*67 322*
Other real estate	*249 063*
Other guarantees	*5 154*
Collective Analysis - Stage 3	
Securities and other financial assets	*9 265*
Real Estate - Mortgage loans	*419 764*
Real Estate - Construction and CRE	*252 755*
Other real estate	*174 265*
Other guarantees	*6 114*
	20 145 030

	(Thousands of Euro)
	Dec 2017
Individual Analysis	
Securities and other financial assets	165 407
Real Estate - Mortgage loans	29 290
Real Estate - Construction and CRE	2 548 752
Other real estate	1 613 006
Other guarantees	494 691
	4 851 146
Collective Analysis with signs of impairment	
Securities and other financial assets	17 203
Real Estate - Mortgage loans	1 110 592
Real Estate - Construction and CRE	275 404
Other real estate	293 260
Other guarantees	26 611
	1 723 070
Collective Analysis without signs of impairment	
Securities and other financial assets	263 485
Real Estate - Mortgage loans	12 099 298
Real Estate - Construction and CRE	364 851
Other real estate	961 873
Other guarantees	329 876
	14 019 383
	20 593 599

The CEMG Group uses physical and financial collaterals as instruments for mitigating credit risk. The physical collaterals correspond mainly to mortgages on residential properties in the course of the mortgage and other types of mortgages on properties in other types of loans. To reflect the market value of them, these effects are reviewed regularly based on evaluations conducted by certified independent testing organizations or through the use of revaluation coefficients that reflect the trend in the market for the type of property and the geographical area. The financial collaterals are re-evaluated based on market values of their assets, when available, and certain coefficients applied depreciation to reflect its volatility. Most of the physical collaterals are revaluated at least once a year.

CEMG's Group total loans portfolio, by segment and respective impairment, as of 30 June 2018 and 31 December 2017, is presented as follows:

(Thousands of Euro)

Segment	Jun 2018 Total exposure	Jun 2018 Total impairment	Dec 2017 Total exposure	Dec 2017 Total impairment
Corporate	5 183 390	371 589	5 394 266	408 356
Construction and CRE	2 264 642	453 255	2 288 213	456 926
Retail - Mortgage loans	6 487 550	167 372	6 679 403	73 099
Retail - Other loans	605 532	99 735	621 227	86 026
	14 541 114	1 091 951	14 983 109	1 024 407

The loans portfolio, by segment and by production year, as of 30 June 2018, is presented as follows:

(Thousands of Euro)

	Corporate			Construction and CRE			Retail - Mortgage loans			Retail - Other loans		
Production year	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment
2004 and previous	1 265	72 492	17 702	1 173	202 793	91 642	55 006	1 850 205	51 166	37 185	27 348	6 933
2005	405	26 610	5 616	307	67 337	37 419	12 983	683 248	19 596	4 256	6 586	1 181
2006	498	56 872	6 667	394	97 918	43 254	15 734	845 434	29 031	6 087	23 082	5 721
2007	809	75 741	13 431	519	101 216	35 905	15 951	845 841	27 646	36 295	36 811	13 840
2008	3 583	67 547	10 961	945	64 844	19 048	8 284	440 366	14 501	49 092	32 926	6 086
2009	3 574	113 121	15 322	1 142	93 721	29 455	4 527	271 826	6 640	35 207	30 697	7 754
2010	3 765	186 330	29 509	893	75 240	26 322	4 690	313 502	5 834	15 790	29 002	11 433
2011	4 723	141 853	17 449	1 074	50 926	16 763	1 736	115 351	1 758	17 269	25 958	9 509
2012	4 713	191 996	31 336	1 088	53 647	16 094	1 131	75 236	1 313	9 380	21 271	6 440
2013	9 686	552 929	58 380	1 410	121 628	25 801	1 453	98 989	1 481	13 997	32 961	7 170
2014	13 753	651 186	53 019	3 256	210 267	31 938	1 722	119 631	1 085	21 078	58 467	8 372
2015	15 001	650 099	37 539	2 431	196 507	10 235	2 022	149 251	1 165	21 742	63 959	4 980
2016	14 538	863 563	26 147	3 121	305 313	36 684	2 738	225 632	1 322	27 926	90 006	4 203
2017	14 470	678 870	28 064	2 924	434 339	22 037	3 626	302 553	1 228	19 681	77 408	2 617
2018	13 743	854 181	20 447	2 681	188 946	10 658	1 816	150 485	3 606	10 854	49 050	3 496
	104 526	5 183 390	371 589	23 358	2 264 642	453 255	133 419	6 487 550	167 372	325 839	605 532	99 735

The loans portfolio, by segment and by production year, as of 31 December 2017, is presented as follows:

(Thousands of Euro)

	Corporate			Construction and CRE			Retail - Mortgage loans			Retail - Other loans		
Production year	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment	No. of operations	Amount	Impairment
2004 and previous	1 297	77 377	16 057	1 241	228 127	101 081	57 011	1 973 676	23 398	39 797	29 504	6 904
2005	407	27 819	4 497	322	71 153	34 830	13 339	716 498	8 275	4 563	8 217	1 456
2006	530	69 557	6 167	403	104 818	41 345	16 182	886 048	13 501	6 443	23 683	4 232
2007	847	83 451	10 642	539	113 254	38 676	16 387	885 765	12 250	37 260	38 315	13 160
2008	4 714	74 888	9 556	1 016	81 652	20 108	8 558	461 162	7 167	50 613	35 072	5 777
2009	3 916	124 293	15 954	1 146	103 831	31 465	4 679	287 342	2 976	36 305	33 352	7 603
2010	3 965	197 866	28 232	1 102	80 964	24 200	4 883	330 352	2 730	17 470	32 262	11 917
2011	5 064	213 799	58 780	1 174	71 744	19 846	1 829	123 493	556	17 966	28 503	10 102
2012	5 007	216 495	35 227	1 084	57 789	17 319	1 179	80 250	707	9 870	23 657	6 969
2013	11 382	750 429	89 853	1 573	122 777	25 256	1 514	105 868	735	14 961	37 165	6 355
2014	16 322	742 759	53 421	3 832	232 086	31 886	1 822	129 600	333	22 477	66 564	6 704
2015	15 823	716 908	38 725	2 434	209 892	9 868	2 111	159 290	158	23 272	74 116	2 666
2016	15 177	904 294	22 308	3 307	327 743	35 185	2 829	235 225	188	29 391	103 056	1 653
2017	20 764	1 194 331	18 937	3 826	482 383	25 861	3 695	304 834	125	20 104	87 761	528
	105 215	5 394 266	408 356	22 999	2 288 213	456 926	136 018	6 679 403	73 099	330 492	621 227	86 026

The loans gross exposure and impairment, individual and collective, by segment, as of 30 June 2018 and 31 December 2017, is analysed as follows:

(Thousands of Euro)

	Jun 2018									
	Corporate		Construction and CRE		Retail - Mortgage loans		Retail - Other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	3 229 240	192 564	1 727 581	360 157	17 331	418	31 569	14 105	5 005 721	567 244
Collective	1 954 150	179 025	537 061	93 098	6 470 219	166 954	573 963	85 630	9 535 393	524 707
	5 183 390	371 589	2 264 642	453 255	6 487 550	167 372	605 532	99 735	14 541 114	1 091 951

(Thousands of Euro)

	Dec 2017									
	Corporate		Construction and CRE		Retail - Mortgage loans		Retail - Other loans		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment										
Individual	3 394 142	245 845	1 750 500	378 054	17 741	805	33 481	13 571	5 195 864	638 275
Collective	2 000 124	162 511	537 713	78 872	6 661 662	72 294	587 746	72 455	9 787 245	386 132
	5 394 266	408 356	2 288 213	456 926	6 679 403	73 099	621 227	86 026	14 983 109	1 024 407

The loans gross exposure and impairment, individual and collective, by business sector, as of 30 June 2018 and 31 December 2017, is analysed as follows:

(Thousands of Euro)

	Jun 2018											
	Construction		Industries		Trade		Real Estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	772 486	232 769	580 095	38 813	371 621	44 580	761 475	113 140	2 471 144	123 419	4 956 821	552 721
Collective	264 173	60 672	559 735	50 743	771 613	80 167	126 892	15 646	768 798	64 895	2 491 211	272 123
	1 036 659	293 441	1 139 830	89 556	1 143 234	124 747	888 367	128 786	3 239 942	188 314	7 448 032	824 844

(Thousands of Euro)

	Dec 2017											
	Construção		Industries		Trade		Real Estate activities		Other activities		Total	
	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment	Exposure	Impairment
Assessment												
Individual	814 895	251 569	573 602	32 544	349 462	37 050	775 845	117 214	2 630 838	185 520	5 144 642	623 897
Collective	268 326	51 536	572 971	45 209	781 023	77 804	125 903	11 157	789 614	55 679	2 537 837	241 385
	1 083 221	303 105	1 146 573	77 753	1 130 485	114 854	901 748	128 371	3 420 452	241 199	7 682 479	865 282

The loans gross exposure, performing and non-performing, by business sector, as of 30 June 2018 and during 2017, is analysed as follows:

(Thousands of Euro)

	Jun 2018												
	Gross carrying amount of performing and non-performing							Accumulated impairment and other negative fair value adjustements related to credit risk				Collaterals and financial guarantees received	
		of which performing but past due >30 days and <= 90 days	of which performing forborne	of which non-performing				on performing exposures		on non-performing exposures		of non-performing exposures	of which forborne exposures
					of which defaulted	of which impaired	of which forborne		of which forborne		of which forborne		
Loans represented by securities (a)	2 068 133	-	-	37 555	37 555	37 555	-	6 621	-	35 981	-	-	-
Other balance-sheet credit exposures (b)	15 075 663	53 808	111 015	2 091 934	2 043 323	2 091 543	922 059	132 009	7 407	936 794	394 760	803 337	464 751
Off-balance sheet exposures (c)	1 786 838	2 698	1 778	174 967	172 945	174 967	30 733	5 242	15	12 625	32	-	-

(a) It includes Debt instruments of the financial assets at fair value through other comprehensive income portfolio and commercial paper and bonds recognised under Loans and advances to customers.
(b) It includes Loans and advances to customers, Cash and deposits at central banks and Other loans and advances to credit institutions and Foreign exchange operations to be settled.
(c) It includes recovable and irrevocable credits, Guarantees and Documentary credits provided.

(Thousands of Euro)

	Dec 2017												
	Gross carrying amount of performing and non-performing							Accumulated impairment and other negative fair value adjustments related to credit risk				Collaterals and financial guarantees received	
		of which performing but past due > 30 days and <= 90 days	of which performing forborne	of which non-performing				on performing exposures		on non-performing exposures		of non-performing exposures	of which forborne exposures
					of which defaulted	of which impaired	of which forborne		of which forborne		of which forborne		
Loans represented by securities (a)	2 271 209	-	-	4 300	4 300	4 300	-	36 387	-	1 806	-	-	-
Other balance sheet credit exposures (b)	15 405 560	64 291	120 542	2 253 998	2 253 998	2 210 619	1 024 280	44 452	4 380	960 722	395 275	951 278	570 920
Off-balance sheet exposures (c)	1 868 634	2 284	1 419	157 188	157 188	155 574	3 590	4 526	131	11 620	43	-	-

(a) It includes Debt instruments of the financial assets at fair value through other comprehensive income portfolio and commercial paper and bonds recognised under Loans and advances to customers.
(b) It includes Loans and advances to customers, Cash and deposits at central banks and Other loans and advances to credit institutions and Foreign exchange operations to be settled.
(c) It includes recovable and irrevocable credits, Guarantees and Documentary credits provided.

The fair value of the collateral underlying the loans portfolio of the Construction and Commercial Real Estate (CRE) and Mortgage segments, as at 30 June 2018, is presented as follows:

(Thousands of Euro)

	Corporate, Construction and CRE				Mortgage loans			
	Real Estate		Other collateral		Real Estate		Other collateral	
Fair Value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	3 804	442 685	1 008	62 491	104 199	12 772 814	348	10 315
>= 0,5 M€ and <1M€	246	168 872	26	16 744	367	227 262	1	500
>= 1 M€ and <5M€	235	502 935	17	31 087	45	67 685	-	-
>= 5 M€ and <10M€	37	271 300	3	21 690	-	5 099	-	-
>= 10 M€ and <20M€	28	381 704	1	13 491	1	-	-	-
>= 20 M€ and <50M€	17	499 099	2	66 000	-	-	-	-
>= 50M€	5	924 916	-	-	-	-	-	-
	4 372	3 191 511	1 057	211 503	104 612	13 072 860	349	10 815

The fair value of the collateral underlying the loans portfolio of the Construction and Commercial Real Estate (CRE) and Mortgage segments, as at 31 December 2017, is presented as follows:

(Thousands of Euro)

	Corporate, Construction and CRE				Mortgage loans			
	Real Estate		Other collateral		Real Estate		Other collateral	
Fair Value	Number	Amount	Number	Amount	Number	Amount	Number	Amount
< 0,5 M€	4 159	502 866	1 034	58 305	106 169	12 961 569	340	11 351
>= 0,5 M€ and <1M€	244	168 262	29	18 105	347	214 551	1	500
>= 1 M€ and <5M€	250	529 758	17	27 517	39	62 709	-	-
>= 5 M€ and <10M€	37	266 903	4	27 453	-	-	-	-
>= 10 M€ and <20M€	29	399 339	2	26 099	-	-	-	-
>= 20 M€ and <50M€	14	396 579	2	66 000	-	-	-	-
>= 50M€	5	924 916	-	-	-	-	-	-
	4 738	3 188 623	1 088	223 479	106 555	13 238 829	341	11 851

The LTV (loan to value) ratio of the Corporate, Construction and CRE and Mortgage segments, as of 30 June 2018 and 31 December 2017, is presented as follows:

