ANNUAL REPORT AND ACCOUNTS '16

EST.1833

BANCO CARREGOSA

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01 Summary of Indicators

INDIVIDUAL ACCOUNTS

	2016	2015 [*]	2014 [*]
Financial Margin	4 981 821	5 473 493	3 727 904
Net Commissions	3 290 785	4 697 611	4 009 905
Gains from Financial Transactions (Net)	2 741 014	635 414	6 074 037
Other Operating Income	(610 384)	(168 857)	(138 143)
Net Operating Revenue	10 403 234	10 637 661	13 673 703
Staff Costs	(3 842 764)	(3 744 658)	(3 430 326)
Other Administrative Costs	(3 968 782)	(4 463 702)	(4 129 974)
Structure Costs	(7 811 546)	(8 208 360)	(7 560 300)
Amortisations	(556 957)	(573 157)	(547 320)
Provisions	37 767	(165 669)	171 636
Impairments	(2 549 396)	(591 339)	(4 561 192)
Pre-Tax Profit	(476 897)	1 099 136	1 176 527
Taxes	125 872	(281 719)	(180 480)
Net Result	(351 025)	817 417	996 047

	2016	2015 [*]	2014 [*]
Total Net Assets	214 796 037	227 462 207	198 685 655
Equity	34 558 195	30 530 931	33 961 995
Own Funds	34 284 389	31 706 753	33 913 021
Client Deposits	142 478 359	161 267 872	120 336 085
Loans Granted / Client Deposits	46.40%	47.65%	42.74%
Overdue Loans / Loans Granted	0.09%	0.80%	13.39%
Return On Assets (ROA)	-0.16%	0.36%	0.47%
Return On Equity (ROE)	-1.08%	2.53%	2.74%
Solvency Ratio	21.80%	17.99%	19.20%
Financial Margin / Interest-Bearing Asset	3.27%	3.39%	2.03%
Structure Costs / Net Operating Revenue	75.09%	82.55%	59.29%

[*] Restated amounts.

02 Shareholding Structure and Governing Bodies

BANCO L. J. CARREGOSA, S.A.

PRESIDING GENERAL BOARD MEMBERS	Luís Manuel de Faria Neiva dos Santos	CHAIRM
	Maria Manuela Pereira Antunes Matias	Secretary
	Ana Mafalda Mateus Freitas Gonçalves Malafaya	Secretary
BOARD OF DIRECTORS	Maria Cândida Cadeco da Rocha e Silva	CHAIRWOMAN
	António José Paixão Pinto Marante	Director
	Jorge Manuel da Conceição Freitas Gonçalves	Director
	João Pedro Portugal da Cunha	Director
	Francisco Miguel Melhorado de Oliveira Fernandes	CHAIRMAN OF THE EXECUTIVE COMMITTEE (EC)
	Paulo Armando Morais Mendes	Voting member of the EC
	Paulo Martins de Sena Esteves	Voting member of the EC
SUPERVISORY COMMITTEE	Maria da Graça Alves Carvalho	CHAIRWOMAN
	Manuel José Lemos de Ferreira Lemos	Voting member
	Eduardo Maria Lopes Rothes Barbosa	Voting member
	André de Castro Amorim	Voting member (Alternate)
	Marques da Cunha, Arlindo Duarte & Associados represented by Joaquim Manuel Martins da Cunha	STATUTORY AUDIT FIRM (SROC)
	António Magalhães & Carlos Santos, represented by Carlos Afonso D. L. Freitas dos Santos	Alternate (SROC)
SHAREHOLDERS WITH HOLDINGS OF MORE THAN 5 % OF EQUITY	Maria Cândida Cadeco da Rocha e Silva	
	Jorge Manuel da Conceição Freitas Gonçalves	
	Amorim Projetos, SGPS	
	António José Paixão Pinto Marante	

The members of the governing bodies for the three year period 2015-2017 were elected by the General Shareholders' Meeting held on 27 May 2015. Dr. João Cunha was elected on 30 May 2016 following the resignation of Dr. Nuno Maya.

03 Message from the Chairwoman of the Board of Directors

MR. Chairman of the Presiding General Board,
Dear Shareholders,

Once again I address all Shareholders to comment on 2016 and present the year's accounts, attached herein.

Looking back at 2016 – during which we still had to cope with harsh negative interest rates – and at the most interesting events in the life of Banco Carregosa, we would like to inform you that we have decided to create an affluent client department, which will, in due time, increase our core area – Private Banking.

To achieve this, we have strengthened our sales staff and have acquired new facilities to worthily accommodate this department, separate from the Private area. Note that besides being located in a noble part of town, Rua Guerra Junqueiro, these facilities are conveniently close to the buildings already occupied by Banco Carregosa in Avenida da Boavista.

The Bank has also acquired three other buildings, which it already occupies in Porto and Lisbon, and two detached houses next to its facilities in Porto. The decision to purchase these facilities not only allows the Bank to increase its equity value, but also to improve other indicators, as the rents no longer have to be paid.

The Bank is now more robust and all the more richer.

Finally, it should be noted that although the Bank's results are modest, they have been absorbed by an impairment we have had to recognise on the recommendation of Banco de Portugal.

Equity has picked up significantly, as shown in the presentation of accounts.

We will continue to work with great enthusiasm and with the utmost respect for our Shareholders.

Thank you.

Maria Cândida Rocha e Silva
Chairwoman of the Board of Directors

04 Main Events in 2016

JANUARY

- Define an annual timetable for training activities (in-person seminars, workshops, webinars and training manuals) on topics of interest to investors, targeted at clients of capital market services.

FEBRUARY

- GoBulling was considered by DECO/PROTESTE the «Best Choice» in the ranking of Portuguese brokers operating in the market in the five investor profiles analysed.
- Launch of the indexed deposit «Carregosa Cabaz Europa fevereiro 2018».
- Banco Carregosa joined the bank syndicate responsible for placing Mystic River – holding of the Douro Azul Group.

MARCH

- GoBulling was considered the most cost-efficient brokerage service for investing in a fund listed in Amsterdam or Paris that does not pay dividends. As quoted by an independent analysis in the Observador newspaper: «Stock exchange fees. Lower your costs to 20 EUR per year».
- Launch of the indexed product «Carregosa Cabaz Ações Energia março 2018».
- Launch of the Public Subscription Offer «Finvex Sector Efficient Europe 30 Index Linked Notes».

APRIL

- 9th anniversary of GoBulling.

MAY

- Launch of the indexed product «Carregosa Cabaz Ações Reino Unido – maio 2018».

JUNE

- Banco Carregosa helped organise a series of conferences on real estate investment in Lisbon, in association with JLL Cobertura, Abreu Advogados and AICEP (Business Development Agency of Portugal), and in partnership with the Portuguese Chambers of Commerce in Rio de Janeiro and São Paulo.
- Launch of an online banking tool to search, select and trade in investment funds.

JULY

- Banco Carregosa, along with other credit institutions, signed a protocol with IFD – Development Financial Institution, and other Mutual Guarantee Societies (SGM), under the programme «Programa Capitalizar – Portugal 2020». This protocol led to the credit line «Linha de Crédito com Garantia Mútua, IFD 2016-2020 – Banco Carregosa».
- Completion of the migration to a new custodian and clearing member for international markets.
- Trading member in the BATS and CHI-X markets, expanding the access to European platforms with high share-traded values.

