Banco Finantia

CONSOLIDATED REPORT AND ACCOUNTS | 2016

Banco Finantia, S.A.
Registered Office: Rua General Firmino Miguel, 5 • 1600-100 Lisboa • Portugal • T: (351) 217 202 000 • F: (351) 217 265 310 • www.finantia.com
Insurance Intermediary nr. 408264747 • Registered at Insurance and Pension Funds Supervisory Authority since 01/Feb/2008 • Life/Non-Life Insurance Agent • Information: www.asf.com.pt
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KEY FIGURES

Euro million	IFRS [1] 2016	2015	Variation
Total assets	**1,807.4**	1,773.7	+ 1.9 %
Fixed income and loan portfolio	**1,631.2**	1,540.7	+ 5.9 %
Shareholders' equity	**408.0**	348.4	+ 17.1 %
Operating income, after impairment and provisions	**65.2**	62.8	+ 3.8 %
Net profit	**30.7**	27.6	+ 11.2 %
CAPITAL ADEQUACY (BAL III)			
Transitional provisions			
Common Equity Tier 1 (CET1) (%)	**23.3**	22.6	+ 0.7 pb
Total Capital Ratio (%)	**23.3**	22.6	+ 0.7 pb
Fully loaded			
Common Equity Tier 1 (CET1) (%)	**23.6**	22.3	+ 1.3 pb
Total Capital Ratio (%)	**23.6**	22.3	+ 1.3 pb
PRODUCTIVITY/EFFICIENCY			
Cost to Income (%)	**28.2**	26.3	+ 1.9 pb
Data per share (Euro)			
Net Profit	**0.22**	0.20	+ 0.02 €
Book Value	**2.96**	2.53	+ 0.43 €
Weighted average no. of shares outstanding (million)	**137.8**	137.8	-
Year end no. of shares outstanding (million)	**137.8**	137.8	-

[1] International Financial Reporting Standards

BANCO FINANTIA OVERVIEW

An independent Bank, one of the leaders in Portugal in Investment and Private Banking, with a national and international experience of nearly 30 years. Always solid and profitable, with capital ratios clearly exceeding the sector's average. As of December 2016, the Common Equity Tier 1 ratio exceeded 23%, one of the highest in the European Union.

We operate in two important market niches:

1) Corporate & Investment Banking – Financial Advisory Services with a focus on cross-border M&A, and Capital Market fixed income products to corporations and investors.

2) Private Banking – Quality personalized services to affluent and high net worth customers.

Our geographical focus is on Portugal, Spain, Brazil and the CIS (Commonwealth of Independent States).

Our key operating units are a bank in Portugal, a bank in Spain, broker dealers in London and New York and offices in São Paulo and Malta.

Banco Finantia's performance, its successes, and the quality and professional competence of its staff have been recognized over the years, having received a significant number of international awards.

Fastest Growing Investment Bank Portugal 2016	Best Private Bank Portugal 2015	Investment Bank of the Year Portugal 2014

MANAGEMENT REPORT | 2016

The year 2016 was marked by a number of important events, such as the British vote to leave the European Union (Brexit), the impeachment of the President of Brazil, the constitutional referendum in Italy, the terrorist attacks in the world including Europe, the increase of military tensions in Syria, the refugee crisis in Europe and the US presidential elections.

All this has created enormous uncertainty in the markets and stalled investment. As such, there has been no return to strong, sustainable, balanced and inclusive global growth called for by the G20 leaders in Hangzhou in September. The IMF, in its January 2017 report, noted that global growth remained weak, although it did not show a significant slowdown in the last quarter. This organization forecasts a small slowdown in global growth from 3.2% in 2015 to 3.1% in 2016 and predicts a recovery to 3.4% by 2017.

This forecast relative to their April report reflects a more moderate outlook for developed economies, offset by a stronger growth forecast in emerging economies. These developments are expected to increase the volatility of monetary policy and interest rates. Taken together, the IMF noted with regard to the global economy that, without a determined political action to support economic activity in the short and long term, the recent weak growth runs the risk of perpetuating itself.

The IMF estimates that the US economy grew by 1.6% in 2016 against 2.6% in 2015. Eurozone growth is estimated at 1.7% in 2016 versus 2.0% in 2015. It is expected that the developed economies will grow 1.6% in 2016, down from 2.1% in 2015, largely due to the lower dynamism of the American economy. Emerging economies are expected to grow by 4.1% in 2016, the same as in 2015, reflecting a rebalancing in China resulting from a small slowdown in the economy, from 6.9% in 2015 to 6.7% in 2016 as this effect was softened by the resilient growth in emerging Asia, especially India. Brazil and Russia continue to face challenging macroeconomic conditions, but forecasts have improved somewhat compared to the IMF report of April 2016. The largest economies in sub-Saharan Africa, mainly South Africa and Angola, are experiencing slowdowns or recessions as lower commodity prices interact with difficult domestic political and economic conditions.

India is estimated to have grown by 6.6% in 2016, down from 7.6% in 2015. Russia improved in 2016 but still showed a negative growth of 0.6%, against a negative 3.7% in 2015. Brazil remained depressed: negative growth in 2016 (-3.5%) and in 2015 (-3.8%). Angola, according to the IMF report of October 2016, did not grow in 2016, versus a positive growth of 3% in 2015. South Africa was close to zero growth in 2016, against 1.3% in 2015.

For 2017, the US is projected to grow by 2.3% and the Euro Zone by 1.6%. Overall, developed economies are projected to grow by 1.9%. The US is expected to regain some momentum due to sustained improvements in the labor market, more favorable fiscal positioning, a slower projected pace of monetary policy normalization and investment recovery. Lower growth in the euro area reflects the macroeconomic repercussions of increased uncertainty following the Brexit referendum and possible outcomes of the upcoming European elections. Promoting growth are low oil prices, modest fiscal expansion and quantitative monetary policy.

The IMF expects growth in the emerging economies to accelerate as most of the large countries with currently shrinking economies stabilize and return to their longer-term growth paths. China, in the absence of extra stimulus, is expected to grow 6.5% in 2017, while growth in India is expected to increase to 7.2%. The IMF believes that China will continue to rebalance its economy from investment to consumption and from industry to services, based on reforms aimed at strengthening the social safety net and deregulating the service sector. On the other hand, India is expected to continue to expand at the fastest pace among the major economies on the back of large terms-of-trade gains, policy actions, structural reforms and improved confidence that are expected to support consumer demand and investment.

Brazil, Angola and Russia, according to the IMF, are expected to emerge from the recession with growth in 2017 of 0.2%, 1.5% and 1.1% respectively. Although the engine of growth for Brazil is the reduction of political uncertainty and the decreasing effects of past economic shocks, for Angola the growth will be in the recovery of the non-oil sector due to a planned increase in public spending and improved terms-of-trade. The Russian economy is expected to benefit from the higher oil prices whilst inflation falls towards the central bank's target.

THE ECONOMIC ENVIRONMENT IN IBERIA

In Portugal, all projections point to economic growth, but they diverge as to the intensity. The IMF, in its February 2017 report, expects the Portuguese economy to have grown by 1.3% in 2016 (against 1.6% in 2015) and forecasts growth of 1.3% in 2017. The Portuguese Central Bank in its Economic Bulletin of December 2016, estimates that the economy grew by 1.2% in 2016, accelerating to 1.4% in 2017. The National Statistics Institute in March 2017 estimates the economy to have grown by 1.4% in 2016. However, for the three institutions, the engine of growth has and will continue to have its base in external demand. As regards domestic demand, projections point to a recomposition characterized by a moderation of private consumption and a recovery of gross fixed capital formation.

There is a gradual improvement in the labor market situation, which is expected to continue in 2017, although inflation is likely to increase as a result of internal and external price pressures. The IMF estimates a budget deficit of around 2.6% of GDP in 2016 and a reduction to 2.1% in 2017, while the Portuguese government forecasts a deficit of 2.4% of GDP in 2016 (the lowest since 1989) and a reduction to 1.6% in 2017. Gross public debt is projected by the IMF to reach 131% of GDP at the end of 2016 and 130% of GDP in 2017. The Portuguese Government is more optimistic projecting a debt-to- GDP of 128% in 2017 (against an estimated 130% in 2016). The IMF observes a continued deleveraging of the Portuguese banking system which has helped banks reduce RWA and associated capital requirements, although balance sheet repair remains incomplete.

For Spain, the IMF forecasts a growth of 2.3% in 2017, below the 3.2% estimated for 2016 and 3.2% in 2015. The IMF ranked Spanish growth as being impressive not only by its intensity but also by its job creation. The IMF notes that reforms implemented in previous years and confidence-building measures, combined with a favorable external economic environment and fiscal slowdown, have fueled the strong economic recovery of the last two years. The Spanish banking system according to the IMF gained strength on the back of the improving quality of its assets, strengthening capital and liquidity positions and reducing debt. The IMF believes that economic policies that underpin a labor-intensive economic recovery would simultaneously help strengthen domestic demand and private sector balance sheets. In conclusion, the challenges of the Spanish economy, from the perspective of the IMF, are mostly structural in nature and require a global medium-term strategy.

2. Operating Activities

2016 was a challenging year for the Bank, both from a macroeconomic and a geopolitical perspective. The fall of the President of Brazil, the referendum in Italy, the unexpected results of the referendum in the United Kingdom and the presidential elections in the United States brought a lot of volatility to the markets. In Portugal, the change of Government, the maintenance of the high level of public indebtedness and the delay in the stabilization of the financial system contributed to a significant widening of sovereign debt spreads. On the other hand, the recovery of the prices of the main commodities in the second half of the year and the continuation of the Quantitative Easing programmes in Europe and Japan, as well as the expectation of an improvement in the economic activity during 2017 in countries such as Brazil, Russia or the United States, were factors that contributed positively to the good performance of the markets.

In this context, the Bank pursued a prudent and successful strategy of focusing on niche markets – fixed income market, financial advisory services and private banking - offsetting the slowdown in economic activity in Portugal with the increase in international operations, taking advantage of its platforms in Portugal, Spain, London, New York, São Paulo and, more recently, Malta.

The number of corporate and institutional customers continued to grow, with the focus being on supporting their international activities, as did the number of private customers in both Portugal and Spain.

The increase in activity and number of customers was achieved while maintaining a high level of operational efficiency (cost/income close to 28%) and good profitability (pre-tax ROE over 11%).

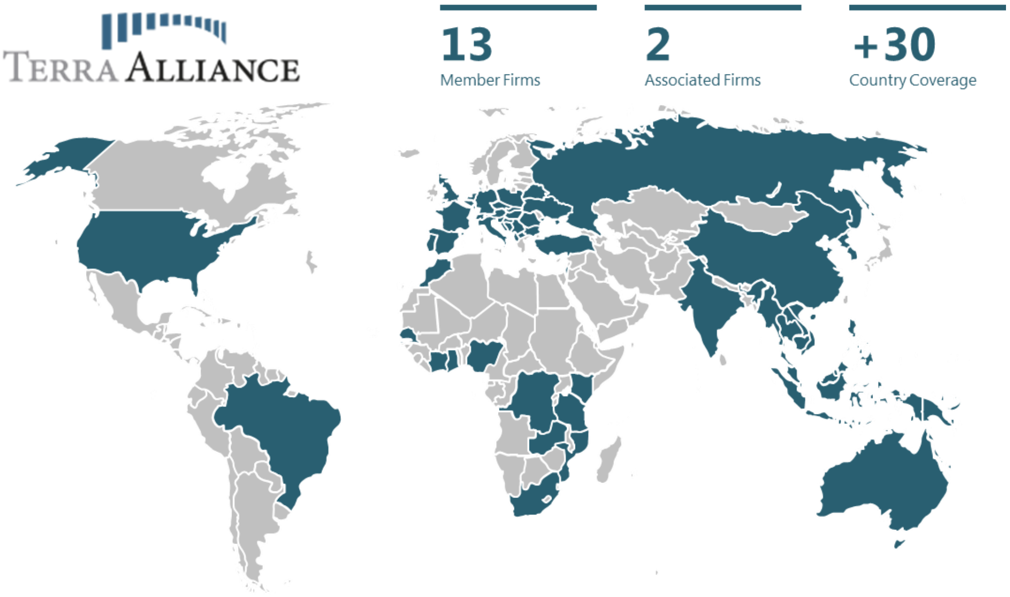
Banco Finantia's international network was also reinforced with the full integration of the Bank in Terra Alliance, a group of fifteen investment banks covering #30 countries founded 15 years ago that cooperate in the origination and execution of mandates in the Corporate Finance area.

Finally, reference must be made to the inclusion of Banco Finantia in the Groupement Europèen de Banques (G. E. B.). This is a non-profit Economic Interest Group comprising small, private and reputable banks that cooperate with each other and exchange information on their respective markets and activities.

2.1 Corporate & Investment Banking

During 2016, Banco Finantia relied on its competitive advantages as an international and independent investment bank to further strengthen its strategic positioning in cross-border financial advisory services and fixed income capital markets operations.

The Bank's global geographical coverage was greatly expanded during the year, not only as a result of the establishment of bilateral partnerships to develop business in the Banks's main markets (Portugal, Spain and Brazil) but also, and in particular, through its joining the global network of investment banks - Terra Alliance, which substantially strengthened its capacities to realize cross-border transactions.



Regarding the **Financial Advisory Services** area, the highlight goes to the support provided by the Bank to Yildirim in materializing the acquisition of Tertir, the largest port operator in Portugal. This transaction represents the largest investment ever realized in Portugal by a Turkish company.

Additionally, the Bank obtained several financial advisory mandates, both from investors/buyers and from targets/sellers. The mandates fall into business sectors such as agriculture, health, cement, infrastructure, engineering and construction, transportation, real estate and the leisure industries. The geographies covered include Portugal, Spain, other Western European countries, Africa, Brazil and Asia.

Some of the financial advisory mandates were entered into with US, European and Asian Private Equity companies. The Bank is working more frequently with this type of entity and expects to further develop these relationships in the future.

As to new **Capital Markets** issues, the activity in Portugal was limited when compared with the previous year. In order to overcome the difficulties of the Portuguese capital markets, the Bank developed, in 2016, a series of initiatives involving Portuguese customers with a view to maintaining and boosting investors' demand, namely through the realization of national and international roadshows and the development of international rating processes.

This effort proved successful and enabled the Bank, in 2016, to increase by 3 (to a total of 18) the number of commercial paper programmes for Portuguese companies, and to increase maturities and decrease interest rates, meeting the Bank's objective of using this short-term competitive financing instrument as a starting point for subsequent long-term issues (and, possibly, financial advisory services). Overall, Banco Finantia raised € 564 million in 130 commercial paper issues, for 29 different issuers.

Commercial Paper Programmes - Banco Finantia	2015	2016
Programmes (#)	15	19
Issuers (#)	23	29
Issues (#)	136	130
Total Amount Issued (EUR m)	796	564.4
Average Amount per Issue (EUR m)	5,9	4,3
Average Maturity per Issue (Days)	38	48
Average Financing Rate (%)	2.3%	1.7%

In 2016, the Bank was also able to organize various long-term financing operations. These included a private placement for Mota-Engil Africa, a bond issue for SPRHI (company held by Região Autónoma dos Açores (Autonomous Region of the Azores)) and a long-term sovereign loan related with a MSF project (underway).

For 2017, the Bank already has a vast pipeline of potential mandates in the area of Corporate & Investment Banking. Taking advantage of its distinctive capabilities, the Bank will continue developing and growing its cross-border financial advisory services, as well as its activity of originating capital market operations. The international activity is considered crucial for the development of this area and, as such, the Bank will continue to strengthen its team and its business partnerships so as to widen both its geographical coverage as well as its range of activities.

MOTA-ENGIL AFRICA EUR 50,000,000 **Private Placement** Arranger Banco Finantia	SPRHI S.A. EUR 20,000,000 **Bonds** Arranger and Lead Manager Banco Finantia	JOSÉ DE MELLO·SAÚDE EUR 10,000,000 **Commercial Paper** Arranger and Lead Manager Banco Finantia	Sugal EUR 10,000,000 **Commercial Paper** Arranger and Lead Manager Banco Finantia	santogal EUR 5,000,000 **Commercial Paper** Arranger and Lead Manager Banco Finantia
CAETANO BAVIERA EUR 10,000,000 **Commercial Paper** Arranger and Lead Manager Banco Finantia	MOTA-ENGIL EUR 35,000,000 **Commercial Paper** Arranger and Lead Manager Banco Finantia	SECIL EUR 20,000,000 **Commercial Paper** Arranger and Lead Manager Banco Finantia	sumol+compal EUR 15,000,000 **Commercial Paper** Arranger and Lead Manager Banco Finantia	PESTANA EUR 15,000,000 **Commercial Paper** Arranger and Lead Manager Banco Finantia
sovena EUR 10,000,000 **Commercial Paper** Arranger and Lead Manager Banco Finantia	Electricidade da Madeira EUR 10,000,000 **Commercial Paper** Arranger and Lead Manager Banco Finantia	TEIXEIRA DUARTE EUR 10,000,000 **Commercial Paper** Arranger and Lead Manager Banco Finantia	EUR 20,000,000 **Commercial Paper** Arranger and Lead Manager Banco Finantia	NORS EUR 20,000,000 **Commercial Paper** Arranger and Lead Manager Banco Finantia
SAPEC AGRO PORTUGAL EUR 10,000,000 **Commercial Paper** Arranger and Lead Manager Banco Finantia	colep EUR 10,000,000 **Commercial Paper** Arranger and Lead Manager Banco Finantia	GRUPO RAR EUR 10,000,000 **Commercial Paper** Arranger and Lead Manager Banco Finantia	TOYOTA CAETANO EUR 5,000,000 **Commercial Paper** Arranger and Lead Manager Banco Finantia	grupo visabeira EUR 10.000.000 **Papel Comercial** Arranger and Lead Manager Banco Finantia

2.2 Capital Markets

The maintenance of a global regime of low rates by the main central banks, together with expansionary monetary policies, led to a significant drop in bank financing rates, which hampered the activity of placing capital markets debt instruments for SMEs in Portugal and Spain. Nevertheless and even considering all the idiosyncratic events that occurred during 2016, the Capital Markets Department presented good results. The maintenance of the focus on electronic platforms allowed for a 58% increase in the volumes transacted versus 2015, as well as for a significant increase in the volumes transacted versus 2015, as well as for a significant increase in the department's number of customers and counterparts.

The domestic Commercial Paper market, reflecting in part the substantial decline in profitability offered to investors, suffered a significant reduction. In this context, the volume of Commercial Paper placed by the Bank in 2016 dropped to €564 million, despite the increase in the number of issuers and the lengthening of the maturities. Furthermore, even in this adverse scenario, we were able, during 2016, to draw foreign investors to these types of instruments, which enable us to broaden the range of services we offer to our Portugal based corporate customers. In medium- and long-term financing, Banco Finantia successfully placed a 5-year issue for Sociedade de Promoção e Reabilitação de Habitação e Infraestruturas (SPRHI) S.A.

Following an internal reorganization, we highlight the opening of an office in Malta (Finantia Malta Ltd). Malta has been gaining a growing importance as an international financial centre with the establishment of a multiplicity of financial institutions. The local team has recently been strengthened and, despite its small size, its prospects in terms of activity and performance are very positive. This office will represent another support base for Banco Finantia’s international business.

In 2016, the volume of syndicated loans in the Emerging Markets declined versus 2015. Economic and geopolitical uncertainty in various parts of the world throughout the year affected both supply and demand. Brazil faced a triple blow of a presidential impeachment, corruption scandals and an economic recession that is deeper and longer than previously anticipated. The situation was not better in the Central and Eastern European market, where the sanctions in place for Russia have limited the new issues of financial institutions in the region. There were, however, a number of bilateral loans for large companies such as Gazprom, Norlisk Nickel, Lukoil and Eurochem. Turkey remained solid despite the attempted coup, the devaluation of the Lira and the continued threat of economic instability and terrorism.

As in previous years, Banco Finantia’s activity in the international loans market continued to be concentrated in Latin America, Eastern Europe and Turkey. The volume of the credit portfolio remained stable in relation to the previous year.

2.3 Finantia Private – Private Banking

2016 was once again a year of growth and affirmation of the Finantia Private brand in Iberia.

The number of customers continued to grow in 2016, to about eleven thousand in Portugal and Spain, a growth of 6% in relation to 2015. This contributed to an 8% increase in total deposits over 2015, reaching about 740 million Euros in 2016.

Various factors contributed to this: (i) a reinforced and motivated commercial team; (ii) the presence of the Finantia Private brand and of our products on online sites specialized in financial products and services; (iii) the offer of innovative and safe products that met the customers' expectations; (iv) the introduction of transactional home banking; and (v) the opening of the first branch focused on the general public in a prime Lisbon area (Av Fontes Pereira de Melo).

The economic recovery in both Portugal and Spain is evolving at a moderate pace. This is in part due to expectations of lower growth in external demand, be it because of moderate economic growth and low inflation in the Euro area or because of poor performance of some emerging market economies. Some recent political developments, notably the results of the referendum on the exit of the UK from the European Union and the US presidential election, have generated high levels of uncertainty, with potential global implications for economic activity, interest rates and financial markets.

Given this context, Finantia Private accommodated its value proposition so as to provide an integrated and independent offer of simple products and attractive financial services that continue to assure low risk and tranquillity to all those entrusting it with the management of their net worth.

Finantia Private will continue to pursue, during 2017, its growth objectives, both through the selective attraction of new customers and a greater involvement with current customers. Our services are provided in a context of discretion, confidentiality and independence and with a permanent concern with profitability and the protection of the customers' net worth.

The Bank offers Private Banking services through the offices in Lisbon, Oporto, Madrid, Barcelona and Valencia.

2.4 Treasury

The main activities of Banco Finantia's Treasury Department are funding, liquidity and investment portfolio management, as well as the implementation of interest rate, foreign exchange and credit risk policies.

In 2016, Banco Finantia successfully implemented three basic objectives: maintaining a comfortable liquidity margin; diversifying sources of funding, in accordance with a set of constrained metrics; and reducing the use of European Central Bank (ECB) credit lines.

Politically, 2016 was a year of high turbulence, both internationally and in Portugal and Spain. In addition to the various political events occurring throughout the year, monetary policies have also been a source of volatility, with different positions adopted by the two main central banks, the Fed and the ECB. Whilst the US Federal Reserve raised rates during 2016, having signalled to the market further increases for 2017, the ECB maintained its accommodative monetary policy. This led to a 50 basis points increase in the one year US Libor and, on the other hand, to a decrease in the Euribor for the same period which fell for the first time to negative territory.

Banco Finantia's Treasury Department had as its objective to maintain a significant liquidity margin, which originated a liquidity coverage ratio (LCR) in 2016 of almost 1,300%, representing more than 18 times the minimum mandatory ratio of 70%. This reflects the Bank's efforts to maintain a substantial percentage of highly liquid assets in the balance sheet so as to allow it, in such a volatile and demanding context, to pursue its normal activities without any constraints.

The efforts to diversify its sources of funding led the Bank, in 2016, to increase the relative weight of its main source of funding, the Private Banking deposits' portfolio.

This item recorded an increase of 9% in the year and represents, currently, over 50% of the liabilities. It does not present large concentrations, with the five largest deposits accounting for less than 1% of the Bank's assets.

In the Repos area, the volume realized increased 2% in 2016, with the Treasury Department having followed restrictive metrics of diversification, in terms of maturities and counterparties, whilst maintaining active relations with banks in five continents and thirteen countries.

At the end of the 1st quarter of 2016, Banco Finantia reimbursed the totality of its financing lines with the ECB. The facilities granted by the ECB are now considered a reserve instrument for liquidity management, with the Bank maintaining a portfolio of eligible bonds for this purpose.

Regarding the Bank's liabilities, reference should also be made to the payment of the €50,000,000, Euro Floating Subordinated Note issued in 2006, which matured on 28/07/2016.