(Thousands of Euro)

Segment/ Ratio	Jun 2018 No. of real estate	Jun 2018 Total Exposure	Jun 2018 Impairment	Dec 2017 No. of real estate	Dec 2017 Total Exposure	Dec 2017 Impairment
Corporate						
Without real estate (*)		4 048 218	246 292		4 269 400	308 521
< 60%	2 214	361 692	28 448	2 201	374 454	20 752
>= 60% and < 80%	935	458 228	27 379	984	412 304	20 961
>= 80% and < 100%	921	240 317	36 701	1 015	264 699	28 422
>= 100%	111	74 935	32 769	105	73 409	29 700
Construction and CRE						
Without real estate (*)		980 690	176 128		979 050	185 546
< 60%	1 577	466 052	85 385	1 784	479 582	74 311
>= 60% and < 80%	1 045	326 691	51 623	988	315 003	47 311
>= 80% and < 100%	1 221	344 870	41 474	1 387	327 548	44 686
>= 100%	529	146 339	98 645	579	187 030	105 072
Mortgage						
Without real estate (*)		550 530	39 769		569 304	22 234
< 60%	64 699	2 564 065	25 064	64 940	2 582 221	6 230
>= 60% and < 80%	26 493	2 161 241	35 545	27 096	2 208 224	8 255
>= 80% and < 100%	11 731	1 064 508	35 562	12 735	1 163 967	12 708
>= 100%	1 689	147 206	31 432	1 784	155 687	23 672

The fair value and net value of real estate receivables, by type of asset, as of 30 June 2018 and 31 December 2017, are presented as follows:

(Thousands of Euro)

Assets	Jun 2018 No. of real estate	Jun 2018 Fair value	Jun 2018 Book value
Land	**1 820**	**373 460**	**335 287**
Urban	1 574	258 465	235 069
Rural	246	114 995	100 218
Buildings under construction	**756**	**110 009**	**99 233**
Commercial	87	7 807	6 107
Housing	539	100 876	91 864
Other	130	1 326	1 262
Constructed buildings	**2 655**	**305 793**	**273 202**
Commercial	857	113 493	102 219
Housing	1 284	179 332	159 190
Other	514	12 968	11 793
	5 231	789 262	707 722

(Thousands of Euro)

Assets	Dec 2017 No. of real estate	Fair value	Book value
Land	**1 834**	**382 118**	**342 167**
Urban	1 598	272 687	247 579
Rural	236	109 431	94 588
Buildings under construction	**695**	**99 048**	**89 486**
Commercial	86	7 267	6 527
Housing	483	90 323	81 574
Other	126	1 458	1 385
Constructed buildings	**2 689**	**316 533**	**282 478**
Commercial	837	115 853	103 737
Housing	1 363	184 035	164 446
Other	489	16 645	14 295
	5 218	797 699	714 131

The time lapse since the transfer / execution of properties received, as of 30 June 2018 and 31 December 2017, is presented as follows:

(Thousands of Euro)

Elapsed time since transfer/ execution	Jun 2018				
	< 1 year	>= 1 and < 2,5 years	>= 2.5 and < 5 years	>= 5 years	Total
Land	**70 615**	**36 241**	**128 848**	**99 583**	**335 287**
Urban	62 898	25 409	84 116	62 646	235 069
Rural	7 717	10 832	44 732	36 937	100 218
Buildings under construction	**18 481**	**12 453**	**37 444**	**30 855**	**99 233**
Commercial	161	809	2 518	2 619	6 107
Housing	18 230	11 644	34 466	27 524	91 864
Other	90	-	460	712	1 262
Constructed buildings	**48 689**	**45 813**	**122 455**	**56 245**	**273 202**
Commercial	12 657	16 597	55 103	17 862	102 219
Housing	35 312	27 046	59 562	37 270	159 190
Other	720	2 170	7 790	1 113	11 793
	137 785	94 507	288 747	186 683	707 722

(Thousands of Euro)

Elapsed time since transfer/ execution	Dec 2017				
	< 1 year	>= 1 and < 2,5 years	>= 2.5 and < 5 years	>= 5 years	Total
Land	**69 202**	**60 119**	**162 799**	**50 047**	**342 167**
Urban	63 844	38 789	101 406	43 540	247 579
Rural	5 358	21 330	61 393	6 507	94 588
Buildings under construction	**5 374**	**20 558**	**42 221**	**21 333**	**89 486**
Commercial	114	1 508	3 147	1 758	6 527
Housing	5 260	18 628	38 372	19 314	81 574
Other	-	422	702	261	1 385
Constructed buildings	**45 649**	**60 504**	**126 783**	**49 542**	**282 478**
Commercial	14 023	16 331	60 135	13 248	103 737
Housing	30 444	37 567	61 561	34 874	164 446
Other	1 182	6 606	5 087	1 420	14 295
	120 225	141 181	331 803	120 922	714 131

Concentration Risk

The concentration risk results from the existence of common or correlated risk factors between different entities or portfolios. The deterioration of any of these factors may have a simultaneous negative impact on the credit quality of each of the counterparties or in the results of each class of assets and liabilities. In a concentration scenario, the loss effects on a small number of exposures may be disproportionate, confirming the importance of managing and maintaining this risk in suitable solvability levels. In CEMG, concentration risk monitoring focuses mainly on credit concentration, investment portfolio, financing, interest rate and operating risks.

Concentration risk in credit is the most important risk to CEMG and, as such, there are several procedures related to its identification, measurement and management. In order to control concentration risk of exposure to a related customer / group of customers, maximum exposure limits were set for the aggregate positions of credit and investment portfolios for the various CEMG's entities.

The concentration risk management is carried out in a centralised way, with regular monitoring of the concentration indexes by the Risk Department. In particular, the level of concentration of the largest depositors and, with respect to the credit portfolio, the degree of regional diversification, the individual concentration level and the degree of diversification of the quality of the portfolio of companies are regularly monitored by the Risk Department. Maximum exposure limits are established per client / group of clients related to each other, as well as limits for the concentration of the largest depositors.

Market Risk

The concept of market risk reflects the potential loss that can be registered by a given portfolio as a result of changes in rates (interest and exchange rates) and / or prices of the different financial instruments that comprise it, considering both existing correlations between them, and respective volatilities.

The Group calculates its own portfolios "VaR", given a 10-day horizon and a 99% confidence interval, by the method of historical simulation. The types of risk considered in this methodology are the risk of interest rate, exchange rate risk, price risk, CDS risk, the options risk and specific credit risk.

CEMG's investment portfolio is mainly concentrated in bonds, and as of 30 June 2018 represented 59.8% (31 December 2017: 63.5%) of the total portfolio, maintaining its dominant position in bonds of sovereign issuers, essentially of the Portuguese, Italian and Spanish Republics.

With regard to credit derivatives, CEMG held no position in these instruments at 30 June 2018 and 31 December 2017.

Regarding the credit quality of debt securities, it is important to note the improvement of the Portuguese public debt rating (rated B-). Concerning the composition of the portfolio, the major changes resulted from a reduction in exposure to Italian and Spanish sovereign debt. It should also be noted the exclusion of the senior note Évora (Euro 121,3 million) from the trading portfolio, rated with BBB-.

The distribution of the bond portfolio, recognised under Financial assets held for trading, Financial assets at fair value through other comprehensive income and Other financial assets at amortised cost, is presented as follows:

(Thousands of Euro)

Rating	Jun 2018		Dec 2017		Change	
	Amount	%	Amount	%	Amount	%
AAA	-	-	-	-	-	-
AA+	1 172	0.1	-	-	1 172	-
AA		-	1 798	0.1	(1 798)	(100.0)
AA-		-	1 728	0.1	(1 728)	(100.0)
A+	956	0.1	1 528	0.1	(572)	(37.4)
A	262	-	1 033	0.1	(771)	(74.6)
A-	1 336	0.1	860	-	476	55.3
BBB+	220 912	15.5	295 102	16.8	(74 190)	(25.1)
BBB	432 559	30.4	575 362	32.8	(142 803)	(24.8)
BBB-	746 181	52.5	846 720	48.2	(100 539)	(11.9)
BB+	-	-	-	-	-	-
BB	265	-	-	-	265	-
B-	-	-	17 164	1.0	(17 164)	(100.0)
CCC	-	-	-	-	-	-
D	-	-	-	-	-	-
NR	17 068	1.3	13 945	0.8	3 123	22.4
Total	1 420 711	100.0	1 755 240	100.0	(334 529)	(19.1)

The amount of securities recognised in the trading portfolio amounts to Euro 19,398 thousand (31 December 2017: Euro 149,622 thousand), the amount of securities recognised in the Financial assets at fair value through other comprehensive income portfolio amounts to Euro 780,422 thousand (31 December 2017: Euro 1,605,618 thousand) and the amount of securities recognised in Financial assets at amortised cost amounts to Euro 620,891 thousand.

Regarding trading portfolio, the main VaR indicators are as follows:

(Thousands of Euro)

	Jun 2018	Average	Minimum	Maximum	Dec 2017
Market VaR	552	775	304	1 100	508
Interest rate risk	102	588	162	899	121
Exchange risk	193	94	82	100	93
Price risk	498	367	384	488	479
Diversification risk	*(241)*	*(274)*	*(324)*	*(387)*	*(185)*
Credit VaR	387	296	169	597	2 349
Total VaR	**939**	**1 071**	**473**	**1 697**	**2 857**

Bank Portfolio Interest Rate Risk

The assessment of interest rate risk caused by banking portfolio operations is performed by a sensitivity analysis to the risk, in a consolidated view for the CEMG's entities (including subsidiaries recognised in discontinuing operations).

Interest rate risk is measured according to the impact on net interest income, net worth and equity caused by changes in market interest rates. The main risk factors arise from the term adjustments of the interest rate reset and / or residual maturities between assets and liabilities (repricing risk), non-parallel variations in yield curve risk, the lack of a perfect correlation between different indexes with the same term of repricing (basis risk) and the options associated with instruments enabling a different performance of the players/participants depending on the level of rates contracted and practiced at the moment (option risk).

Based on the financial characteristics of each contract, it is made its projection of expected cash flows, according to the dates of rate reset and any behavioral assumptions considered.

Aggregation, for each currency analysed the expected cash flows in each of the time intervals to determine the interest rate gaps by repricing period.

The following tables present the interest rates gaps, from a consolidated perspective, in the first half of 2018 and in 2017:

(Thousands of Euro)

	Below 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Above 5 years
30 June 2018					
Assets	9 495 430	3 092 194	760 587	1 069 517	1 123 936
Off-balance sheet	4 497	-	14 850	767 770	-
Total	9 499 927	3 092 194	775 437	1 837 287	1 123 936
Liabilities	3 474 551	1 490 876	2 809 505	4 821 031	68 108
Off-balance sheet	761 597	9 850	-	14 470	1 200
Total	4 236 148	1 500 726	2 809 505	4 835 501	69 308
GAP (Ativos - Passivos)	5 263 779	1 591 468	(2 034 068)	(2 998 214)	1 054 628
31 December 2017					
Assets	8 075 087	3 275 709	644 347	1 606 709	925 727
Off-balance sheet	9 990	-	-	782 972	-
Total	8 085 077	3 275 709	644 347	2 389 681	925 727
Liabilities	4 816 938	1 876 262	2 417 660	7 814 534	274 933
Off-balance sheet	758 550	9 850	9 740	14 822	-
Total	5 575 488	1 886 112	2 427 400	7 829 356	274 933
GAP (Assets - Liabilities)	2 509 589	1 389 597	(1 783 053)	(5 439 675)	650 794

The following table presents the interest rate gaps for the first half of 2018 and during 2017:

(Thousands of Euro)

	Jun 2018				Dec 2017			
	June	Average	Maximum	Minimum	December	Average	Maximum	Minimum
Interest rate Gap	2 877 593	885 002	2 877 593	(1 107 589)	(2 672 748)	(1 763 934)	(855 120)	(2 672 748)

Sensitivity to the balance sheet interest rate risk is calculated by the difference between the current value of the mismatch interest rate discounted at market interest rates and the discounted value of these cash flows simulating parallel shifts of the market interest rate curve.

As at 30 June 2018, based on the interest rate gaps observed, an instantaneous and parallel positive variation in the interest rates by 100 bp would cause a change in the economic value expected in the banking portfolio in Euro 20,275 thousand (31 December 2017: negative amount of Euro 18,633 thousand).

The following table presents the average interests, in relation to CEMG major assets and liabilities categories for the periods ended 30 June 2018 and during 2017, as well as the average balances and income and expense for the period:

(Thousands of Euro)

	Jun 2018			Dec 2017		
	Average balance	Average interest rate (%)	Interests	Average balance	Average interest rate (%)	Interests
Interest assets generators						
Cash and deposits at central banks and OIC	1 195 817	1.81	10 861	469 507	-	4
Loans and advances to OIC	587 530	0.56	1 668	586 921	0.40	2 385
Loans and advances to customers	13 618 891	2.35	161 211	14 576 598	2.37	350 302
Securities portfolio	1 860 197	0.66	6 151	2 389 738	1.44	34 828
Other (includes derivatives)	-	-	9 644	-	-	16 561
	17 262 435	**2.18**	**189 535**	**18 022 764**	**2.21**	**404 080**
Interest liabilities generators						
Deposits from ECB	1 556 289	0.27	2 095	2 310 827	0.04	1 003
Deposits from OIC	1 989 803	1.00	9 973	2 352 664	0.73	17 381
Deposits from customers	12 299 447	0.51	31 667	11 877 000	0.68	82 010
Senior debt	1 238 039	1.57	9 776	1 394 451	2.60	36 697
Subordinated debt	156 695	1.23	965	236 620	1.27	3 051
Other (includes derivatives)	-	-	8 171	-	-	13 864
	17 240 273	**0.72**	**62 648**	**18 171 562**	**0.84**	**154 006**
Net interest income		**1.46**	**126 887**		**1.37**	**250 074**

Currency risk

Regarding currency risk, the procedure is the application of funds raised in various currencies through active money market and for terms not exceeding those of the resources. Thus, existing exchange rate gaps are essentially due to possible mismatches between the terms of the applications and of the resources.