SEPTEMBER

- Launch of the indexed product «Carregosa Cabaz Imobiliárias setembro 2018»;
- 2nd edition of the «Banco Carregosa Miramar Open» golf tournament, held in Miramar. The Portuguese Golf Federation approved the tournament and gave technical and corporate support to the event.

OCTOBER

- 20th edition of the «Stock Exchange Game 2016» jointly organised with Jornal de Negócios.
- Start-up of the training programme «Investing in Financial Instruments» targeted at the sales teams and jointly organised with Católica Porto Business School.

NOVEMBER

- Banco Carregosa organised a conference on «Prospects for Financial Markets in 2017» held at Calouste Gulbenkian Foundation in Lisbon, which saw the intervention of Vítor Bento who spoke about the «Major socio-economic global trends», in which Banco Carregosa gave its preview for 2017.

- Banco Carregosa invited its clients to attend the conference «Prospects for Financial Markets in 2017», which saw the intervention of Daniel Bessa on the «Prospects for the European, Portuguese and World Economy». The conference was held in the Serralves Museum library in Porto.

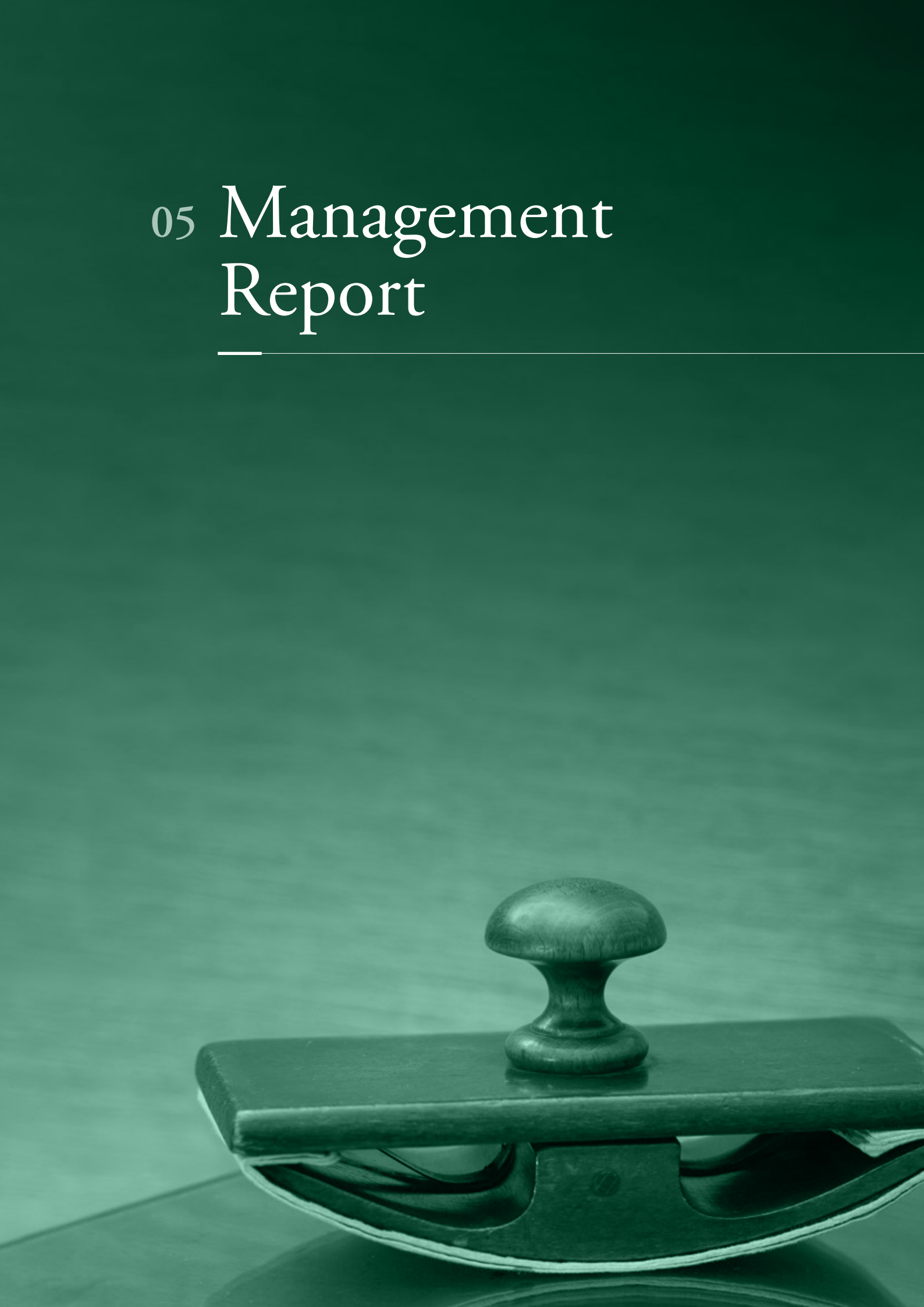
- Seminar – Investment in Training – ISEG «Career Talks» conference (Lisbon School of Economics & Management – University of Lisbon) – the commitment to educational component «Capital Markets» for the students of Economics and Management.

- Commemoration of the 15th anniversary of the partnership between Banco Carregosa and Saxo Bank. Maria Cândida Rocha e Silva, Chairman and founder of Banco Carregosa, and Kim Fournais, Chairman and co-founder of Saxo Bank, met in Lisbon to commemorate this technological partnership, signed in 2001, bringing together the former L. J. Carregosa and Midas, when neither of the two institutions was yet a bank. This partnership resulted in the development of a trading platform, unheard of at that time, used by investors from 180 countries, allowing the trade of more than 30 thousand financial products, in 28 languages.

DECEMBER

- Under a partnership with the ISCTE Trading and Investment Club, Banco Carregosa and GoBulling offer educational contents for the ISCTE students and former students of Economics.

05 Management Report



In compliance with legal and statutory provisions, the Board of Directors of Banco L. J. Carregosa S.A. presents the 2016 Annual Report.

In compliance with the Portuguese Companies Code, this document includes, throughout its contents and notes to the financial statements, information on each mandatory heading listed in Article 66(5) of the Management Report.

5.1. BANCO CARREGOSA

Banco Carregosa is about to celebrate ten years in the banking business. It has become one of the leading names in the private banking and savings and investment management sector in Portugal.

Having receiving the license to operate as a banking entity in 2008, the former L. J. Carregosa at last was changed into a bank right at the time when the Portuguese banks faced one of the toughest decades following the sub-prime crisis in the US in 2007, which led to the demise of Lehman Brothers in September 2008 and stood as the symbol of the financial crisis.

In the following months and years, the banking climate changed radically: in the Western world, in particular in the US and Europe, we saw banks collapsing, merging and being nationalised. Portugal was no exception: liquidation and nationalisation of banks, and bank resolution measures, a solution quite new until then. The banking crisis affected Portugal's economy, which is rather small and much dependent on debt – in 2016 the public debt-to-GDP ratio was equivalent to about 130 %.

However, the events in this decade, which will be celebrated in 2018, did not stop Banco Carregosa from treading its path, growing and asserting its identity. This institution that grew from a company established in 1833 has a long history of survival and resilience behind it.

The pioneering and avant-garde small foreign currency exchange house was established in 1833, even before the establishment of Banco de Portugal, received a fresh impetus from Lourenço Joaquim Carregosa, one of the partners in the 1870s from whom the house took its name, and became henceforth known as L. J. Carregosa.