In relation to the fixed income portfolio, a multi-vector management model was implemented, aligning criteria of liquidity, profitability, credit quality and diversification, in a portfolio denominated in Euros and US Dollars, covering over two hundred positions, in over thirty-five countries, the majority of which are investment grade. Note should be taken, of the 3% decrease in the average life of the securities' portfolio and of the 2% decrease in the average amount invested per issuer.

In terms of financial risk management, 2016 was characterized by a 7% increase in interest rate swaps (IRS) which were accompanied by the additional effort required to handle the increased number of active counterparts, in line with the previously mentioned general strategy of mitigating volatility and market uncertainty that was accompanied by the implementation of internal diversification metrics.

3. Supporting Activities

3.1 Information Systems

In 2016, transactions were introduced in the Private Banking Home Banking channel. In addition to the consultation of the position of the assets integrating the portfolio, Home Banking now also permits the realization of transfers.

A new solution was implemented for the Bank's Own Shares, permitting operations such as splitting, ownership transfers, dividend distributions, and the blockage and freeing of securities as well as share capital increases through the incorporation of reserves.

Due to legal and regulatory requirements various modifications and reports were implemented, namely, the Additional Liquidity Monitoring Metrics (ALMM) report in the scope of the Common Reporting (COREP), the declaration of commissions and expenses associated with demand deposit accounts, the changes arising from Version 1.2 of the Collateral and Operations Management System (COLMS), Instruction no. 4/2015 of the CMVM relating to Audit Supervision, the implementation of Controls in the scope of the Market Abuse Regulation, Notice no. 8/2016 – duties of recording and of communicating operations destined for offshore legal systems.

In 2016, the work-stations' migration to more productive hardware and software was concluded. The backup solution for the Windows platform was optimized and the upgrades of the main WAN and Internet links were realized, increasing their Bandwidth. The Group's Active Directory domain was migrated to an improved version (2012R2).

The support infrastructures for the new office in Malta and for the new branch in Lisbon were defined and implemented, so as to assure their communication with the Group's information network.

In the matter of security, intrusion tests were realized on the Institutional and Home Banking sites of both BFT and BFS, the mechanisms for monitoring logs and alarm detectors were reinforced, and the S.W.I.F.T. platform's security was strengthened.

In so far as the Business Continuity Plan is concerned, in order to accompany the evolution of the Functions covering the Disaster Recovery Centre, the processes' matrices were revised in light of the new reality and the Departments involved, with new applications being made available in accordance with the new requirements identified by the areas involved. An infrastructure upgrade was carried out in respect of the network switches and the servers supporting the virtualization VMware and Oracle Virtual Machine (OVM) platforms, in order to increase their performance.

3.2 Operations

The year 2016 was challenging for the Operations Department.

The year was marked by the implementation of an ambitious plan involving the internal rotation of employees amongst the various teams of the department, achieving a turnover ratio of around 30%. At the same time, the policy of consolidating procedures, improving processes and reviewing procedures' manuals was maintained.

The employee training program and the emphasis placed on the continuous improvement of processes contributed to the increased flexibility and reinforcement of employee skills, not neglecting the security of operations' processing.

Project Target 2 Securities (new European Platform for the settlement of securities' operations) was completed and successfully implemented according to plan.

In parallel, in an equally demanding context, it was necessary to adjust various applications and reports so as to cater for the new requirements of the regulatory entities. These included the implementation of the communications to the Bank of Portugal of the transfer and settlement operations in favour of offshores, arising from Bank of Portugal Notice no. 8/2016.

During 2017, the Operations Department will continue to focus on mitigating operational risk and on revising procedures, maintaining its support of the strategy and objectives defined by the Bank.

3.3 Human Resources

Preparing the future in view of the challenges foreseen, Banco Finantia has been implementing the organizational adjustments necessary to maintain its competitiveness, keeping in mind, at all times, the growing focus on the motivation and the valorisation of its main asset – Human Capital.

Banco Finantia privileges the strategic importance of its employees and attributes special attention to their continued development as well as to its ability to attract new talent. Furthermore, we work to retain highly qualified professionals capable of assuming very demanding functional and geographical functions, determined by the Bank's international activities.

The mobility, functional and interdepartmental, of the employees is a critical success factor for the Bank, constituting an important management tool for the development of the employees and for the dissemination of the Institution's culture.

Throughout 2016, about 6% of the employees changed department or functions. This rotation involved employees at the head office and in Spain.

Conscious that facing the future with determination is only possible with highly motivated and qualified employees, the Bank's actions dedicated to training and to the development of interpersonal cohesiveness are crucial. In this manner, the Training Plan covers general training transversal to the company as well as specific training oriented to the specific needs of each area or department, reinforcing and improving the skills considered key in the Organization. In 2016, 84 training actions were realized, corresponding to 846 hours, involving 76% of the employees.

In terms of performance management, the same annual appraisal system was maintained. The results obtained relating to performance in 2015; both at the level of those appraised as well as at the appraiser level, continued to constitute an essential tool for monitoring the evolution of the needs in the organization.

At the end of 2016, the Bank and its subsidiaries counted on 261 employees, of which 173 in Portugal, 72 in Spain and the remainder assigned to the United Kingdom, United States, Brazil and Malta. The average age is 42 and about 68% have at least an university degree.

4. Risk Management

4.1 Risk Management Model

The Group's risk management model is based on an integrated set of processes, duly planned, reviewed and documented, focused at permitting an appropriate understanding of the nature and magnitude of the risks underlying its activity, allowing for an adequate implementation of the respective strategy and the attainment of goals.

This model is based on processes implemented to identify, assess, monitor and control all the risks inherent in Banco Finantia Group's ("Group") activity, which are supported by clearly defined and appropriate policies and procedures aimed at ensuring that the defined goals are attained and that the appropriate actions are taken to respond to previously identified risks. In this manner, the risk management model covers all the Bank's products, activities, processes and systems, taking into consideration all the risks inherent in its activity and considering their nature, size and complexity.

The risk management model complies with internationally and nationally recognized and accepted principles, which are in line with Notice 5/2008 of the Bank of Portugal and the "Guidelines on Internal Governance" (GL44) issued by the European Banking Authority (EBA).

The risks considered for this purpose are credit, market, interest rate, foreign exchange, liquidity, compliance, operational (including IT), strategy, and reputational, as well as any others risks that, given the Group's specific circumstances, may become material.

Risk management actively influences the decision-making by senior management and by middle management bodies.

The Banco Finantia Group's global risk management is entrusted to the Executive Committee of the Board of Directors. There is also a Finance and Risk Committee whose main function is the global monitoring of the risks. The Risk Management Function is the responsibility of the Risk Management Department, which is centralized and independent, and assures the management, analysis and control of all Group risks.

It is the responsibility of the Board of Directors to approve and periodically review the strategies and policies related to taking, managing and controlling the risks that the Group is or may be subject to, as well as the regular monitoring of the Risk Management Function. The Board of Directors (BD) is also responsible for the approval of the RAF (Risk Appetite Framework).

The Executive Committee (EC) is responsible for the implementation and maintenance of an internal control system that is adequate and efficient and that is based on an appropriate and effective risk management system.

The Finance and Risk Committee is responsible for the evaluation and monitoring of the various risks that the Group is exposed to, with special emphasis on the RAF limits and tolerance levels.

The Risk Management Department ensures that the Risk Management Function: (i) Guarantees the effective application of the risk management system, through a continuous monitoring of its adequacy and effectiveness, as well as of the measures taken to correct any weaknesses; (ii) Provides advice to the Management and Supervisory bodies; (iii) Prepares and presents periodic reports on risk management that allow the management bodies to monitor the various risks to which the Group is exposed; (iv) Prepares the ICAAP and actively engages in the preparation of the RAF;

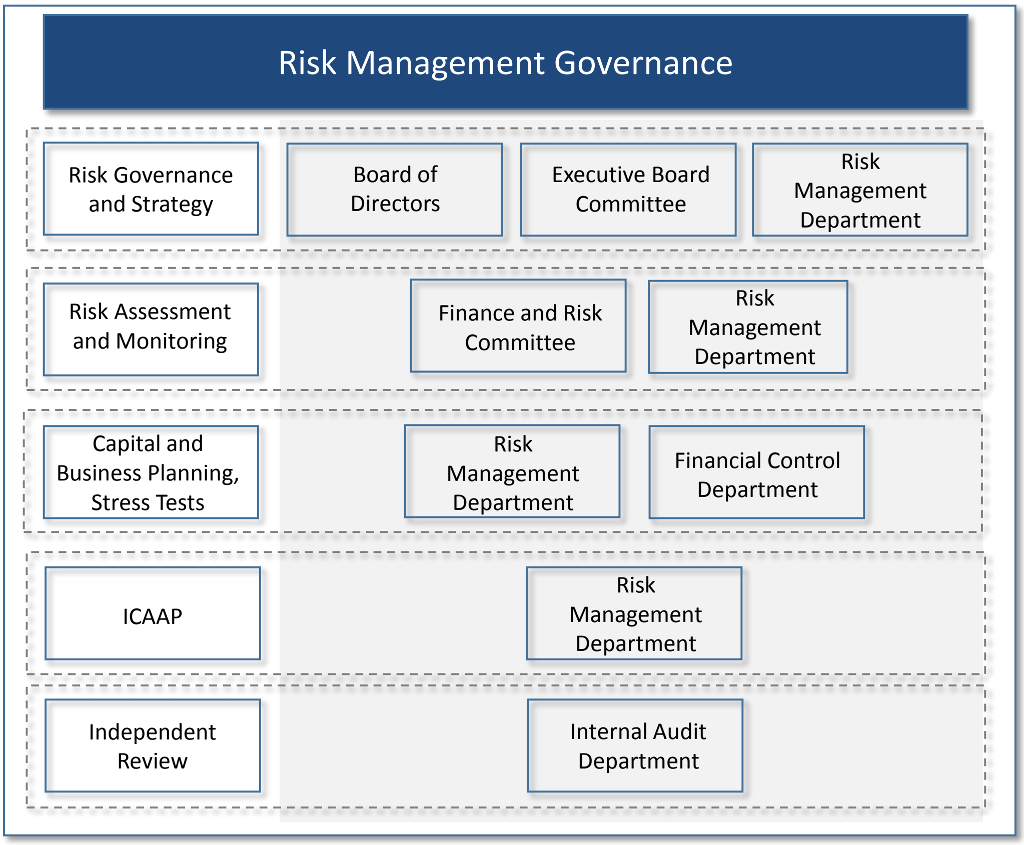
and (v) Promotes the integration of the risk principles in the institution's daily activities, ensuring that there is no major aspect of the business that is not contemplated in the risk management framework.

The Group acknowledges that the definition and assessment of the adequate internal capital levels backing up the risk profile, as well as adequate controls, are essential elements for the implementation of a sustainable business strategy. Planning the evolution and behaviour of internal capital is crucial to ensuring its continuous adequacy to the risk profile, strategic goals and business objectives.

In summary, the Risk Management System assures:

- An adequate identification, assessment, monitoring, control, and mitigation of all material risks to which the Group is exposed;
- The adequacy of the internal capital to the risk profile, business model, and strategic planning; and
- The integration of the risk management process in the Group's culture and decision-making process.

Finally, the Internal Audit Department, an independent unit, is responsible for reviewing the adequacy of the procedures and controls implemented.



4.2 Risk Profile

The Group's risk profile is determined based on a comprehensive assessment of its business activities, leading to the identification of the material risks to which the Group is or could be exposed.

4.2.1 Credit Risk

Credit risk arises from the possibility of a counterparty defaulting, as well as from changes in the economic value of a given financial instrument due to the degradation of its credit quality. It constitutes one of the most important risks for the Group, considering its asset structure.

The Group's objective is to maintain a high quality asset portfolio, supported by a prudent credit policy and a detailed analysis of all credit proposals, in order to maintain a low risk portfolio and achieve growth within the limits defined in accordance with the risk appetite.

On this basis, the credit risk management system has two components: the first involving credit analysis and the second focused on a robust monitoring system that ensures the immediate identification of a potential increase in default risk, allowing for an analysis of the causes and the implementation of corrective actions, if necessary.

With regard to the first component, the approval of any credit limit is made in accordance with the Group's internal credit policy. All operations are subject to Credit Department defined limits. Each entity is assigned a maximum credit limit, based on its risk profile, issuer credit rating, sector, geographical area, etc., in line with the established guidelines.

The Risk Management Department is the body entrusted with the second component of credit risk management, controlling approved limits and monitoring exposure by counterparty group (e.g. individual concentration index), activity sector (e.g. sector concentration index), geographical area, and issuer credit rating. In this component there is a permanent concern with diversifying the portfolio so as to enable the Group to mitigate the credit concentration risk, which derives from the potential capacity of a certain group of counterparties to provoke losses that could jeopardize the solvency of the institution.

The Risk Management Department is also responsible for monitoring the economic capital for credit risk. Since the Group's credit risk exposure level is directly related with the key credit risk parameters, namely probability of default (PD) and the amount of the loss given default (LGD), under ICAAP, the economic capital requirement for credit risk is quantified using the Foundation IRB (Internal Ratings Based) formula of Basel III.

As at 31 December 2016, about 60% of the fixed income portfolio has an Investment Grade rating.

4.2.2 Operational Risk

Operational risk may be defined as the risk of loss of income or capital resulting from failures in the analysis, processing or settlement of operations, internal and external fraud, outsourcing services, ineffective internal decision processes, insufficient or inadequate human resources or infrastructure inoperability.

The operational risk management has always been given great importance by the Group. Keeping in mind best practices, the Group has undertaken efforts to implement more advanced and effective operational risk measurement and control methods.

The Group has maintained its process of collecting and recording information on the various categories of operational risks that may affect its activity (loss event register and risk control self-assessment). The operational risk database contemplates a detailed recording of events, the accounting of losses, the assessment of operational risk events, including an analysis of corrective and prospective measures, as well as the self-assessment regarding the control of this risk.

The Group uses the Basic Indicator Approach (BIA) methodology to quantify the risks inherent to the operational activities and information systems, considering the gross income of the last three years.

The Group recognizes that the capital allocated to operational risk, using this approach, is adequate to cover unexpected potential losses, considering:

- The control system and procedures adopted by the Group to control operational risk;
- The fact that there is no historical record of material operational losses;
- The monitoring and the control processes that are realized in a centralized format.

During 2016, various training actions were carried out. It is worth noting a specific course on the Internal Control System for managers in various areas. For 2017, the

Group will continue to focus on the training component as a means to reduce operational risk.

4.2.3 Interest Rate Risk in the Bank Portfolio

The interest rate risk in the banking book results from the probability of the occurrence of a negative impact of unfavourable fluctuations in interest rates, essentially due to the existence of gaps between the maturities of fixed rate assets and liabilities.

The monitoring of the exposure to interest rate fluctuations constitutes one of the main aspects for an adequate risk management of a financial institution. The Group has adopted a strategy of minimizing the interest rate risk related to its fixed-rate assets, with the objective of minimizing the exposure to interest rate shocks and fluctuations, maintaining a balanced structure between assets and liabilities in terms of interest rate mismatch.

The Group monitors the distribution of interest rate risks across time buckets, net of the corresponding fixed-rate liabilities and the interest rate hedging instruments used. As at 31/12/2016, the portfolio's interest rate risk nominal hedge level was 93%.

The effectiveness of the hedge policy is analysed and reviewed monthly by the Finance and Risk Committee.

Considering the nature and characteristics of the Group's business, as well as the processes implemented to monitor and mitigate interest rate risk, the Group also analyses the VaR ("Value at Risk") behaviour in respect of interest rate risk. The VaR is calculated using the historical simulation method, based on a rate history of one year, a holding period of one day, and a confidence level of 99%. This model has been validated with back tests. For the year 2016, the average daily VaR related to interest rate risk was €2.65 million (€2.69 million in 2015).

4.2.4 Foreign Exchange Risk of the Bank Portfolio

Foreign exchange risk is characterized by the probability of the occurrence of negative impacts as a consequence of unfavourable fluctuations in foreign exchange rates and of adverse changes in the price of instruments denominated in foreign currencies.

It is the Group's policy to operate only in assets and liabilities denominated in EUR and USD. Positions in other currencies are sporadic and do not have a significant impact on the Balance Sheet and Income Statement.

The Group adopted the strategy of minimizing the foreign exchange risk associated with its assets and liabilities. Whenever the pre-established limits for the foreign exchange risk are likely to be attained, foreign exchange risk is hedged, with the exposures of both the spot position and the forward position being monitored on a daily basis.

This analysis is presented and discussed at the Finance and Risk Committee on a monthly basis, aimed at defining or correcting the measures to be adopted so as to minimize foreign exchange risk.

Considering the nature and characteristics of the Group's business, as well as the processes implemented to monitor and mitigate foreign exchange risk, the Group also analyses the VaR ("Value at Risk") behaviour in respect of foreign exchange risk. The VaR is calculated using the historical simulation method, based on an exchange rate history of one year, a holding period of one day and a confidence level of 99%. This model has been validated with back tests. For the year 2016, the average daily VaR relating to foreign exchange risk was €5.48 million (€2.88 million in 2015).

4.2.5 Market Risk of the Trading Portfolio

Market risk is defined as the probability of incurring losses due to unexpected changes in the price of financial instruments. This may result besides other effects, from changes in interest rates and foreign exchange rates. Given the Group's reduced trading portfolio, this risk is considered immaterial and is analysed jointly with the banking book.

4.2.6 Liquidity Risk

Liquidity risk is defined as the possibility of a financial institution being unable to meet its obligations as they fall due, because of an inability in a timely manner to liquidate assets, obtain funding or refinance its liabilities under standard terms and conditions.

The Group's liquidity management objective is to guarantee a stable and robust liquidity position, based on liquid assets, controlling the liquidity gaps and incorporating a liquidity buffer that permits responding to increased capital outflows under stress situations.

Liquidity risk management is carried out on a Group basis, centralized in the Treasury Department, with the support and monitoring of the Risk Management Department. Liquidity is maintained within pre-defined limits, in accordance with two key parameters: i) cash flow management, through a system of cash flow controls that permit the daily calculation of treasury balances over an extended horizon and the maintenance of excess liquidity that ensures the normal functioning of the Group even under adverse conditions; ii) balance sheet management, allowing for the maintenance of the main liquidity indicators within the pre-defined limits set by the Finance and Risk Committee.

The Treasury Department is responsible for the daily cash flow management of the Group. The Risk Management Department performs all the analyses pertaining to the Group's balance sheet management, preparing a monthly report for the Finance and Risk Committee.

The metrics used to measure liquidity risk, apart from those used for daily cash flow controls, are related with the prudential ratios LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio), the deposit to credit transformation ratio and with internal ratios (liquidity and eligible assets ratio and short-term financing ratio).

As at 31 December 2016, the LCR ratio was well above the fully loaded[1] minimum figures required. The objective of the LCR is to promote the short-term resilience of the liquidity risk profile of banks. It does this by ensuring that banks have an adequate stock of unencumbered high-quality liquid assets (HQLA) that can be converted easily and immediately in the markets into cash, under a stress scenario, to meet their liquidity needs for a 30-day temporal horizon. As at 31 December 2016, the HQLA stock exceeded €345 million.

Whilst only mandatory in 2018, the Group also monitors the Net Stable Funding Ratio (NSFR), which supplements the LCR and has a time horizon of one year. This ratio has been developed to provide a sustainable maturity structure of assets and liabilities and aims to promote an adequate resilience over a longer time horizon, by establishing additional incentives for banks to fund their activities with more stable sources of funding and on a regular basis. During 2016, the Banco Finantia Group's NSFR was always above 100%.

The Finance and Risk Committee is responsible for monitoring the Group's main Liquidity ratios.

5. Financial Overview

5.1 Consolidated Results

The consolidated net profit attained €30.7 million in 2016, an increase of 11% over the €27.6 million reported in the previous year. Operating income, after impairment

[1] The minimum required was 70%, as at 31 December 2016, increasing progressively to 100% in 2018.

and provisions amounted to €65.2 million in 2016, an increase of about 4% over the previous year. Net interest income amounted to €60.5 million (€66.2 million in 2015).

Net fee and other revenues attained €19.4 million (€28.1 million in 2015).

Operating expenses decreased circa 9% to €22.6 million (€24.8 million in 2015), which translates into a cost-to-income ratio of 28.2%, one of the best amongst European banks.

The Consolidated Income Statement for the financial years ended 31 December 2016 and 2015, is as follows:

€ million	IFRS	
Consolidated income statement	**31.12.2016**	**31.12.2015**
Net interest income	60.5	66.2
Net fee and other revenues	19.4	28.1
Impairments and provisions	(14.7)	(31.5)
Operating income after impairment and provisions	**65.2**	**62.8**
Operating expenses	(22.6)	(24.8)
Profit before tax	**42.7**	**38.0**
Extraordinary items	-	(2.7)
Taxes	(12.0)	(7.7)
Net profit	**30.7**	**27.6**

5.2 Consolidated Balance Sheet

Total assets reached €1,807.4 million on 31 December 2016, a 2% increase over the previous year:

€ million	IFRS	
Consolidated balance sheet	**31.12.2016**	**31.12.2015**
Assets		
Cash and banks	100.3	119.4
Fixed income and loan portfolio	1,631.2	1,540.7
Discontinued credit operations	28.6	52.0
Other assets	47.3	61.6
Total assets	**1,807.4**	**1,773.7**
Liabilities		
MM takings	28.1	30.3
Customers deposits	740.4	679.6
Repos	495.4	483.5
ECB	-	73.0
Subordinated debt	20.3	51.5
Other liabilities	115.1	107.4
Total liabilities	**1,399.4**	**1,425.3**
Total shareholders' equity	**408.0**	**348.4**
Total liabilities and shareholders' equity	**1,807.4**	**1,773.7**

The Fixed income and loan portfolio (comprising mainly available-for-sale fixed income securities) grew about 6%, in line with the Group's strategic guidelines.

Discontinued credit operations represent the remainder of the portfolio of the specialized financing activity, discontinued in 2013.

Customers' deposits increased 9% over the amount recorded in 2015 (€ 679.6 million) to a total of €740.4 million. This increase follows the positive trend of recent years, based on Banco Finantia's strategy of increasing its depositor base.

The ECB financing was fully paid out during the 1st quarter of 2016 (€73 million at the end of 2015).

Shareholders' equity increased about 17% over 2015 attaining €408.0 million, reflecting the year's results and the good performance of the available-for-sale fixed income portfolio.

5.3 Solvency

5.3.1 Regulatory Capital

The Bank's solvency ratios are calculated in accordance with the prudential framework established by Regulation (EU) no. 575/2013 (CRR) and by Directive 2013/36/EU (CRD IV), both issued by the European Parliament and Council, of 26 June 2013 ("Basel III"), as well as Notice no. 6/2013 of the Bank of Portugal that regulates the transitory regime foreseen in the CRR in the matter of own funds and establishes measures aimed at the preservation of those funds. The full application of the new Basel III regulations will be gradually introduced until 2018, this process being generally designated as "Phasing-in". The full assumption of the new regulations, without considering the transitory regime, is designated as "Full Implementation".

Notwithstanding a more demanding regulatory framework, the Bank maintains solid financial ratios. Under the current transitional provisions, the CET1 and total capital ratios were both 23.3% (22.6% in 2015). On a full implementation basis, i.e., without the transitional provisions, the CET1 and total capital ratios were both 23.6% in 2016 (22.3% in 2015).

Basel III (Phasing-in)	**31.12.2016**	**31.12.2015**
CET1 ratio	23.3%	22.6%
Total Capital ratio	23.3%	22.6%
Basel III (Full implementation)	**31.12.2016**	**31.12.2015**
CET1 ratio	23.6%	22.3%
Total Capital ratio	23.6%	22.3%

Risk weighted assets ("RWA") reached €1,640 million (€1,499 million in 2015).