The breakdown of assets and liabilities, by currency, as at 30 June 2018 and 31 December 2017 is analysed as follows:

(Thousands of Euro)

	Jun 2018							
	Euro	United States Dollar	Sterling Pound	Canadian Dollar	Swiss Franc	Brazilian Real	Other foreign currencies	Total
Assets by currency								
Cash and deposits at central banks	1 710 350	7 663	856	656	1 070	-	396	1 720 991
Loans and advances to credit institutions repayable on demand	46 857	12 949	307	412	1 880	-	690	63 095
Other loans and advances to credit institutions	545 734	8 993	-	-	-	-	-	554 727
Loans and advances to customers	12 189 948	120 883	206	-	21	-	-	12 311 058
Financial assets held for trading	47 558	4 587	304	-	-	-	-	52 449
Financial assets not held for trading mandatorily at fair value through profit or loss	808 812	-	-	-	-	-	-	808 812
Financial assets at fair value through other comprehensive income	879 086	-	-	-	-	60 507	-	939 593
Hedging derivatives	5 611	-	-	-	-	-	-	5 611
Other financial assets at amortised cost	620 891	-	-	-	-	-	-	620 891
Investments in subsidiaries and associated companies	316 662	-	-	-	-	-	-	316 662
Non-current assets held for sale	707 724	-	-	-	-	-	-	707 724
Property and equipment	216 637	-	-	-	-	-	-	216 637
Intangible assets	28 453	-	-	-	-	-	-	28 453
Current tax assets	5 324	-	-	-	-	-	-	5 324
Deferred tax assets	508 478	-	-	-	-	-	-	508 478
Other assets	186 736	593	283	-	-	-	2 291	189 903
Total Assets	18 824 861	155 668	1 956	1 068	2 971	60 507	3 377	19 050 408
Liabilities by currency								
Deposits from central banks	1 546 980	-	-	-	-	-	-	1 546 980
Deposits from other financial institutions	1 874 730	32 412	3 925	24 476	137	-	97	1 935 777
Deposits from customers	12 389 950	74 514	6 299	13 951	1 720	-	3 096	12 489 530
Debt securities issued	1 081 920	-	-	-	-	-	-	1 081 920
Financial liabilities held for trading	14 765	774	-	-	-	-	-	15 539
Provisions	28 879	-	-	-	-	-	-	28 879
Current tax liabilities	1 433	-	-	-	-	-	-	1 433
Other subordinated debt	121 487	-	-	-	-	-	-	121 487
Other liabilities	172 738	24 427	4	663	999	-	2	198 833
Total Liabilities	17 232 882	132 127	10 228	39 090	2 856	-	3 195	17 420 378
Exchange foreign transactions		(48 444)	8 690	36 718	-	(58 383)	3 225	
Exchange gap		(24 903)	418	(1 304)	115	2 124	3 407	
Stress Test		4 981	(84)	261	(23)	(425)	(681)	

(Thousands of Euro)

	Dec 2017							
	Euro	United States Dollar	Sterling Pound	Canadian Dollar	Swiss Franc	Brazilian Real	Other foreign currencies	Total
Assets by currency								
Cash and deposits at central banks	1 715 638	11 761	1 473	909	2 815	102	928	1 733 626
Loans and advances to credit institutions repayable on demand	46 218	11 670	394	272	416	-	502	59 472
Other loans and advances to credit institutions	547 748	10 963	-	-	-	-	-	558 711
Loans and advances to customers	12 629 477	119 045	167	-	28	-	-	12 748 717
Financial assets held for trading	180 662	3 006	-	193	215	-	-	184 076
Financial assets at fair value through other comprehensive income	2 544 708	372	-	-	-	57 614	97	2 602 791
Investments in subsidiaries and associated companies	315 903	-	-	-	-	-	-	315 903
Non-current assets held for sale	714 133	-	-	-	-	-	-	714 133
Property and equipment	220 002	-	-	-	-	-	-	220 002
Intangible assets	30 092	-	-	-	-	-	-	30 092
Current tax assets	6 589	-	-	-	-	-	-	6 589
Deferred tax assets	458 864	-	-	-	-	-	-	458 864
Other assets	176 353	259	3	-	-	-	-	176 615
Total Assets	19 586 387	157 076	2 037	1 374	3 474	57 716	1 527	19 809 591
Liabilities by currency								
Deposits from central banks	1 557 840	-	-	-	-	-	-	1 557 840
Deposits from other financial institutions	1 948 506	33 848	3 913	24 816	18	-	96	2 011 197
Deposits from customers	12 459 824	70 006	7 516	13 096	1 871	-	3 012	12 555 325
Debt securities issued	1 389 774	225	-	-	-	-	-	1 389 999
Financial liabilities held for trading	15 694	477	-	-	-	-	-	16 171
Hedging derivatives	1 663	-	-	-	-	-	-	1 663
Provisions	26 207	-	-	-	-	-	-	26 207
Current tax liabilities	1 104	-	-	-	-	-	-	1 104
Other subordinated debt	237 016	-	-	-	-	-	-	237 016
Other liabilities	281 291	1 322	287	166	980	-	12	284 058
Total Liabilities	17 918 919	105 878	11 716	38 078	2 869	-	3 120	18 080 580
Exchange foreign transactions		(49 974)	9 919	37 037	769	-	2 507	
Exchange gap		1 224	240	333	1 374	57 716	914	
Stress Test		(245)	(48)	(67)	(275)	(11 543)	(183)	

The result of the stress test performed corresponds to the estimate impact (before tax) in equity, including minority interests, due to a devaluation of 20% in exchange rate of each currency against Euro.

Liquidity risk

Liquidity risk reflects the Group's inability to meet its obligations at due date, without incurring significant losses arising from a deterioration in financing conditions (financing risk) and / or the sale of its assets at lower values to market values (market liquidity risk).

The assessment of the liquidity risk is made using regulatory indicators defined by the supervisory authorities, as well as other internal metrics for which are defined exposure limits. This control is reinforced with weekly execution of stress tests, in order to characterize the risk profile of CEMG and ensure that the Group fulfills its obligations in a liquidity crisis scenario. The calculation of the CRL prudential ratio is performed on a weekly basis.

As at 30 June 2018, the recorded amount in LCR was 147.3%. (31 December 2017: 153.8%).

As at 30 June 2018, CEMG's financing was as follows:

(Thousands of Euro)

Liabilities	Jun 2018	Undetermined	Below 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 546 980	-	-	-	-	1 546 980
Financial liabilities held for trading	15 539	-	1 482	50	241	13 766
Deposits from other credit institutions	1 935 777	-	476 435	748 620	8 416	702 306
Deposits from customers	12 489 530	-	4 947 814	2 487 002	2 724 228	2 330 486
Debt securities issueed	1 081 920	-	101	82 546	125 446	873 827
Other subordinated debt	121 487	-	113 160	8 327	-	-
Other liabilities	198 833	198 833	-	-	-	-
Total	**17 390 066**	**198 833**	**5 538 992**	**3 326 545**	**2 858 331**	**5 467 365**

As at 31 December 2017, CEMG's financing was as follows:

(Thousands of Euro)

Liabilities	Dec 2017	Undetermined	Below 3 months	3 - 6 months	6 - 12 months	> 12 months
Deposits from central banks	1 557 840	-	-	-	-	1 557 840
Financial liabilities held for trading	16 171	-	902	1	221	15 047
Deposits from other credit institutions	2 011 197	-	362 167	66 904	419 480	1 162 646
Deposits from customers	12 555 325	-	4 865 405	3 485 232	2 231 157	1 973 531
Debt securities issued	1 389 999	-	109 036	65 201	80 578	1 135 184
Hedging derivatives	1 663	-	-	-	-	1 663
Other subordinated debt	237 016	-	111 934	4 206	120 876	-
Other liabilities	284 059	284 059	-	-	-	-
Total Liabilities	**18 053 270**	**284 059**	**5 449 444**	**3 621 544**	**2 852 312**	**5 845 911**

Within the instruction No. 28/2014 of Bank of Portugal, which focuses on the guidance of the European Banking Authority in relation to the disclosure of encumbered and unencumbered assets (EBA/GL/2014/3) and considering the recommendation by the European Systemic Risk Committee, we present the following information, as at 30 June 2018 and 31 December 2017 on the assets and collaterals:

(Thousands of Euro)

	Jun 2018			
Assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets from the reporting institution	5 155 960	-	13 894 447	-
Equity instruments	-	-	955 016	662 936
Debt securities	760 685	755 165	1 284 245	936 972
Other assets	-	-	2 043 603	-

(Thousands of Euro)

	Dec 2017			
Assets	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets from the reporting institution	5 516 327	-	14 293 264	-
Equity instruments	-	-	1 007 075	1 187 263
Debt securities	1 177 559	1 173 674	1 205 079	7 791 741
Other assets	-	-	2 019 494	-

(Thousands of Euro)

	Jun 2018	
Collateral received	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Assets from the reporting institution		
Equity instruments	57 471	-
Debt securities	-	
Other collateral received	57 471	-
Own securities issued that are not own covered bonds or ABS	-	-

(Thousands of Euro)

	Dec 2017	
Collateral received	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Assets from the reporting institution	77 463	48 894
Equity instruments	-	-
Debt securities	77 463	48 894
Other collateral received	-	-
Own securities issued that are not own covered bonds or ABS	-	-

Encumbered assets, encumbered collateral received and associated liabilities	Jun 2018 Carrying amount of selected financial liabilities
Associated liabilities, contingent liabilities and securities borrowed	3 168 795
Assets, collateral received and own debt securities issued other than own covered bonds or encumbered ABS	5 184 708

Encumbered assets, encumbered collateral received and associated liabilities	Dec 2017 Carrying amount of selected financial liabilities
Associated liabilities, contingent liabilities and securities borrowed	3 653 294
Assets, collateral received and own debt securities issued other than own covered bonds or encumbered ABS	5 565 871

The encumbered assets are mostly related to collateralise financing of CEMG, in particular the ECB's, repo transactions, issuance of covered bonds and securitization programs. The type of assets used as collateral of these financing transactions, whether placed outside the Group, whether to improve the pool of collateral with the ECB, are customer's loans contracts. Repo transactions in the money market are collaterised, mainly by covered bonds and securitisation programs in which CEMG is the originator, and by debt securities issued operations.

The amounts presented previously correspond to the position as at 30 June 2018 and 31 December 2017 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 2018 amounts to Euro 1,104,791 thousand (31 December 2017: Euro 1,018,419 thousand).

It should be noted that the total amount of collateral available at the European Central Bank (BCE) on 30 June 2018 amounted to Euro 2,601,495 thousand (31 December 2017: Euro 2,539,595 thousand) with a usage of Euro 1,546,998 thousand (31 December 2017: Euro 1,557,840 thousand):

(Thousands of Euro)

	Jun 2018	Dec 2017
Total eligible collateral	**3 845 972**	**4 254 568**
Total collateral in the pool	2 601 495	2 539 595
Collateral outside the pool	1 244 477	1 714 973
Used collateral	**2 741 181**	**3 236 149**
Collateral used for ECB	1 546 998	1 557 840
Collateral committed to other financing operations	1 194 183	1 678 309
Available collateral for ECB	**1 054 497**	**981 755**
Total available collateral	**1 104 791**	**1 018 419**

Note: collateral amount considers the applied haircuts

Real Estate risk

Real estate risk results from possible negative impacts on CEMG's results or equity due to fluctuations in the market price of real estate.

The real estate risk results from exposure in real estate, whether from credit recovery processes or from real estate fund units held in securities portfolio. These exposures are monitored through scenario analyses that attempt to estimate potential impacts of changes in real estate markets in portfolios of these real estate assets and make available the information elements needed for the definition of the policy for real estate management.

As at 30 June 2018 and 31 December 2017, exposure to real estate and investments real estate fund units presented the following value:

(Thousands of Euro)

	Jun 2018	Dec 2017
Real estate received as loan guarantee	707 722	714 131
Real estate investment fund units	679 434	729 410
	1 387 156	1 443 541
	(138 716)	(144 354)

Stress test

Stress test results correspond to the estimated impact in equity (before taxes) of a 10% variation in values of real estate and real estate funds.

Operating risk

Operating risk is the potential loss resulting from failures or inadequacies in internal processes, people or systems, or potential losses resulting from external events.

CEMG has the approval from Bank of Portugal for the use of the standard method for quantifying its own capital requirements for operating risk. An integrated continuing business plan is implanted, based on the identification, evaluation, monitoring, measurement, mitigation and reporting of this type of risk.

The risk department has the corporate function of operational risk management of CEMG which is supported by the existence of responsible employees in the different organic units that ensure the proper implementation of CEMG's operating risk management.

The operating risk profile assessment for new products, processes and systems and the consequent follow-up, on a regular basis, has allowed the prior identification and mitigation of operating risk situations.

Regarding risk monitoring, the main activities carried out were the collection and analysis of operating risk loss events, the analysis of Key Risk Indicators, the evaluation of the exposure to Operating Risk and the preparation of periodic reports on the profile of Operational risk of the Institution. In particular, quarterly monitoring reports of operating risk loss events and mitigation measures are prepared. An annual report is prepared annually, which includes the analysis of all operating risk management instruments.

Within the mitigation phase, Action Plans were suggested for the most significant risks, identified based on the operating risk management tools previously mentioned.

In addition, CEMG has implemented a business continuity management process, supported by a set of evaluation, design, implementation and monitoring activities, integrated into a cycle of continuous improvement.