Throughout the 20th century, the Carregosa exchange house perfected its vocation in the areas of wealth management, foreign exchange, debt securities and financial services. In 1994, the partners of L. J. Carregosa & Cª Lda incorporated L. J. Carregosa – Sociedade Corretora, which became a financial brokerage firm in 2001.

The turn of the 21st century brought with it a pioneering advance with the launch of the first online brokerage service in Portugal. Banco Carregosa partnered with Saxo Bank, which developed for Portugal the most advanced platform for trading in the stock market, today used throughout the world by various financial institutions. Developments in online trading led to the launch of the GoBulling brand in 2007, a set of platforms and services originally intended to channel online financial market investments.

Having received the license to operate as a banking entity in 2008, L.J. Carregosa then became known as Banco Carregosa, with private banking as its principal activity.

5.2. INTERNAL ORGANISATION AND BUSINESS SEGMENTS

In line with the major strategic guidelines defined for 2016-2018, the Bank's activity is based on the following essential pillars:

- Consolidation of Private Banking, with a focus on private clients of high net worth and affluent private clients with high savings/investment potential;

- Additionally, to act in segments and/or specific services, where the Bank currently maintains a significant activity, ensuring an appropriate return consistent with its position and expertise;

- Adoption of a single brand for the banking business, centred on the corporate identity of Banco Carregosa;

- Use of the Gobulling brand exclusively on trading platforms;

- To assert itself more and more as a reference in the target segments, special attention is given to the following aspects:

  - A committed investment in the development and availability of cutting-edge technological solutions;
  - Enhance differentiation through innovation and service excellence;
  - Greater depth in advice and asset management;

To support these lines of action, the functional organisation of the Bank consists of three core areas as described below.

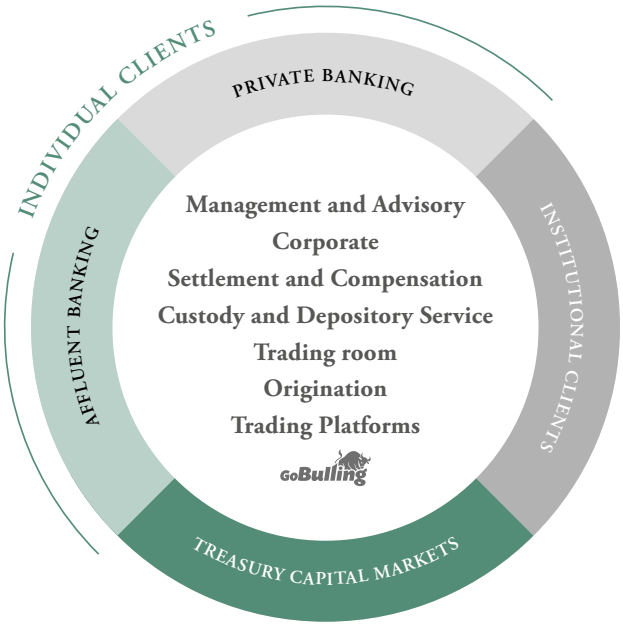
Business Areas

The first core area is formed by four other areas, called Business Areas, which are based on the relational model that the bank intends to establish with its clients. Three of these areas or department are primarily commercial in nature, familiarising the target clients with the products and services of the Bank in order to offer a consistent service supply:

- Private banking;
- Affluent banking;
- Corporate business.

The clients' areas (private banking, affluent banking and corporate business) are also fed by two external commercial networks – the Investor Advisor Network (RAI), for private clients, and the Corporate Sales Network (RVI).

A fourth key Business Area is also part of this area: treasury and own portfolio.



The bases for the new business area specially targeted to affluent clients were established in 2016 and rely on the commercial team that was previously dedicated to GoBulling, and strengthened through the hiring of new staff and supported by the RAI team.

Services

The second core area consists of a number of key activities aligned with the organisation's key competences, built on the core activities of private banking services – custody, execution and asset management/advisory services – to which the Bank added other activities arising from the convenience in using the Bank's balance sheet to better support the business – credit granting and own portfolio management. In other words, these areas generate client-related products and services and consist of seven groups of essential services:

- Treasury and own portfolio;
- Advisory, sourcing and asset management;
- Loans;
- E-trading;
- Trading room;
- Clearing, settlement and custody;
- Other banking services.

Services are the foundations that feed the commercial teams of each business area, defined according to the characteristics of the segment they target, seeking to approach the market with three consistent commercial propositions adjusted to the needs of the target clients, exploring niches that value proximity, quality and flexibility of the solutions they offer.

Support Areas

Finally, the third core area includes all departments that support the Bank's activity, that do not establish or generate commercial relationships, or generate products as such, even though they have a major part to play in their materialisation.

5.3. ECONOMIC BACKGROUND AND STATE OF FINANCIAL MARKET

In 2016, the overall economic activity rose by some 3.1 %, slightly slowing down compared to the 3.2 % increase in the real GDP worldwide in 2015. This slight slowdown was mainly a consequence of the growth in developed economies, in particular the US,

which was expected to increase by 2.6 %, but only reached 1.6 %. Emerging countries performed as expected, above the world average growth, benefitting in particular from the soaring prices of raw materials.

In a somewhat troubled international context, the European economy grew more than the US economy, partly explained by the weakening of the Euro against the US dollar.

Some signs of measures to fight deflation appeared in late 2016 and produced results, even though the core inflation is still below the central banks' 2 % target. There is a significant difference between the US and Europe: wage inflation in the US already stands at 2.7 %, whilst in Europe is it is still quite low, which is one of the reasons why the ECB maintains the monetary stimulus policy, unlike its American counterpart. Keeping interest rates low in Europe is also important for the peripheral countries, which would otherwise be hit hard with the increase in cost of their debt as they have public debt-to-GDP ratios above 130 %.

As for Portugal, three factors are worth mentioning: (i) a modest growth rate (+1.4 %), but increasing over the year to reach an annualised 2 % mark in the last quarter. This increase is explained by a boost in private consumption of 2.1 % and a positive return from net exports, which offset a negative investment growth (-1.7 %); (ii) a drop in the public accounts deficit to 2.1 %, which boosts the GDP growth since a lower deficit has a downward effect in the economy; (iii) an increase in the debt/GDP ratio which was above 130 % at the close of the year, leaving Portugal in a very fragile situation (only one rating agency listed Portugal as an *Investment Grade*) and exposed to a possible rise in public debt rates.

Financial Markets

Although all major forecasts failed in 2016, the year did not bring on the expected (negative) effect on the markets. In political terms, the Brexit bill was approved, the referendum in Italy to amend the constitution failed, and in the US Donald Trump was elected. Growth also slackened in the US, reflected in the results of the top 500 companies, which remained the same, but the SP 500 index closed the year with a gain of 9.5 %.

Interest rates continue to limit investors, who have no alternative savings options but to invest in riskier assets.

Against this backdrop, most of the main worldwide stock indexes performed well, but for the 6th year in a row fluctuations in stock exchange prices were higher than the fluctuations in the companies' results, which increased slightly in Europe and remained the same in the US, causing the P/E (price-to-earnings) ratio to increase again.

The performance of emerging markets was positive, with the MSCI Emerging Markets Index gaining 8.58 % in 2016, partially offsetting the plunge in the previous year.

As regards bonds, the year was, overall, moderately positive: considering price increases plus returns – cupons paid –, there was no variation in the *Investment Rate* debt in the US and high yield bonds rose 15.86 % (after falling sharply in 2015). In Europe, due particularly to the monetary stimulus programme, still in progress, sovereign bonds continued to rise (+1.95 %).