5.3.2 Internal Capital Adequacy Assessment Process ("ICAAP")

In addition to the regulatory perspective, the Bank also considers the risks and the financial resources available ("RTC", Risk Taking Capacity) from an economic perspective, in conducting its self-assessment on internal capital adequacy, which is foreseen in Pillar 2 of Basel III and in Notice no. 15/2007, of the Bank of Portugal.

The risks and the RTC are estimated on a going concern basis, assuming the Bank has the capacity to settle all its liabilities, including subordinated debt and deposits, on a timely basis.

To quantify the risks, the Bank developed various economic capital models that estimate the potential maximum loss in a period of one year, based on a pre-defined confidence level. These models cover the various types of risks the Bank is exposed to, namely, credit, operational, reputational and compliance risks.

Regarding the allocation of economic capital to the interest rate and foreign exchange risks in the banking portfolio, the Group uses the VaR historical simulation method, based on a rate history of six years, a detention period of one year and a confidence level of 99.9%.

The amounts of the economic capital required for each risk are aggregated, not considering, as a matter of prudence, the effects of the diversification between risks. In addition to the calculation of the economic capital requirements, the main risk factors are subjected to stress tests to identify any weaknesses and risks that the internal model may not have identified.

The monthly analysis of capital adequacy is supplemented at the end of each year by a prospective analysis of the capital requirements, associated with the respective risks, and of the financial resources available, over a three-year temporal horizon, considering the Bank's funding and capital plan.

The ICAAP results are continually monitored and permit concluding that the Bank's capital is adequate to cover incurred or potential risks from the regulatory and economic perspectives.

5.4 Treasury Shares

At the beginning and end of 2016, the Bank held 12,150,868 treasury shares on a consolidated basis. During the year 2016 there were no acquisitions or sales of treasury shares.

6. Social Responsibility, Cultural Patronage and Education

6.1 Social Responsibility

It is the policy of Banco Finantia to aid social solidarity institutions that support under-privileged children or children with special education-needs. In 2016 the Bank financed the following institutions:

- APSA - Associação Portuguesa de Síndrome de Asperger, an IPSS (Private social solidarity institution) set up in Lisbon in 2003, by a group of parents with the mission to promote the support and social integration of persons with Asperger's Syndrome (AS), improving conditions and capacitating an autonomous and dignified life. The largest APSA project is "Casa Grande", opened in 2014 in Lisbon, intended to guide youths at an age that APSA considers there is the greatest difficulty of integration into society.

- Banco do Bebé - Associação de Ajuda ao Recém-Nascido, an IPSS created in 1996 to help underprivileged families of babies born in the Alfredo da Costa maternity, its support now also extending to the Santa Maria and Beatriz Ângelo Hospitals. This association accompanies babies and children referenced by the social services of the neonatology/paediatrics unit at home and supports, with basic necessities, families with babies and children from 0-6 years of age referenced by the same unit and by the social services of obstetrics.

- Liga dos Amigos do Centro Hospitalar de S. João (Oporto), an association created in 2006 to support needy children and the elderly in a hospitalization context, in strict collaboration with the Hospital's Directorate and with the Volunteer section existing at the Hospital.

- Raríssimas - Associação Nacional de Deficiências Mentais e Raras, founded in 2002, with the mission of assisting patients (primarily children), family and friends that coexist with rare diseases. In Portugal there are circa 800 thousand carriers of rare diseases. Another of Raríssimas' objectives is to promote the disclosure, information and awareness of Rare Diseases at the national and international level, namely in developing countries, to the public in general.

6.2 Cultural Patronage

The Ajuda National Palace and the Serralves Foundation in Oporto are the two national institutions that have benefitted from Banco Finantia's support. Banco Finantia has been an active patron of the Palace since 1997 and is, with pride, a founding member of the Serralves Foundation where it has sponsored various cultural and social programmes.

6.3 Education

The Bank has once again collaborated with ISEG – Instituto Superior de Economia e Gestão (Higher Institute of Economics and Management) of the Universidade Técnica de Lisboa (Technical University of Lisbon), attributing an award to the best first-year student of the Master's in "International Economics and European Studies". The Bank is also a founding member of Fundação Económicas – Fundação para o Desenvolvimento das Ciências Económicas, Financeiras e Empresariais (Economics Foundation – Foundation for the Development of the Economic, Financial and Business Sciences).

7. Future prospects

The global environment, although with favourable growth prospects, remains quite uncertain and volatile. The emerging markets in general have a positive outlook but show some weaknesses, including minimum growth in Brazil. Meanwhile, at the local level, the prospects for Portugal and Spain are for low growth but with continued macroeconomic improvement.

In this environment, more than ever, it is important for the Bank to capitalize on its main competitive advantages: A flexible business posture, platforms in Portugal, Spain, London, New York, Sao Paulo and Malta, a cadre of internationally trained and experienced professionals, strong relationships with a variety of customers, institutions and counterparties worldwide, a strong capital base and a highly cost-efficient structure.

The Bank has, therefore, all the elements to continue to offer attractive opportunities and professionalized services to its corporate and institutional customers and to provide high quality private banking services to its private customers - expanding its customer base, the number of its operations and the volume of its assets.

In terms of business lines, the Bank plans to maintain the same orientation, focusing on non-capital intensive activities, primarily financial advisory services, fixed income capital market operations and private banking.

Financial Advisory Services (FAS) should continue to expand, focusing on cross-border transactions, simultaneously supporting both the internationalization of the Iberian companies and the flow of foreign direct investment into the Iberian Peninsula.

The Capital Markets Department is also planning to expand its sales, distribution and market making activities. We are anticipating further improvements in efficiency, increasing turnover in order to be able to strengthen our capacity to fund companies and satisfy investor demands, whilst consuming less capital. This orientation is in line with the European Commission initiative of gradually replacing commercial bank credit with capital markets, thereby diversifying the companies' sources of funding.

Finally, Private Banking should continue to expand in line with the trend of recent years, and shall be strengthened with the widening and diversification of its product range. This will allow the Bank to offer its customers more investment alternatives and to further increase its fee business.

8. Appropriation of Results

The Board of Directors proposes a dividend of 50% of the Net Profit, equivalent to circa 15.2 million Euros, or 11 cents per share.

Banco Finantia presents a CET1 ratio of 23.6% (full implementation), including the deduction of the dividend proposed, clearly falling within both the internal policies and the regulatory guidelines issued for the banking sector, of maintaining capital ratios (CET1) sufficiently robust for the development of its activities.

9. Final Remarks

In a difficult year for the banking activity, and one marked by a more demanding regulatory framework, Banco Finantia was able to achieve good results.

To all our customers, shareholders, business institutions, auditors and authorities, the Bank's Board of Directors expresses its thanks and appreciation for the support received. To all our employees, our congratulations on the results obtained and our thank-you for the effort, dedication, loyalty and professionalism demonstrated.

The near future presents some challenges, but we are in a strong position and are confident that we will continue to find value added solutions, both for our customers and for our shareholders.

Translation Note

The present Management Report is a free translation of the original document issued in the Portuguese language. In the event of discrepancies the original version prevails.

Lisbon, 8 March 2017

The Board of Directors

António Vila-Cova	Pedro Perestrelo dos Reis
Gonçalo Vaz Botelho	Ricardo Borges Caldeira
David Paulino Guerreiro	António Santiago Freitas

Carlos Perelló Yanes

Banco Finantia

CONSOLIDATED FINANCIAL STATEMENTS 2016

Consolidated Financial Statements

Banco Finantia

Consolidated Balance Sheet
as at 31 December 2016 and 2015

EUR thousand	Notes	2016	2015
Assets			
Cash and banks	5	30,665	39,214
Due from banks	6	69,664	80,213
Securities and loans portfolio	7	1,631,206	1,540,722
Derivative financial assets	8	8,790	2,348
Non-current assets held for sale		216	343
Investment property		1,084	935
Property and equipment	9	12,288	12,874
Intangible assets	10	374	626
Current income tax assets		7,248	5,311
Deferred income tax assets	11	195	18,524
Other credit operations	12	28,571	51,987
Other assets	13	17,110	20,644
		1,807,409	**1,773,741**
Liabilities			
Due to central banks	14	-	73,003
Due to banks	15	28,128	30,280
Due to customers	16	740,425	679,590
Securities sold under repurchase agreements	17	495,442	483,532
Derivative financial liabilities	8	64,437	60,690
Current income tax liabilities		19,824	13,560
Deferred income tax liabilities	11	7,066	1,937
Subordinated debt	18	20,307	51,495
Provisions	19	1,974	6,445
Other liabilities	19	21,785	24,840
		1,399,387	**1,425,372**
Equity			
Share capital	20	150,000	150,000
Share premium	20	25,000	25,000
Treasury stock	20	(12,151)	(12,151)
Reserves and retained earnings	21	214,247	157,714
Net profit attributable to the equity holders of the Bank		30,691	27,605
Total equity attributable to the equity holders of the Bank		**407,787**	**348,168**
Non-controlling interests		235	201
Total equity		**408,022**	**348,368**
Total liabilities and equity		**1,807,409**	**1,773,741**

The following notes form an integral part of these financial statements

Banco Finantia

Consolidated Income Statement
for the years ended 31 December 2016 and 2015

EUR thousand	**Notes**	**2016**	**2015**
Interest and similar income	22	89,578	102,964
Interest expense and similar charges	22	(29,053)	(36,780)
Net interest income		**60,525**	**66,183**
Dividend income		-	59
Fee and commission income	23	3,508	7,189
Fee and commission expense	23	(561)	(925)
Net results from financial operations	24	18,612	23,249
Other operating income		(2,153)	(1,432)
Operating income		**79,931**	**94,323**
Staff costs	25	(11,596)	(11,880)
General and administrative expenses	26	(9,509)	(13,007)
Depreciation and amortisation	9, 10	(1,454)	(2,623)
Operating expenses		**(22,559)**	**(27,510)**
Operating profit		**57,372**	**66,813**
Impairment and provisions	27	(14,709)	(31,495)
Profit before income tax		**42,663**	**35,318**
Current income tax	11	(12,515)	(13,137)
Deferred income tax	11	565	5,449
Net profit		**30,713**	**27,629**
Attributable to:			
Equity holders of the Bank		30,691	27,605
Non-controlling interests		22	24

The following notes form an integral part of these financial statements

Banco Finantia

Consolidated Statement of Comprehensive Income
for the years ended 31 December 2016 and 2015

EUR thousand	**Notes**	**2016**	**2015**
Net profit			
Attributable to the equity holders of the Bank		30,691	27,605
Attributable to non-controlling interests		22	24
		30,713	**27,629**
Items that are or may be reclassified to profit or loss			
Available for sale financial assets	21	67,644	(64,467)
Deferred taxes	11	(18,213)	16,771
		49,431	(47,696)
Cash flow hedges	21	59	102
Net investment hedge	8	(3,291)	588
Currency translation differences		3,035	(1,603)
		49,234	**(48,609)**
Total comprehensive income		**79,947**	**(20,979)**
Attributable to:			
Equity holders of the Bank		79,913	(20,930)
Non-controlling interests		34	(50)

The following notes form an integral part of these financial statements

Banco Finantia

Consolidated statement of changes in equity for the years ended 31 December 2016 and 2015

EUR thousand	Share capital & Share premium	Treasury stock	Reserves and retained earnings	Total Equity attributable to the shareholders of the Bank	Non-controlling interests	Total Equity
Balance as at 01 January 2015	**175,000**	**(12,150)**	**220,861**	**383,711**	**251**	**383,962**
Net profit	-	-	27,605	27,605	24	27,629
Changes in fair value reserve (see Note 21)	-	-	(64,467)	(64,467)	-	(64,467)
Amortization of cash flow hedge reserve	-	-	102	102	-	102
Net investment hedge	-	-	588	588	-	588
Deferred taxes	-	-	16,771	16,771	-	16,771
Currency translation differences	-	-	(1,529)	(1,529)	(74)	(1,603)
Total comprehensive income	**-**	**-**	**(20,929)**	**(20,929)**	**(50)**	**(20,979)**
Dividends paid [(a)]	-	-	(14,612)	(14,612)	-	(14,612)
Changes in treasury stock	-	(1)	(0)	(1)	-	(1)
	-	**(1)**	**(14,612)**	**(14,614)**	**-**	**(14,614)**
Balance as at 31 December 2015	**175,000**	**(12,151)**	**185,319**	**348,168**	**201**	**348,369**
Net profit	-	-	30,691	30,691	22	30,712
Changes in fair value reserve (see Note 21)	-	-	67,644	67,644	-	67,644
Amortization of cash flow hedge reserve	-	-	59	59	-	59
Net investment hedge	-	-	(3,291)	(3,291)	-	(3,291)
Deferred taxes	-	-	(18,213)	(18,213)	-	(18,213)
Currency translation differences	-	-	3,023	3,023	12	3,035
Total comprehensive income	**-**	**-**	**79,913**	**79,913**	**34**	**79,947**
Dividends paid [(a)]	-	-	(13,785)	(13,785)	-	(13,785)
Changes in treasury stock	-	-	-	-	-	-
Tax impact from the withdrawal of Notice 3/95	-	-	(5,698)	(5,698)	-	(5,698)
Other movements	-	-	(812)	(812)	-	(812)
	-	**-**	**(20,294)**	**(20,293)**	**-**	**(20,294)**
Balance as at 31 December 2016	**175,000**	**(12,151)**	**244,938**	**407,787**	**235**	**408,022**

[(a)] Relates to a dividend of € 0.11 (2015: € 0.11) per share outstanding

The following notes form an integral part of these financial statements

Banco Finantia

Consolidated Statement of Cash Flows
for the years ended 31 December 2016 and 2015

EUR thousand	Notes	2016	2015
Cash flows arising from operating activities			
Interest and similar income received		91,564	112,219
Interest and similar charges paid		(27,765)	(42,515)
Fee and commission received		3,628	7,290
Fee and commission paid		(561)	(925)
Recoveries on loans previously written-off		2,501	2,452
Cash payments to employees and suppliers		(20,068)	(21,165)
		49,299	**57,355**
Changes in operating assets:			
Mandatory deposits in central banks		(299)	911
Securities and loans portfolio		(17,288)	234,300
Due from banks		7,174	91,372
Other credit operations		23,952	45,853
Other operating assets		(9,128)	(7,082)
Changes in operating liabilities:			
Derivative financial instruments		(407)	(95,615)
Due to central banks	14	(73,003)	(206,999)
Due to banks		(2,138)	(22,496)
Due to customers		61,135	78,425
Securities sold under repurchase agreements ("repos")		11,022	(92,224)
Other operating liabilities		(3,624)	(260)
Net cash flow from operating activities before income taxes		**46,696**	**83,540**
Income taxes paid		(8,188)	(12,212)
		38,508	**71,328**
Cash flows arising from investing activities			
Purchase of property, equipment and intangible assets	9, 10	(885)	(1,768)
Proceeds from sale of property, equipment and intangible assets	9, 10	66	76
		(819)	**(1,692)**
Cash flows arising from financing activities			
Purchase of treasury stock	20	-	(1)
Reimbursement of debt issued		-	(1,764)
Maturity and repurchase subordinated debt		(31,178)	(75,567)
Dividends paid from ordinary shares		(13,785)	(14,612)
Net cash flow from financing activities		**(44,963)**	**(91,944)**
Effect of exchange rate changes on cash and cash equivalents		(4,767)	(1,439)
Net changes in cash and cash equivalents		**(12,041)**	**(23,747)**
Cash and cash equivalents at the beginning of the year	30	48,747	72,494
Cash and cash equivalents at the end of the year	30	36,706	48,747
		(12,041)	**(23,747)**

The following notes form an integral part of these financial statements

Notes to the consolidated financial instruments

1. Basis of presentation

Banco Finantia (the "Bank") and its subsidiaries (the "Group") has as its main object the accomplishment of all the operations and the provision of all the services allowed to the Banking Institutions, providing a broad range of financial services focused on capital markets, money markets, advisory services (including mergers and acquisitions) and credit operations and, indirectly, through its subsidiaries, leasing operations, management of equity interests, asset management, asset and funds management, forfaiting, long term renting, services of insurance mediation and specialized finance.

Banco Finantia is a privately-owned bank headquartered in Lisbon, Portugal at Rua General Firmino Miguel, nº 5, in Lisbon, which resulted from the transformation at October 1992 of Finantia – Sociedade de Investimentos, S.A., that began its activity at July 1987. For such effect, the Bank has all the indispensable permits from the portuguese authorities, central banks and all other regulatory agents operating in Portugal and in the other countries where the Bank operates through its affiliates and international subsidiaries.

The subsidiaries have branches and offices in Portugal, Spain, United Kingdom, Brazil, United States of America, Cayman Islands, Malta and Netherlands.

The consolidated financial statements of the Bank are prepared in accordance with International Financial Reporting Standards ("IFRS"), issued by the International Accounting Standards Board ("IASB"), as adopted for use in the European Union ("EU") at 31 December of 2016. These financial statements are consolidated by Finantipar – S.G.P.S., S.A., headquartered in Lisbon, Portugal at Rua General Firmino Miguel, n.º 5.

During 2016, as described in Note 3, the Bank adopted several amendments to existing standards issued by IASB and adopted by the EU with mandatory application in this exercise. Additionally, the Bank chose not to early adopt the new standards and interpretations that have been issued but are not effective in 2016.

These consolidated financial statements are expressed in thousands of euros ("€ thousand") rounded to the nearest thousand, except when mentioned, and have been prepared under the historical cost convention, as modified by financial assets and financial liabilities at fair value through profit or loss, available-for-sale financial assets, hedging and trading derivative financial instruments and recognized assets and liabilities that are hedged, in a fair value hedge, in respect of the risk that is hedged.

The preparation of financial statements in accordance with IFRS requires the use of accounting estimates and assumptions. The most significant estimates are disclosed in Note 4.

The presentation of the financial statements was reviewed in 2016 in accordance with IAS 1, and the structure of the balance sheet was changed by including the "Securities and loans portfolio" and "Other credit operations" captions, in order to highlight the most relevant activities and thus increase the comprehensibility of the financial statements.

These consolidated financial statements have been approved for issue by the Board of Directors on 8 March 2017.

2. Significant accounting policies

2.1 Basis of consolidation

These consolidated financial statements comprise the financial statements of Banco Finantia (the "Bank") and its subsidiaries (the "Group").

The accounting policies have been consistently applied by all Group companies.

Investments in subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group exercises control. The Group exercises control when it is exposed to or has rights over the variable returns of an entity and has the ability of affecting those variable returns due to its power to affect the activities of the subsidiary. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date that control ceases.

The accumulated losses of a subsidiary are proportionally attributable to non-controlling interests which might imply the recognition of negative non-controlling interests.

In a business combination achieved in stages (step acquisition) where control is obtained, any previously held non-controlling interest is remeasured to fair value and the resulting gain or loss recognized in the income statement when determining the respective goodwill. At the time of a partial sale, from which arises a loss of control of a subsidiary, any remaining non-controlling interest retained is remeasured to fair value at the date the control is lost and the resulting gain or loss is recognized against the income statement.

The amount of the initial recognition of the remaining investments equal the amount of the prior revaluation. Any amounts previously recognized in other comprehensive income regarding an ex-subsidiary are reclassified to comprehensive income, as if the Group has sold the respective assets and liabilities.

Investments in associates

Associates are entities over which the Group has significant influence but no control. Generally when the Group owns more than 20% of the voting rights, but no more than 50%, it is presumed that it has significant influence. However, even if the Group owns less than 20% of the voting rights, it can have significant influence through the participation in the policy-making processes of the associated entity or the representation in its executive board of directors. Investments in associates are accounted for by the equity method of accounting from the date on which significant influence is transferred to the Group until the date that such influence ceases. The dividends received from associates are deducted from the investment initially made.

In a step acquisition that results in obtaining significant influence over an entity, any previously held stake in that entity is remeasured to fair value through the income statement when the equity method is first applied.

When the Group share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group realizes impairments tests for its investments in associates, on an annual basis, and when impairment triggers are detected.

When the Group sells its participation in an associate, even if it doesn't lose control of the company, it should record the transaction in profit or loss.

As at 31 December 2016 and 2015 the Group doesn't have any investments in associates.

Investments in Special purpose entities ("SPE")

The Group consolidates certain special purpose entities ("SPE"), specifically created to accomplish a well-defined objective, when the substance of the relationship with those entities indicates that they are controlled by the Group, independently of the percentage of the equity held.

The Group exercises control when it is exposed or has rights over the variable returns of an entity and has the ability of affecting those variable returns due to its power to affect the subsidiary's activities.

Goodwill

The Group measures goodwill as the fair value of the consideration transferred including the fair value of any previously held non-controlling interest in the acquire, less the net recognized amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Transaction costs are expensed as incurred.

At the acquisition date, non-controlling interest is measured at their proportionate interest in the fair value of the net identifiable assets acquired and of the liabilities assumed, without the correspondent portion of goodwill. As a result, the goodwill recognized in these consolidated financial statements corresponds only to the portion attributable to the equity holders of the Bank.

In accordance with IFRS 3 – Business Combinations, goodwill is recognized as an asset at its cost and is not amortized. Goodwill relating to the acquisition of associates is included in the book value of the investment in those associates determined using the equity method. Negative goodwill is recognized directly in the income statement in the period the business combination occurs.

Impairment for goodwill is tested on an annual basis, and for that purpose the goodwill is allocated to cash generating units ("CGU's"), or CGU's company´s, that are expected to benefit from the synergies created by business combinations. The Group assesses the recoverable amount of goodwill, as the larger amount between the fair value of the investment less estimated costs to sell and the value in use. The impairment losses are accounted at first, at goodwill level, and only then at the level of the other remaining assets of the CGU's, or the company´s CGU's.

The recoverable amount of goodwill recognized as an asset is reviewed annually, regardless of whether there is any indication of impairment. Impairment losses are recognized directly in the income statement and are not reversible in the future.

As at 31 December 2016 and 2015, the Group doesn´t have any goodwill.

Foreign currency translation

The financial statements of each of the Group entities are prepared using their functional currency which is defined as the currency of the primary economic environment in which that entity operates or as the currency in which funds/receipts from its activities are generated/retained. The consolidated financial statements are prepared in euros, which is the Bank's functional and presentation currency.

The financial statements of each of the Group entities that have a functional currency different from the euro are translated into euros as follows: (i) assets and liabilities are translated into the functional currency using the exchange rate prevailing at the balance sheet date; (ii) income and expenses are translated into the functional currency at rates approximating the rates ruling at the dates of the transactions; and (iii) all resulting exchange differences are recognized in equity. When the entity is sold or partially disposed and there is a reduction in its ownership interest and control ceases, such exchange differences are recognized in the income statement as a part of the gain or loss on sale.

Balances and transactions eliminated in consolidation

Inter-company balances and transactions, including any unrealized gains and losses on transactions between Group companies, are eliminated in preparing the consolidated financial statements, unless unrealized losses provides evidence of an impairment loss that should be recognized in the consolidated financial statements.

Unrealized gains on transactions between the Company and its associates are eliminated to the extent of the Group interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment loss.

Transactions with non-controlling interests

Acquisitions of non-controlling interest are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill is recognized as a result of such a transaction. Any difference between the consideration paid and the amount of non-controlling interest acquired is accounted for as a movement in equity. Equally, gains or losses on disposals to non-controlling interests are also recorded in equity.

Gains or losses on disposals when control changes are recognized in profit or loss.

Transactions with non-controlling interests that do not result in loss of control are accounted for a equity transactions – that is as transactions with the owners in their capacity as owners.

2.2. Interest income and expense

Interest income and expense are recognized in the income statement under interest and similar income or interest expense and similar charges for all non-derivative financial instruments measured at amortized cost and for the available-for-sale investments, using the effective interest method.

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, a shorter period, to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between parties that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

For derivative financial instruments, except those classified as hedging instruments of interest rate risk and credit derivatives, the interest component of the changes in their fair value is not separated out and is classified under financial assets and liabilities at fair value through profit or loss. For hedging derivatives of interest rate risk and credit derivatives, the interest component of the changes in their fair value is recognized under interest and similar income or interest expense and similar charges.