This process is crucial as a risk mitigation tool, making the business processes more resilient and allowing to ensure the continuity of operations in the event situations that cause the interruption of the activity, considering the established Recovery Time Objective (RTO).

Pension Fund Risk

The pension fund risk results from the potential devaluation of the fund's assets portfolio or the decrease in the expected returns. In such scenarios, CEMG will have to make unplanned contributions in order to maintain the benefits defined by the Fund.

Regular monitoring and analysis of CEMG's Pension Fund management is carried out by the Pension Fund Monitoring Committee. In addition, the Risk Department ensures the production of monthly reports with the evolution of the Pension Fund portfolio's market value and associated risk indicators.

Considering the provisions of the investment policy of the Montepio Geral Pension Fund relating to the exposure to various risks and different legal provisions, the control of these limits is monitored daily by means of a detailed analysis of "legal limits and investments exceeded", with a set of procedures that are performed may the limits be exceeded.

Subsequently, the Risk Department monitors the effect of the measures adopted and their impact on the investment policy. At the same time, the levels of exposure to the legal and prudential limits that regulate the Montepio Geral Pension Fund are also monitored.

Besides verifying compliance with the investment policy and the legal and prudential limits, the management entity (Futuro) has decided to strengthen control and monitoring through a variety of risk measures and a set of internal procedures aimed at maintaining the prudent management of the risk. On this basis, a risk management model based on the technical perspective of EIOPA's "QIS Pension Funds" studies is used. The development of tolerance indicators for this model allows monitoring the variations of these indicators, in accordance with the investment policy defined for the Pension Fund.

Market risk monitoring is based on VaR calculation, with a confidence/reliability interval of 99.5% for one-year time horizon. Since VaR does not totally guarantees that risks do not exceed the probability used, Stress Tests are also carried out, with the purpose to calculate the impact of several extreme scenarios on the value of the portfolio.

The shareholder liquidity level and bond component of the Pension Fund is assessed through a liquidity test. With shares, this analysis is done based on the number of days to settle, considering the assets in the portfolio. This test consists of verifying the liquidity of the shareholder segment, assessing how many days are necessary for its settlement in the market, considering the costs associated with these transactions and the average historical volume of transactions in the various markets. In addition, in the bond segment, the cash receipts (positive cash-flows) resulting from bond coupon (interest) payments and amortisations or possible call exercises for one month are calculated. All these tests allow to assess the degree of liquidity in the short term and to monitor or act before a possible shortage of liquidity in a timely manner.

Other risks

With regard to other risks – reputation, compliance, strategy and business risk - these are also monitored by the Board of Directors, and risks are controlled and corrective measures taken based on the results obtained against the objectives / limits established in the risk appetite, namely the monitoring and control of deviations from the approved strategic plan and budget.

Hedging Policies and Risk Reduction

For the purpose of reducing credit risk, the risk mitigation elements associated with each operation are considered. In particular, real mortgage guarantees and financial collateral are relevant, as well as the provision of personal credit protection, namely collateral.

In terms of direct reduction of the exposure value, credit transactions collateralised by financial collateral are considered, namely, term deposits and securities. In financial collaterals, the market risk and foreign exchange risk of the assets is considered, and, when applicable, the value adjustment of the collateral is carried out.

Regarding real mortgage guarantees, CEMG has defined valuation and revaluation models to be applied to properties that may constitute collateral for credit operations. The asset evaluation is carried out by independent experts, and the management of evaluations and inspection is centralised in a structuring unit of the Institution, regardless of the commercial area. In accordance with (EU) Regulation No. 575/2013 (CRR), the requirements for the validation and reassessment of the asset's value, depending on the cases, either by statistical and computerised methods or by review or revaluation of the valuation value by the expert.

For credit guarantees, the principle of substitution of the customer's risk by that of the protection provider is applied, provided that does not originate credit derivatives on the portfolio exposure.

CEMG does not usually use on-balance sheet and off-balance sheet processes, nor does it generate credit derivatives on exposure in its portfolio.

Trading portfolio market risk mitigation techniques essentially consist of hedging exposures for financial products with symmetric risk to decrease the total risk of operations or the partial or total sale of exposures to reduce exposure or cancel it completely.

With regard to banking portfolio, interest rate and foreign exchange risk mitigation techniques are the negotiation of hedging transactions with derivatives and closing exposures through the sale of open exposures.

Own Funds and Capital Ratios

The own funds of CEMG are established in accordance with the applicable regulatory standards, namely Directive 2013/36/EU (CRD IV) and Regulation (EU) No. 575/2013 (CRR) adopted by the European Parliament and by the Council, and the Notice No. 6/2013 of Bank of Portugal. Own funds include own funds of level 1 (tier 1) and own funds of level 2 (tier 2). Tier 1 includes own funds core of level 1 (common equity tier 1 – CET1) and the additional own funds of level 1 with the following composition:

- *Own Funds Core of Level 1 or Common Equity Tier 1 (CET1)*: this category includes the realised capital (with deduction of own funds), eligible reserves (including fair-value reserves), retained earnings, positive and certified retained earnings for the period or wholly if negative. The value of reserves and retained earnings is adjusted by reversal of the results in financial liabilities at fair value through profit or loss in the part corresponding to the risk of the institution's own credit. Non-controlling interests are only eligible to the extent necessary to cover the Group's capital requirements attributable to minority shareholders. The balance value of the amounts related to goodwill, other intangible assets, as well as the gap, if positive, is deducted between the asset and the pension fund responsibility. The amount of the prudent valuation calculated in accordance with CRR Articles No. 34 and 105 is also deducted. The deferred tax assets related to tax losses are also deducted. Concerning financial investments on financial sector entities and deferred tax assets arising from 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 realised on the respective held capital levels. As part of the implementation of this new prudential regulation (EU No. 575/2013), a transition period will be set out that will allow to gradually acknowledge the majors impacts of this new regulation. This transition plan reached total recognition in 2018 (i.e. 100%) for almost all captions. For deferred tax assets, which do not depend on future profitability, the transitional cumulative recognition plan is maintained on a 10% annual basis, on the balance sheet as at 1 January 2014. In 2018 it will be of 40%;
- *Own Funds of Level 1 or Tier 1 (T1):* includes capital equivalent instruments, whose conditions are in accordance with Article No. 52 from Regulation No. 575/2013 and approved by Bank of Portugal. Non-controlled interests relating to additional own funds minimum requirements of the institutions for which the Group does not hold full ownership are also eligible. The eventual detentions of capital T1 from financial institutions subjected to deduction are deducted from this capital.
- *Own Funds of Level 2 or Tier 2 (T2):* includes capital equivalent instruments, whose conditions are in accordance with the Article No. 63 and approved by Bank of Portugal. Non-controlled interests relating to the minimum own fund’s requirements of the institutions for which CEMG does not hold full ownership are also eligible. The eventual detentions of capital T2 from financial institutions subjected to deduction are deducted from this capital.

Totals Own Funds or Total Capital are constituted by the sum of the three levels previous referred.

Regarding the calculation of risk-weighted assets, in addition to credit, operating 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. With respect to deferred tax assets arising from temporary differences that do not depend on future profitability, these are subject to a 100% weighting for capital requirements. CVA requirement (Credit Valuation Adjustment) is also determined.

With the adoption of International Financial Reporting Standard IFRS 9 - Financial Instruments, applicable from 1 January 2018, and considering Regulation (EU) 2017/2395 of the European Parliament and of the Council, CEMG has chosen to apply the phasing-in prudential plan defined in the Regulation, on an ongoing basis, over a 5-year period.

As referred in 2018, the effects of Basel III's new regulation will gradually being introduced. This process is usually named as Phasing-in. The full assumption of the new regulation, without considering transitory plans, is named as Full Implementation. Phasing-in process is currently in force, and it is on this basis that an entity verifies that has its own funds for an amount not below its own funds, thus certifying the adequacy of its capital. This relation is reflected on the different capital ratios, namely CET1 ratio, T1 ratio and total capital ratio (formerly designated by solvability ratio, represented by the percentage of capital level correspondent to the amount of 12.5 times the own funds requirements).

For these ratios, regulatory minimums are indicated by CRD IV / CRR of 4.5% for CET1, 6% for Tier 1 and 8% for total Capital. However, on these regulatory minimums, reserves of own funds (such as Conservation Reserve, Counter-Cyclical Reserve and Reserves for Other Systemic Institutions) are applied, the value of which is defined by Bank of Portugal. In 2018, Bank of Portugal defined a 0% Counter-cyclical Reserve. Regarding Conservation Reserve, the Bank of Portugal, in its Notice 6/2016, defines its application according to the transition plan set out in Article no. 160 of CRD IV, thus the value of this reserve in 2018 is 1.875% and 2.5% after 1 January 2019. Pursuant to these provisions, as of 30 June 2018, the Common Equity Tier 1, Tier 1 and Total regulatory minimum ratios were 6.375%, 7.875% and 9.875%, respectively, including Own Fund Reserves, referred to above.

The summary of the calculation for the CEMG's capital requirements as at 30 June 2018 and 31 December 2017, under phasing-in, is presented as follows:

		(Thousands of Euro)
	Jun 2018	**Dec 2017**
Capital Common Equity Tier 1		
Realised capital	2 420 000	2 420 000
Net profit, reserves and retained earnings	(796 293)	(697 312)
Other regulatory adjustments	(309 482)	(373 712)
	1 314 225	1 348 976
Capital Tier 1	1 314 225	1 348 976
Capital Tier 2		
Subordinated loans	8 401	24 250
Regulatory adjustments	(1 700)	(24 250)
	6 701	-
Total own funds	1 320 926	1 348 976
Own funds requirements		
Credit risk	743 201	748 227
Market risk	1 778	17 718
Operating risk	46 334	46 334
Other requirements	60 456	39 397
	851 769	851 676
Prudential Ratio		
Common Equity Tier 1 ratio	12.34%	12.67%
Tier 1 ratio	12.34%	12.67%
Total capital ratio	12.41%	12.67%

It should be noted that ratios, as at 30 June 2018, consider the impact of admission to the deferred tax assets special regime, as described in note 31.

With the adoption of International Financial Reporting Standard IFRS 9 - Financial Instruments, applicable from 1 January 2018, and considering Regulation (EU) 2017/2395 of the European Parliament and of the Council, CEMG has chosen to apply the phasing-in prudential plan defined in the Regulation, on an ongoing basis, over a 5-year period. If CEMG did not applied this transition plan, CEMG's prudential ratios in June 2018 would be:

(Thousands of Euro)

	Jun 2018
Capital Common Equity Tier 1	1 170 736
Capital Tier 1	1 170 736
Total own funds	1 177 437
Own funds requirements	844 271
Prudential ratios	
Common Equity Tier 1 ratio	11.09%
Tier 1 ratio	11.09%
Total Capital ratio	11.16%

52 Sovereign debt of European Union countries subject to bailout

During the first half of 2018, all Greek debt securities were sold in the amount of Euro 17,021 thousand, with a loss of Euro 412 thousand.

As at 31 December 2017, the exposure of the Group to sovereign debt of European Union countries subject to bailout is as follows:

Issuer/ Portfolio	Book value	Fair value	Fair value reserve	Impairment	Average interest rate %	Average maturity Years	Measurement level
Greece							
Financial assets at fair value through other comprehensive income	17 164	17 164	(1 128)	-	2.51%	20,28	1

As at 31 December 2017, the value of the securities includes accrued interest in the amount of Euro 52 thousand.

53 Transfer of assets

CEMG performed a set of transactions of sale of financial assets (namely loans and advances to customers) for specialised Funds in the recovery of loans. These funds take the responsibility for management of the companies or assets received as collateral with the objective of ensuring a pro-active management through the implementation of plans to explore/increase the value of the companies/assets.

The financial assets sold under these transactions are derecognised from the balance sheet of the CEMG, since the transactions result in the transfer to the Funds of a substantial portion of the risks and benefits associated with the assets as well as the control on the assets.

The specialised funds that acquire financial assets to CEMG are closed funds, in which the holders of the mutual funds have no possibility to request the reimbursement of its investment throughout the useful life of the Funds.

These mutual funds are held by several banks, which are the sellers of the loans, in percentages that vary through the useful life of the Funds, ensuring however that, separately, each bank does not hold more than 50% of the capital of the Funds.

The Funds have a specific management structure (General Partner), fully independent from the seller's banks and that is selected on the date of establishment of the Funds.

The management structure of the Funds has as main responsibilities:

- determine the objective of the Funds; and
- manage exclusively the Fund, determining the objectives and investment policy and the conduct in management and business of the Funds.

The management structure is remunerated through management commissions charged to the Funds.

These funds, in most transactions (in which CEMG holds minority positions) establish companies under the Portuguese law in order to acquire the loans to CEMG's, which are financed through the issuance of senior and junior bonds.

The value of the senior bonds fully subscribed by the funds that hold the share capital of the companies match the fair value of the asset sold, determined in accordance with a negotiation based on valuations performed by both parties. These bonds are remunerated at an interest rate that reflects the risk of the company that holds the assets. The value of the junior bonds is equivalent to the difference between the fair value based on the valuation of the senior bonds and the sale value.

These junior bonds, when subscribed by CEMG, provide the right to a contingent positive value if the recovered amount for the assets transferred is above the nominal value amount of senior bonds plus it related interest.

However, considering that these junior bonds reflect a difference between the valuations of the assets sold based on the appraisals performed by independent entities and the negotiation between the parties, the junior bonds are fully provided.

Therefore, following the transactions that occurred, CEMG subscribed:

- Mutual funds of the Funds, for which the cash-flows that allow the recovery arise mainly from a set of assets transferred from the participant banks (where CEMG has clearly a minority interest). These securities are booked in the Financial assets at fair value through other comprehensive income portfolio and are accounted for at fair value based on the market value, as disclosed by the Funds and audited at each year end; and
- Junior bonds (with higher subordination degree) issued by the companies held by the funds and which are fully provided to reflect the best estimate of impairment of the financial assets transferred.