Outlook for 2017

Projections for 2017 point to a continued global growth, in particular in developed countries. However, the world economy records are quite different once we break down this information:

(i) Emerging countries should feel a lower impact of the slowdown in Chinese investment (which supported the price of raw materials for over a decade), as well as a possible limitation of investment as a consequence of the new protectionist policy announced by the Trump administration;

(ii) Moderate economic growth in the Eurozone, with projections pointing to a growth of less than 2 %. Core inflation is expected to remain below 2 %, which will give the ECB arguments to maintain low interest rates;

(iii) Real GDP growth in the US will be stronger, somewhere in between 2.5 % and 3 %, but may be greater if the new tax and investment stimulus policy – as contained in Donald Trump's electoral programme – is implemented. Interest rates are already on the rise and should be moderate throughout the year;

(iv) Investors should continue to monitor the growth of the Chinese economy, which will probably affect market behaviour should there be a negative event.

Portugal is expected to grow by about 1.4 %, supported by an increase in investment (as seen in the last quarter of 2016) and by net exports (especially if the Euro continues to be idle against other currency, in particular the US dollar). If this growth is equal to or greater than forecasts, and if the primary balance is positive, then the debt-to-GDP ratio will drop.

One of the main issues to be monitored in 2017 is how central banks' interest rates develop, in particular in the large economies (Europe and the US). The intervention by central banks was, deliberately, what influenced the behaviour of markets the most over recent years, and there are high expectations as to how the various types of assets will behave once these stimuli are removed.

Excessive indebtedness, both in some developed countries and in China, is the sore point of the possible rise in rates, and perhaps the main source of possible market volatility. While in the US an increase in rates seems predictable, the same cannot be said in relation to Europe. If inflation in Europe continues to show signs of increase, Mario Draghi may have to give in to pressure from Germany and abandon the stimulus programme sooner than expected. Investors may be underestimating this possibility.

Other topics of a more political bias exist that may influence the behaviour or markets, in particular the elections in several European countries, tensions in North Korea and Turkey, among others.

Even with all the uncertainties in the macroeconomic scenario especially in emerging countries, with an overall economy growing above 3 %, there will certainly be good opportunities for investing. The ongoing economic stimulus programmes, the recovery of economic growth in several countries, along with the expectations of rising corporate income could result in interesting investment scenarios.

Regarding low risk investments, Banco Carregosa believes that investment grade bonds (quality, sovereign, or of companies with sound balance sheets) are still costly, some even having a negative expected real return for longer maturities. The spread of high yield bonds, in turn, with a historical spread compared to sovereign bonds close to 400 p.b., is today very low and does not appear to properly offset credit risk.

Risk premium vis-à-vis bonds is still the best argument for investing in the equity market.

The use of several key metrics points to the PSI20 index trading at a substantial discount compared to the rest of Europe, and to the fact that the European market offers more opportunities than the American one. Exchange stimuli are now in place in Europe, with lower margins compared to the US and its history, while the US trade with historically high multiples (but not quite as extreme) and are increasing tax rates again (albeit slowly).

As long as there is no sign of recession in developed economies, one-off adjustments in equity markets could be a good opportunity for carefully purchasing assets below their fair value.

5.4. OVERVIEW OF THE ACTIVITY

Below is a brief overview of the activity in 2016, presented sequentially according to the Bank's internal organisation: business areas, key services, and support to business areas and services.

5.4.1. PRIVATE BANKING

The primary business area of Banco Carregosa is private banking, consisting mainly of assets under supervision. Private banking is the main «client» of the Advisory and Asset Management service, in line with the «*Global Wealth Management*» concept.

2016 was a particularly difficult year with a succession of political and economic events that influenced the behaviour of markets (especially early in the year), of central banks and of investors. The year was marked by high volatility in all asset classes, with correlations different than what is normal, limiting the decisions of investors, who during such times choose to maintain adequate levels of liquidity and postpone their investments.

The negative interest rates influenced the profitability of the more conservative portfolios and the real estate sector attracted investors, diverting resources from financial assets. It became therefore necessary to find investment solutions to meet the demand for real estate assets and alternative investments.

Against this backdrop, the Bank focused on client retention and loyalty, and on the portfolios under management rather than attracting new clients. Despite the adverse climate, portfolios under management grew by 8 % and assets under supervision by 6 %.

Given the difficulty in maximising the clients' financial assets, with interest rate instruments not performing as usual, new solutions had to be found for clients in the form of new services and solutions suited to their needs. This is where know-how in the establishment of investment funds comes into play as well as support to the issue of debenture loans.

Next year more staff will join this area and new competences will be sought to allow us to stand apart from the competition and bring us closer to our clients. Note the increasing activity in loan granting, that has been ancillary to private banking, allowing us to early respond to one-off liquidity needs of clients, leverage financial investments, or enable them to diversify their assets by purchasing investment properties.

5.4.2. AFFLUENT BANKING

The affluent client business took its first steps in 2016, materialising the strategy defined in late 2015.

The new strategic target of Banco Carregosa is to meet the needs of clients with high savings and investment potential. The purpose is to establish a close relation with its clients, capitalising on its know-how in private banking, and become the first choice for those who seek a savings investment bank.

With that in mind, the Bank set up a new department with specific features that absorbed part of the online banking service team and will soon have new client managers, a process which was started in 2016 and will continue in the coming year.

First, special attention was paid to team formation, as well as the definition of procedures, the design of the products on offer and the development of tools to monitor sales. We expect to see the first results as early as in the first quarter of 2017.

As regards products on offer, the Bank offers the online marketing of investment funds, using a search engine that renders results according to the preferences and choices of each client. Management models for the allocation of assets were also created, adjusted to the typical investment profiles, further to the usual term deposits, indexed deposits, and public offers of structured products. In addition to that, we continue to trade in various financial instruments (shares, bonds, derivatives) through e-platforms and/or trading rooms.

To consolidate this segment, the Bank developed a new corporate identity in 2016 and opened physical branches in Lisbon and Porto. The current space in Lisbon will undergo refurbishment works and a new space will be opened in Porto – a new building has already been purchased. Both projects will be completed in 2017 along with the creation of a new website. The digital channel will entirely support the Bank's contacts with the clients of this segment, adding to the close relationship between clients and managers.

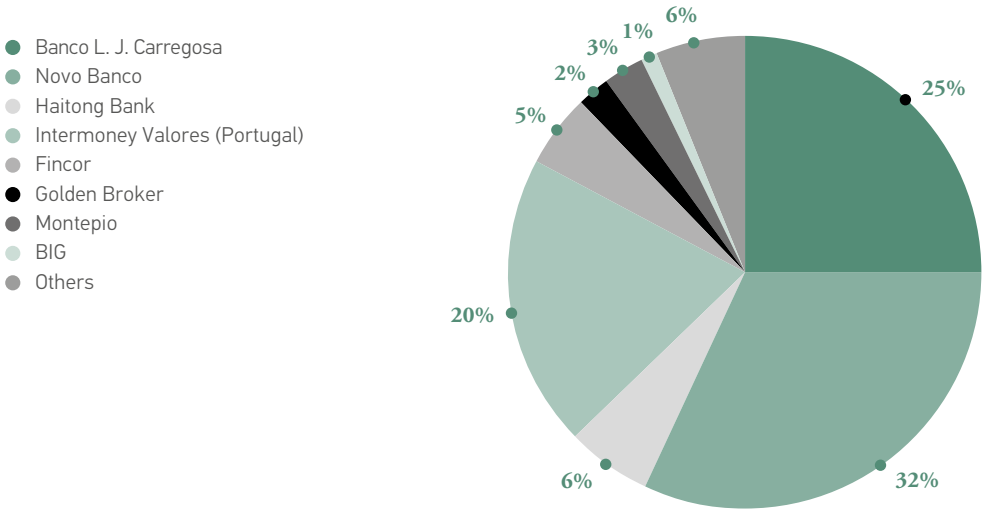
5.4.3. CORPORATE BUSINESS

Following the changes in its structure in 2015, corporate business began 2016 with a new organisation that ensured the creation of process and procedures required for carrying out the activity, and its current appropriate conditions suggest a sustainable growth in the coming years.