2.3. Dividend income

Dividend income is recognized when the right to receive payment is established.

2.4. Fees and commissions

Fees and commissions are recognized as follows: (i) fees and commissions that are earned on the execution of a significant act, such as loan syndication fees, are recognized as income when the significant act has been completed; (ii) fees and commissions earned over the period in which services are provided are recognized as income in the period the services are provided; and (iii) fees and commissions that are an integral part of the effective interest rate of a financial instrument are recognized as income using the effective interest method.

2.5. Foreign currency transactions

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated to euro at the foreign exchange rates ruling at the balance sheet date. Foreign exchange differences arising on translation are recognized in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the 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 to euro at the foreign exchange rates ruling at the dates the fair value was determined.

Exchange differences regarding cash flow hedges, net investment hedges or other items recognized in other comprehensive income are also recognized as other comprehensive income.

Fair value changes in available for sale financial assets are divided between changes regarding amortized costs changes, and other changes that may occur. The first ones should be recognized in profit or loss and the second ones in other comprehensive income.

2.6. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to the equity holders of the bank by the weighted average number of ordinary shares outstanding during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury stock.

For the diluted earnings per share, the weighted average number of ordinary shares outstanding is adjusted to reflect the impact of all dilutive potential ordinary shares, such as convertible debt and share options granted to employees. Potential or contingent share issuances are treated as dilutive when their conversion to shares would decrease net earnings per share.

The weighted average number of ordinary shares outstanding during the period and for all presented periods is adjusted to reflect changes in the number of ordinary shares outstanding without the correspondent changes in resources, if those changes are not related with the conversion of potential ordinary shares.

2.7. Other credit operations

Other credit operations include loans and advances originated by the Group, which are not intended to be sold in the short term, and are recognized when cash is advanced to the borrower.

These credit operations are derecognized from the balance sheet when: (i) the contractual right to receive the respective cash flows has expired; (ii) the Group has transferred substantially all risks and rewards of ownership; or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred its control over the assets.

Other credit operations are initially recorded at fair value plus transaction costs and are subsequently measured at amortized cost, using the effective interest method, less impairment losses.

Impairment

The Group assesses, at each balance sheet date, whether there is objective evidence of impairment within its credit operations portfolio. Impairment losses identified are recognized in the income statement and are subsequently reversed through the income statement if, in a subsequent period, the amount of the impairment losses decreases.

A loan or a loan portfolio, defined as a group of loans with similar credit risk characteristics, is impaired when: (i) there is objective evidence of impairment as a result of one or more events that occurred after its initial recognition; and (ii) that event (or events) has an impact on the estimated future cash flows of the loan or of the loan portfolio, that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for each loan. For this assessment, the Group uses the information that feeds the implemented credit risk models and takes into consideration, among others, the following factors:

- the aggregate exposure to the customer and the existence of non-performing loans, being non-performing loans those overdue for more than 90 days;
- the viability of the customer's business model and capability to trade successfully and to generate sufficient cash flows to service their debt obligations;
- the extent of other creditors' commitments ranking ahead of the Group;
- the existence, nature and estimated realizable value of collaterals;
- the exposure of the customer within the financial sector;
- the amount and timing of expected recoveries.

Where loans have been individually assessed and no evidence of loss has been identified, these loans are grouped together on the basis of similar credit risk characteristics for the purpose of evaluating the impairment on a portfolio basis (collective assessment). Loans that are assessed individually and found to be impaired are not included in a collective assessment for impairment.

If an impairment loss is identified on an individual basis, the amount of the impairment loss to be recognized is calculated as the positive difference between the book value of the loan and the present value of the expected future cash flows (considering the recovery period), discounted at the original effective interest rate. The carrying amount of impaired loans is reduced through the use of an allowance account. If a loan has a variable interest rate, the discount rate for measuring the impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralized loan reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective evaluation of impairment, loans are grouped on the basis of similar credit risk characteristics, taking into consideration the Group's credit risk management process. Future cash flows in a group of loans that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the loans in the Group and historical loss experience. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group with the purpose of reducing any differences between loss estimates and actual losses.

Additionally, the Group estimates the losses that have occurred but have not been identified specifically (incurred but not reported), through the collective impairment analysis above mentioned, considering the probability of default during the emergence period.

When a loan is considered by the Group as uncollectible after all recovery diligences in accordance with the Group policies have been made and when its expected recovery is very low, the amounts of the loans considered uncollectible are written-off against the related allowance for loan impairment. Subsequent recoveries of amounts previously written-off decrease the amount of the loan impairment loss recognized in the income statement.

2.8. Securities and loans portfolio

The securities and loans are initially measured at fair value plus, in case of instruments not at fair value through profit or loss, incremental direct transaction costs. Subsequently are accounted for having in consideration (i) the purpose of its acquisition (selling in the short term or medium term investment) and (ii) the existence of an active market providing regular quotes, as follows:

Fair value through profit or loss

Financial assets at fair value through profit or loss includes: (i) financial assets held for trading, which are those acquired principally for the purpose of selling in the short term; and

(ii) financial assets that are designated at fair value through profit or loss at inception.

They are recognized on a trade-date basis – which is the date the Group commits to purchase or sell the asset.

These financial assets are initially recognized at fair value and transaction costs are directly recognized in the income statement.

Financial assets are derecognized when (i) the contractual rights to receive their cash flows have expired, (ii) the Group has transferred substantially all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred the control over the assets.

Financial assets at fair value through profit or loss are subsequently carried at fair value and gains and losses arising from changes in their fair value are included in the income statement in the period in which they arise.

Available-for-sale

Available-for-sale (AFS) financial assets are non-derivative financial assets (i) intended to be held for an indefinite period of time; (ii) designated as available-for-sale at initial recognition; or (iii) that are not classified as held for trading, designated at fair value through profit or loss, held-to-maturity, or loans and receivables.

They are recognized on a trade-date basis – which is the date the Group commits to purchase or sell the asset.

These financial assets are initially recognized at fair value plus transaction costs. Financial assets are derecognized when (i) the contractual rights to receive their cash flows have expired, (ii) the Group has transferred substantially all risks and rewards of ownership or (iii) although retaining some but not substantially all of the risks and rewards of ownership, the Group has transferred the control over the assets.

AFS financial assets are subsequently carried at fair value. However, gains and losses arising from changes in their fair value are recognized directly in equity, until the financial assets are derecognized or impaired, at which time the cumulative gain or loss previously recognized in equity is transferred to the income statement. Foreign exchange differences arising from equity investments classified as available-for-sale are also recognized in equity, while foreign exchange differences arising from debt investments are recognized in the income statement.

Interest, calculated using the effective interest method and dividends are recognized in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. Depending on the counterparty these assets are presented as “due from banks” or “loans and advances to customers”.

These assets are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method less impairment losses, as described for held-to-maturity financial assets.

Impairment

The Group assesses periodically whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence of impairment the recoverable amount of the asset is determined and impairment losses are recognized through the income statement.

A financial asset or a group of financial assets is impaired if there is objective evidence of impairment as a result of one or more events that occurred after their initial recognition, such as significant financial difficulty of the issuer or obligor and default or delinquency in interest or principal payments, or a significant and prolonged decline in the fair value of the instrument below its cost.

If there is objective evidence that an impairment loss on an available-for-sale financial asset has been incurred, the cumulative loss recognized in equity – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the income statement – is taken to the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss is reversed through the income statement up to the acquisition cost if the increase is objectively related to an event occurring after the impairment loss was recognized, except in relation to equity instruments, in which case the reversal is recognized in equity.

Reclassifications

After initial recognition, financial assets may not be later reclassified into the Fair value through profit or loss category.

A financial asset, initially recognized as at fair value through profit or loss may be reclassified out of its category if it is a financial asset with fixed or determinable payments, initially held for trading purposes, is no more, after acquisition, negotiable on an active market and the Group has the intention and ability to hold it for the foreseeable future or until maturity, then this financial asset, may be reclassified into the Loans and receivables category, provided that the eligibility criteria to this category are met.

Derivative financial instruments shall not be reclassified out of the Fair value through profit or loss category.

A financial asset initially recognized as available-for-sale may be reclassified into the Held-to-maturity category, provided that the respective eligibility criteria are met.

Furthermore if a financial asset with fixed or determinable payments initially recognized as available-for-sale is subsequently no more negotiable on an active market and if the Group has the intention and ability to hold it for the foreseeable future or until maturity, then this financial asset may be reclassified into Loans and receivables provided that the eligibility criteria to this category are met.

These reclassified financial assets are transferred to their new category at their fair value on the date of reclassification and then are measured according to the rules that apply to the new category.

For a financial asset reclassified out of the fair value through profit or loss category any gain or loss already recognized in profit or loss shall not be reverse. The fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognized in other comprehensive income in accordance with paragraph 55 (b) shall be amortised to profit or loss over the remaining life of the investment using the effective interest method.

2.9. Fair value of financial instruments

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions and assumes that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. Also, an entity shall measure the fair value of an asset or a liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Therefore, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (ie an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

Fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between knowledgeable, willing parties, other than in a forced or liquidation sale.

Fair value price is obtained from quoted market prices or broker/dealer prices in active markets, if available, or are based on the established price of recent market transactions or in its absence on the usage of valuation techniques. Valuation techniques include net present value calculation procedures using direct observable market inputs.

2.10. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. This legally enforceable right can't be dependent from any future event, and should be enforceable in the regular activity of the Group, as well as the default, bankruptcy or insolvency of the Group or its counterparties.

2.11. Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") at a fixed price or at the sales price plus a lender's return are not derecognized. The corresponding liability is included in amounts due to banks or to customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities purchased under agreements to resell ("reverse repos") at a fixed price or at the purchase price plus a lender's return are not recognized, being the purchase price paid recorded as loans and advances to banks or customers, as appropriate. The difference between purchase and resale price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities lent under lending agreements are not derecognized being classified and measured in accordance with the accounting policy described in Note 2.8. Securities borrowed under borrowing agreements are not recognized in the balance sheet.

Securities received in a reverse repurchase agreement are disclosed as off-balance sheet items if the Group has the right to resell or repledge them, as well as securities that the Group has actually resold or repledged.

2.12. Financial guarantee contracts and irrevocable commitments

Financial guarantee contracts and irrevocable commitments are initially recognized in the financial statements at fair value on the date the contract was issued.

Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the income statement the fee income earned over the period, and the best estimate of the expenditure required to settle any financial obligation arising as a result of the guarantees at the balance sheet date. Any increase in the liability relating to guarantees is taken to the income statement.

Any liability remaining is recognized in the income statement when the guarantee is discharged, cancelled or expires.

2.13. Derivatives and hedge accounting

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into (trade date). Subsequent to initial recognition, the fair value of derivative financial instruments is re-measured on a regular basis and the resulting gains or losses are recognized directly in the income statement, except for derivatives designated as hedging instruments. The recognition of the resulting gains or losses of the derivatives designated as hedging instruments depends on the nature of the risk being hedged and of the hedge model used.

Fair values are obtained from quoted market prices, in active markets, if available or are determined using valuation techniques including discounted cash flow models and options pricing models, as appropriate.

Hedge accounting

Hedge accounting is used for derivative financial instruments designated as a hedging instrument provided the following criteria are met:

(i). At the inception of the hedge, the hedge relationship is identified and documented, including the identification of the hedge item and of the hedging instrument and the evaluation of the effectiveness of the hedge;

(ii). The hedge is expected to be highly effective, both at the inception of the hedge and on an ongoing basis;

(iii). The effectiveness of the hedge can be reliably measured, both at the inception of the hedge and on an ongoing basis;

(iv). For cash flows hedges, their occurrence must be highly probable;

(v). The hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting period for which the hedge was designated.

- *Fair value hedge*

In a fair value hedge, the book value of the hedged asset or liability, determined in accordance with the respective accounting policy, is adjusted to reflect the changes in its fair value that are attributable to risks being hedged. Changes in the fair value of the derivatives that are designated as hedging instruments are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the risk being hedged.

When a hedging instrument expires or is sold or if the hedge no longer meets the criteria for hedge accounting or the entity revokes the designation, the derivative financial instrument is transferred to the trading portfolio and fair value hedge accounting is discontinued prospectively. The cumulative adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to the income statement over the period to maturity, under results from financial operations.

- *Portfolio fair value hedge*

In this type of hedge, interest rate derivatives are used to hedge structural interest rate risks arising from Consumer Banking activities. When accounting for these transactions, the Group applies the IAS 39 "carve-out" standard as adopted by the European Union, which facilitates:

- the application of fair value hedge accounting to macro-hedges used for asset-liability management;

- the carrying out of effectiveness tests required by IAS 39 as adopted by the European Union.

The accounting treatment for financial derivatives designated as a portfolio fair value hedge is similar to that for other fair value hedging instruments.

When a hedging instrument is derecognized or sold, or when the hedge relationship no longer meets the criteria required for hedge accounting or the entity revoques the designation, the derivative financial instrument is transferred to the trading portfolio and the hedged assets and liabilities stop being adjusted by changes in fair value. The adjustment of the hedged instruments is amortized until maturity using the linear method and is reflected in net results from financial operations.

- *Cash flow hedge*

Where a derivative financial instrument is designated as a hedge of the variability in highly probable future cash flows, the effective portion of changes in the fair value of the hedging derivatives is recognized in equity. Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item affects the income statement. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting or the entity revokes the designation, any cumulative gain or loss are retained in equity until its recognition in the income statement, under results from financial operations, that occurs in the moment that the hedged transaction also affects the income statement. When a hedged transaction is no longer expected to occur, the cumulative gain or loss reported in equity is recognized immediately in the income statement and the hedging instrument is reclassified for the trading portfolio.

- *Net investment hedge*

When a derivative (or a non-derivative financial liability) is designated as the hedging instrument in a hedge of a net investment in a foreign operation, the effective portion of changes in the fair value of the hedging instrument is recognized directly in equity, in the foreign currency translation reserve (other comprehensive income).

Any ineffective portion of changes in the fair value of the hedging instrument is recognized in profit or loss. The amount recognized in other comprehensive income is removed and included in profit or loss on the full disposal or partial disposal of the foreign operation whenever there is a reduction in the entity's ownership interest in the subsidiary and control ceases.

Embedded derivatives

Derivatives that are embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the income statement.

As at 31 December 2016 and 2015 the Group doesn't have any embedded derivatives.

2.14. Non-current assets held for sale

Non-current assets are classified as held for sale when their carrying amount will be recovered mainly through a sale transaction (including those acquired only for the purpose of disposal), the assets are available for immediate sale and the sale is highly probable.

Non-current assets held for sale are measured at the lower of their carrying amount or the corresponding fair value and are not depreciated. Any subsequent write-down of the acquired assets to fair value is recorded in the income statement.

These assets, classified as held for sale, are evaluated by external experts.

2.15. Property and equipment, and Investment property

Property and equipment is stated at cost less accumulated depreciation and impairment losses, if any. Additions and subsequent expenditures are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Costs incurred in the process of dismantling and removing installed assets in third party property are considered as part of the initial cost of the respective asset, when the amount is significant and measurable reliably.

Depreciation is provided on the depreciable amount of items of property and equipment on a straight-line method over their estimated useful lives, as follows:

Buildings:	up to 50 years
Equipment:	from 5 to 10 years
Computer equipment:	from 3 to 4 years
Furniture:	up to 10 years
Motor vehicles:	from 3 to 5 years
Other equipment:	from 4 to 10 years

Land is not depreciated.

When there is an indication that an asset may be impaired, its recoverable amount is estimated and impairment loss recognized when the net book value of the asset exceeds its recoverable amount. Impairment losses are recognized in the income statement, being reversed in future exercises, when the reasons that caused the initial recognition cease. In that situation, the new depreciated amount won't be greater than the one that should be accounted if there weren't recognized any impairment losses to the asset.

The recoverable amount is determined as the greater of its net selling price and value in use which is based on the net present value of future cash flows arising from the continuing use and ultimate disposal of the asset.

Buildings classified as investment property relate to rented buildings held by the Group which are measured similarly to property and equipment.

2.16. Intangible assets

Acquired and developed computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software, eligible for capitalization as intangible assets. These costs are amortized on the basis of their expected useful lives, which is usually up to 3 years.

Costs that are directly associated with the development by the Group of identifiable specific software applications, that will probably generate economic benefits beyond one year, are recognized as intangible assets. These costs include employee costs directly associated with the development of the referred software.

Maintenance costs associated with software are recognized as an expense as incurred. The Group recognizes software development costs that fail to meet the recognition criteria as costs for the period, when incurred.

2.17. Leases

The Group classifies its lease agreements as finance leases or operating leases, at the beginning of each transaction, taking into consideration the substance of the transaction rather than its legal form, in accordance with IAS 17 – Leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. All other leases are classified as operating leases.

Operating leases (as lessee)

Payments made under operating leases are charged to the income statement in the period to which they relate.

Finance leases

- As lessee

  Finance lease contracts are recorded at inception date, both under assets and liabilities, being the smallest amount between the fair value of the leased assets and the minimum outstanding lease installments capitalized. Installments comprise (i) an interest charge, which is recognized in the income statement and (ii) the amortization of principal, which is deducted from liabilities. Financial charges are recognized as costs over the lease period, in order to produce a constant periodic rate of interest on the remaining balance of liability for each period. The assets acquired under financial leases are depreciated over the shorter of the assets useful life and the lease term.

- *As lessor*

  Assets leased out are recorded in the balance sheet as loans granted, for an amount equal to the net investment made in the leased assets, including any residual amount not granted.

  Interest included in installments charged to customers is recorded as interest income, while amortization of principal, also included in the installments, is deducted from the amount of the loans granted. The recognition of the interest reflects a constant periodic rate of return on the lessor's net outstanding investment.

2.18. Financial liabilities

An instrument is classified as a financial liability when it contains a contractual obligation to transfer cash or another financial asset, independently from its legal form.

Derivative financial liabilities and short-sales are classified as held for trading in accordance with IAS 39 and therefore are recognized at fair value in the balance sheet, being the gains or losses arising from the changes in their fair value recognized in the income statement.

Except for financial liabilities designated at fair value through profit or loss, other non-derivative financial liabilities, including repos (see Note 2.11), loans and advances from banks, deposits from customers and debt issued, are recognized (i) initially at fair value less transaction costs and (ii) subsequently at amortized cost, using the effective interest method.

Financial liabilities are classified as at fair value through profit or loss when their designation eliminates or significantly reduces valuation or recognition inconsistencies that would otherwise arise from measuring or recognizing gains and losses on them, on different basis, and when are so designated by management, or when evaluated and managed internally at fair value and the management information is produced in that basis.

The fair value designation, once made, is irrevocable. Measurement is initially at fair value, with transaction costs taken directly to the income statement.

Subsequently, the fair values are remeasured and gains and losses from changes therein are recognized in the income statement. The amount of change during the period, and cumulatively, in the fair value of designated financial liabilities that is attributable to changes in their credit risk is determined as the amount of change in the fair value that is not attributable to changes in market conditions that give rise to market risk.

If the Group repurchases debt issued, it is derecognized from the balance sheet and the difference between the carrying amount of the liability and its acquisition cost is recognized in the income statement.

A financial liability (or a part of a financial liability) is removed from the balance sheet when, and only when, it is extinguished - ie when the obligation specified in the contract is discharged or canceled or expires.

2.19. Provisions

Provisions are recognized when: (i) the Group has present legal or constructive obligation, (ii) it is probable that settlement will be required in the future and (iii) a reliable estimate of the obligation can be made.

2.20. Equity instruments

An instrument is classified as an equity instrument when it does not contain a contractual obligation to deliver cash or another financial asset, independently from its legal form, being a contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

Transaction costs directly attributable to the issue of equity instruments are recognized under equity as a deduction from the proceeds. Consideration paid or received related to acquisitions or sales of equity instruments are recognized in equity, net of transaction costs, as treasury stock.

Distributions to holders of an equity instrument are debited directly to equity as dividends, when declared.

2.21. Treasury stock

Where the Bank or any subsidiary purchases the Bank’s share capital, the consideration paid is deducted from total equity as treasury stock until they are cancelled, and are not revaluated. Where such shares are subsequently sold or reissued, any consideration received is included in equity.

2.22. Employee benefits

The Group is subject to the General Regime of the Social Security System in Portugal or to the equivalent system in the subsidiaries abroad and, therefore, has no obligations for the payment of pensions or pension complements to its employees.

2.23. Income tax

Income tax for the period comprises current tax and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the tax expected to be paid on the taxable profit for the year, calculated using tax rates enacted or substantively enacted at the balance sheet date in any jurisdiction.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax basis, and is calculated using the tax rates enacted or substantively enacted at the balance sheet date in any jurisdiction and that are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets and liabilities correspond to the amount of payable/recoverable tax in future periods resulting from temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base.

Deferred tax assets are recognized to the extent it is probable that future taxable profits will be available against which deductible temporary differences can be utilized.

Deferred tax assets and liabilities are not recognized for taxable temporary differences associated with investments in subsidiaries, branches and associates, to the extent that, it is not probable that the temporary differences will reverse in the foreseeable future.

2.24. 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 date of acquisition with an insignificant fair value change risk, including cash and deposits with banks. Cash and cash equivalents exclude restricted balances with central banks and collateral deposits.

2.25. Operating segments

An operating business segment is an identifiable component of the Group settled with the objective of supply an individual product or service or a group of related products or services, within a specific economic environment and exposed to risks and benefits which can be segregated from others that operate in different economic environments.

The operating segments results are regularly reviewed by the Group management in order to make decisions. The Group prepares on regular basis financial information related to these segments, which is reported to the management. Operation segments definition is revised on an annual basis considering any activity restructuring or acquisition of new business lines.

3. Changes in accounting policies

3.1 Voluntary changes in accounting policies

During the year there were no voluntary changes in accounting policies from the ones used in the preparation of the previous year financial statements.

3.2 New standards and interpretations applicable in 2016

There was no significant impact from the adoption by the European Union (EU) of new standards, revisions, changes and improvements to standards and interpretations which were applicable from 1 January 2016.

3.3 Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

No significant impacts are expected in the financial statements of the Bank from the adoption of these standards and interpretations.

3.3.1. Already endorsed by the EU

a) IFRS 9 Financial Instruments (issued in 24 July 2014): This standard was finally completed in 24 July 2014, and a summary can be analyzed as follows:

(i) Classification and measurement

- Except for certain trade receivables, an entity initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.
- Debt instruments are subsequently measured at fair value through profit or loss (FVTPL), amortised cost, or fair value through other comprehensive income (FVOCI), on the basis of their contractual cash flows and the business model under which the debt instruments are held.
- There is a fair value option (FVO) that allows financial assets on initial recognition to be designated as FVTPL if that eliminates or significantly reduces an accounting mismatch.
- Equity instruments are generally measured at FVTPL. However, entities have an irrevocable option on an instrument-by-instrument basis to present changes in the fair value of non-trading instruments in other comprehensive income (OCI) without subsequent reclassification to profit or loss.

(ii) Classification and measurement of financial liabilities

- For financial liabilities designated as FVTPL using the FVO, the amount of change in the fair value of such financial liabilities that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation in OCI of the fair value change in respect of the liability's credit risk would create or enlarge an accounting mismatch in profit or loss.
- All other IAS 39 Financial Instruments: Recognition and Measurement classification and measurement requirements for financial liabilities have been carried forward into IFRS 9, including the embedded derivative separation rules and the criteria for using the FVO.

(iii) Impairment

- The impairment requirements are based on an expected credit loss (ECL) model that replaces the IAS 39 incurred loss model.
- The ECL model applies to debt instruments accounted for at amortised cost or at FVOCI, most loan commitments, financial guarantee contracts, contract assets under IFRS 15 Revenue from Contracts with Customers and lease receivables under IAS 17 Leases or IFRS 16 Leases.
- Entities are generally required to recognise 12-month ECL on initial recognition (or when the commitment or guarantee was

entered into) and thereafter as long as there is no significant deterioration in credit risk. However, if there has been a significant increase in credit risk on an individual or collective basis, then entities are required to recognise lifetime ECL. For trade receivables, a simplified approach may be applied whereby the lifetime ECL are always recognised.