Within this context, not withholding control but maintaining an exposure to certain risks and rewards, the Group, in accordance with IAS 39.21 performed an analysis of the exposure to the variability of risks and rewards in the assets transferred, before and after the transaction, having concluded that it does not hold substantially all the risks and rewards.

Considering that it does not hold control and does not exercise significant influence on the funds or companies management, CEMG performed the derecognition of the assets transferred under the scope of IAS 39.20 c (i) and the recognition of the assets received as follows:

(Thousands of Euro)

	Jun 2018			Dec 2017		
	Values associated with the transfer of assets			Values associated with the transfer of assets		
	Net assets transferred	Amount received	Result obtained with the transfer	Net assets transferred	Amount received	Result obtained with the transfer
Fundo Vega, FCR	27 857	43 124	15 267	27 857	43 124	15 267
Vallis Construction Sector Fund	23 506	26 776	3 270	23 506	26 776	3 270
Fundo de Reestruturação Empresarial, FCR	21 549	21 590	41	21 549	21 590	41
	72 912	91 490	18 578	72 912	91 490	18 578

As at 30 June 2018 and 31 December 2017, the assets received under these transactions are as follows:

(Thousands of Euro)

	Jun 2018		
	Senior securities	Junior securities	Total
Fundo Vega, FCR	26 796	-	26 796
Fundo de Reestruturação Empresarial, FCR	11 936	-	11 936
	38 732	-	38 732

(Thousands of Euro)

	Dec 2017				
	Senior securities	**Junior securities**	**Total**	**Impairment**	**Net amount**
Fundo Vega, FCR	28 839	-	28 839	(2 043)	26 796
Vallis Construction Sector Fund	19 269	7 838	27 107	(27 107)	-
Fundo de Reestruturação Empresarial, FCR	12 863	-	12 863	(889)	11 974
	60 971	7 838	68 809	(30 039)	38 770

As at 31 December 2017, impairment losses amounting to Euro 5,864 thousand, Euro 2,043 thousand, Euro 178 thousand were recorded relating to the devaluation of the mutual funds in Vallis Construction Sector Fund, Fundo Vega, FCR and Fundo de Reestruturação Empresarial, FCR.

As at 31 December 2017, junior securities refer to mutual funds on the amount of Euro 7,838 thousand, which are fully provided.

As at 1 January 2018, the investment units in the Vallis Construction Sector Fund were transferred from the portfolio of Financial assets available for sale to the portfolio of Financial assets not held for trading mandatorily at fair value through profit or loss in accordance with the IFRS 9 adoption. It should be noted that as at 1 January 2018 (reclassification date) and 30 June 2018, the fair value of these investment units is nil.

Although junior bonds are fully provided, CEMG still holds an indirect exposure to financial assets transferred, under the minority investment that holds in the pool of assets transferred by all financial institutions involved, through the holding of shares of the funds (denominated in the table as senior bonds).

54 Transition to IFRS 9 – Financial instruments

As referred in the accounting policy described in Note 1 a), CEMG adopted IFRS 9 "Financial Instruments" for the first time on 1 January 2018. This led to changes in the classification and valuation of certain financial assets and liabilities, with the following impacts:

(Thousands of Euro)

	IAS 39						IFRS 9		
31 December 2017	**Measurement basis**	**Book value**	**Reclassification**	**Notes**	**Remeasurement**	**Notes**	**Book value**	**Measurement basis**	**1 January 2018**
Assets		**19 809 591**	**-**		**(92 289)**		**19 717 302**	-	
Cash and deposits at central banks	Amortised cost	1 733 626	-		-		1 733 626	Amortised cost	Cash and deposits at central banks
Loans and advances to credit institutions repayable on demand	Amortised cost	59 472	-		-		59 472	Amortised cost	Loans and advances to credit institutions repayable on demand
Financial assets held for trading	Fair value through profit or loss	184 076	-		-		184 076	Fair value through profit or loss	Financial assets held for trading
Financial assets available for sale	Fair value through other comprehensive income	2 602 791	(836 750)	**A**	-		1 766 041	Fair value through other comprehensive income	Financial assets at fair value through other comprehensive income
			862 073	**A and B**	(1 496)	**B**	860 577	Fair value through profit or loss	Financial assets not held for trading mandatorily at fair value through profit or loss
Other loans and advances to credit institutions	Amortised cost	558 711	-		(915)	**C**	557 796	Amortised cost	Other loans and advances to credit institutions
Loans and advances to customers	Amortised cost	12 748 717	(25 323)	**B**	(140 980)	**D**	12 582 414	Amortised cost	Loans and advances to customers
Non-current assets held for sale		714 133	-		-		714 133		Non-current assets held for sale
Property nad equipment		220 002	-		-		220 002		Property nad equipment
Intangible assets		30 092	-		-		30 092		Intangible assets
Investments in associated companies		315 903	-		-		315 903		Investments in associated companies
Current tax assets		6 589	-		-		6 589		Current tax assets
Deferred tax assets		458 865	-		54 610	**G**	513 475		Deferred tax assets
Other assets		176 614	-		(3 508)	**E**	173 106		Other assets
Liabilities		**18 080 581**	**-**		**944**		**18 081 525**		
Deposits from central banks	Amortised cost	1 557 840	-		-		1 557 840	Amortised cost	Deposits from central banks
	Fair value through profit or loss						16 171	Fair value through profit or loss	Financial liabilities held for trading
Financial liabilities held for trading		16 171	-		-				
Deposits from other financial institutions	Amortised cost	2 011 197	-		-		2 011 197	Amortised cost	Deposits from other financial institutions
Deposits from customers	Amortised cost	12 555 325	-		-		12 555 325	Amortised cost	Deposits from customers
Debt securities issued	Amortised cost	1 389 999	-		-		1 389 999	Amortised cost	Debt securities issued
	Fair value through profit or loss						1 663	Fair value through profit or loss	Hedging derivatives
Hedging derivatives		1 663	-		-				
Provisions		26 207	-		944	**D**	27 151		Provisions
Current tax liabilities		1 104	-		-		1 104		Current tax liabilities
Other subordinated debt	Amortised cost	237 016	-		-		237 016		Other subordinated debt
Other liabilities		284 059	-		-		284 059		Other liabilities
Equity		**1 729 010**	**-**		**(93 233)**		**1 635 777**		
Share capital		2 420 000	-		-		2 420 000		Share capital
Other equity instruments		6 323	-		-		6 323		Other equity instruments
Fair value reserves		27 976	(12 438)	**F**	-		15 538		Fair value reserves
Other reserves and retained earnings		(782 949)	12 438	**F**	(93 233)	**H**	(863 744)		Other reserves and retained earnings
Net profit/ (loss) for the period		57 660	-		-		57 660		Net profit/ (loss) for the period
Total Liabilities and Equity		**19 809 591**	**-**		**(92 289)**		**19 717 302**		

On 1 January 2018, CEMG reclassified its financial assets to the portfolios established in IFRS 9:

A. Reclassification of investment fund units in the amount of Euro 836,750 thousand classified, in accordance with IAS 39, in the Available-for-sale financial assets portfolio, to the portfolio of Financial assets not held for trading mandatorily at fair value through profit or loss. This reclassification resulted from CEMG's assessment on the characteristics of these financial instruments, in accordance with the requirements and classification criteria of IFRS 9.

B. Reclassification of loans and advances to customers in the amount of Euro 25,323 thousand, whose contractual cash flows do not represent solely payments of principal and interest (SPPI) over the outstanding capital, and that according to the IFRS 9 requirements, should be classified to Financial assets not held for trading mandatorily at fair value through profit or loss. The remeasurement of this caption in the amount of Euro 1,496 thousand, results from the revaluation of these loans at fair value.

C. Impact arising from the application of the "expected credit losses" (ECL) model to the portfolio of Other loans and advances to credit institutions, in accordance with IFRS 9.

D. Remeasurements of Loans and advances to customers and Provisions, in the amount of Euro 140,980 thousand and Euro 944 thousand, respectively, result from the replacement of the "incurred losses" model of IAS 39 with a forward-looking model of "expected credit losses" (ECL), in accordance with IFRS 9.

E. Impairment increase arising from the application of the "expected credit losses" (ECL) model to the debtors's balance classified under Other assets, in accordance with IFRS 9.

F. The breakdown of reclassifications made between fair value reserve and retained earnings is presented as follows:

(Thousands of Euro)

Reclassification of the investment units' fair value reserve, net of taxes	(15 534)
Impairment increase for debt instruments - ECL	2 809
Recognition of own credit risk in other comprehensive income	287
	(12 438)

G. Impact on deferred tax assets, in the amount of Euro 54,610 thousand, as a result of the IFRS 9 adoption as of 1 January 2018.

H. Total effect of the IFRS 9 adoption in equity.

The impairment reconciliation in accordance with IAS 39 and 37 as at 31 December 2017 with impairment as at 1 January 2018:

(Thousands of Euro)

	IAS 39 and 37 impairment 31 December 2017	Amendment introduced by adoption of IFRS 9	IFRS 9 impairment 1 January 2018
Financial assets at fair value through other comprehensive income			
- Fixed income securities	35 107	2 809	37 916
- Variable income securities	137 217	(137 217)	-
Other loans and advances to credit institutions	-	915	915
Loans and advances to customers	1 008 261	140 980	1 149 241
Other assets	25 183	3 508	28 691
Provisions	16 147	944	17 091
	1 221 915	**11 939**	**1 233 854**

Financial assets at fair value through other comprehensive income – Variable income securities records the amount related to the charge-off of impairment recorded for investment fund units classified in accordance with IAS 39 in the portfolio of Available-for-sale financial assets and reclassified in accordance with the classification criteria of IFRS 9 for the portfolio of Financial assets not held for trading mandatorily at fair value through profit or loss. All other items record the remeasurement effect calculated in accordance with IFRS 9 criteria.

55 Contingencies

Resolution Fund

Resolution measure of Banco Espírito Santo, S.A. (BES)

Bank of Portugal applied a resolution measure to Banco Espírito Santo, SA on 3 August 2014, pursuant to the provisions of Article 145 C (1.b) of the General Regime for Credit Institutions and Financial Companies (RGICSF), in the partial transfer method of assets, liabilities, off-balance sheet assets and assets under management to a transition bank, Novo Banco, SA (Novo Banco). As part of this process, the Resolution Fund made a capital injection in Novo Banco in the amount of Euro 4,900,000 thousand, becoming the sole shareholder, and contracted loans in the amount of Euro 4,600,000 thousand, of which Euro 3,900,000 thousand were granted by the Portuguese State and Euro 700,000 thousand were granted by a group of credit institutions, of which Euro 70,000 thousand were granted by the Group.

On 29 December 2015, Bank of Portugal transferred to the Resolution Fund the emerging liabilities from possible negative effects of future decisions arising from the resolution process, resulting in liabilities or contingencies.

On 7 July 2016, the Resolution Fund stated that it would review and assess the proceedings to take following the disclosure of the report on the results of the independent evaluation exercise, which was carried out to estimate the level of credit recovery for each class of creditors in the possible scenario of a normal BES insolvency procedure on 3 August 2014.

Thus, under the applicable law, and where it is found that at the time of BES settlement, creditors whose credit facilities have not been transferred to Novo Banco, assume a loss higher than would have been hypothetically if BES had entered into a settlement procedure immediately prior to the application of the resolution measure, these creditors are entitled to receive the difference from the Resolution Fund. To date, there is a relevant body of legal proceedings underway against the Resolution Fund.

Bank of Portugal announced on 20 February 2017 that it has decided to choose the potential Lone Star investor for a definitive phase of negotiations and in conditions of exclusivity aiming to complete the terms in which the sale of the Fund's share Resolution on Novo Banco, SA would come about/will be held, and on 31 March 2017, a further statement was issued stating:

"Today, the Bank of Portugal choose Lone Star to complete the sale of the Novo Banco and the Resolution Fund signed the transaction's contract documents.

Under the terms of the agreement, Lone Star will make capital injections in Novo Banco for a total amount of Euro 1,000,000 thousand, of which Euro 750,000 thousand at the time of the transaction completion and Euro 250,000 thousand within a period of up to 3 years.

Due to this capital injection, Lone Star will hold 75% of the capital stock of the Novo Banco and the Resolution Fund will maintain 25% of the capital.

The conditions agreed also include the existence of a contingent capitalisation mechanism, under which the Resolution Fund, as a shareholder, commits to make capital injections in the event of certain cumulative conditions, related to: i) the performance of a delimited set of assets of Novo Banco and ii) with the development of the Bank's capitalisation levels.

Possible capital injections to be made pursuant to this contingent mechanism benefit from a capital buffer resulting from the planned injection to be made under the terms of the operation and are subject to an absolute ceiling.

The agreed conditions also provide for mechanisms to safeguard the interests of the Resolution Fund, the alignment of benefits and supervision, despite the restrictions arising from the application of the State aid rules.

The completion of the sale is dependent on obtaining the usual regulatory authorizations (including the European Central Bank and the European Commission) and a liability management exercise, subject to the approval of the bondholders, which will cover non-subordinated bonds of Novo Banco and that, by offering new bonds, it will generate at least Euro 500 million of own funds eligible for the calculation of the CET1 ratio. "

On 18 October 2017, the Bank of Portugal announced the sale of the Novo Banco, stating that:

- "Bank of Portugal and the Resolution Fund concluded today the sale of Novo Banco to Lone Star through the injection of Euro 750 million by the new shareholder, which will be followed by a new capital injection of Euro 250 million, to be completed by the end of 2017".
- "The conclusion of this operation entails a complex process of negotiations with the new shareholder, the European institutions and other national institutions, in close cooperation with the Government."
- "The completion of the operation announced on 31 March allows a very significant strengthening of the equity of Novo Banco and ceases the transition status applicable to the bank since its inception."
- "As of this date, Novo Banco will be held by Lone Star and by the Resolution Fund, with holdings of 75% and 25%, respectively, and will be provided with the necessary means to execute a plan guaranteeing that the bank will continue to play its decisive role in financing the national economy."