The sales team was strengthened with new staff for fixed income, and the rest of the team continued with their activity following the new procedures, which improved the team's relationship and operational profitability.

Service offer was extended to include foreign exchange and some stock markets were included, thus complementing the offer in terms of world coverage.

Fixed Income Market Share in 2016



The work carried out influenced traded volumes in the bond segment: the average monthly volume of 160 million EUR, observed until August, increased to 3.3 billion EUR between September and December. Due to this increase, Banco Carregosa ranked second in the CMVM ranking for this class of assets.

As the size and organisation of our team is adequate to support a significant increase in activity, we hope to continue to grow in 2017, increasing the traded volumes in the different asset classes, with the corresponding gains in market share.

5.4.4. CASH AND PORTFOLIO MANAGEMENT

The UK's decision to leave the European Union following the referendum in June and the election of President Trump in the US in November were the most significant events in 2016. The first one, still to be implemented, caused huge market turmoil as it was not expected, and is still affecting economic development in the EU countries. The second one, more at the end of the year, has raised some economic and political concerns around the world. The European markets were also influenced by the problems in the Italian banking sector, notably in Banco Monte dei Paschi, which was subject to various recapitalisation attempts.

The negative short term interest rates, aggravated by a further fall of the ECB's rates in March, continued to pressure the banks' cash availabilities as the cash surplus continued to be a problem, whereas before they were a low risk option. The balance between the cost of liquidity and the need to maintain it became an even greater challenge.

In Portugal, the government elected in 2015 raised some uncertainties which continued throughout the entire reporting period. This together with the issues in the Italian financial system and other internal problems, in particular the recapitalisation of CGD, made the 10-year public debt interest rates increase from 2.50 % to 3.76 %, extending the German spread to 40 bps.

The Bank continued to focus on loan granting as an alternative to investing in debt securities, which, in general, were still not an attractive risk/return option. On that matter, note the recovery in the cost of the Brazilian debt, which impacted significantly on the portfolio of financial assets held for sale and on own funds.

As regards relevant projects, the Bank successfully joined the T2S, the European securities settlement system, and the first Banco Carregosa credit cards were issued, launched in association with UNICRE.

5.4.5. MAIN SERVICES

Sourcing and Management

2016 was quite demanding for the Sourcing and Management Department as a result of the difficulties in the financial markets. The 8 % increase in assets under management fell below expectations. However, this area is still one in which the bank intends to invest strongly in the near future.

The Department continued to provide portfolio management solutions based on an asset allocation approach, to support the activity of the commercial areas, helping in the preparation of investment propositions, and to create new products to attract the investment opportunities found by the team.

Some of the activities include:

- The launch of five new asset allocation management models adjusted to another five investment objectives, expanding the offer of management products;

- The creation of a method to select investment funds, in order to define a series of portfolios defined by investment profile, to be made available in the foreign investment fund marketing service.

The effect of the uncertainty about the position of risk assets and the extraordinary low interest rates in Europe caused the performance of Sourcing to drop in 2016. Five indexed products were launched and one note was marketed in a public offering. Volume decreased by about 30 %.

In 2017, the Sourcing and Management Department will continue to improve the products offered and to show consistent results, which is the key factor of success in the long run.

E-trading and Markets

When GoBulling – Banco Carregosa Online was split, a new department was created ready to stimulate and monitor the e-trading platform services, based on the GoBulling Pro and Pro Go platforms made available in association with Saxo Bank for more than 15 years.

To maintain/strengthen its position in this segment, the Bank expects to launch the GoBulling Next platform (cash markets) and the GoBulling MT platform (*forex*, algorithms) in the first half of 2017.

Webinar training sessions were held more frequently and regularly to disclose information, which was quite helpful to investors in their decision-making. Along the same lines, we continued to provide short videos on the session's and week's highlights on a daily basis.

In the capital market segment and support to trading through platforms, the domestic market, which is most relevant to the activity, was marked by continued losses and ended with the worst performance among its European peers.

INDEX	%YTD 2016	% CHANGES IN VOLUME	%YTD 2015	% CHANGES IN VOLUME
PSI20	-11.93%	-21.50%	+10.71%	-25.88%
CAC40	+4.86%	-18.20%	+8.53	+22.99%
EuroStoxx50	+0.70%	-21.90%	+3.85%	+15.62%
S&P500	+9.54%	+1.50%	-0.73%	+16.36%
IBEX35	-2.01%	-31.30%	-7.15%	+5.81%
DAX30	+6.87%	-18.20%	+9.56%	+22.81%

As for traded volumes, in particular the receipt of orders, the domestic market confirmed the overall declining trend recorded over recent years, both in the equity market, with 18.6 billion EUR in traded volumes (29.7 % than in 2015), and in the online derivatives market (72 billion EUR, down 21.4 % year-on-year).

Trade volumes in 2016 also dropped compared to 2015, namely 3.9 % and 27.7 %, respectively, for order receipts in shares and derivatives.

The online derivatives market share went down half a percentage point, from 9% to 8.5%. On the other hand, in 2016 the Bank recorded a market share gain in terms of equity order receipts, from 2.8% to 3.9%.

In terms of the bond market, as already mentioned, the gains in market share in 2016 were quite significant, even taking the lead in terms of traded volumes in the last months of the year.

Banco Carregosa joined the BATS and CHI-X as a member to allow access to the European platforms with high share-traded values.

Clearing, Settlement and Custody

After a period of analysis and negotiations begun in 2015, the change from custodian and clearing member to international markets was concluded in June 2016. With this change the Bank aims to reach a larger number of markets in a more direct and specialised way.

Depositary of Investment Funds

By the end of 2015, Banco Carregosa provided depositary services to four real estate investment funds and five venture capital funds. The total net value of these funds amounted to 93.5 million EUR, of which 63.5 million EUR relate to real estate investment funds and 30 million EUR to venture capital funds. As a result of a new contract that the bank has since concluded, a further real estate fund will bring an additional 65 million EUR in the first quarter of 2017.

Clearing and Settlement in the Iberian Electricity Market (MIBEL):

Over the coming decades, the energy markets will need a tremendous amount of investment and funding, taking into account, in particular, the «decarbonisation» of the economy, despite the signs given off by the Trump administration.

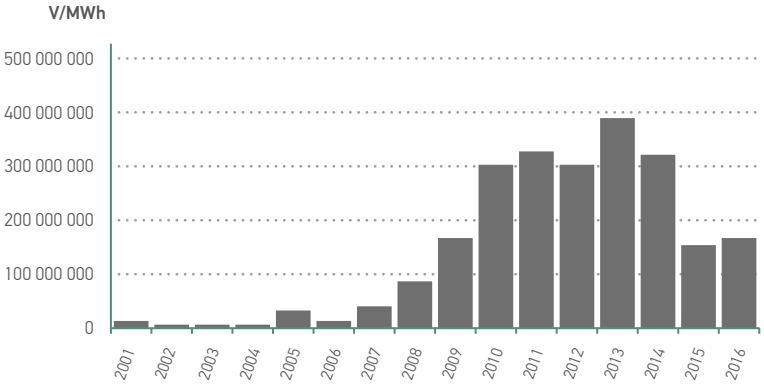
Aware of the crucial role of energy on the political and economic agenda, reflected in the impact that oil prices have had on world economy, and making the best use of its ability to embody various market realities, Banco Carregosa began to work in 2013 as a clearing member of the Iberian Electricity Derivatives Market.