- ECLs shall be estimated based on the present value of all cash shortfalls over the remaining expected life of the financial asset, and should consider all reasonable and supportable information that is available without undue cost or effort.

(iv) Hedge accounting

- Hedge effectiveness testing is prospective, without the 80% to 125% bright line test in IAS 39, and, depending on the hedge complexity, will often be qualitative.
- A risk component of a financial or non-financial instrument may be designated as the hedged item if the risk component is separately identifiable and reliably measureable.
- The time value of an option, any forward element of a forward contract and any foreign currency basis spread can be excluded from the hedging instrument designation and can be accounted for as costs of hedging.
- More designations of groups of items as the hedged item are possible, including layer designations and some net positions.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Early application is permitted for reporting periods beginning after the issue of IFRS 9 on 24 July 2014 by applying all of the requirements in this standard at the same time. Alternatively, entities may elect to early apply only the requirements for the presentation of gains and losses on financial liabilities designated as FVTPL without applying the other requirements in the standard.

b) IFRS 15 Revenue from Contracts with Customers (issued in 28 May 2014): IFRS 15 replaces all existing revenue requirements in IFRS (IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue – Barter Transactions Involving Advertising Services) and applies to all revenue arising from contracts with customers, unless the contracts are in the scope of other standards, such as IAS 17 (or IFRS 16 Leases, once applied). Its requirements also provide a model for the recognition and measurement of gains and losses on disposal of certain non-financial assets, including property, plant and equipment and intangible assets. The standard outlines the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 will be applied using a five-step model: (i) Identify the contract(s) with a customer (ii) Identify the performance obligations in the contract, (iii) Determine the transaction price, (iv) Allocate the transaction price to the performance obligations in the contract, and (v) Recognise revenue when (or as) the entity satisfies a performance obligation. This standard is effective for annual periods beginning on or after 1 January 2018. Entities can choose to apply the standard using either a full retrospective approach or a modified retrospective approach, with some limited relief provided under either approach. Early application is permitted and must be disclosed.

3.3.2. Not yet endorsed by the EU

a) IFRS 14 Regulatory Deferral Accounts (issued in 30 January 2014): IFRS 14 allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. The standard does not apply to existing IFRS preparers. Also, an entity whose current GAAP does not allow the recognition of rate regulated assets and liabilities, or that has not adopted such policy under its current GAAP, would not be allowed to recognise them on first-time application of

IFRS. This standard is effective for annual periods beginning on or after 1 January 2016.

b) IFRS 16 Leases

The scope of IFRS 16 includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

IFRS 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (e.g., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (e.g., the lease liability) and an asset representing the right to use the underlying asset during the lease term (e.g., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs. Early application is permitted, but not before an entity applies IFRS 15.

c) IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments issued in 11 September 2014): The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in IFRS 3 Business Combinations. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. In December 2015, the IASB decided to defer the effective date of the amendments until such time as it has finalized any amendments that result from its research project on the equity method. Early application of the amendments is still permitted.

d) IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12

The IASB issued the amendments to IAS 12 Income Taxes to clarify the accounting for deferred tax assets for unrealized losses on debt instruments measured at fair value.

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

These changes are effective for annual periods beginning on or after 1 January 2017. Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact. Early application is permitted. If an entity applies the amendments for an earlier period, it must disclose that fact.

e) IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and help users of financial statements better understand changes in an entity's debt. The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

These changes are effective for annual periods beginning on or after. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. Early application is permitted.

f) Clarifications to IFRS 15

In April 2016, the IASB issued amendments to IFRS 15 to address several implementation issues. The amendments have an effective date of 1 January 2018, which is the effective date of IFRS 15. Entities are required to apply these amendments retrospectively. The amendments are intended to clarify the requirements in IFRS 15, not to change the standard. Entities can choose to apply the standard using either a full retrospective approach or a modified retrospective approach, with some limited relief provided under either approach. Early application is permitted and must be disclosed.

g) IFRS 2 Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment in relation to the classification and measurement of share-based payment transactions. The amendments address three main areas: (i) The effects of vesting conditions on the measurement of a cash-settled share-based payment transaction, (ii) The classification of a share-based payment transaction with net settlement features for withholding tax obligations, and (iii) The accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity settled.

These changes are effective for annual periods beginning on or after 1 January 2018. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. Early application is permitted.

h) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

The temporary exemption is first applied for reporting periods beginning on or after 1 January 2018. An entity may elect the overlay approach when it first applies IFRS 9 and apply that approach retrospectively to financial assets designated on transition to IFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying IFRS 9.

i) IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognised on or after:

(i) The beginning of the reporting period in which the entity first applies the interpretation Or

(ii) The beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Early application of interpretation is permitted and must be disclosed. First-time adopters of IFRS are also permitted to apply the interpretation prospectively to all assets, expenses and income initially recognised on or after the date of transition to IFRS.

j) Transfers of Investment Property (Amendments to IAS 40)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

These amendments are effective for annual periods beginning on or after 1 January 2018. Entities should apply the amendments prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at that date and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application in accordance with IAS 8 is only permitted if that is possible without the use of hindsight. Early application of the amendments is permitted and must be disclosed.

k) Annual improvements - 2014-2016 cycle

The amendments from the 2014-2016 annual improvements cycle include the following standards: (i) IFRS 1 First-time Adoption of International Financial Reporting Standards (ii) IAS 28 Investments in Associates and Joint Ventures and (iii) IFRS 12 Disclosure of Interests in Other Entities.

4. Use of estimates in the preparation of financial statements

IFRS set forth a range of accounting treatments and require 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's reported results and related disclosure.

Because in many cases there are other alternatives to the accounting treatment made by management, the Group's reported results would differ if a different treatment was chosen.

Management believes that their choices are appropriate and that the financial statements present the Group's financial position and results fairly in all material respects.

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

Impairment of available for sale financial assets

The Group determines that investment securities are impaired when there is objective evidence as a result of an impairment trigger that occurred after its initial recognition. The Group considers an extended set of triggers including the delay in payment of principal and interests, the significant or prolonged decline in the fair value below its cost, the evolution of credit risk, etc.. The determination whether the relevant trigger is an objective evidence of impairment requires judgment, including what is considered as prolonged decline, which is considered the decline in the fair value of financial assets over 12 months below its average acquisition cost, and how significant is considered the decline in fair value of more than 30% below the respective average acquisition cost. In this judgment, the Group evaluates the volatility in the prices of securities and current market conditions.

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 different level of impairment losses recognized with a consequent impact in the income statement of the Group.

Fair value of financial instruments

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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 produce different financial results for a particular period.

Impairment losses on loans and advances to customers and other assets

The Group reviews its loans and other assets portfolio to assess impairment on a regular basis.

The evaluation process in determining whether an impairment loss should be recorded in the income statement is subject to numerous estimates and judgments. The frequency of default, risk ratings, loss 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.

Income taxes

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

Additionally it must be noted that the reversion of deductible temporary differences results in deductions in the computation of tax profits in future periods. However, the economic benefits resultant from reductions in tax payments will flow to the entity only when there are enough tax profits to be compensated. On this basis, the Group recognizes deferred income tax assets only when it is expected to have enough tax profits against which deductible temporary differences might be used.

Different interpretations and estimates would result in a different level of income taxes, current and deferred, recognized in the period. The Portuguese Tax Authorities are entitled to review the Bank and its Portuguese subsidiaries' determination of its annual taxable earnings, for a period of four years. Hence, it is possible that some additional taxes may be assessed, mainly as a result of differences in interpretation of the tax law. However, the Board of Directors is confident that there will be no material tax adjustments within the context of the financial statements.

Going concern

The management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future.

Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

Therefore, the financial statements continue to be prepared on the going concern basis.

Provisions and other contingent liabilities

The Group operates in a regulatory and legal environment that, by nature, has a heightened element of litigation risk inherent to its operations. As a result, it is involved in various litigation and arbitration proceedings, arising in the ordinary course of the Group's business.

When the Group can reliably measure the outflow of economic benefits in relation to a specific case and considers such outflows to be probable, the Group records a provision against the case. Where the probability of outflow is considered to be remote, or probable, but a reliable estimate cannot be made, a contingent liability is disclosed.

However, when the Group is of the opinion that disclosing these estimates on a case-by-case basis would prejudice their outcome, then the Group does not include detailed, case-specific disclosers in its financial statements.

Given the subjectivity and uncertainty of determining the probability and amount of losses, the Group takes into account a number of factors including legal advice, the stage of the matter and historical evidence from similar incidents. Significant judgement is required to conclude on these estimates.

5. Cash and banks

EUR thousand	**31.12.2016**	**31.12.2015**
Cash	76	87
Deposits at central banks		
Bank of Portugal	7,056	18,673
Bank of Spain	2,219	2,014
	9,276	20,687
Deposits with banks in Portugal		
Deposits repayable on demand	21,021	17,471
Checks clearing	-	45
Other deposits	94	91
	21,115	17,607
Deposits with banks abroad		
Deposits repayable on demand	198	832
	30,665	**39,214**

The balance deposits at central banks include the amount of € 4,125 thousand (2015: € 3,826 thousand) to satisfy the legal requirements to maintain minimum cash reserves.

These deposits earn interest at the average rates for the main refinancing operations of the European System of Central Banks prevailing during the deposit period. In 2016 the rates stood between -0.30% and -0.40% (2015: between -0.20% and -0.30%).

6. Due from banks

EUR thousand	**31.12.2016**	**31.12.2015**
Money market transactions	8,601	13,359
Securities sold under repurchase agreements	1,564	-
Other bank placements	59,499	66,854
	69,664	**80,213**

The balance Other bank placements includes collateral deposits related to repurchase agreements, credit default swaps, interest rate swaps and foreign exchange swaps in the amount of € 59,450 thousand (2015: € 66,854 thousand).

7. Securities and loans portfolio

The securities and loans portfolio of the Group, by category, can be analyzed as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Available for sale financial assets	1,305,408	1,186,406
Loans and receivables	301,182	327,140
Financial assets held for trading	24,616	27,176
	1,631,206	**1,540,722**

The portfolio classified as 'Available for sale financial assets' can be analyzed as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Fixed income securities		
Issued by the Portuguese government and other public entities	32,910	59,453
Issued by foreign governments and other public entities	378,920	430,714
Issued by other Portuguese entities	18,141	17,142
Issued by other foreign entities	875,432	679,096
	1,305,404	**1,186,404**
Equity securities		
Shares	4	1
	1,305,408	**1,186,406**
	1,305,408	**1,186,406**

During 2016, interest income from the available-for-sale portfolio amounted to m€ 57,781 thousand (2015: m€ 65,326).

This portfolio includes debt instruments in the amount € 646,516 thousand (2015: € 626,218 thousand) given as collateral by the Group in repo operations (see Note 17).

As at 31 December 2016 the balance equity securities includes the amount of € 1 thousand which is related to instruments measured at cost (2015: € 1 thousand).

The portfolio classified as ‘Loans and receivables’ can be analyzed as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Fixed income securities		
Issued by the Portuguese government and other public entities	16,876	25,322
Issued by foreign governments and other public entities	64,155	75,964
Issued by other Portuguese entities	42,139	45,602
Issued by other foreign entities	126,072	121,520
Interest rate hedge adjustment (see Note 8)	2,290	5,253
	251,531	**273,662**
Syndicated loans and other loans	37,937	41,371
Commercial paper	11,713	12,107
	301,182	**327,140**

As at 31 December 2016, this portfolio includes the amount of € 51,105 thousand (2015: € 96,307 thousand) relative to debt instruments given as collateral by the Group in repo operations (see Note 17).

During 2016, interest income from loans and receivables portfolio amounted to € 17,671 thousand (2015: € 18,507 thousand).

The portfolio classified as ‘Financial assets held for trading’ can be analyzed as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Fixed income securities		
Issued by the Portuguese government and other public entities	4,623	8,116
Issued by foreign governments and other public entities	15,189	3,708
Issued by other Portuguese entities	2,108	5,888
Issued by other foreign entities	2,696	9,464
	24,616	**27,176**

During 2016, interest income from the portfolio of securities held for trading amounted to € 1,089 thousand (2015: € 1.215 thousand).

As at 31 December 2016, the 'Securities and loans portfolio' with impairment triggers amounted to € 60,086 thousand (2015: € 55,088 thousand), as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Non-performing	33,959	20,709
Performing but impaired	26,127	34,379
	60,086	**55,088**
Provisions for impairment losses	(28,041)	(26,753)
	32,045	**28,335**

The 'Securities and loans portfolio' is presented net of impairment. As at 31 December 2016, the movements in impairment allowances for this portfolio can be analyzed as follows:

EUR thousand	**Available for sale**	**Loans and receivables**	**Total**
Balance at 1 January	753	26,001	26,753
Charges for the year (see Note 27)	9,857	4,937	14,794
Reclassification of fair value reserve (see Note 21)	(9,832)	-	(9,832)
Foreign exchange changes	25	2,583	2,608
Write-offs	-	(6,283)	(6,283)
Balance at 31 December	**803**	**27,238**	**28,041**

As at 31 December 2015, the movements in impairment allowances for this portfolio can be analyzed as follows:

EUR thousand	**Available for sale**	**Loans and receivables**	**Total**
Balance at 1 January	15,335	14,838	30,173
Charges for the year (see Note 27)	15,276	13,133	28,409
Reclassification of fair value reserve (see Note 21)	(14,481)	-	(14,481)
Foreign exchange changes	(718)	2,874	2,156
Write-offs	(14,660)	(4,845)	(19,505)
Balance at 31 December	**753**	**26,001**	**26,753**

8. Derivatives and hedge accounting

The Group enters in derivative financial instruments transactions with the objective of hedging and managing the financial risks inherent to its activity, managing its own positions based on the perspective of market evolution, satisfying its client's needs or hedging structural positions.

The fair value and notional amounts of derivative instruments are set out in the following table:

EUR thousand	31.12.2016			31.12.2015		
	Notional amount	**Fair value**		**Notional amount**	**Fair value**	
		Assets	**Liabilities**		**Assets**	**Liabilities**
Trading derivatives						
Currency swaps	644,151	33	33,465	576,998	1,354	11,759
Credit default swaps	93,717	739	1,951	186,741	994	11,825
Interest rate swaps	252,668	128	10,083	234,286	-	10,100
	990,536	899	45,499	998,025	2,348	33,683
Hedging derivatives						
Interest rate swaps	873,396	7,890	18,938	815,190	-	27,006
	1,863,932	**8,790**	**64,437**	**1,813,215**	**2,348**	**60,690**

Currency swap, represents a contract between two parties and consists in the swap of currencies at a determined forward exchange rate. It is an agreement for cash flow exchange, in which one of the parts agrees to pay interest on the principal in one currency, in exchange of receiving interest on the principal in another currency. In the end of the operation, the principal in foreign currency is paid and the principal in domestic currency is received. The purposes of these operations are the hedging and management of the liquidity risk inherent to future receipt and payments in foreign currency, through the elimination of the uncertainty of the future value of certain exchange rate.

Credit default swap, that consists in an agreement through which it is possible to invest or hedge a certain issuer's credit risk. When the Group undertakes the selling position of credit hedging it receives an interest income in exchange of a payment conditioned to a credit event. Once the credit event occurs, the seller of the credit hedging pays the buyer the amount contractually defined to cover the credit default.

Interest rate swap, which in conceptual terms consists of a contract between two parties who agree to exchange (swap) between them, for a specified amount and period of time, periodic payments of fixed rate for floating rate payments. Involving only one currency, this kind of instrument is mainly directed at the hedging and management of the interest rate risk related with a fixed rate loan or advance's income or cost that one part is intended to take in a determined future moment.

Hedge accounting

The accounting treatment of hedge transactions varies according to the nature of the hedged instrument and whether the hedge qualifies as such for accounting purposes in accordance with Note 2.13. When hedge accounting is discontinued, or the hedged instruments are sold / reimbursed, despite maintaining the hedge relation on an economic basis, the respective hedge instruments are reclassified to financial assets and liabilities held for trading.

Fair value hedges of interest rate risk – fixed income securities

The Group´s fair value hedges consist of interest rate derivatives that are used to protect against changes in the fair value of fixed-rate instruments due to movements in market interest rates, namely to protect the investment securities from interest rate exposure.

For fixed income securities classified as 'loans and receivables' (see Note 7) the accumulated hedge adjustment as 31 December 2016 amounts to € 1,194 thousand (2015: € 5,253 thousand). In 2016 the Group recognized in profit or loss the amount of € (567) thousand (2015: € (1.240) thousand) related to the fair value change of the hedge items and the amount of € (2,766) thousand (2015: € 5,913 thousand) as a loss from derecognized items and the amortization of previous relations that were discontinued (see Note 24).

In addition, and for securities classified as 'available-for-sale', the Group recognized in 2016 losses on hedging instruments amounting to € (8,341) thousand (2015: € (4,400) thousand) and profit on the respective hedged items of € (8,471) thousand (2015: € 4,709 thousand). These gains in hedged items attributable to the hedged risk are reclassified from the fair value reserve to profit or loss. When the hedged assets are derecognized the respective amount in fair value reserve is reclassified to profit or loss, this reclassification in 2016 amounted to € (10,097) thousand (2015: € (12,982) thousand) (see Note 24).

Fair value hedges of interest rate risk – specialized finance portfolio (fixed rate)

The Group also applies fair value hedge accounting of portfolio interest rate risk for its fixed-rate specialized finance loans. The change in fair value of the hedged items is recorded separately from the hedged item on the balance sheet. The accumulated hedge adjustment as of 31 December 2016 amounts to € - thousand (2015: € 649 thousand) (see Note 12).

These hedge relations were discontinued in 2009 since the hedge criterion was no longer effective, as such during 2016 and 2015 the Group did not recognize any gain or loss from the ineffective portions of fair value hedges, as defined in the accounting policy in Note 2.13.

In 2016 the Group recognized in profit or loss the amount € (649) thousand (2015: € (359) thousand) related to the cost of derecognized assets and amortization of discontinued relations in previous years (see Note 24).

Cash flow hedges

In order to eliminate the interest rate risk associated to the floating payments of debt securities issued by the securitization vehicles and part of the subordinated debt, the Group entered into interest rate derivatives contracts in order to receive floating and pay fixed interest thus converting floating rate debt securities issued into fixed rate liabilities with an underlying hedge cost.

These hedges relations have been discontinued in 2010 having been recognized in profit or loss for the year ended 2016 the amount of € (59) thousand (2015: € (102) thousand) related with the amortization of the reserve of the discontinued relations in previous years. The accumulated hedge adjustment amounts to € 59 thousand (2015: € 59 thousand) (see Note 23).

The impacts of the hedge relationships referred to above, and outstanding in 2016 and 2015, can be analyzed as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Loans and receivables portfolio	**(5)**	**(164)**
Gains in hedged instruments	562	1,077
Losses in hedged items	(567)	(1,240)
Available for sale portfolio	**(130)**	**309**
Losses in hedged instruments	8,341	(4,400)
Gains in hedged items	(8,471)	4,709
Ineffectiveness from interest rate risk hedges (see Note 24)	**(136)**	**146**

The impacts of the amortization of discontinued hedging relations and the derecognition of the hedge assets can be analyzed as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Fair value hedges - securities classified as "loans and receivables"	(2,766)	(5,913)
Fair value hedges - securities classified as "available-for-sale"	(10,097)	(12,982)
Fair value hedges - specialized finance portfolio	(649)	(359)
Cash flow hedges	(59)	(102)
Amortization of discontinued hedging relations (see Note 24)	**(13,571)**	**(19,356)**

Net investment hedge

During 2016 and 2015 the Group used foreign currency denominated debt to hedge the foreign currency translation risk on its net investment in foreign subsidiaries. As at 31 December 2016, the information on hedged investments held by the Group in foreign subsidiaries and the funding used to hedge these investments is as follows:

Company	**Functional Currency**	**Hedged investment USD'000**	**Funding debt USD'000**	**Hedged investment EUR'000**	**Funding debt EUR'000**
Finantia Holdings BV	USD	19,169	19,169	18,185	18,185
Finantia UK Limited	USD	90,000	90,000	85,381	85,381

The effective portion of the changes in fair value of the non-derivative financial liability (funding debt) designated as hedging instrument in the hedge of the net investment in foreign operations abovementioned was recognized directly in equity (other comprehensive income). In 2016 and 2015 there was no ineffectiveness in this hedging.

9. Property and equipment

EUR thousand	**Buildings**	**Office equipment**	**IT equipment**	**Motor vehicles**	**Other assets**	**31.12.2016**	**31.12.2015**
Cost:							
At the beginning of the year	21,096	8,090	3,546	1,728	1,143	35,603	35,481
Additions	6	141	166	163	210	686	1,208
Disposals / write-offs	-	(1,195)	(477)	(106)	(46)	(1,824)	(1,156)
Fix translation / transfers	(29)	162	200	18	(69)	282	70
At the end of the year	**21,074**	**7,198**	**3,435**	**1,803**	**1,238**	**34,748**	**35,603**
Accumulated amortisation:							
At the beginning of the year	9,681	7,920	3,387	703	1,037	22,728	22,671
Amortisation expense	488	113	112	335	67	1,115	1,086
Disposals / write-offs	-	(1,180)	(475)	(101)	(9)	(1,765)	(1,079)
Fix translation / transfers	(7)	162	200	13	13	381	50
At the end of the year	**10,163**	**7,015**	**3,225**	**950**	**1,108**	**22,460**	**22,729**
Net book value	**10,911**	**183**	**210**	**853**	**131**	**12,288**	**12,874**

10. Intangible assets

EUR thousand	**Software**	**Other assets**	**Work in progress**	**31.12.2016**	**31.12.2015**
Cost:					
At the beginning of the year	5,472	405	131	6,008	5,462
Additions	111	-	87	198	560
Disposals / write-offs	(9)	-	-	(9)	(15)
Fix translation / transfers	-	-	(131)	(131)	1
At the end of the year	**5,574**	**405**	**87**	**6,066**	**6,008**
Accumulated amortisation:					
At the beginning of the year	4,977	405	-	5,382	3,874
Amortisation expense	319	-	-	319	1,518
Disposals / write-offs	(9)	-	-	(9)	(15)
Fix translation / transfers	-	-	-	-	6
At the end of the year	**5,286**	**405**	**-**	**5,692**	**5,383**
Net book value	**288**	**-**	**87**	**374**	**626**

At 31 December 2016 and 2015, other assets and work in progress include software licenses and software implementation and development expenses.

During 2016 and 2015 there were no intangible assets generated internally.

11. Taxes

Taxes recognized in the income statement for the years 2016 e 2015 can be analyzed as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Current tax		
Current tax on profits for the year	(11,411)	(12,016)
Extraordinary banking sector levy	(1,121)	(1,107)
Current tax related to prior years	16	(15)
	(12,515)	**(13,137)**
Deferred tax		
Origination and reversal of temporary differences	565	6,222
Tax losses brought forward	-	(773)
	565	**5,449**
Total tax recognised in results	**(11,951)**	**(7,688)**

The deferred taxes assets and liabilities recognized in balance sheet in the years ended 2016 and 2015 can be analyzed as follows:

EUR thousand	**31.12.2016**			**31.12.2015**		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Available-for-sale assets	69	(4,568)	(4,498)	13,735	(19)	13,715
Loans and advances to customers	595	-	595	2,456	-	2,456
Tax losses brought forward	-	-	-	-	-	-
Other	2,697	(5,664)	(2,968)	3,902	(3,486)	416
Deferred tax asset/(liability)	**3,360**	**(10,232)**	**(6,872)**	**20,093**	**(3,507)**	**16,586**
Set off of tax	(3,166)	3,166	-	(1,568)	1,568	-
Net deferred tax asset/(liability)	**195**	**(7,066)**	**(6,872)**	**18,524**	**(1,937)**	**16,586**

The Group compensates, as established in IAS 12, paragraph 74 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.