On 28 March 2018, the Resolution Fund issued a statement on the payment to be made to Novo Banco about the results of 2017, from which is about the activation of the contingent capitalisation mechanism provided for in the contracts celebrated for Novo Banco's sale. The amount to be paid to Novo Banco in 2018 by the Resolution Fund in relation to 2017 financial statements amounts to Euro 792 million.

The conditions agreed with the sale of Novo Banco, S.A. also include a contingent capitalisation mechanism, under which the Resolution Fund undertakes to make payments to Novo Banco, S.A. if certain cumulative conditions materialise, related to: i) the performance of a delimited set of assets and ii) an increase of the Bank's capitalisation levels. In case these conditions are met, the payments are subject to a maximum limit of Euro 3,890 thousand. However, payment will only be made after the statutory clearance of accounts and after a verification procedure to be made by an independent entity, which aims to confirm that the amount to be paid by the Fund is correctly calculated.

Firstly, the Fund will use the available financial resources, resulting from contributions paid, directly or indirectly by the banking sector. These resources will be complemented by a loan to be obtained from the State, on the agreed terms in October 2017, as it was disclosed back then. The concrete amount of this loan is not yet accurate, but it is estimated to be a maximum Euro 450 million, below the annual limit of Euro 850 million, with budget.

The Fund has already disbursed a total of Euro 4,900 million of financial support to the resolution measure applied to Banco Espírito Santo, S.A., corresponding to the realization of capital of the new bank in August 2014. The Fund did not make any other payment, but has already registered in it's 2017 accounts a provision of Euro 792 million, payment due in 2018.

Resolution measure of Banif – Banco Internacional do Funchal, S.A. (Banif)

The Board of Directors of Bank of Portugal decided on 19 December 2015 to declare that Banif was "at risk or in a situation of insolvency" and to start an urgent resolution of the institution by the partial or total disposal method of its activity, which has materialized, on 20 December 2015, in the disposal of rights and obligations, representing assets, liabilities, off-balance sheet assets and assets under management of Banif to Banco Santander Totta S.A. (BST).

Most of the assets that were not disposed of were transferred to an asset management vehicle called Oitante, S.A. (Oitante), created specifically for this purpose, which has as sole shareholder the Resolution Fund, with the Oitante proceeding to the issuance of debt bonds in the amount of Euro 746,000 thousand, and a guarantee provided by the Resolution Fund and a counter-guarantee by the Portuguese State.

The transaction involved public support, of which Euro 489,000 thousand by the Resolution Fund. The Euro 489,000 thousand assumed by the Resolution Fund were financed through a mutual agreement granted by the State.

Other relevant conditions

The resolution measures applied to BES and Banif referred to above determined that, as at 31 December 2016, the Resolution Fund held the entire capital stock of Novo Banco and Oitante, at the same time as the Resolution Fund contracted a loan and assumed other liabilities and contingent liabilities, namely:

- Effects of the application of the principle that no institutions' creditor under resolution may incur greater loss than it would have assumed may that institution had entered into settlement.
- Negative effects arising from the resolution process resulting in additional liabilities or contingencies for the Novo Banco, S.A., which must be neutralized by the Resolution Fund.
- Legal proceedings against the Resolution Fund.
- Guarantee provided to the bonds issued by Oitante SA for a total amount of Euro 746,000 thousand, counter-guaranteed by the Portuguese State, for which Oitante, S.A. made an early repayment of Euro 90,000 thousand.

In order to satisfy the responsibilities of the Resolution Fund, in particular to repay the loans obtained and to meet other responsibilities that may arise, the Resolution Fund essentially has revenues from initial and periodic contributions of the participating institutions and the banking sector established by Law No. 55-A/2010. In this regard, the possibility of the Government establishing, through an ordinance, that participating institutions make special contributions is also expected, in the situations provided for in applicable legislation, particularly in the event that the Resolution Fund does not have its own resources to satisfy its obligations.

CEMG's financial statements of 30 June 2018 mirror the expectation that no new special or extraordinary contributions will be required to the institutions participating in the Resolution Fund.

According to non-confidential information from the European Comission, the three support measures of the Resolution Fund and the State that compose the sale agreement of Novo Banco and that are connected to a portfolio of loans with uncertain coverage are as follows:

(i) Lone Star has the right to claim from the Resolution Fund the financing costs, losses and provisioning of that portfolio until the maximum of Euro 3,89 thousand million, subject to several conditions, namely in terms of reduction of the capital ratio CET1;

(ii) Novo Banco may issue debt until Euro 400 million, from Tier 2, that the Resolution Fund will subscribe for lack of investors, and which is deducted from the Euro 3,89 billion related to the contingent capital mechanism;

(iii) In case the total capital ratio reaches values below those defined in the Supervisory Review and Evaluation Process ("SREP"), the Portuguese State may inject adicional capital in Novo Banco, subject to determined conditions.

In the future, in case of need to use these contributions, may have relevance to the financial statements.

Since 2013, the Group has made mandatory contributions, as established in Decree-Law No. 24/2013, of 19 February, which establishes the method for determining the initial, periodic and special contributions to the Resolution Fund provided for in the RGICSF.

On 3 November 2015, the Bank of Portugal issued a Circular Letter under which clarified that the periodic contribution to the RF should be recognised as an expense at the time of the occurrence of the event which creates the obligation to pay the contribution, i.e. on the last day of April of each year, as stipulated in the Article 9 of the aforementioned Decree-Law. CEMG is recognising as an expense the contribution to the RF in the year in which it becomes due.

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

In accordance with Decree-Law No. 24/2013, it is Bank of Portugal's responsibility to determine, by instruction, the rate to be applied in each year based on the objective incidence of periodic contributions. Bank of Portugal Instruction No. 19/2015, published on 29 December, stipulates that Portuguese banks paid contributions to the Resolution Fund in 2016, calculated at a 0.02% base rate. Instruction No. 21/2016 of the Bank of Portugal, of 26 December, sets the base rate to be effective in 2017 for the determination of periodic contributions to the Resolution Fund by 0.0291%.

As at 31 December 2017, the Group made regular contributions to the Resolution Fund in the amount of Euro 3,473 thousand (31 December 2016: Euro 2,907 thousand) and paid the contribution to the banking sector in the amount of Euro 11,406 thousand (31 December 2016: Euro 12,793 thousand) and were recognised as expense in April and June, in accordance with IFRIC 21 – Levies.

On 28 September 2016, the Resolution Fund announced that it had agreed with the Ministry of Finance to review the loan of Euro 3,900,000 thousand originally granted by the Portuguese State to the Resolution Fund in 2014 to finance the resolution measure applied to BES. According to the Resolution Fund, the maturity extension of the loan was intended to ensure the ability of the Resolution Fund to meet its obligations through its regular revenues, regardless of the contingencies to which the Resolution Fund is exposed. On the same day, the Minister of Finance announced that increases in liabilities arising from materialization of future contingencies will determine the maturity adjustment of Portuguese State and Bank loans to the Resolution Fund in order to maintain the required contribution to the banking sector at current levels.

The announcement made by the Resolution Fund at 21 March 2017 states:

- "The conditions of the loans obtained by the Fund for the financing of the resolution measures applied to Banco Espírito Santo, SA and Banif - Banco Internacional do Funchal, SA have been changed." These loans amounted to Euro 4,953,000 thousand, of which Euro 4,253,000 thousand were granted by the Portuguese State and Euro 700,000 thousand were granted by a set of banks.
- "Those loans will due in December 2046, without loss/prejudice to the possibility of early/anticipated repayment based on the use of revenues/receipts from the Resolution Fund. The maturity will be adjusted in conditions that guarantee the ability of the Resolution Fund to fully meet its obligations based on regular revenues/income and without the need for special contributions or any other extraordinary contributions. Following the resolution measures of BES and Banif, liabilities arising from contracts obtained by the Resolution Fund with the Portuguese State and the banks, compete in pari passu among themselves."
- "The review of loan conditions aimed to ensure the sustainability and financial balance of the Resolution Fund."
- "The new conditions allow for full payment of the Resolution Fund's liabilities and their remuneration, without the need for special contributions or any other extraordinary contributions from the banking sector."

Following these changes to the loans contracted by the Resolution Fund, as at 30 June 2018, the amount of credit and interest owed to the Group amounted to Euro 70,704 thousand (31 December 2017: Euro 70,000 thousand).

In this context, considering the above-mentioned exposure, it is not possible at this date to estimate the effects on the Resolution Fund arising from the application of the principle that no creditor of the credit institution under resolution may incur greater loss than the one it would have assumed may that institution entered into settlement of liabilities or additional contingences for Novo Banco, S.A. that have to be neutralized by the Resolution Fund, legal proceedings against the Resolution Fund, including the so-called Harmed BES process; and the guarantee given to the bonds issued by Oitante.

Thus, and regardless the possibility provided for in the applicable legislation for the collection of special contributions, given the recent developments regarding the renegotiation of the conditions of loans granted to the Resolution Fund by the Portuguese State and by a group of banks, CEMG included, and to the public announcements made by the Resolution Fund and by the Minister of Finance which state that this possibility will not be used. The financial statements, as of 31 December 2017, reflect CEMG's expectation that the institutions participating in the Resolution Fund will not be required to make special contributions or any other extraordinary contributions to finance the resolution measures applied to BES and Banif.

Single Resolution Fund

Under the Single European Resolution Fund ('FUR') the Group made an initial contribution of Euro 8,452 thousand in 2015, which, under the Intergovernmental Agreement on the transfer of the mutualisation of contributions to FUR, was not transferred to FUR but used for the compliance with obligations of the Resolution Fund resulting from the application of resolution measures prior to the date of application of the Agreement. This amount will have to be re-set over an 8-year period (starting in 2016) through periodic contributions to FUR. The amount of the cash contribution as at 30 June 2018 attributable to the Group was Euro 8,051 thousand (31 December 2017: Euro 9,645 thousand). The Group also opted for the settlement of Euro 4,886 thousand (31 December 2017: Euro 3,475 thousand) in the form of irrevocable payment commitment, in accordance with note 10.

56 Subsidiary and associated companies

As at 30 June 2018, the Group's subsidiary companies, are as follows:

Subsidiary	Head Office	Share Capital	Currency	Activity	% of control	% of effective participation	% of direct participation direta
Banco Montepio Geral – Cabo Verde, Sociedade Unipessoal, S.A.	Praia	992 000 000	Cape Verde Escudo	Banking	100.00%	100.00%	100.00%
Montepio Holding, S.G.P.S., S.A.	Porto	175 000 000	Euro	Management of shareholdings	100.00%	100.00%	100.00%

As at 30 June 2018, the Group's associated companies, held directly or indirectly, are as follows:

(Euro)

Subsidiary	Head Office	Share Capital	Activity	% held
HTA - Hotéis, Turismo e Animação dos Açores, S.A.	São Miguel island	10 000 000	Accomodation, catering and similar / Hotels with restaurant	20.00%
Montepio Gestão de Activos Imobiliários, A.C.E.	Lisboa	2 449 707	Real Estate assets management	26.00%
Montepio Geral Corp.	Newark		Money Transmitter Office	100.00%
CESource, ACE	Lisboa	-	IT resources mangament	18.00%

As at 30 June 2018, the Group held the following special purpose entities and investment funds:

Subsidiary	Establishment year	Acquisition year	Head Office	% of controlling interest	Consolidation method
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2011	2011	Lisboa	100%	Full
Montepio Arrendamento – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional II (FIIAH)	2013	2013	Lisboa	100%	Full
Montepio Arrendamento III – Fundo de Investimento Imobiliário Fechado para Arrendamento Habitacional (FIIAH)	2013	2013	Lisboa	100%	Full
Polaris - Fundo de Investimento Imobiliário Fechado	2009	2012	Lisboa	100%	Full
PEF - Portugal Estates Fund	2013	2013	Lisboa	100%	Full
Carteira Imobiliária - Fundo Especial de Investimento Imobiliário Aberto (FEIIA)	2013	2013	Lisboa	100%	Full

57 Relevant facts

Election of the Corporate Bodies

CEMG's General Meeting, in its extraordinary session of 16 March 2018, changed the nature of its governance model, leading CEMG governing bodies to include, namely, a Board of Directors and an Audit Committe, and elected new members of governing bodies for the 2018-2021 period.

On 4 April 2018, the Bank of Portugal granted the final endorsement, including its composition, of the following corporate bodies: General Meeting, Board of Directors and Audit Committee.

The above-mentioned corporate bodies came into effect on 21 March 2018 and Dr. Carlos Manuel Tavares da Silva will exercise, under the authorised terms of the Bank of Portugal, functions of Chairman of the Board of Directors and Chairman of the Executive Committee.

Banco Terra, S.A.

On 31 August 2018, CEMG announced that its subsidiary Montepio Holding, SGPS, SA agreed to sell 45.78% of the share capital of Banco Terra, S.A. to Arise, a joint venture formed together by the Norwegian sovereign trust fund Norfund, by the Dutch development bank FMO and by Rabobank to support growth in Africa through investments in African financial institutions.

As a result of this disposal, CEMG ceased to hold any interest in Banco Terra S.A., under the strategic redefinition of its international holdings.

It should be noted that the transfer of the ownership of these shares will only take place after some steps have been completed, either with other shareholders or with Mozambican authorities.