In 2016, this market was characterised by a sharp drop in prices, with the annual benchmark contract always well below 45 €/MWh, as shown in the figure below.

Annual Contract Price 2016 (€MWh)

The Iberian Electricity Derivatives Market saw a slight improvement in traded volumes, following the unprecedented drop in 2015.

Iberian Electricity Derivatives Market (traded volume MWh)



As far as developments in the OMIP market are concerned, eight more trading members were admitted.

The profile of clients and trading members served remained the same. Note the admission of five new national members, reversing the previous bias for non-resident agents.

Moreover, in 2016 the volumes traded by the Bank increased by about 20 % compared to the previous year, largely due to the admission of new clients.

5.4.6. INTERNAL CONTROL SYSTEM

The Internal Control System (ICS) plays a key role in Banco Carregosa, aiming to enforce the legal obligations and duties to which the Bank is subject, and to appropriately manage the activity-related risks, thus ensuring its stability and continuity.

The Bank's ICS is based on three units: Risk, Compliance, and Internal Audit, which are committed to promoting an internal control environment and culture with high ethical and integrity standards.

The **Risk** Department ensures the implementation of the risk management system, assessing the type and number of all the risks for which the Bank is accountable. It is also responsible for preparing and presenting periodical reports to keep the competent governing bodies and regulatory authorities informed about risk management issues.

Compliance monitors the compliance of legal obligations and duties to which the Bank is subject. To that end, it regularly monitors the rules and regulations being published, disseminating them to the relevant departments and collaborating in the definition and implementation of procedures to be adopted. In today's context of increasing financial regulation, shown below in detail, this unit has also helped define the training programme for employees.

Regarding the prevention of money laundering and terrorist funding, Compliance has a critical role in that it is responsible for defining the mechanisms to control and detect suspicious transactions.

Internal Audit plays an essential role in monitoring. Considering the risks to which the banking activity is exposed, Internal Audit defines a monitoring action plan that enables all activities, processes and systems to be analysed, in order to assess the adequacy of the ICS, issuing, where appropriate, recommendations based on the findings of those analyses. The main weaknesses found and compliance with the recommendations made is reported to the competent governing bodies.

Increasing regulation has become more and more relevant in the financial sector, with cross-cutting impacts on its organisations, affecting, among others, the relationship between the Bank and its clients and the information systems underlying the rendering of banking services. Because of the functions of the units that make up Internal Control, changes in regulation have substantially impacted on the activity of departments.

In 2016, we highlight the following legal instruments:

- Foreign Account Tax Compliance Act – FATCA – approved on 18 March 2010, being wholly part of the Hiring Incentives to Restore Employment Act, came into force on 1 July 2014. The primary goal of the FATCA is the prevention of tax evasion of US taxpayers not exempt from tax on income earned outside the US. In 2016, following the approval of regulations on the implementation of the agreement, and once the tax authorities provided the financial brokers with the means to operationalise reporting, the deadline for the first reporting was set for 10 January 2017.

- Common Reporting Standard – CRS – Global initiative led by the OECD to increase fiscal transparency, very much like the FATCA but more comprehensive, requiring multiple annual reports of accounts of residents in the signatory countries. The CRS came into force on 1 January 2016. Like FATCA, this legislation amends the requirements for opening an account, and introduces the need to strengthen the control and compliance procedures and new reporting requirements, which should start in 2017.

5.4.7. HUMAN RESOURCES

The main objective of talent management is to attract, develop and retain the best talent in the organisation, by creating the right environment where employees feel motivated to explore all their potential, with a positive and constructive attitude, making them want to grow with the organisation.

The following are the objectives of the Human Resources Department:

- Attract and select the best talent in the financial sector labour market;
- Develop the potential of existing employees;
- Retain the best talents in the organisation.

The Human Resource policy of Banco Carregosa has, over the years, been based on the prudent and sustained growth of its staff, but also on the development, valuation and diversification of the existing skills in the organisations.

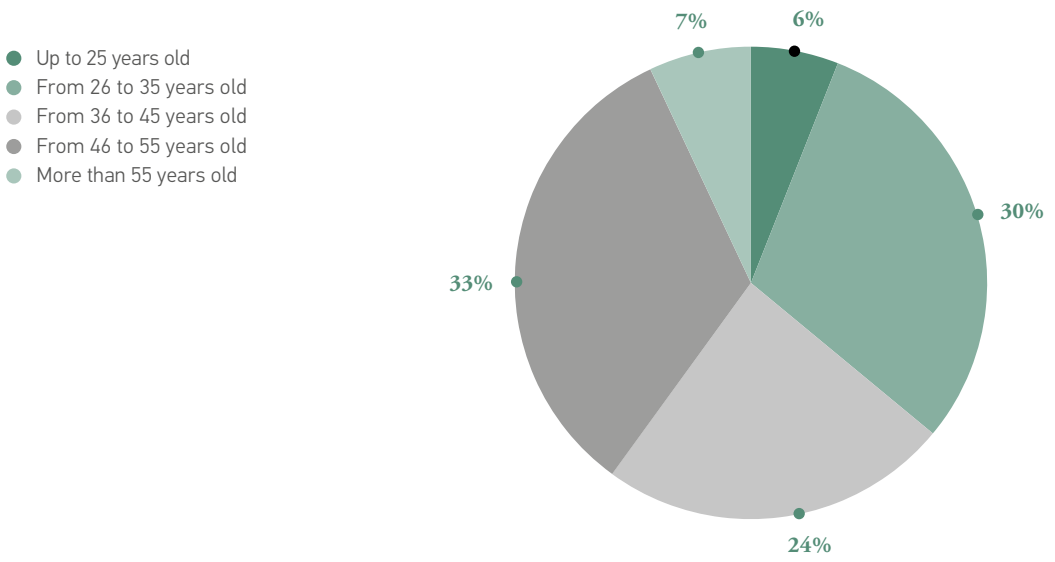
The strong performance in 2015 in terms of return on investment in staff training led the Bank to continue the training offer in 2016 and to diversify the areas of development. The comprehensive and most relevant training targeted at sales teams developed in association with Católica Porto Business School is worthy of note.

A summer internship programme was organised for the second year in a row. Its purpose is to position Banco Carregosa as an employer with the most important faculties of Economics and Management in the country, and to give students a relevant on-the-job training experience.