At the end of each reporting period, the Group reassesses unrecognized deferred tax assets, and recognizes a previously unrecognized deferred tax asset to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered. At 31 December 2016, deferred tax assets related to tax losses brought forward concerned to effect from tax rates in different jurisdictions amounts € 1,088 thousand (2015: € 545 thousand). At 31 December 2016, deferred tax assets related to tax losses brought forward not recognized in the balance sheet amount to € 681 thousand (2015: € 721 thousand).

During the year ended 31 December 2016, income taxes recognized in reserves from available-for-sale financial instruments and fair value hedges (see Note 21) amounts € (18,213) thousand (2015: € 16,771 thousand), and refers to deferred taxes only.

Deferred taxes recognized in other reserves and retained earnings include the amount of € (5,698) thousand related with the implementation of Notice 5/2015 from the Bank of Portugal from 30 December, and also the amounts of € (112) thousand from other adjustments related to deferred taxes.

The reconciliation of the effective income tax rate is shown in the following table:

EUR thousand	**31.12.2016**		**31.12.2015**	
	%	**Amount**	**%**	**Amount**
Profits before income tax		42,664		35,318
Statutory income tax rate	27.5%		27.5%	
Income tax calculated based on the statutory tax rate		**11,733**		**9,712**
Tax losses used		(349)		(109)
Provisions and impairment		(873)		(608)
Tax losses used from previous years		-		773
Tax benefits		(1,017)		(1,189)
Autonomous taxation		112		99
Other		1,223		(2,097)
Income taxes		10,830		6,582
Extraordinary banking sector levy		1,121		1,107
Tax recognised in results		**11,951**		**7,688**
Current tax		12,515		13,137
Deferred tax		(565)		(5,449)
Tax in reconciliation		**11,951**		**7,688**

12. Other credit operations

This caption refers to specialized finance loans activity (primarily used car finance) that was originally done through the subsidiary Sofinloc. This activity was discontinued in 2012-2013, when the origination of new contracts stopped and the portfolio came into *run-off*.

Currently this activity consists in the management of a *non-performing* assets portfolio, which can be analyzed as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Performing	7,110	21,369
Past due up to 90 days	1,430	5,080
Past due more than 90 days	166,645	173,695
	175,186	**200,144**
Impairment allowance for specialized finance	(146,615)	(148,157)
	28,571	**51,987**

As at 31 December 2016 performing loans includes € 671 thousand (2015: € 2,285 thousand) related to loans that presented impairment signs.

The gross amount of the specialized finance portfolio with arrears up to 90 days was as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Past due up to 30 days	1,032	3,595
Past due 30-60 days	277	1,048
Past due 60-90 days	122	438
	1,430	**5,080**

The fair value of the collateral associated to loans in arrears for less than 90 days amounts to € 1,254 thousand and € 5,802 thousand 2016 and 2015, respectively.

Specialized finance loans past due for more than 90 days can be analyzed as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Overdue for more than 90 days	166,299	172,861
Remaining principal not yet due	346	834
	166,645	**173,695**

In addition to the impairment of the aforementioned customer credit, the fair value of the collaterals of the impaired credits amounts to € 198 thousand and € 2,021 thousand 2016 and 2015 respectively.

During 2016 the Group received the amount of € 3,256 thousand (2015: € 3,250 thousand) related to interest from past due loans for more than 90 days.

Additionally, during 2016 the Group recovered € 2,367 thousand (2015: € 2,452 thousand) related to loans previously written off, in accordance with the accounting policy described in Note 2.7.

When the loan is granted, fair value of the collateral is determined on the basis of valuation techniques commonly used for the valuation of the assets (especially cars). In subsequent periods, the fair value is updated based on the market price or indexes of similar assets.

As at 31 December 2016 and 2015 there is no individually impaired specialized finance loan (in accordance with the accounting policy referred to in Note 2.7).

As of 31 December 2016 the breakdown of the specialized finance portfolio, excluding the fair value hedge adjustment, by origination year can be analyzed in the table below:

Origination year	# of operations	Amount €'000	Impairment €'000
2004 and before	3,991	21,787	21,128
2005	2,653	16,533	14,945
2006	6,405	43,138	37,763
2007	7,787	56,401	47,734
2008	3,814	25,246	19,760
2009	1,311	5,321	3,992
2010	650	1,603	722
2011	489	1,643	318
2012	415	1,456	158
2013 and after	494	2,057	95
Total	**28,009**	**175,186**	**146,615**

The specialized finance portfolio can be analyzed as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Total gross loans		
Performing loans	8,540	26,449
ow: Cured loans	118	360
ow: Restructured loans	575	1,082
Non-performing loans	166,645	173,695
ow: Restructured loans	654	683
	175,186	**200,144**
Impairment		
Performing loans	(51)	(222)
Non-performing loans	(146,564)	(147,935)
	(146,615)	**(148,157)**

Cured loans are those loans that are no longer non-performing because the following conditions have occurred simultaneously: i) an improvement in the debtors financial condition, ii) there is no amount past due and iii) there was a one year "quarantine" since the first installment payment and all installments were paid regularly. Restructured loans follow the Bank of Portugal definition as established in Instruction n.º 32/2013, and are analyzed in more detail in the tables below.

The breakdown of restructured loans as of 31 December 2016 can be analyzed as follows:

	Performing loans			**Non-performing loans**			**Total**		
Measure	**# of operations**	**Amount €'000**	**Impairment €'000**	**# of operations**	**Amount €'000**	**Impairment €'000**	**# of operations**	**Amount €'000**	**Impairment €'000**
Deadline extension	183	573	8	95	595	451	278	1,168	459
Reduction on the interest rate	-	-	-	6	24	18	6	24	18
Other	1	2	0	12	34	26	13	37	26
Total	**184**	**575**	**9**	**113**	**654**	**495**	**297**	**1,229**	**504**

The breakdown of restructured loans as of 31 December 2015 can be analyzed as follows:

	Performing loans			Non-performing loans			Total		
Measure	# of operations	Amount €'000	Impairment €'000	# of operations	Amount €'000	Impairment €'000	# of operations	Amount €'000	Impairment €'000
Deadline extension	315	1,065	20	90	621	440	405	1,686	461
Reduction on the interest rate	-	-	-	6	25	18	6	25	18
Other	10	17	1	12	37	26	22	54	26
Total	**325**	**1,082**	**21**	**108**	**683**	**484**	**433**	**1,764**	**505**

Movements in the restructured loans portfolio as of 2016 and 2015 can be analyzed as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Balance at the beginning of the period	1,764	2,540
Loans restructured in the period	143	279
Repayments of restructured loans	(164)	(240)
Loans reclassified from restructured to "normal"	(89)	(230)
Other	(425)	(585)
Balance as at 31 December	**1,229**	**1,764**

The impairment model for the calculation of impairment losses for the specialized finance portfolio is supported on a mathematical model that determines the likelihood of loss based on historical series and, according to the guidelines defined by IAS 39, the estimated impairment is the difference between the book value of impaired loans and the respective present value of expected future cash flows. The calculation of impairment losses is performed according to two complementary methodologies, existing loans subject to individual analysis and credit transactions subject to collective analysis. In its analysis of the impairment on a collective basis, loans are grouped on the basis of similar credit risk characteristics, depending on the risk assessment set by the Group.

The calculation of impairment for a portfolio of loans is made by applying the PDs and LGDs to the balances of contracts to each reference date. In order for these losses to be in line with the characteristics of the contracts to which will be applied, these segments are calculated for specific contracts depending on the time of default. The interest rate used in discounting the cash flows is the original effective interest rate of the contracts.

Within the individual analysis, if an impairment loss identified the amount of loss to be recognized is the difference between the book value of the loans and the present value of estimated future cash flows (considering the recovery period) discounted at the original effective interest rate of the contracts. The loan is presented in the balance sheet net of impairment recognized. For loans with a variable interest rate, the discount rate used to determine the respective impairment loss is the current interest rate, which is determined based on the rules of each contract.

The calculation of the present value of estimated future cash flows of a collateralized loan reflects the cash flows that may result from foreclosure and sale of the collateral, less cost to sell and its recovery.

As of 31 December 2016 and 2015 the risk parameters of the specialized finance impairment model can be analyzed as follows:

	31.12.2016		**31.12.2015**	
	PD	**LGD**	**PD**	**LGD**
Up to 30 days without impairment triggers	0.71%	27.41%	0.81%	29.78%
Up to 30 days with impairment triggers	3.85%	27.70%	5.29%	29.28%
Past due from 30 to 60 days	17.50%	28.20%	19.14%	31.99%
Past due from 60 to 90 days	42.23%	30.22%	41.35%	34.92%

The impairment allowance for the specialized finance portfolio, by type of loan, and changes occurred in 2016 and 2015 can be analyzed as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Hire purchase credit	137,295	138,351
Leasing and hire purchase	9,320	9,806
	146,615	**148,157**
Balance as at 1 January	148,157	147,256
Net charge for the year (see Note 27)	(1,377)	1,534
Loans written off during the year	(165)	(633)
Balance as at 31 December	**146,615**	**148,157**

The caption leasing and hire purchase includes finance lease receivables deducted by the respective future interest and accrued by the residual value of the leased assets, as applicable as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Rents and residual values		
Up to one year	547	1,800
From one to five years	820	2,863
More than five years	-	63
Indeterminate	10,372	11,260
Interest		
Up to one year	(16)	(55)
From one to five years	(74)	(257)
More than five years	-	(11)
Indeterminate	-	-
Capital		
Up to one year	531	1,745
From one to five years	745	2,606
More than five years	-	52
Indeterminate	10,372	11,260
	11,648	**15,663**

13. Other assets

EUR thousand	**31.12.2016**	**31.12.2015**
Debtors and other applications	8,280	5,837
Accrued income	327	447
Transactions pending settlement (see Note 19)	7,502	12,186
Other assets	1,001	2,174
	17,110	**20,644**

Transactions pending settlement refers to outstanding operations resulting from the Group's normal activity.

Debtors and other applications is presented net of impairment. The impairment charges for the year can be analyzed as follows:

EUR thousand	**2016**	**2015**
Balance as at 1 January	1,445	1,753
Net charges for the years (see Note 27)	2,589	(303)
Foreign exchange changes	8	-
Write-offs	(1,293)	(6)
Balance as at 31 December	**2,749**	**1,445**

14. Due to central banks

This balance is analyzed as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
European System of Central Banks		
Up to 3 months	-	73,003
	-	**73,003**

As of 31 December 2016 the Group holds securities eligible has collateral for funding with the European System of Central Banks ("ESCB") which fair value amounts to € 247,910 thousand (2015: fair value of € 324,234 thousand, of which € 152,737 thousand was pledge as collateral for the funding obtained).

These resources earn interest at the average rates for the main refinancing operations of the European System of Central Banks prevailing during the deposit period. In 2016, the rates stood between 0.05% e 0.00% (2015: stood at 0.05%).

15. Due to banks

EUR thousand	**31.12.2016**	**31.12.2015**
Bank takings	28,066	30,204
Accrued interest	62	76
	28,128	**30,280**

16. Due to customers

EUR thousand	**31.12.2016**	**31.12.2015**
Time deposits	704,855	644,513
Demand deposits	30,771	29,983
Checks clearing	7	1
Accrued interest	4,792	5,092
	740,425	**679,590**

17. Securities sold under repurchase agreements

EUR thousand	**31.12.2016**	**31.12.2015**
Banks	385,114	402,888
Other financial institutions	110,328	80,644
	495,442	**483,532**

18. Subordinated debt

EUR thousand	**Interest rate (%)**	**Nominal amount**	**31.12.2015**	**Reeimburse ments / Maturities**	**Other movements [a]**	**31.12.2016**
€50 thousand subordinated bonds due 28/07/2016	Eur 3m + 2.35	50,000	31,128	(31,128)	-	-
€60 thousand subordinated bonds due 26/07/2017	Eur 3m + 2.25	60,000	20,367	(50)	(10)	20,307
		185,000	**51,495**	**(31,178)**	**(10)**	**20,307**

[a] The other movements include the balance sheet and interest accrued and the adjustments in the valuation of liabilities at fair value through profit or loss

In accordance with the accounting policy described in note 2.18, in the case of purchases of securities that represent Group's responsibilities, those are eliminated in the consolidated liabilities and the difference between the purchase amount and the balance sheet value is recognized in profit or loss.

During 2016 it was recognized in profit or loss interests calculated using the effective interest rate, for subordinated liabilities recognized at amortized cost, in the amount of € 803 thousand (2015: € 1,029 thousand).

The issue of € 60 million subordinated bonds due 2017 was designated upon its initial recognition as of 26 July 2007 at fair value through profit or loss, in accordance with the accounting policy described in note 2.18. These subordinated bonds are redeemable at par value on its maturity date, although they may be repaid earlier at the Group's option, subject to the prior approval from the Bank of Portugal.

19. Provisions and other liabilities

The balance Provisions include provisions for other risks and charges in the amount of € 1,974 thousand (2015: € 6,445 thousand) related with contingencies arising in the ordinary course of the Group's activity.

In 2016 the group reversed these provisions in the amount of € 1,331 thousand (2015: charged these provisions in the amount of € 1,855 thousand), having used provisions, in 2016, in the amount of € 3,349 thousand (2015: € - thousand).

Other liabilities can be analyzed as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Accrued expenses	9,338	8,310
Short selling	1,603	-
Amounts owed to the public sector	549	829
Creditors from consumer finance business	305	293
Other sundry liabilities	9,989	15,408
	21,785	**24,840**

Other sundry liabilities include the amount of € (9,294) thousand (2015: € 12,613 thousand) related to transactions pending settlement at year-end, resulting from transactions made in the normal course of business of the Group (see Note 13).

20. Share capital, share premium and treasury stock

Share capital and share premium

The Bank's share capital amounts to € 150 million and is represented by 150,000,000 ordinary shares with voting rights and nominal value of € 1 each and is fully paid.

The share premium of € 25 million relates to the amount paid by the shareholders for the capital increases.

Treasury stock

During 2016 and 2015, the movement in treasury stock can be analyzed as follow:

EUR thousand, except number of shares	**2016**		**2015**	
	Nº shares	**Cost**	**Nº shares**	**Cost**
At the beginning of the year	12,150,868	20,183	12,150,216	20,182
Purchases	-	-	652	1
Sales	-	-	-	-
At the end of the year	**12,150,868**	**20,183**	**12,150,868**	**20,183**

21. Reserves and retained earnings

The caption reserves and retained earnings attributable to the equity holders of the Bank can be analyzed as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Fair value reserve	11,217	(38,302)
Legal reserve	29,159	27,628
Other reserves and retained earnings	173,871	168,388
	214,247	**157,714**

The changes in these captions in 2016 and 2015 were as follows:

EUR thousand	**Fair value reserve**			**Other reserves and retained earnings**			**Total reserves and retained earnings**
	AFS financial assets	**Cash flow hedge**	**Total**	**Legal reserve**	**Other reserves and retained earnings**	**Total other reserves and retained earnings**	
Balance as at 31 December 2014	**9,453**	**(162)**	**9,291**	**24,698**	**175,023**	**199,721**	**209,012**
Changes in fair value	(64,467)	-	**(64,467)**	-	-	**-**	**(64,467)**
Amortisation of cash flow hedge reserves (Note 8)	-	102	**102**	-	-	**-**	**102**
Net investment hedge (Note 8)	-	-	**-**	-	588	**588**	**588**
Currency translation differences	-	-	**-**	-	(1,529)	**(1,529)**	**(1,529)**
Changes in treasury stock	-	-	**-**	-	(1)	**(1)**	**(1)**
Deferred taxes	16.771	-	**16.771**	-	-	**-**	**16.771**
Constitution/(transfer) of reserves	-	-	**-**	2,930	(5,693)	**(2,763)**	**(2,763)**
Balance as at 31 December 2015	(38,243)	(60)	**(38,302)**	27,628	168,388	**196,016**	**157,714**
Changes in fair value	67,644	-	**67,644**	-	-	**-**	**67,644**
Amortisation of cash flow hedge reserves (Note 8)	-	60	**60**	-	-	**-**	**60**
Net investment hedge (Note 8)	-	-	**-**	-	(3,291)	**(3,291)**	**(3,291)**
Currency translation differences	-	-	**-**	-	3,023	**3,023**	**3,023**
Changes in treasury stock	-	-	**-**	-	-	**-**	**-**
Deferred taxes	(18,213)	-	**(18,213)**	-	-	**-**	**(18,213)**
Other movements	29	-	**29**	-	(841)	**(841)**	**(813)**
Constitution/(transfer) of reserves	-	-	**-**	1,531	6,592	**8,123**	**8,123**
Balance as at 31 December 2016	11,217	-	**11,217**	29,159	173,871	**203,030**	**214,247**

Fair value reserve

The fair value reserve represents the amount of the unrealized gains and losses arising from securities classified as available-for-sale, net of impairment losses recognized in the income statement in the year/previous years, the fair value reserve of assets reclassified and the effective part of the changes of the fair value from hedging derivatives for the exposure to variability in future cash flows and fair value.

The fair value reserve of available-for-sale financial assets is analyzed as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Amortised cost of available-for-sale financial assets	1,290,524	1,239,117
Accumulated impairment losses recognised (see Note 7)	(803)	(753)
Amortized cost of available-for-sale financial assets, net of impairment	1,289,722	1,238,364
Fair value of available-for-sale financial assets (see Note 7)	1,305,408	1,186,406
Net unrealised losses recognised in the fair value reserves	15,686	(51,958)
Deferred taxes (see Note 11)	(4,498)	13,715
	11,188	**(38,243)**

The movement in the fair value reserve of available-for-sale financial assets, net of deferred taxes and impairment losses is analyzed as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Balance at the beginning of the year	(38,243)	9,453
Changes in fair value	67,515	(47,307)
Disposals during the year (see Note 24)	(29,429)	(41,401)
Reclassification to profit or loss (see Note 7)	9,832	14,481
Amortisation of reclassified assets reserve (see Note 35)	1,159	1,502
Amortisation of HTM related reserve (see Note 35)	-	(14)
Fair value hedges (see Note 8)	18,568	8,273
Deferred taxes recognised in reserves during the year (see Note 11)	(18,213)	16,771
Balance at the end of the year	**11,188**	**(38,243)**

Legal reserve

According to Article 97º of the General Regime for Credit Institutions and Financial Companies, Banco Finantia and the remaining financial companies incorporated in Portugal must appropriate at least 10% of its net income each year to a legal reserve until the amount of the reserve equals the greater of the amount of share capital or the sum of the free reserves plus retained earnings. In accordance with the Article 296º of the Portuguese Companies Code, the legal reserve can only be used to cover cumulated losses or to increase capital.

The remaining Group companies with head offices in Portugal must transfer to a legal reserve at least 5% of their net annual profits until this reserve is equal to 20% of issued capital.

22. Net interest income

EUR thousand	**31.12.2016**	**31.12.2015**
Interest and similar income		
Investment securities	79,335	85,046
Loans and advances to customers	7,387	11,999
Credit derivatives	2,468	5,652
Due from banks	105	24
Other interest and similar income	283	243
	89,578	**102,964**
Interest and similar expense		
Due to customers	(11,681)	(15,090)
Hedging derivatives	(10,072)	(14,053)
Repurchase agreements	(4,968)	(4,127)
Due to banks and central banks	(1,226)	(691)
Subordinated debt	(803)	(2,272)
Other interest and similar expense	(301)	(548)
	(29,053)	**(36,780)**
	60,525	**66,183**

As at 31 December 2016, interest and similar expenses on financial liabilities designated as at fair value through profit or loss is € 415 thousand (2015: € 1,243 thousand).

23. Net fee and commission income

EUR thousand	**31.12.2016**	**31.12.2015**
Fee and commission income		
From banking business	1,933	4,384
From specialized finance business	1,575	2,805
	3,508	**7,189**
Fee and commission expense		
On third-party banking services	(351)	(701)
From specialized finance business	(210)	(224)
	(561)	**(925)**
	2,947	**6,264**

As at 31 December 2016, the caption fee and commission income from specialized finance business includes the amount of € 541 thousand (2015: € 972 thousand) related with commissions from insurance intermediation.

24. Net results from financial operations

EUR thousand	**31.12.2016**	**31.12.2015**
Financial assets at fair value through profit or loss	5,679	(829)
Available for sale financial assets (see Note 21)	29,429	41,401
Other financial assets	4,566	2,932
Foreign exchange results	(7,356)	(1,044)
Amortisation of discontinued hedge relationships (see Note 8)	(13,571)	(19,356)
Hedge ineffectiveness (see Note 8)	(136)	146
	18,612	**23,249**

Net results from financial assets at fair value through profit or loss includes: (i) the effect of buying and selling and changes in the fair value of debt securities and equities and (ii) the result of derivative financial instruments. As at 31 December 2016 includes the amount of € (3,566) thousand (2015: € (2,268) thousand), related with interest rate swaps and credit default swaps.

Other financial assets includes the effect of debt securities sales from the loans and receivables portfolio and the amortization of the fair value reserve from reclassified financial assets (see Note 35) and also gains related to the acquisition of debt issued.

25. Staff costs

EUR thousand	**31.12.2016**	**31.12.2015**
Remuneration	9,443	9,338
Social security	1,920	1,869
Other	233	673
	11,596	**11,880**

At 31 December 2016 and 2015 the remunerations paid to the Bank and subsidiaries' management and supervisory bodies amounted to € 637 thousand and € 878 thousand, respectively.

The number of employees at year end, by category, is as follows:

	31.12.2016	**31.12.2015**
Senior management	89	109
Management	101	76
Professional staff	60	57
	250	**242**

26. General and administrative expenses

EUR thousand	**31.12.2016**	**31.12.2015**
Specialised services	5,104	8,905
Maintenance and related services	1,314	1,205
Rentals costs	660	692
Communication costs	516	541
Travelling and entertainment expenses	368	385
Other expenses	1,547	1,279
	9,509	**13,007**

27. Impairment and provisions

At 31 December 2016 and 2015 the caption impairment and provisions recognized in the income statement can be analyzed as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Securities and loans portfolio (see Note 7)	14,794	28,409
Investment property	(175)	-
Other credit operations (see Note 12)	(1,377)	1,534
Other assets (see Note 13)	2,589	(303)
Other risks and charges (see Note 19)	(1,122)	1,854
	14,709	**31,495**

During 2016, the total amount of interest recognized in the income statement from impaired financial assets is € 5,552 thousand (2015: € 6,741 thousand).

28. Earnings per share

Basic earnings per share

EUR thousand, except number of shares	**31.12.2016**	**31.12.2015**
Net profit attributable to the equity shareholders of the Bank	30,691	27,605
Weighted average number of ordinary shares outstanding	137,849	137,849
Basic net profit (in euros)	**0.22**	**0.20**
Number of ordinary shares outstanding at the end of the year (thousands)	**137,849**	**137,849**

Diluted earnings per share

The diluted earnings per share do not differ from basic earnings per share, as the Group does not have any potential ordinary shares with dilutive effect as at 31 December 2016 and 2015.

29. Off-balance sheet items

EUR thousand	**31.12.2016**	**31.12.2015**
Guarantees issued		
Securities pledged under repos	636,438	687,279
Guarantees and standby letters of credit	19,956	35,324
	656,393	**722,603**
Guarantees received		
Assets received from reverse repos	1,500	-
Other guarantees received	-	4,596
	7,596	**4,596**
Contingent assets		
Irrevocable committed lines	1,500	1,500
	1,500	**1,500**
Contingent liabilities		
Revocable committed lines	7,300	40,000
Other contingent liabilities	10,031	8,532
	17,331	**48,532**
Other off balance sheet items		
Securitization assets under management	-	113,347
Securities and items held for safekeeping	231,686	231,184
	231,686	**344,531**

The balance securities pledged under repos refers to the nominal amount of securities sold under repurchase agreements and includes in 2015 also transactions with central banks (see Note 14), including other transactions with securities issued by Group companies and with securities received under reverse repurchase agreements. The balance sheet value of the securities included in these transactions amounted to, as at 31 December 2016, € 679,001 thousand (2015: € 701,017 thousand).