Admission to the special regime applicable to deferred tax assets

In the first half of 2018, CEMG adhered to the special regime applicable to deferred tax assets approved by Law No. 61/2014, of 26 August, which is applicable to expenses and negative equity changes recorded in tax periods beginning on or after 1 January 2015, as well as deferred tax assets recorded in the annual accounts relating to the last tax period prior to that date and to the share of associated expenses and negative equity changes, in accordance with the General Shareholders' Meeting Extraordinary Meeting of the CEMG held on 6 July 2016.

58 Subsequent events

In addition to the information disclosed in this document, there were no significant transactions and / or relevant events to be disclosed.

STATEMENT OF COMPLIANCE OF THE FINANCIAL INFORMATION ISSUED BY THE BOARD OF DIRECTORS

This statement has been issued under the terms of paragraph c) of No. 1 of article 245 of the Portuguese Securities Code (CVM).

The Board of Directors is responsible for drawing up the management report, preparing the financial statements and ensuring that they provide a true and appropriate view of Caixa Económica Montepio Geral, caixa económica bancária, S.A. (CEMG) financial position, the result of its operations, as well as for adopting suitable accounting policies and criteria, and maintaining an appropriate internal control system that prevents and detects possible errors or irregularities.

We confirm, to the best of our knowledge and belief, that:

- All the individual and consolidated financial information in the accounting documents, with reference to June 30, 2018, was prepared in accordance with the applicable accounting standards, and gives a true and appropriate image of the assets and liabilities, financial situation and net income of CEMG and companies included in the consolidation perimeter;
- The management report provides an accurate indication of the evolution of the business, performance and position of CEMG and companies included in the consolidation perimeter, in conformity with the legal requirements.

BOARD OF DIRECTORS

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

Lisbon, September 26, 2018

COMPLIANCE WITH THE RECOMMENDATIONS REGARDING INFORMATION TRANSPARENCY AND ASSET VALUATION

The Banco de Portugal, through circular letter 97/08/DSBDR of 3 December 2008 and 58/09/DSBDR of 5 August 2009, recommends the need for institutions to comply appropriately with the recommendations of the Financial Stability Forum (FSB) and the Committee of European Banking Supervisors (CEBS) relative to the transparency of information and valuation of assets, taking into account the principle of proportionality, by preparing a specific annex to the Annual Report and Accounts aimed at replying to the questionnaire attached to circular letter 46/08/DSBDR of Banco de Portugal on the subject.

This chapter serves the purpose of complying with the Banco de Portugal recommendation, using references to the detailed information presented in the various chapters of this Report and Accounts, whenever applicable.

I.	**Business Model**	**Document, Chapter and Page**
1.	Description of the business model (i.e. reasons for the development of the activities/businesses and respective contribution to the process of value creation) and, if applicable, of any changes made (for example as a result of the period of turbulence).	MR, Business Areas, page 10
2.	Description of strategies and objectives (including those specifically related to the undertaking of securitisation operations and operations with structured products);	MR, Strategy, page 9
3.	Description of the importance of the activities developed and their contribution to the business (including in quantitative terms).	MR, Business Areas, page 10 FSNO, Indicators of the balance sheet and income statement by operating segment, page 185 (NOTE 54)
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 10, Financial Analysis, page 27, Risk Management, page 51 FSNO, Financial assets and liabilities held for trading, page 127 (NOTE 23), Financial assets at fair value through other comprehensive income, page 131 (NOTA 25), Hedging derivatives, page 135 (NOTA 26), Other financial assets at amortised cost, page 137 (NOTE 27)
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 51 FSNO, Risk Management, page 194 (NOTE 55)
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 51 FSNO, Risk Management, page 194 (NOTE 55)
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 27

		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 27 FSNO, Net gains / (losses) from financial assets and liabilities at fair value through profit or loss, page 108 (NOTE 6), Net gains / (losses) from financial assets at fair value through other comprehensive income, page 109 (NOTE 7)
10.	Description of the reasons and factors responsible for the impact incurred.	MR, Financial Analysis, page 27
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 27 FSNO, Financial Statements, page 71
12.	Breakdown of write-downs between realised and unrealised amounts.	MR, Financial Analysis, page 27 FSNO, Financial assets and liabilities held for trading, page 127 (NOTE 23), Financial assets at fair value through other comprehensive income, page 131 (NOTA 25), Other financial assets at amortised cost, page 137 (NOTA 27)
13.	Description of the influence of the financial turbulence on the entity's share price.	Not applicable.
14.	Disclosure of maximum loss risk and description of how the institution's situation could be affected by the prolonging or worsening of the period of turbulence or by a market recovery.	MR, Financial Analysis, page 27 FSNO, Risk Management, page 194 (NOTE 55)
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 27 FSNO, Fair Value, page 160 (NOTE 49), Risk Management, page 194 (NOTE 55)
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 127 (NOTE 23), Financial assets at fair value through other comprehensive income, page 131 (NOTA 25), Other financial assets at amortised cost, page 137 (NOTA 27), Risk Management, page 194 (NOTE 55)
17.	Information on mitigation of credit risk (i.e. through credit default swaps) and the respective effect on existing exposure.	MR, Risk Management, page 51 FSNO, Risk Management, page 194 (NOTE 55)
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 51 FSNO, Loans and advances to customers, page 120 (NOTE 22), Financial assets and liabilities held for trading, page 127 (NOTE 23), Financial assets at fair value through other comprehensive income, page 131 (NOTA 25), Other financial assets at amortised cost, page 137 (NOTA 27), Indicators of the balance sheet and income statement by operating segment, page 185 (NOTE 54), Risk Management, page 194 (NOTE 55)

		Document, Chapter and Page
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 27 FSNO, Financial assets and liabilities held for trading, page 127 (NOTE 23), Financial assets at fair value through other comprehensive income, page 131 (NOTA 25), Other financial assets at amortised cost, page 137 (NOTA 27)
20.	Explanation of exposure (including "vehicles" and, in this case, the respective activities) that have not been consolidated (or that have been recognised during the crisis) and the associated reasons.	The CEMG Group consolidates all the exposures in which it holds the majority of the capital or a significant influence. Additional information on Special Purpose Vehicles (SPV) can be found in FSNO, Securitisation of assets, page 181 (NOTE 53)
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 80 (NOTE 1)
23.	Consolidation of the Special Purpose Entities (SPE) and other "vehicles", and their reconciliation with structured products affected by the period of turbulence.	FSNO, Accounting policies, page 80 (NOTE 1), Securitisation of assets, page 181 (NOTE 53)
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 80 (NOTE 1)
25.	Disclosures on the modelling techniques used for the valuation of financial instruments, including information about: - Modelling techniques and the instruments to which they are applied; - Valuation processes (including in particular the assumptions and inputs on which the models are based); - Types of adjustment applied to reflect model risk and other valuation uncertainties; - Sensitivity of the fair value (namely to variations in key assumptions and inputs); - Stress scenarios.	MR, Risk Management, page 51 FSNO, Risk Management, page 194 (NOTE 55)
VI.	**Other relevant aspects in disclosures**	
26.	Description of the disclosure policies and principles used in the reporting of disclosures and in financial reporting.	FSNO, Accounting policies, page 80 (NOTE 1)

Caption: MR – Management Report; FSNO – Financial Statements, Explanatory Notes and Opinions on the Accounts.

ALTERNATIVE PERFORMANCE MEASURES

On October 5, 2015, the European Securities and Markets Authority published a set of guidelines – ESMA/2015/1415 – addressing the disclosure of information by entities, other than States, whose securities are admitted to trading on a regulated market and to which is required the disclosure of information as set out by the Transparency Directive 2004/109/EC of the European Parliament and of the Council.

The aforementioned guidelines aim to promote transparency and clarify the relevance of the indicators disclosed by those entities to measure their performance – Alternative Performance Measures (APM) – contributing to improve comparability, credibility and understanding of the APM.

This chapter serves the purpose of complying with the ESMA guidelines on APM related to the 2017 financial reporting, with references to the various chapters of this Report.

BALANCE SHEET AND EXTRAPATRIMONIALS

SECURITIES PORTFOLIO AND OTHER FINANCIAL ASSETS (PAGE 32, 33, 36, 37)

Definition	Sum of the items 'Financial assets held for trading', 'Financial assets at fair value through other comprehensive income', 'Other financial assets at amortised cost', and 'Financial assets not held for trading mandatorily at fair value through profit or loss'.
Relevance	Assess the relative weight of this item from an assets' structure perspective.
Reference to FSNO	Page 72, 127, 131, 137, 130 (notes 23, 25, 27, 24)
Components and calculus	

(thousand euros)

		Jun-17	Dec-17	Jun-18
(a)	Financial assets held for trading	87 032	184 076	52 450
(b)	Financial assets at fair value through other comprehensive income	2 842 491	2 200 893	992 361
(c)	Other financial assets at amortised cost	-	-	620 891
(d)	Financial assets not held for trading mandatorily at fair value through profit or loss*	-	-	488 926
(e)	Securities portfolio and other financial assets* (a+b	2 929 523	2 384 969	2 154 628
(f)	Total net assets	20 205 893	20 200 024	19 249 242
	% Securities portfolio and other financial assets (e / f)	**14.5%**	**11.8%**	**11.2%**

* In June 2018 includes instruments at fair value through profit or loss, namely credits that do not meet the SPPI tests (Solely Payments of Principal and Interest).

Other investments (page 33)

Definition	Total assets excluding 'Loans to customers', 'Financial assets held for trading' , 'Financial assets at fair value through other comprehensive income', 'Other financial assets at amortised cost', and 'Financial assets not held for trading mandatorily at fair value through profit or loss'.
Relevance	Assess the relative weight of this item compared to Loans to customers and Securities portfolio from an assets' structure perspective.
Reference to FSNO	Page 72, 120, 127, 131, 137, 130 (notes 22, 23, 25, 27, 24)
Components and calculus	

(thousand euros)

		Jun-17	Dec-17	Jun-18
(a)	Total net assets	20 205 893	20 200 024	19 249 242
(b)	Net loans to customers	13 698 265	13 029 318	12 625 830
(c)	Financial assets held for trading	87 032	184 076	52 450
(d)	Financial assets at fair value through other comprehensive income	2 842 491	2 200 893	992 361
(e)	Other financial assets at amortised cost	-	-	620 891
(f)	Financial assets not held for trading mandatorily at fair value through profit or loss	-	-	488 926
(g)	Other investments (a - b - c - d - e)	3 578 105	4 785 737	4 468 784
	% of Other investments (g / a)	**17.7%**	**23.7%**	**23.2%**

Issued debt (page 33, 40, 42)

Definition	Sum of the balance sheet items 'Debt securities issued' and 'Other subordinated debt'.
Relevance	Assess the relative weight of this item from a funding structure perspective.
Reference to FSNO	Page 72, 149, 152 (notes 38, 40)
Components and calculus	

(thousand euros)

		Jun-17	Dec-17	Jun-18
(a)	Debt securities issued	1062 598	1544 054	1236 072
(b)	Other subordinated debt	251671	236 193	120 662
(c)	Issued debt (a +b)	1314 269	1780 247	1356 734
(d)	Total liabilities	18 432 764	18 437 103	17 619 716
	% of Issued debt (c / d)	**7.1%**	**9.7%**	**7.7%**

COMPLEMENTARY RESOURCES (PAGE 40)

Definition	Total liabilities excluding 'Customers' resources', 'Debt securities issued' and 'Other subordinated debt'.
Relevance	Assess the relative weight of this item compared to Customers' resources and Issued debt from a funding structure perspective.
Reference to FSNO	Page 72, 148, 149, 152 (notes 37, 38, 40)
Components and calculus	

(thousand euros)

	Jun-17	Dec-17	Jun-18
(a) Total liabilities	18 432 764	18 437 103	17 619 716
(b) Customers' resources	11 627 953	12 561 040	12 482 708
(c) Debt securities issued	1 062 598	1 544 054	1 236 072
(d) Other subordinated debt	251 671	236 193	120 662
(e) Complementary resources (a - b - c - d)	5 490 542	4 095 816	3 780 274
% of Other resources (e / a)	**29.8%**	**22.2%**	**21.5%**

OFF-BALANCE SHEET RESOURCES (PAGE 41, 42)

Definition	Assets under management by the Groups' subsidiaries being a constituent part of Total customers' resources.
Relevance	Contribute to the analysis of the evolution of total customers' resources.
Reference to FSNO	Page 173 (note 51)
Components and calculus	

(thousand euros)

	Jun-17	Dec-17	Jun-18
(a) Securities investment funds	172 012	169 202	164 032
(b) Real estate investment funds	292 287	292 058	292 180
(c) Pension funds	207 187	220 773	223 444
(d) Capitalization Insurance (Bancassurance)	37 930	26 913	22 319
Off-balance sheet resources (a + b + c + d)	**709 416**	**708 946**	**701 975**

INCOME STATEMENT

COMMERCIAL NET INTEREST INCOME (PAGE. 44)

Definition	Results arising from interest received on loans granted to customers and interest paid on customers' resources.
Relevance	Assess the evolution of the banking activity of financial intermediation between granting loans and deposit taking.
Reference to FSNO	Page 106 (note 3)
Components and calculus	

(thousand euros)

	Jun-17	Dec-17	Jun-18
(a) Interest received from loans to customers	186 538	363 701	167 533
(b) Interest paid on customers' deposits	43 054	84 696	32 872
Commercial net interest income (a - b)	**143 484**	**279 005**	**134 661**

OPERATING COSTS (PAGE 44, 48)

Definition	Sum of staff costs, general and administrative expenses and depreciation and amortisations.
Relevance	Assess the evolution of the operating costs underlying the banking activity.
Reference to FSNO	Page 71, 112, 114, 115 (notes 11, 12, 13)
Components and calculus	

(thousand euros)