STAFFING DEVELOPMENT

PERIOD	DEC. 2016	DEC. 2015
Head-office	68	62
Lisbon	16	15
Spain (satellite office)	0	2
Total	84	79

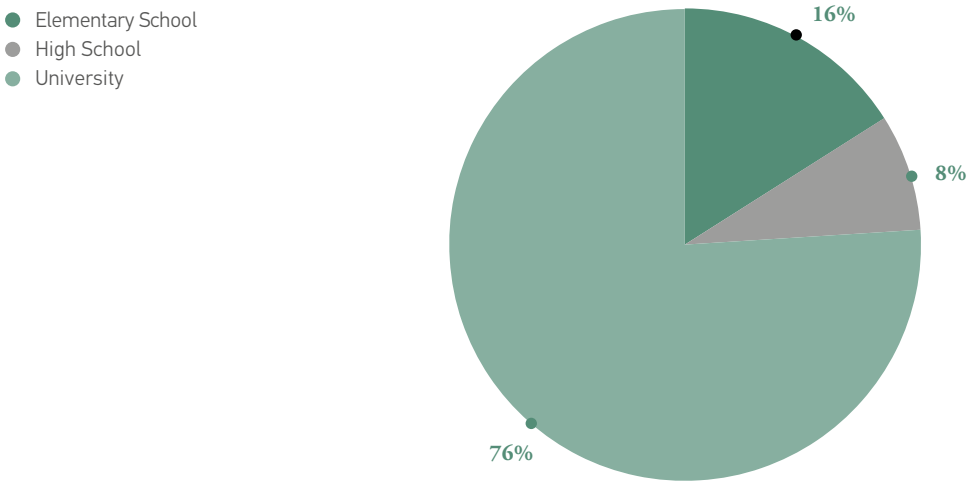
Distribution by Age Bracket



The number of staff maintained the upward trend seen since 2013. At the end of 2016, the Bank had 84 employees, an increase that reflects the structure of the sales team, in particular the sales network targeted at the affluent segment and the expansion of the external sales network. A Business and System Development team was also formed, consisting of staff with various skills and specialisations, who are responsible for assessing, planning and implementing projects, and for sharing knowledge (training, documentation, functional analysis, ...).

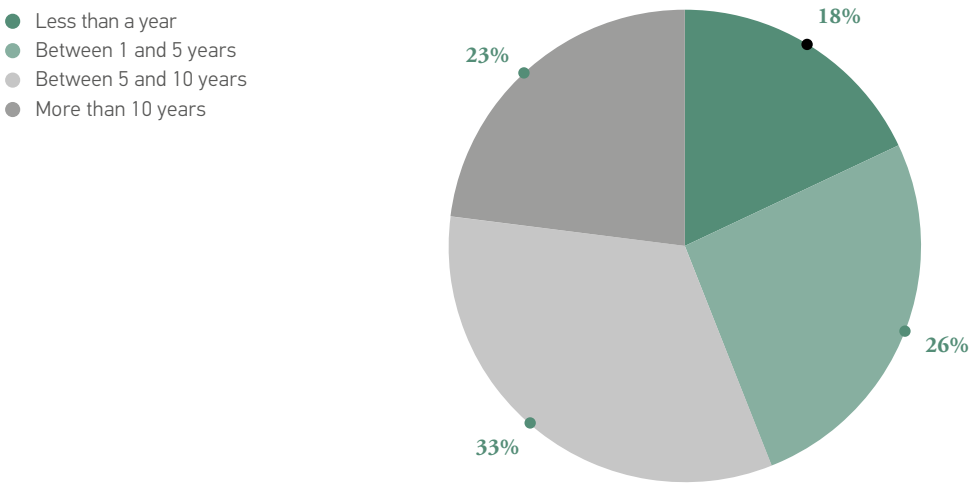
The employees of Banco Carregosa have great potential, skills suited to their functions, experience in the banking sector, and above average qualifications (76 % of employees have higher education).

Distribution by Qualifications

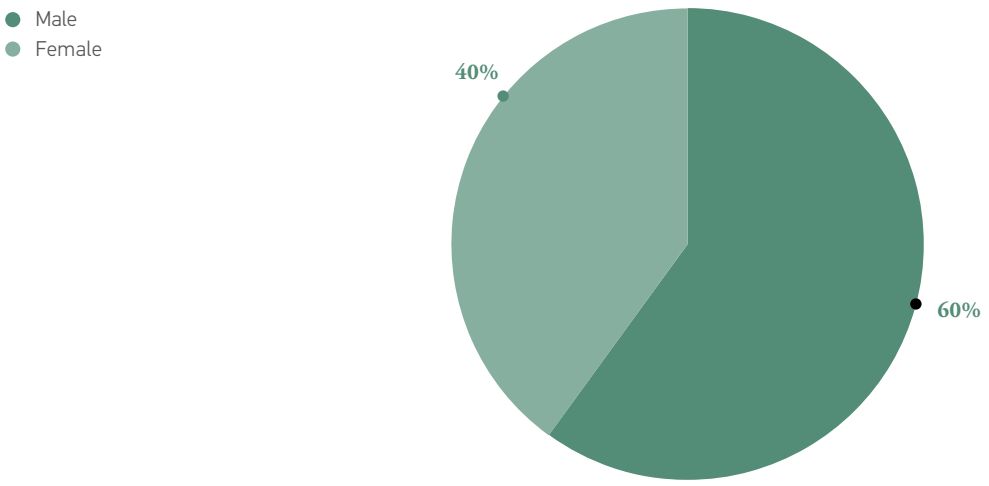


The distribution of employees by gender has remained stable, and the average age of employees is 41.

Distribution by Seniority



Distribution by Gender



In 2016, Banco Carregosa sought to define a model of functions that characterises the functional organisation based on competence profile and maximises performance excellence, in line with its strategy, with the ultimate aim of:

- Aligning the Bank's strategy with its human resource management practices;
- Ensuring the sustained development of Banco Carregosa;
- Clarifying responsibilities and competences.

5.5. MEDIA AND SOCIAL RESPONSIBILITY

Brands and Media

The brand communication policy at Banco Carregosa was built along the same lines as its corporate stance: discreet, close and customised to its clients, favouring the actions that have an impact on the common good.

This is the spirit underlying the sponsorship and support policy. More than conveying the brand, the Bank aims to encourage initiatives that really make a difference in the lives of people, be it in education, health, sports, or in the preservation of historical and cultural heritage.

Nevertheless, corporate communication involves other dimensions: communication with clients and with the general public.

When communicating with its clients, in addition to entertainment and social events, and the organisation of cultural events (concerts, exhibitions, shows) the Bank is always attentive to information that may be useful to investors.

Throughout 2016 the Bank offered many services designed to disclose the best information to its clients. Banco Carregosa provided to its private banking clients access to exclusive newsletters with analyses carried out by the Bank's asset management team on the various investment options. Clients also had access to theme seminars held in Lisbon and in Porto.

For clients who prefer online contacts via chat, this is available on the trading platform, operating daily betwen 8am and 9pm. During these hours, clients can contact the Lisbon and Porto trading room brokers by e-mail or telephone. In addition, a daily e-newsletter is sent to clients disclosing the essencial information about the happenings in the main markets, as well as daily reports prepared by independent experts. Through the online trading platform clients can access audiovisual contents, such as, for example, «Session Highlights».

Our theme webinars and in-presence workshops, of an essentially formative nature, were very successful. These initiatives mainly involve three aspects:

- Information and training on platforms and the instruments traded therein;
- Analysis and information about current aspects that impact on market development;
- Information about trading and investment strategies, including fundamental analyses and technical tools, among others.