As a part of the reverse repurchase agreements, the Group has received securities that it is allowed to sell or repledge. The balance sheet value of the securities included in these transactions amounted to, as at 31 December 2016, € 1,590 thousand (2015: the Group did not enter into any reverse repurchase agreement operation).

As at 31 December 2016, the balance other contingent liabilities includes the amount of € 10,000 thousand (2015: € 8,500 thousand) related with commercial paper issues from third parties, guaranteed by the Group, that have not been placed.

30. Cash and cash equivalents

For presentation of the cash flow statement purposes, cash and cash equivalents comprise the following balances with maturity less than three months:

EUR thousand	**31.12.2016**	**31.12.2015**
Cash (see Note 5)	76	87
Deposits with central banks (see Note 5)	5,151	16,861
Deposits with banks (see Note 5)	21,313	18,440
Due from banks	10,166	13,359
	36,706	**48,747**

The balance due from banks relates only to balances with maturities less than three months and significant fair value change risk and excludes collateral deposits referred to in Note 6.

31. Balances and transactions with related parties

The Bank enters into transactions in its normal course of business with other Group companies and other related parties. Group companies are identified in Note 36 and the respective balances and transactions are eliminated within consolidated accounts.

The shareholders of Banco Finantia to which there are balances and transactions as at 31 December 2016, can be analyzed as follows:

Shareholder	**Headquarter**	**% of direct participation**	**% of effective participation**
Finantipar - SGPS, S.A.	Portugal	57.1	62.1
Natixis	France	9.9	10.8
VTB Capital PE Investment Holding (Cyprus) Ltd.	Cyprus	8.9	9.7
Portigon AG	Germany	8.2	8.9

The balances and transactions with related parties as of 31 December 2016 and 2015 can be analyzed as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Assets		
Derivative financial instruments	64	51
Securities and loans portfolio	17,776	16,305
Due from banks	1,230	200
Liabilities		
Derivative financial instruments	26	613
Due to customers	4,547	120
Securities sold under repurchase agreements	45,619	25,566
Income		
Interest income	1,148	1,242
Gains from financial operations	1,677	3,777
Expense		
Interest expense	440	278
Losses from financial operations	804	585
Off balance sheet items		
Assets in guarantee	54,075	33,159
Other irrevocable commitments	1,230	320
Irrevocable credit lines	-	40,000
Interest rate swaps	1,162	4,175
Credit default swaps	14,230	13,778

Transactions with related parties are made at normal market conditions.

The amount of remunerations paid to the Group’s management and supervisory bodies is disclosed in Note 25. As at 31 December 2016 and 2015 there were no other balances and transactions with the Bank’s directors.

32. Risk management activity

The Board of Directors of Banco Finantia is responsible for the Group global risk management model, delegating on its Executive Committee ("EC") the establishment and monitoring of an adequate and efficient internal control system, based on an appropriate and effective risk management system.

The Executive Committee empowers on the Finance and Risks Committee the establishment and maintenance of an adequate and effective internal control system, in what concerns to the management of the financial and non-financial risks, with particular regard to the limits and tolerances set on the Risk Appetite Framework ("RAF").

RAF has the purpose of establish risk profile and is an integral part of the Group's strategic planning process. Provides a common structure on the activity of the entire Group for the communication, understanding and evaluation by the top management and administrative and supervisory bodies of the types of risks and respective levels to be assumed, explicitly defines the limits and tolerances within which the management of the Business must operate. RAF is a holistic approach that includes policies, controls and systems through which risk appetite is established, communicated and monitored.

The risk management function is under the responsibility of the Risk Management Department. This department, central and independent from risk analysis and control, is responsible for the management of all Group risks. The Risk Management Department ensures that the Risk Management Function: (i) Ensures the effective application of the risk management system by continuously monitoring its adequacy and effectiveness, as well as the measures taken to correct any deficiencies; (ii) Provides advice to the Management and Supervisory bodies; (iii) Prepares and presents periodic reports on risk management that allow the management bodies to monitor the various risks that the Group is subject to; (iv) Elaborates the ICAAP and participates actively in the elaboration of the RAF; and (v) Promotes the integration of risk principles into the institution's daily activities, ensuring that there is no significant business aspect not included in the risk management framework.

<u>Credit risk</u>

Credit risk, which arises not only from the possibility of a counterparty defaulting but also from the change in the economic value of a certain instrument due to the degradation in the credit quality, constitutes one of the most important risks for the Group, considering its asset structure.

The Group's objective is to maintain a high quality asset portfolio, based on prudent credit policy and a careful analysis of all credit proposals, in order to maintain a low risk credit portfolio and achieve growth within the defined limits by the appetite for risk.

On this basis, the credit risk management system integrates two components: the first one covers credit analysis and the second is focused on a robust monitoring system that ensures the immediate identification of the potential increase in the risk of default, allowing an analysis of the causes And the implementation of corrective actions if this proves necessary.

Under the first component, the approval of any credit limit is taken in accordance with the Group's internal credit policy. All operations are subject to limits defined by the Credit Department. For each entity a maximum credit limit is established, based on its risk profile, issuer rating, sector, geographical area, etc. in line with the established guidelines.

The Risk Management Department is the body that ensures the second component of the credit risk management system, being responsible for controlling the approved limits and monitoring the exposure by group of counterparties (eg, individual concentration index), (Eg, sectoral concentration index), by geographical area and by issuer rating. In this component there is a constant concern to diversify the portfolio, which allows the Group to mitigate the concentration risk of credit, which results from the potential capacity of a certain group of counterparties to cause losses that call into question the solvency of the institution.

It is also the responsibility of the Risk Management Department to monitor economic capital for credit risk. Since the level of credit risk to which the Group is exposed is directly related to the main parameters of credit risk, namely the probability of default (PD) and the loss given default (LGD), In the scope of ICAAP, the economic capital requirement for credit risk is quantified in accordance with the IRB (Internal Ratings Based) Foundation formula of Basel III.

As of 31 December 2016, more than half of the fixed-income portfolio has an investment grade rating.

The Group's maximum exposure to credit risk before collateral and impairment can be analyzed as follows:

EUR thousand	**31.12.2016**	**31.12.2015**
Cash and banks (see Note 5)*	21,313	18,439
Securities and loans portfolio (see Note 7)	1,659,247	1,567,475
Due from banks (see Note 6)	69,664	80,213
Derivative financial assets (see Note 8)**	8,051	1,354
Other credit operations (see Note 12)	175,186	200,144
Other assets (see Note 13)	17,110	20,644
	1,950,571	**1,888,271**
Guarantees and standby letters of credit (see Note 29)	19,956	35,324
Credit derivatives (see Note 8 - notional amount)	93,717	186,741
	113,673	**222,065**

* excludes the amounts from cash and deposits with central banks

** excludes credit derivatives

Considering the Group's credit risk exposure by rating as at 31 December 2016, approximately 80% (2015: 94%) of the total exposure of the Group regards to OECD or investment grade countries, with the remaining exposure divided for 14 different countries, as follows:

EUR million	**31.12.2016**		**31.12.2015**	
OECD countries	961.4	51%	1,348.7	64%
Investment grade (non OECD)	556.8	29%	635.2	30%
Other countries	384.7	20%	126.0	6%
	1,902.9	**100%**	**2,109.9**	**100%**

Offsetting financial assets and financial liabilities

The Group receives and gives collateral in the form of cash and marketable securities in respect of over-the-counter derivatives, sale and repurchase, and reverse sale and repurchase agreements ("repos" and "reverse repos").

This collateral is subject to the rules and regulations of these markets and is based on industry standard bilateral contracts, as published respectively by the ISDA - International Swaps and Derivatives Association or the ICMA - International Capital Market Association (GMRA). These contracts also operate as netting agreements whereby, in the event of a contractual termination for non-compliance, only the net amount of all transactions entered into under the contract may be required, thus allowing the offsetting of debit positions in a transaction with credit positions in other transactions.

As at 31 December 2016, financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements can be analyzed as follows:

EUR thousand	**Gross amounts of recognised financial assets / liabilities**	**Net amounts of recognised financial assets / liabilities presented in the balance sheet**	**Related amounts not offset in the balance sheet**		**Net amount**
			Financial instruments (including non-cash collateral)	**Cash collateral received / (pledged)**	
Financial assets					
Derivatives	8,790	8,790	-	-	8,790
Reverse repos	1,564	1,564	1,590	-	(26)
Total	**10,354**	**10,354**	**1,590**	**-**	**8,764**
Financial liabilities					
Derivatives	64,437	64,437	(19,267)	(52,221)	(7,051)
Repos	495,442	495,442	(628,244)	(11,628)	(142,959)
Total	**559,878**	**559,878**	**(647,511)**	**(63,849)**	**(150,010)**

As at 31 December 2015, financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements can be analyzed as follows:

EUR thousand	Gross amounts of recognised financial assets / liabilities	Net amounts of recognised financial assets / liabilities presented in the balance sheet	Related amounts not offset in the balance sheet		Net amount
			Financial instruments (including non-cash collateral)	Cash collateral received / (pledged)	
Financial assets					
Derivatives	2,348	2,348	-	-	2,348
Total	**2,348**	**2,348**	**-**	**-**	**2,348**
Financial liabilities					
Derivatives	60,690	60,690	(15,857)	(56,185)	(11,353)
Repos	483,532	483,532	(723,664)	(16,705)	(256,837)
Total	**544,222**	**544,222**	**(739,521)**	**(72,890)**	**(268,190)**

As at 31 December 2016 and 2015 there are no recognized financial assets or liabilities offset in the balance sheet.

The gross amounts of financial assets and financial liabilities and their net amounts disclosed in the above tables have been measured in the balance sheet on the following bases: derivative assets and liabilities - fair value, assets and liabilities resulting from sale and repurchase agreements, reverse sale and repurchase agreements and central bank borrowings - amortized cost. The corresponding financial instruments received/pledged are presented at fair value.

Interest rate and exchange risk of the banking book

As part of the interest rate and exchange risk control and assessment process within the Group, emphasis is placed on the daily calculation of Value-at-Risk (VaR) for the entire consolidated balance sheet. The VaR is calculated using the historical simulation approach, with one year of historical price data, a one day holding period and a 99% confidence interval. Back-testing exercises have been satisfactorily concluded. For the year 2016, the average daily VaR was € 5.88 million (up from € 3.93 million in 2015), which corresponds to 1.6% of Tier 1 Capital (1.2% in 2015). The average daily VaR for foreign exchange risk was €5.48 million (€2.88 million in 2015) and for interest rate risk was € 2.65 million (€2.69 million in 2015).

Interest rate risk

The interest rate risk of the banking book stems from the probability of negative impacts caused by unfavorable changes in interest rates, mainly due to the existence of maturity mismatches between assets and liabilities.

The monitoring of exposures to interest rate fluctuations constitutes one of the main aspects for proper risk management. The Group adopted the strategy of minimizing the interest rate risk associated with its fixed rate assets in order to minimize exposure to shocks and movements in interest rates, maintaining a balanced structure between assets and liabilities in terms of interest rate mismatch.

For the Group's fixed rate assets, there is a permanent monitoring of their distribution across temporal buckets, net of corresponding fixed rate liabilities and interest rate hedging instruments. As at 31 December 2016, the interest rate risk hedge level was 93%.

The effectiveness of the hedging policy is reviewed and reviewed monthly by the Financial and Risk Committee.

Classification of on-balance and off-balance sheet balances by repricing intervals, following the recommendations of Basel III (Pillar 2) and Instruction nº19/2005 of the Bank of Portugal, can be analyzed as follows:

EUR thousand

31 December 2016	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Assets	203,188	58,287	7,125	585,642	824,033
Liabilities	(508,851)	(305,767)	(332,880)	(127,938)	(2,000)
Off-balance sheet	1,007,126	46,949	(304)	(380,393)	(673,378)
Gap	**701,463**	**(200,531)**	**(326,059)**	**77,311**	**148,655**

EUR thousand

31 December 2015	Up to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	More than 5 years
Assets	238,018	27,981	15,571	604,066	763,609
Liabilities	(477,863)	(177,205)	(440,402)	(210,986)	(5,000)
Off-balance sheet	958,555	89,185	(1,276)	(443,350)	(603,114)
Gap	**718,710**	**(60,039)**	**(426,107)**	**(50,270)**	**155,495**

Foreign currency exchange rate risk

It is Group policy to deal only in assets and liabilities denominated in EUR and USD. Positions in other currencies are sporadic and have no significant impact on the balance sheet and profit or loss. In order to neutralize the currency risk, exposures are monitored on a daily basis, both the spot position and the forward position, resulting from the expectations of the impact that the USD assets and liabilities can generate in the future.

This analysis is presented and discussed in the Finance and Risk Committee on a monthly basis, aiming to define or correct the measures to be adopted in order to achieve the objective of minimizing exchange rate risk.

The assets and liabilities detail by currency can be analyzed as follows:

EUR thousand	31.12.2016	
	USD	**Other currencies**
Assets		
Cash and banks	3,494	677
Securities and loans portfolio	1,122,029	820
Due from banks	10,073	-
Derivative financial instruments	8,738	-
Other assets	5,326	20
Total assets	**1,149,659**	**1,516**
Liabilities		
Due to banks	11,778	-
Due to customers	7,300	-
Securities sold with repurchase agreement	445,414	-
Derivative financial instruments	11,061	-
Other liabilities	9,520	15
Total liabilities	**485,073**	**15**
Equity	5,360	-
Total liabilities and equity	**490,433**	**15**
Derivatives held for risk management	**(644,151)**	**-**
FX Swaps	(644,151)	-
	(644,151)	**-**
Net position	**15,074**	**1,501**

EUR thousand	31.12.2015	
	USD	**Outras Moedas**
Total assets	862,017	1,380
Total liabilities	370,266	-
Equity	(77,554)	-
	569,305	1,380
Derivatives held for risk management	(564,709)	-
Net position	4,596	1,380

Liquidity risk

Liquidity risk is defined as the possibility for an institution to be unable to meet its obligations as they come due, because of an inability to liquidate assets, obtain funding or refinance liabilities under appropriate conditions.

The Group's objective in liquidity risk management is to ensure a stable and robust liquidity position based on liquid assets, controlling liquidity gaps and including a liquidity buffer to respond to increased capital outflows in stressful situations.

Liquidity risk management is carried out globally for the Group in a centralized manner by the Treasury Department, with the support and monitoring of the Risk Management Department. Liquidity is maintained within predefined limits, according to two distinct parameters: i) the cash flow management, through a system of control of the financial flows that allows the daily calculation of the treasury balances over a long horizon and the maintenance of an excess of liquidity that ensures the normal functioning of the Group even under unfavorable conditions; ii) the management of the balance sheet, allowing the maintenance of the main liquidity indicators within the limits defined by the Financial and Risk Committee.

The Treasury Department controls the Group's cash flow on a daily basis. The Risk Management Department is responsible for all analyzes related to the management of the Group's balance sheet, preparing a monthly report to the Finance and Risk Committee.

The metrics used to measure liquidity risk, in addition to those used daily in the control of the cash flows and in the forward planning, are related to the prudential ratios, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), with the loans to deposits ratio and with internal ratios (liquidity ratio and eligible assets and short-term financing ratio).

As of December 31, 2016, the LCR ratio was well above the minimum values required in the fully loaded phase. The purpose of the LCR is to promote the short-term resilience of banks' liquidity risk profile by ensuring that banks hold an adequate stock of unencumbered, high quality liquid assets ("HQLA") that can be converted into liquidity, in an easy and immediate way, to meet liquidity needs, in a stress scenario, within a 30-day time horizon. As at 31December 2016, the HQLA stock was € 345 million.

Although it is only mandatory in 2018, the Group also monitors the Net Stable Funding Ratio (NSFR), which complements the LCR and has a time horizon of one year. This ratio was established to impose a sustainable framework of asset and liability maturities, with the aim of promoting adequate resilience over a longer time horizon, by providing additional incentives for banks to finance their activities through more stable sources of financing on a regular basis. As at 31 December 2016, the Group's NSFR was above 100%, the minimum value forecast for this ratio for 2018.

The Finance and Risk Committee is responsible for monitoring the main liquidity indicators of the Group.

Cash flows due related to non-derivative financial liabilities and assets held for managing liquidity risk are undiscounted and include principal and interest as contractually determined, adjusted based on the respective behavioral maturities.

As at 31 December de 2016 can be analyzed as follows:

EUR thousand	Up to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Liabilities					
Due to central banks	-	-	-	-	-
Due to banks	19,585	-	-	-	19,585
Due to customers	134,007	413,952	191,209	-	739,168
Securities sold under repurchase agreement	286,680	210,958	-	-	497,638
Debt issued	-	-	-	-	-
Subordinated debt	100	20,459	90	1,725	22,374
Liabilities by contractual maturity dates	**440,372**	**645,369**	**191,299**	**1,725**	**1,278,765**
Assets held for managing liquidity risk	**179,152**	**131,516**	**911,137**	**963,250**	**2,185,055**

As at 31 December de 2015 can be analyzed as follows:

EUR thousand	Up to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Liabilities					
Due to central banks	73,009	-	-	-	73,009
Due to banks	21,662	1	10	216	21,888
Due to customers	120,364	279,845	296,336	-	696,545
Securities sold under repurchase agreement	278,206	188,450	18,453	-	485,109
Debt issued	-	-	-	-	-
Subordinated debt	296	31,699	20,584	143	52,722
Liabilities by contractual maturity dates	**493,537**	**499,995**	**335,383**	**359**	**1,329,273**
Assets held for managing liquidity risk	**207,534**	**108,280**	**928,864**	**901,937**	**2,146,614**

For derivative instruments, the contractual undiscounted cash flows as at 31 December 2016 can be analyzed as follows:

EUR thousand	Up to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Assets cash flows	254,933	363,878	52,574	31,581	702,965
Liabilities cash flows	274,864	389,264	65,882	25,560	755,570

As at 31 December de 2015 can be analyzed as follows:

EUR thousand	Up to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Total
Assets cash flows	269,205	304,151	29,593	24,170	627,118
Liabilities cash flows	277,545	319,357	64,451	26,379	687,732

Operational risk

Operational risk consists of the likelihood of negative impacts on results or capital arising from failures in the analysis, processing or settlement of transactions, internal and external fraud, the use of subcontracted resources, ineffective internal decision-making processes, inadequate or insufficient human resources or the inoperability of infrastructures.

The operational risk management has always been an area of importance for the Group. Having in mind the best market practices, the Group has been intensifying its efforts in implementing more advanced and effective measurement and risk control methods.

The Group has kept its process of collecting and recording information on the various types of risk that may affect its activity (loss event register and risk control self-assessment). The operational risk database includes the detailed recording of events, loss accounting, evaluation of operational risk events including an analysis of corrective and prospective measures, as well as self-assessment of the control of this risk.

The Group uses the Basic Indicator Approach (BIA) methodology to quantify the risks inherent to operating activities and information systems, considering the banking product of the last three years.

The Group considers that the capital allocated to operational risk through this approach is adequate to cover unexpected potential losses, considering:

- The control system and the procedures adopted by the Group to control operational risk;
- The fact that there is no historical record of material operating losses;
- Monitoring and control processes that are carried out centrally.

During 2016, several training actions were carried out, with emphasis on a specific training on the Internal Control System directed to the staff with responsibilities in the management of the various areas. By 2017, the Group will continue to focus on training as a way of reducing operational risk.

33. Capital management

The Group's capital management and control is performed in a wide manner with the objectives of granting the institution's solvency, complying with regulation requirements and maximizing profitability, being determined by the strategical goals and by the risk appetite settled by the Board of Directors.

Accordingly, some objectives were defined in terms of capital management:

- Establish a capital planning adequate to the actual and future needs (helping the business development), complying with regulation requirements and associated risks;
- Assure that, under stress scenarios, the Group maintains enough capital to accommodate the needs inherent to a risk increase;
- Optimize capital allocation, in a regulatory and economic capital perspective, considering the Group's risk appetite, the expected growth and the strategical goals.

The main capital ratios of the Group in 2016 and 2015 are presented in the following table. The "Phased-in" ratios are calculated in accordance with the transitory period established for Basel III rules implementation, while the "Fully loaded" ratios are calculated in accordance with its final application, after expiring the transitory disposals.

Own funds minimum requirements ("Pilar 1 requirements") includes a common equity tier 1 ratio ("CET 1") of 4.5%, a level 1 own funds ratio ("Tier 1") of 6% and a total capital ratio ("Total capital") of 8%, as defined in Article 92º of Regulation (EU) nº 575/2013 from the European Parliament and Counsel, from 26 of June ("CRR").

Additionally, from 1 January 2016 and in accordance with the Notice nº 6/2016 from the Bank of Portugal, a capital conservation buffer shall be implemented. During 2016 this buffer amounted 0.625% of total own funds, and shall increase progressively in the equivalent percentage until 2019, in order to reach 2.5% of total own funds.

EUR millions	***Phased-in***		***Fully loaded***	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
Common Equity Tier 1 (CET1)	381.3	338.3	392.2	333.8
Tier 1	381.3	338.3	392.2	333.8
Total Capital	381.4	338.3	392.2	333.8
Risk weighted assets	1,639.8	1,499.3	1,661.0	1,499.3
CET 1 ratio	23.3%	22.6%	23.6%	22.3%
Tier 1 ratio	23.3%	22.6%	23.6%	22.3%
Total Capital ratio	23.3%	22.6%	23.6%	22.3%

The risk weighted assets are measured using the standard method. It considers the nature of the assets and the respective counterparties and also the existence of associated collaterals and guarantees.

During 2016 and 2015 the Group and its individual entities complied with all of the regulatory capital requirements to which they are subject to.

34. Segmental reporting

The Group's activities are exclusively focused on the financial sector providing a broad range of financial services focused on capital markets, money markets, advisory services (including mergers, acquisitions and structured finance) and credit operations and, indirectly, through its subsidiaries, leasing operations, management of equity interests, asset management, asset and funds management, forfaiting and syndicated loans. The Specialized finance activity was discontinued (see Note 12). Nevertheless, the Group continues to monitor the performance of this portfolio, which is on a run-off phase, and is therefore presented as an operating segment.

When evaluating the performance by business area, the Group considers the following Operating Segments: Banking and Specialized Finance. Each segment includes the structure that directly or indirectly relate to it, and also the other units of the Group whose activities are most related to one of these segments.

Additionally, the Group considers a second segmentation, according to geographical criteria, aggregating its assets and revenues based on the country of domicile of the operational units that owns the assets associated with the generation of such revenues.

Operating Segments Description

Each operating segment includes the following activities, products, customers and Group structures:

Banking: This operating segment includes all banking activities of the Group, including investment banking originated in Portugal and abroad, corporate loans, deposits, as well as advisory, mergers and acquisitions, restructuring, brokerage, capital markets and other investment banking related services. It includes also the private banking and asset management activity of the Group.

Specialized Finance: It relates to the activity performed by the Group in Portugal and Spain from the financing of consumer credit, mainly auto loans for individuals and small businesses, and is currently on a run-off phase.

Allocation criteria and results of the operating segments

The financial information presented for each segment was prepared in accordance with the criteria followed for the preparation of internal information analyzed by the decision makers of the Group, as required by IFRS.

The accounting policies applied in the preparation of the financial information related with the operating segments are consistent with the ones used in the preparation of these consolidated financial statements, which are described in Note 2.