	Jun-17	Dec-17	Jun-18
(a) Staff costs	84 668	156 207	84 218
(b) General and administrative expenses	40 065	87 005	36 381
(c) Depreciation and amortisation	12 479	24 809	12 099
Operating costs (a + b + c)	**137 212**	**268 021**	**132 698**

RESULTS FROM THE COMMERCIAL ACTIVITY (PAGE 44)

Definition	Sum of the Commercial net interest income and Net fees and commissions, subtracted by the Operating costs required to develop the business.
Relevance	Assess the evolution of the core banking activity.
Reference to FSNO	Page 71, 106, 107 (notes 3, 5)
Components and calculus	

(thousand euros)

	Jun-17	Dec-17	Jun-18
(a) Commercial net banking income	143 484	279 005	134 661
(b) Net commissions	55 218	119 808	57 399
(c) Operating costs	137 212	268 021	132 698
Results from the commercial activity (a + b - c)	**61 490**	**130 792**	**59 362**

RATIOS

CTD RATIO: NET LOANS TO CUSTOMERS / ON-BALANCE SHEET CUSTOMERS' RESOURCES (PAGE 8, 29, 30)

Definition	Percentage of net loans to customers funded by the total amount of on-balance sheet resources from customers.
Relevance	Asses the leverage degree of the banking activity through the relationship between funds raised with customers and loans granted to customers.
Reference to FSNO	Page 72, 120, 148, 149 (notes 22, 37, 38)
Components and calculus	

(thousand euros)

	Jun-17	Dec-17	Jun-18
(a) Net loans to customers	13 698 265	13 029 318	12 625 830
(b) Customers' resources	11 627 953	12 561 040	12 482 708
(c) Debt securities issued	1 062 598	1 544 054	1 236 072
Net loans to customers / On-balance sheet customers' resources (a / (b + c))	**107.9%**	**92.4%**	**92.0%**

EFFICIENCY RATIO: COST TO INCOME, WITHOUT SPECIFIC IMPACTS (PAGE 8, 48, 49)

Definition	Operating efficiency ratio measured by the portion of the total operating income that is absorbed by operating costs, excluding results from financial operations, the net gains / (losses) arising from the sale of other financial assets and the other operating income / (expenses).
Relevance	Assess the evolution of operating efficiency underlying the banking activity, removing the volatility effect of results from financial operations, the net gains / (losses) arising from the sale of other financial assets and the other operating income / (expenses).
Reference to FSNO	Page 71, 108, 109, 109, 109, 110, 112, 114, 115 (notes 6, 7, 8, 9, 10, 11, 12, 13)
Components and calculus	

(thousand euros)

		Jun-17	Dec-17	Jun-18
(a)	Net banking income	248 556	505 267	200 678
(b)	Results from financial operations (i + ii + iii)	26 597	70 737	5 164
(i)	Net gains / (losses) from financial assets and liabilities at fair value through profit or loss	3 973	(14 807)	1956
(ii)	Net gains / (losses) from financial assets at fair value through other comprehensive income	21545	83 622	4 001
(iii)	Net gains / (losses) from foreign exchange differences	1079	1922	(793)
(c)	Other income (i + ii)	15 690	35 885	(4 058)
(i)	Net gains / (losses) arising from the sale of other financial assets	19 154	37 850	5 499
(ii)	Other operating income / (expenses)	(3 464)	(1965)	(9 557)
(d)	Operating costs	137 212	268 021	132 698
	Cost-to-Income, excluding specific impacts ((d) / (a - b - c))	**66.5%**	**67.2%**	**66.5%**

COST OF CREDIT RISK (PAGE 8, 49)

Definition	Ratio that measures the cost recognized in the period, recorded as loan impairment in the income statement, to cover the risk of default of loans granted to customers.
Relevance	Assess the quality of the loan portfolio given the cost borne with the risk of loan default.
Reference to FSNO	Page 115, 120 (notes 14, 22)
Components and calculus	

(thousand euros)

		Jun-17	Dec-17	Jun-18
(a)	Loan impairments (annualised[1])	128 142	160 711	92 445
(b)	Average gross loans to customers[2]	14 973 382	14 738 284	13 944 009
	Cost of credit risk (a / b)	**0.9%**	**1.1%**	**0.7%**

1) Annualized values considering the total number of days elapsed and total days of the year. 2) Average balance for period (2017: 365 days / 2018 : 365 days).

RATIO OF LOANS AND INTEREST OVERDUE BY MORE THAN 90 DAYS (PAGE 8, 59)

Definition	Ratio that measures the quality evaluation of the loan portfolio.
Relevance	Measure the proportion of credit and interest overdue for more than 90 days in relation to the total loan portfolio.
Reference to FSNO	Page 120 (note 22)
Components and calculus	

(thousand euros)

	Jun-17	Dec-17	Jun-18
(a) Loans and interest overdue by more than 90 days	1 371 040	1 146 222	1 024 725
(b) Gross loans to customers	14 889 854	14 063 139	13 726 895
Ratio of loans and interest overdue by more than 90 days (a / b)	**9.2%**	**8.2%**	**7.5%**

COVERAGE OF LOANS AND INTEREST OVERDUE BY MORE THAN 90 DAYS BY IMPAIRMENT FOR BALANCE SHEET LOANS (PAGE 8, 59)

Definition	Ratio that measures the proportion of impairment for loans accumulated on the balance sheet in relation to the total amount of loans and interest overdue by more than 90 days.
Relevance	Assess the institution's ability to absorb potential losses arising from loans and interest overdue by more than 90 days.
Reference to FSNO	Page 120 (note 22)
Components and calculus	

(thousand euros)

	Jun-17	Dec-17	Jun-18
(a) Impairment for balance sheet loans	1 191 589	1 033 821	1 101 065
(b) Loans and interest overdue by more than 90 days	1 371 040	1 146 222	1 024 725
Coverage of loans and interest overdue by more than 90 days (a / b)	**86.9%**	**90.2%**	**107.4%**

NON-PERFORMING EXPOSURES / GROSS LOANS TO CUSTOMERS (PAGE 8, 35, 59)

Definition	Ratio that measures the quality evaluation of the loan portfolio.
Relevance	Measure the proportion of non-performing exposures (NPE, according to EBA's definition) in relation to the total customer loan portfolio.
Reference to FSNO	Page 194 (note 55)
Components and calculus	

(thousand euros)

	Jun-17	Dec-17	Jun-18
(a) Stock of Non-performing exposures	2 791 888	2 304 759	2 168 302
(b) Gross loans to customers	14 889 854	14 063 139	13 726 895
Non-performing exposures / Gross customer loans (a / b)	**18.8%**	**16.4%**	**15.8%**

Coverage of Non-performing exposures by Impairment for balance sheet loans (page 8, 35, 59)

Definition	Ratio that measures the proportion of impairment for loans accumulated on the balance sheet in relation to the balance of non-performing exposures (NPE, according to the EBA definition).
Relevance	Assess the institution's capacity to absorb potential losses arising from the NPE portfolio.
Reference to FSNO	Page 194 (note 55)
Components and calculus	

(thousand euros)

		Jun-17	Dec-17	Jun-18
(a)	Impairment for balance sheet loans	1 191 589	1 033 821	1 101 065
(b)	Stock of Non-performing exposures	2 791 888	2 304 759	2 168 302
	Coverage of Non-performing exposures by Impairment for balance sheet loans (a / b)	**42.7%**	**44.9%**	**50.8%**

Coverage of Non-performing exposures by Impairment for balance sheet loans and associated collaterals and financial guarantees (page 8, 35, 59)

Definition	Ratio that measures the proportion between the sum of the impairment for loans accumulated on the balance sheet and associated collaterals and financial guarantees in relation to the balance of non-performing exposures (NPE, according to EBA's definition).
Relevance	Assess the institution's capacity to absorb the potential losses arising from the NPE portfolio.
Reference to FSNO	Page 194 (note 55)
Components and calculus	

(thousand euros)

		Jun-17	Dec-17	Jun-18
(a)	Impairment for balance sheet loans	1 191 589	1 033 821	1 101 065
(b)	Associated collaterals and financial guarantees	1 283 630	970 986	813 822
(c)	Stock of Non-performing exposures	2 791 888	2 304 759	2 168 302
	Coverage of Non-performing exposures by Impairment for balance sheet loans and associated collaterals and financial guarantees ((a + b) / c)	**88.7%**	**87.0%**	**88.3%**

Forborne exposures / Gross customer loans (page 8, 59)

Definition	Ratio that measures the quality evaluation of the loan portfolio.
Relevance	Measure the proportion of Forborne exposures (according to EBA's definition) in relation to the total loan portfolio.
Reference to FSNO	Page 194 (note 55)
Components and calculus	

(thousand euros)

		Jun-17	Dec-17	Jun-18
(a)	Impairment for balance sheet loans	1 191 589	1 033 821	1 101 065
(b)	Stock of Non-performing exposures	2 791 888	2 304 759	2 168 302
	Coverage of Non-performing exposures by Impairment for balance sheet loans (a / b)	**42.7%**	**44.9%**	**50.8%**

Caption: MR – Management Report; FSNO – Financial Statements, Explanatory Notes and Opinions on the Accounts.

AUDITOR'S REPORT ON CONSOLIDATED INTERIM FINANCIAL INFORMATION

LIMITED REVIEW REPORT ON CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(This report is a free translation to English from the original Portuguese version.
In case of doubt or misinterpretation the Portuguese version will prevail.)

Introduction

We have performed a limited review of the accompanying condensed consolidated financial statements of **Caixa Económica Montepio Geral, caixa económica bancária, S.A.**, which comprise the interim consolidated balance sheet as of 30 June 2018 (that presents a total of Euro 19,249,242 thousand and total equity attributable to the shareholder of Euro 1,601,628 thousand, including a consolidated net profit attributable to shareholder of Euro 15,797 thousand), the interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended, and the accompanying explanatory notes to these condensed consolidated financial statements.

Management' responsibilities

Management is responsible for the preparation of these condensed consolidated financial statements in accordance with IAS 34 – Interim Financial Reporting as adopted by the European Union, and for the implementation and maintenance of an appropriate internal control system to enable the preparation of condensed consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibilities

Our responsibility is to express a conclusion on the accompanying condensed consolidated financial statements. Our work was performed in accordance with the international accounting standards for limited review of financial statements and further technical and ethical standards and guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"). These standards require that we conduct the work in order to conclude whether anything has come to our attention that causes us to believe that the condensed consolidated financial statements, as a whole, are not prepared in all material respects in accordance with the IAS 34 – Interim Financial Reporting as adopted by the European Union.

A limited review of condensed consolidated financial statements is a limited assurance engagement. The procedures that we have performed consist mainly of making inquiries and applying analytical procedures and subsequent assessment of the evidence obtained.

The procedures performed in a limited review are substantially less that those performed in an audit conducted in accordance with International Standards on Auditing (ISA). Accordingly, we do not express an audit opinion on these condensed consolidated financial statements.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated financial statements of **Caixa Económica Montepio Geral, caixa económica bancária, S.A.** at 30 June 2018, are not prepared in all material respects, in accordance with the IAS 34 – Interim Financial Reporting as adopted by the European Union.

Lisbon, 28 September, 2018

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A.
(registered on CMVM under nr 20161489 and on OROC under nr 189)
represented by
Hugo Jorge Gonçalves Cláudio (ROC nr 1597)

AUDITOR'S REPORT ON INDIVIDUAL INTERIM INFORMATION

LIMITED REVIEW REPORT ON CONDENSED FINANCIAL STATEMENTS

(This report is a free translation to English from the original Portuguese version. In case of doubt or misinterpretation the Portuguese version will prevail.)

Introduction

We have performed a limited review of the accompanying condensed financial statements of **Caixa Económica Montepio Geral, caixa económica bancária, S.A. (the Entity)**, which comprise the interim balance sheet as of 30 June 2018 (that presents a total of Euro 19,050,408 thousand and total equity of Euro 1,630,030 thousand, including a net profit of Euro 7,510 thousand), the interim statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended, and the accompanying explanatory notes to these condensed financial statements.

Management' responsibilities

Management is responsible for the preparation of these condensed financial statements in accordance with IAS 34 – Interim Financial Reporting as adopted by the European Union, and for the implementation and maintenance of an appropriate internal control system to enable the preparation of condensed financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibilities

Our responsibility is to express a conclusion on the accompanying condensed financial statements. Our work was performed in accordance with the international accounting standards for limited review of financial statements and further technical and ethical standards and guidelines issued by the Portuguese Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"). These standards require that we conduct the work in order to conclude whether anything has come to our attention that causes us to believe that the condensed financial statements, as a whole, are not prepared in all material respects in accordance with the IAS 34 – Interim Financial Reporting as adopted by the European Union.

A limited review of condensed financial statements is a limited assurance engagement. The procedures that we have performed consist mainly of making inquiries and applying analytical procedures and subsequent assessment of the evidence obtained.

The procedures performed in a limited review are substantially less that those performed in an audit conducted in accordance with International Standards on Auditing (ISA). Accordingly, we do not express an audit opinion on these condensed financial statements.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the accompanying condensed financial statements of **Caixa Económica Montepio Geral, caixa económica bancária, S.A.**, at 30 June 2018, are not prepared in all material respects in accordance with the IAS 34 – Interim Financial Reporting as adopted by the European Union.

Lisbon, 28 September, 2018

KPMG & Associados
Sociedade de Revisores Oficiais de Contas, S.A.
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represented by
Hugo Jorge Gonçalves Cláudio (ROC nr 1597)

Montepio

Valores que crescem consigo.

CAIXA ECONÓMICA MONTEPIO GERAL

caixa económica bancária, S.A.

Head Office: Rua Áurea, 219-241, Lisboa
Share Capital: 2,420,000,000 Euros
Legal Person and Lisbon Commercial Registry number: 500 792 615

www.montepio.pt