The operating segments information can be analyzed as follows:

EUR thousand	31.12.2016				31.12.2015			
	Banking	**Specialized finance**	**Overheads & other**	**Consolidated**	**Banking**	**Specialized finance**	**Overheads & other**	**Consolidated**
Interest income	84,056	5,522	-	89,578	94,643	8,321	-	102,964
Interest expense	(26,304)	(2,748)	-	(29,053)	(32,179)	(4,602)	-	(36,780)
Net interest income	57,752	2,773	-	60,525	62,464	3,719	-	66,183
Other operating income	18,675	731	-	19,405	25,996	2,143	-	28,140
Operating income	76,427	3,504	-	79,931	88,461	5,863	-	94,323
Staff costs	(4,218)	-	(7,378)	(11,596)	(3,712)	(99)	(8,069)	(11,880)
General and adm. Expenses	(3,812)	(2,319)	(4,831)	(10,962)	(4,440)	(3,844)	(7,346)	(15,630)
Operating expenses	(8,030)	(2,319)	(12,209)	(22,558)	(8,152)	(3,944)	(15,414)	(27,510)
Operating profit	**68,397**	**1,184**	**(12,209)**	**57,373**	**80,308**	**1,919**	**(15,414)**	**66,813**
Impairment and provisions	(16,649)	1,940	-	(14,709)	(29,787)	(1,709)	-	(31,495)
Profit before tax	51,747	3,125	(12,209)	42,664	50,522	210	(15,414)	35,317
Income taxes				(11,951)				(7,688)
Net profit				**30,713**				**27,629**
Segment assets	1,778,839	28,571	-	1,807,409	1,722,403	51,338	-	1,773,741

The geographical segments information can be analyzed as follows:

EUR thousand	31.12.2016			31.12.2015		
	Portugal	**Foreign**	**Total**	**Portugal**	**Foreign**	**Total**
Revenues	40,241	52,845	93,086	46,692	63,460	110,153
Segment assets	671,054	1,136,355	1,807,409	736,541	1,037,200	1,773,741
Capital expenditure (Property and equipment)	547	140	686	1,100	108	1,208
Capital expenditure (Intangible assets)	196	2	198	514	46	560

35. Fair value of financial assets and liabilities

Fair value hierarchy

IFRS requires that an entity shall classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in the measurement, considering if the inputs are observable or not. On that basis, the Group’s assets and liabilities are measured in accordance with the levels:

Quoted market prices (Level 1) – is this level are included quoted prices in official markets and those disclosed by market providers that are usually market makers in the respective assets/liabilities when the market is considered as active;

Valuation techniques with market observable inputs (Level 2) – this category includes a part of the securities portfolio whose valuation is obtained through quotes published by independent entities but whose markets are not considered as official markets or have a lower level of liquidity. It also includes other financial instruments whose valuations are based on prices / quotations in active markets for similar assets or liabilities and financial instruments valued based on internal valuation models, including discounted cash flow models, which involve the use of estimates and require judgments which vary according to the complexity of the products being valued, namely derivative financial instruments. Notwithstanding, the Group uses observable market data such as interest rate curves, credit spreads, volatility and market indexes; and

Valuation models based on non-observable market information (Level 3) – consists on the use of internal valuation models or quotations provided by third parties but which imply the use of non-observable market information.

In 2016, the Group redefined the criteria for allocating financial assets in the fair value hierarchy, especially in relation to the allocation of its securities portfolio between level 1 and level 2, and the comparative figures for December 31 2015 has been amended accordingly. The Group's fair value hierarchy for assets and liabilities measured at fair value can be analyzed as follows:

		31.12.2016			31.12.2015		
EUR thousand	**Notes**	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets							
Financial assets held for sale	7	1,012,250	293,158	-	732,269	454,137	-
Financial assets held for trading	7	15,063	9,553	-	13,202	13,974	-
Derivative financial instruments	8	-	8,790	-	-	2,348	-
Liabilities							
Derivative financial instruments	8	-	64,437	-	-	60,690	-
Financial liabilities at fair value through profit or loss	18	-	20,307	-	-	20,367	-

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available with transparency, and those prices/quotes represent actual and regularly occurring market transactions on an arm's length basis.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If the significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves, and considering counterparty credit risk.

Disregarding own credit risk, the fair value of interest rate swaps and credit derivatives amounts to € 8,629 thousand and € 30,972 thousand, respectively (2015: € 994 thousand and € 48,930 thousand, respectively). As at 31 December 2016 and 2015, the fair value of derivatives was not adjusted by counterparty credit risk considering the collateral deposits as at those dates and/or the ratings of each counterparty.

The fair value of foreign exchange derivatives is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The main assumptions and inputs used during the years ended 2016 and 2015, in the valuation models are presented as follows:

Interest rate curves

The short term rates presented reflect benchmark interest rates for the money market and for the long term the values represent the swap interest rates for the respective periods:

	31.12.2016		31.12.2015	
	EUR	**USD**	**EUR**	**USD**
Overnight	-0.329	0.692	-0.127	0.275
1 month	-0.368	0.772	-0.205	0.430
3 months	-0.319	0.998	-0.131	0.613
6 months	-0.221	1.318	-0.040	0.846
1 year	-0.082	1.686	0.060	0.868
3 years	-0.104	1.690	0.060	1.416
5 years	0.075	1.975	0.331	1.737
7 years	0.314	2.161	0.620	1.951
10 years	0.663	2.337	1.001	2.187
15 years	1.030	2.496	1.397	2.418
20 years	1.176	2.561	1.565	2.532
30 years	1.234	2.570	1.613	2.619

Credit derivatives

The evolution of the main indexes is understood as being representative of the credit spreads behavior in the market throughout the year, and is presented as follows:

Index	3 years	5 years	7 years	10 years
31.12.2016				
CDX USD Main	33.85	67.63	94.56	113.98
iTraxx EUR Main	72.34	72.34	94.25	111.00
iTraxx EUR Senior Financial	-	-	-	-
31.12.2015				
CDX USD Main	60.46	88.31	109.83	126.93
iTraxx EUR Main	51.25	77.50	96.00	113.75
iTraxx EUR Senior Financial	-	119.52	-	-

In the valuation of the credit derivatives portfolio, specifically the Credit Default Swaps - Single Names, and for the years ended December 31 2016 and 2015, the Group used the respective spreads provided by Bloomberg and when these were not available, the Group used credit spread (OAS) resulting from comparable obligations in terms of reference issuer, seniority of debt, maturity and currency of the respective CDS.

The Group calibrates this valuation model based on market information and operations and reviews the model's assumptions on a regular basis. There is no single market standard for valuation models in this area and such models have inherent limitations. Furthermore, different assumptions and inputs would generate different results. Scaling the model spreads 10% upwards, in line with less favorable assumptions, would reduce fair value by approximately € 0.3 million (2015: € 2.5 million), while scaling the model spreads 10% downwards, in line with more favorable assumptions, would increase fair value by approximately € 0.3 million (2015: € 2.6 million).

Exchange rates

The exchange rates (European Central Bank) at the balance sheet date for the main currencies used on the Group's financial instruments in foreign currency can be analyzed as follows:

Exchange	31.12.2016	31.12.2015
EUR/USD	1.0541	1.0887
EUR/GBP	0.85618	0.73395
EUR/CHF	1.0739	1.0835
USD/BRL [a]	3.2544	2.9583

[a] Calculated in accordance with the EUR/USD e EUR/BRL exchange rates

The Group uses in its valuation models the spot rate observed in the market at the time of the valuation.

Financial instruments not measured at fair value

The table below summarizes the carrying amounts and fair values of those financial assets and liabilities presented on the Group's balance sheet at amortized cost:

EUR thousand	Notes	31.12.2016			31.12.2015		
		Carrying amount	Fair value Level 1	Fair value Level 2	Carrying amount	Fair value Level 1	Fair value Level 2
Assets							
Cash and banks	5	30,665	30,665	-	39,214	39,214	-
Securities and loans portfolio	7	301,182	91,902	211,705	327,140	83,537	246,124
Due from banks	6	69,664	69,664	-	80,213	80,213	-
Other credit operations	12	28,571	-	28,862	51,987	-	52,130
Liabilities							
Due to central banks	14	-	-	-	73,003	73,003	-
Due to banks	15	28,128	28,128	-	30,280	30,280	-
Due to customers	16	740,425	740,425	-	679,590	679,590	-
Subordinated debt		-	-	-	31,128	-	31,128

Fair value is based on market prices, whenever they are available. The main methods and assumptions used in estimating fair values of financial assets and liabilities accounted for at amortized cost, are analyzed as follows:

Cash and banks: Considering the short term nature of these financial instruments, its carrying amount is a reasonable estimate of its fair value.

Securities and loans portfolio and Other credit operations: For the specialized financing portfolio, the fair value is estimated based on the update of the expected cash flows of capital and interest, considering that the benefits are paid on the contractually defined dates. For debt instruments, fair value was estimated based on prices / market prices.

Due from/to banks and to central banks: For repos and deposits with banks by their short term nature it is considered that its carrying amount is a reasonable estimate of its fair value. The fair value of medium and long term deposits and MLT loans with banks is estimated based on the discount of the expected future cash flows (capital and interest), considering that the installments are paid in the contractually defined dates.

Due to customers: The fair value of these financial instruments is based on the discount of the expected future cash flows (capital and interest), considering that the installments are paid in the contractually defined dates. Considering that the applicable interest rates are variable and that the period to maturity is substantially less than one year, there are no significant differences between its fair value and the carrying amount.

Debt securities issued and subordinated debt: Fair value of these financial instruments is based on market prices when available or, otherwise, fair value is based on the discount of the expected future cash flows (capital and interest).

Fair values of reclassified financial assets

As established in Note 2.8, in accordance with the amendment to IAS 39 – Reclassification of financial assets, the Group made the following reclassifications:

- During the second half of 2008 the Group reclassified non-derivative financial assets from its available for sale and trading portfolios to the loans and receivables portfolio;
- During the first quarter of 2011 the Group reclassified non-derivative financial assets from its available for sale portfolio to the held to maturity portfolio;
- During the third quarter of 2012 the Group reclassified financial assets from the held to maturity portfolio to the available for sale portfolio;
- During 2015 the Group reclassified non-derivative financial assets from its available for sale and trading portfolios to the loans and receivables portfolio;
- During 2016, the Group reclassified non-derivative financial assets from its available for sale and trading portfolios to the loans and receivables portfolio.

These reclassifications can be analyzed as follows:

EUR thousand	**31.12.2016**		**31.12.2015**		**Reclassification date**	
	Carrying value	**Fair value**	**Carrying value**	**Fair value**	**Carrying value**	**Fair value**
Assets reclassified in 2008						
From AFS to Loans and receivables	67,248	60,278	97,747	89,660	1,082,548	1,082,548
From Trading assets to Loans and receivables	8,114	8,978	7,636	8,081	288,460	288,460
Assets reclassified in 2011						
From AFS to Held to maturity	-	-	-	-	174,033	174,033
Assets reclassified in 2012						
From AFS to Held to maturity	-	-	-	-	93,656	90,947
Assets reclassified in 2015						
From AFS to Loans and receivables	24,084	25,854	27,037	23,895	35,277	35,277
Assets reclassified in 2016						
From AFS to Loans and receivables	21,233	15,020	-	-	29,801	29,801
From Trading assets to Loans and receivables	5,309	4,381	-	-	5,194	5,194
	125,987	**114,510**	**132,420**	**121,636**	**1,708,969**	**1,706,260**

The carrying value of the reclassified financial assets as at 31 December 2016 and 2015 is gross of impairment and excludes the amounts of the interest rate hedge adjustment and accrued interest.

The amounts recognized in the income statement and in fair value reserves from the reclassified assets are as follows:

EUR thousand	31.12.2016				31.12.2015			
	Income statement		Changes in		Income statement		Changes in	
	Interest	Impairment	Fair value reserve	Total equity	Interest	Impairment	Fair value reserve	Total equity
Assets reclassified in 2008								
From AFS to Loans and receivables	4,635	5,038	1,480	11,153	6,818	2,278	1,406	10,503
From Trading assets to Loans and receivables	548	-	-	548	531	-	-	531
Assets reclassified in 2011								
From AFS to Held to maturity	-	-	-	-	-	-	(14)	(14)
Assets reclassified in 2012								
From AFS to Held to maturity	-	-	-	-	-	-	(14)	(14)
Assets reclassified in 2015								
From AFS to Loans and receivables	2,734	388	(156)	2,966	2,796	(5,494)	95	(2,603)
Assets reclassified in 2016								
From AFS to Loans and receivables	659	(7,538)	(97)	(6,976)	-	-	-	-
From Trading assets to Loans and receivables	59	(941)	(68)	(951)	-	-	-	-
	8,635	**(3,053)**	**1,159**	**6,740**	**10,145**	**(3,216)**	**1,474**	**8,403**

If the reclassification had not been made, the additional amounts recognized in the income statement and in equity would be as follows:

EUR thousand	**31.12.2016**			**31.12.2015**		
	Fair value change	**Income statement**	**Fair value reserves**	**Fair value change**	**Income statement**	**Fair value reserves**
Assets reclassified in 2008						
From AFS to Loans and receivables	(6,970)	-	(6,970)	(8,087)	-	(8,087)
From Trading assets to Loans and receivables	864	864	-	445	445	-
Assets reclassified in 2015						
From Trading assets to Loans and receivables	1,770	-	1,770	(3,141)	-	(3,141)
Assets reclassified in 2016						
From AFS to Loans and receivables	(6,213)	-	(6,213)	-	-	-
From Trading assets to Loans and receivables	(928)	(928)	-	-	-	-
	(11,477)	**(63)**	**(11,414)**	**(10,784)**	**445**	**(11,229)**

36. Group structure

As at 31 December 2016, the Group structure can be analyzed as follows:

Company	Year of constitution	Year of acquisition	Head-office	Activity	% held	Consolidation method
Banco Finantia, S.A.	1987	1987	Portugal	Banking	-	-
Banco Finantia Sofinloc, S.A.	1993	2001	Spain	Banking	99.7	Full
Finantia UK Limited [(a)]	1993	1997	UK	Finance	100	Full
Finantia Malta Ltd [(b)]	2004	2004	Malta	Finance	100	Full
Finantia PH Limited	2004	2004	Malta	Holding company	100	Full
Finantia USA, Ltd.	1995	1997	USA	Broker-Dealer	100	Full
Finantia Brasil, Lda.	1997	1997	Brazil	Advisory services	100	Full
Finantia Holdings BV	2004	2004	Netherlands	Holding company	100	Full
Sofinloc - Instituição Financeira de Crédito, S.A.	1983	1992	Portugal	Specialized credit	100	Full
Finantia SGFTC, S.A.	2003	2003	Portugal	Funds management	100	Full
Finantia Serviços - Prestação de Serviços Empresariais, Lda.	1989	1989	Portugal	Advisory services	100	Full
Esprin - Española de Promociones, S.L.	2000	2001	Spain	Advisory services & Holding company	100	Full
Finantia International, Ltd. [(c)]	1997	1997	Cayman Islands	Finance	100	Full

[(a)] formerly designated Finantia Securities Ltd.

[(b)] formerly designated Finantia Emea Ltd.

[(c)] formerly designated Banco Finantia International, Ltd.

Building a better
working world

Ernst & Young
Audit & Associados - SROC, S.A.
Avenida da República, 90-6º
1600-206 Lisboa
Portugal

Tel: +351 217 912 000
Fax: +351 217 957 586
www.ey.com

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Statutory Auditor's Report

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the accompanying consolidated financial statements of Banco Finantia, S.A. (the "Group"), which comprise the Consolidated Balance Sheet as at December 31, 2016 (which shows a total of 1.807.409 thousand euros and total shareholders' equity of 407.787 thousand euros, including a net profit for the year of 30.691 thousand euros attributable to the bank's shareholders, and the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the year then ended, and accompanying notes thereto, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Banco Finantia S.A. as at December 31, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as endorsed by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and with other standards and technical directives of the Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas"). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the entities that comprise the Group in accordance with the law and we comply with the ethical requirements of the Code of Ethics of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We describe below the key audit matters relevant to the current period.

Related Party Transactions
As disclosed in Note 31 to the consolidated financial statements, the Group enters into transaction in its normal course of business with related parties (shareholders), namely those associated with the purchase and sale of securities, derivative instruments as well as repurchase and resale agreements, and, accordingly, the income statement is influenced by the gains and losses arising from those transactions. Having regard to the fact that, if not performed at market prices, related party transactions could have a significant impact on the Group results, we have defined this matter as a key audit matter. Our approach towards this risk of material misstatement included the following procedures: • We gained an understanding of the appropriateness of management's process for identifying and recording related party transactions;

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Related Party Transactions

- For a sample of transactions, we analysed supporting documentation to understand the nature of the transactions as well as their purpose in the context of the bank's activity;
- For the same sample, we compared the prices charged between related parties with the reference prices available in the market, and assessed their impact on the financial statements;
- We tested that related party disclosures in the group financial statements are complete and consistent with our understanding of the business gained through the performance of our audit procedures.

Derivative Financial Instruments

As disclosed in Note 8 to the consolidated financial statements, the Group enters into derivative financial instrument transactions with the objective of hedging and managing the financial risks inherent in its activity.

At 31 December 2016, included in current assets and current liabilities are derivative financial instruments amounting to 7.890 thousand euros and 18.938 thousand euros respectively, relating to interest rate derivatives that were used to hedge against changes in the fair value of fixed rate debt arising from movements in market interest rates.

In order to account for the hedging instruments at fair value, the Group must comply with a number of strict requirements as defined by International Financial Reporting Standards, including the following:

- Formal documentation about the hedging relationship;
- Performance of prospective and retrospective hedge effectiveness testing.

The technical conditions required for hedge accounting to be considered, as well as the potential implications, in case of ineffectiveness, for the income statement, were determining factors in classifying this as a key audit matter.

Our approach towards this risk included the following procedures:

- Analysis and assessment of the documentation prepared by the Group entities to support the criteria defined in IAS 39 and to qualify the designation of the derivatives as hedges;
- Obtained the retrospective testing performed by the Group entities and reperformed the calculations in order to conclude on the effectiveness of the hedging, confirming that the correlation was within the interval of 80%to 125%;
- Reviewed the documentation prepared by the Group entities to support the discontinuance of the hedge accounting that occurred in 2016 and its compliance with that which is defined in IAS 39;
- Analysis of the consistency and completeness of the disclosures relating to derivative financial instruments and assessment of compliance with the disclosure requirements of International Financial Reporting Standards.

Loans and Receivables – valuation

At 31 December 2016, the loans and securities portfolio included an amount of 301.182 thousand euros related with Loans and receivables. As disclosed in Note 2.8 to the consolidated financial

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Loans and Receivables – valuation

statements, these assets are initially measured at fair value plus transaction costs and subsequently measured at their amortised cost using the effective interest rate method, less impairment losses.

In the absence of an observable market value, the fair value at the initial measurement stage is determined by the Group entity itself, using valuation techniques that are based on recent and similar transaction prices, performed in market conditions and using valuation methods that apply discounted future cash flows techniques and take into account market conditions, time value of money, yield curve and other volatility factors. These methodologies require the use of assumptions and judgements when estimating the fair value of financial instruments.

Consequently, the use of these different methods and judgments when applying a given model may give rise to different estimations of book value.

Our approach towards this risk included the following procedures:

- Understanding the internal control procedures implemented in the valuation of investments, specifically as it relates to the allocation of responsibilities in performing these functions, the methodologies applied for each asset class and the existence of segregation of duties within the valuation process;

- Assessment of the methodologies and assumptions used by the Group entities when determining book value, including:

    (a) Inquiries to those responsible for the respective valuations in order to understand the basis of the assumptions used and to obtain the relevant documentation supporting each decision;

    (b) Analysis of the documentation supporting the estimations and judgments incorporated in the valuations by comparison with market data, if applicable and when available.

- Understanding the events considered by Group management as relevant indicators of impairment of the Group's securities;

- Consideration of the internal documents that supported the decision to record impairment;

- Assessment of the reasonableness of the criteria established and the consistency of their application across the portfolio of the Group's securities;

- Analysis of the consistency and completeness of the disclosures relating to the financial instruments recorded in Loans and Other Amounts Receivable and assessment of compliance with the disclosure requirements of International Financial Reporting Standards.

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Current and deferred taxes estimation

At 31 December 2016, the Group financial statements include deferred tax assets and liabilities totalling 195 thousand euros and 7.066 thousand euros, respectively.

In addition, they include current tax assets and liabilities totalling 7.248 thousand euros and 19.824 thousand euros, respectively.

The Group operates in different countries with different tax jurisdictions, some of them being extremely complex in terms of interpretation and, accordingly, we consider this to be a Key Audit Matter.

Our approach towards this risk included the following procedures:

- Inclusion in our local audit team of internal specialists knowledgeable in domestic and international tax matters, in order to evaluate whether the tax procedures performed by the Group were in compliance with the local tax rules established by the respective Tax Authorities.
- Testing of the completeness and reasonableness of the amounts recorded as current and deferred taxes;
- Analysis of the consistency and completeness of the disclosures relating to current and deferred taxes and the assessment of their compliance with the disclosures requirements of International Financial Reporting Standards.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union;
- the preparation of the Management Report, in accordance with the laws and regulations;
- such internal control as management determines to be necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;
- adoption of accounting policies and principles appropriate for the circumstances;
- assessment of the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion;
- communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;
- from the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter; and
- provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Our responsibility includes the verification of the consistency of the consolidated Management Report with the consolidated financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the Management Report

Pursuant to article 451º, nº 3, al. e) of the Commercial Companies Code, it is our opinion that the consolidated Management Report was prepared in accordance with laws and regulations in force, the information contained therein is in agreement with the audited consolidated financial statements and, taking into consideration our assessment and understanding of the Group, we have not identified any material misstatement.

On additional items set out in article 10º of Regulation (EU) nº 537/2014

Pursuant to article 10º of Regulation (EU) nº 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the key audit matters mentioned above, we report the following:

- We were appointed as auditors of Banco Finantia (parent entity of the Group) for the first time in the shareholders' general meeting held on 27 July, 2015 for the period between 2015 and 2017.
- Management has confirmed that they are not aware of any fraud or suspicion of fraud that could have a material impact on the consolidated financial statements. In planning and executing our audit in accordance with ISA, we maintained our professional scepticism and we designed audit procedures to address the possibility of a material misstatement in the consolidated financial statements due to fraud.
- We confirm that our audit opinion is consistent with the additional report to the audit committee that we have prepared and delivered to those charged with governance on this date.
- We declare that we have not provided any prohibited non-audit services referred to in article 77º nº 8 of the Statute of the Institute of Statutory Auditors and we remained independent of the audited Group in conducting the audit.

- We further declare that, in addition to the statutory audit, we have provided the following services to the Group:
  - Issuance of a report on the Group's half yearly evaluation of Impairment of the credit portfolio, in accordance with the requirements of Instruction 5/2013 issued by the Bank of Portugal;
  - Issuance of reports, in compliance with Notice 5/2008 issued by the Bank of Portugal, and in accordance with the technical directives of the Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas");
  - Issuance of a report to Bank Finantia as required by Article 304.º of the Securities Code, and in accordance with the requirements of the Directive for Reviews and Audits nº 825 ("Diretriz de Revisão e Auditoria nº 825");
  - Procedures for the issuance of a report to the Audit Committee on the system of internal control on the prevention of money laundering and financing of acts of terrorism by Banco Finantia and the issuance, in our capacity as statutory auditor of Sofinloc IFIC, S.A. and Finantia SGFTC, S.A. of a report as required by Notice 9/2012 of the Bank of Portugal and in accordance with the requirements of the Institute of Statutory Auditors ("Ordem dos Revisores Oficiais de Contas");
  - Performing tests on the effectiveness of the system of internal control related to the prevention of money laundering and financing of acts of terrorism for Banco Finantia S.A. and Sofinloc IFIC S.A., in accordance with article 44.º of Notice 1/2014 issued by the Bank of Portugal.

Lisbon, 13 March 2017

Ernst & Young Audit & Associados – SROC, S.A.
Sociedade de Revisores Oficiais de Contas
Representada por:

António Filipe Dias da Fonseca Brás – ROC nº 1661
Registado na CMVM com o nº 20161271