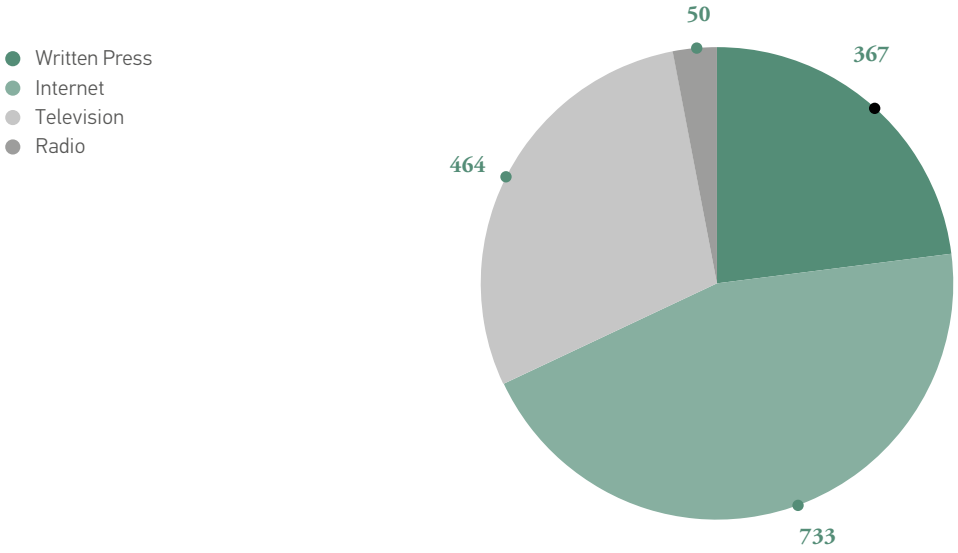
Communication with the Media

Banco Carregosa and/or GoBulling were cited in 1 614 news articles published in 88 Portuguese media in 2016.

Although a large number of news in foreign media mentioned Banco Carregosa and GoBulling, (in particular in Brazil, USA, Canada, Spain, France, United Kingdom, Portuguese--speaking African countries, Australia and China), no quantitative data is given here as the monitoring of such incidences was not made with the same coverage and detail as in the case of Portuguese media.

Of the 1 614 news articles published in Portugal, 45% were published online, 32% in audiovisual media, and 23% in the written press.

Distribution of the 1614 News per Type of News Broadcasting – 2016



Source: Manchete, Media Report – 2016

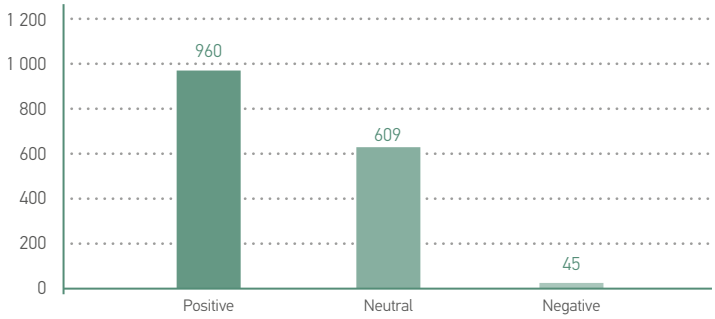
The television channel with the most news items broadcasted in 2016 citing Banco Carregosa/GoBulling was RTP3, with 166 news items aired. In fact, the television was responsible for 29% of the total news, therefore it was responsible for 61% of the total de *Advertising Value Equivalent* (AVE[1]).

As regards the media class (generalist or specialised), the generalist media were responsible for publishing 75% of the total news in which Banco Carregosa or GoBulling were cited. Given the weight of television news, the generalist media stood out the most as regards AVE (86%).

In a qualitative analysis, the number of positive or neutral news represented 97% of all the news.

1 AVE (*Value Equivalent*): correspond to the equivalent *Adverting* space taken up in written advertising, at list price. The calculation of the AVE measures the space and relevance taken up by the brand in the news article, crossing it with the value of the advertising space of the publication.

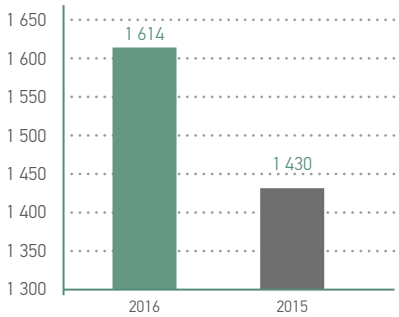
Qualitative Analysis of the News



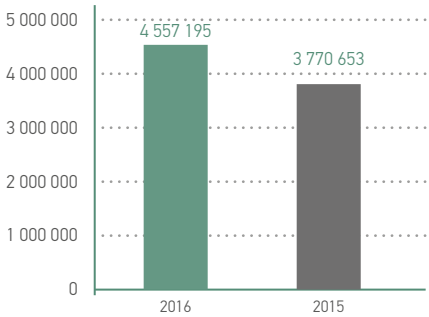
Source: Manchete, Media Report – 2016

In the year-on-year comparison, the number of news items in 2016 was slighter higher than the total news in 2015. In terms of AVE, figures for 2016 are also higher than those in 2015.

Number of News 2016 vs. 2015



AVE 2016 vs. AVE 2015



Source: Manchete, Media Report – 2016

In 2015, a total of 9 028 614 people came across news referring to Banco Carregosa and GoBulling brands (*Opportunities to See* – OTS[2]) In 2016, this number increased to 3 331 237 752. Nevertheless, we chose to not compare these figures directly, as the calculation method changes: the 2016 data, unlike before, included the estimates for online news, which largely explains this exponential increase.

2 OTS (*Opportunities to See*): the number of chances a reader/viewer will get to see an advert or a news clip and be influenced by the information. The number is found through the number of written press circulation (APCT data) and the size of the news. The headlines cross the visibility criteria of the information with its circulation in order to assess its higher or lower ability to make an impact.

Social Responsibility

Banco Carregosa is aware of the problems that affect the community in which it operates It has consistently made an effort to meet the needs in the field of health, sports, research and culture, locally and countrywide.

In 2016, the area of **Health** and support to patients continued to be one of the priority areas of social responsibility, as shown below:

- Creation of the Banco Carregosa Award /Northern Branch of the Portuguese Medical Association (SRNOM), to reward clinical research in Portugal;

- The 1st edition of the «Prémio Banco Carregosa e a Nortemédico – Seção Regional do Norte da Ordem dos Médicos», to reward clinical research projects in Portugal, awarded the prize to clinical research on childhood obesity and its effects on the renal function, by Liane Costa, a junior paediatrician at the Centro Hospitalar do Porto and member of the Research Unit of the Public Health Institute of the University of Porto. The two honourable mentions rewarded clinical research on the preservation of fertility in prepubertal cancer patients (Mário Sousa, doctor and professor at the Institute of Biomedical Sciences Abel Salazar, of the University of Porto) and on gastroenterology (Eduardo Pinto, specialty physician assistant at São João Hospital and PhD student of the University of Porto).

- Present at «Tea at the Yeatman», a fundraising event organised by Mama Help for the «Support Centre for Breast Cancer Patients»;

- Banco Carregosa also supports medical research projects presented at the «First health Conferences in Trás os Montes e Alto Douro», a project jointly organised by «Terra Quente Hospital» and ULS, CHTMAD, IPB and UTAD;

- The Bank's staff participated in the «Wings for Life» project, known across the world for its atypical and challenging format – «the only race where the finish line catches you» – and for its charitable nature – 100 % of the registration fee is used in the research for the cure of spinal cord injuries.

Sponsorship

Banco Carregosa has supported several **Sports** initiatives, including rugby, golf, football, shooting tournaments, tennis and horse riding.

The attention that Banco Carregosa pays to **Culture** goes way back a long way, having supported various arts and authors, contributing also to the dissemination of culture to its clients. In 2016, the range of projects supported by the Bank was again much diversified:

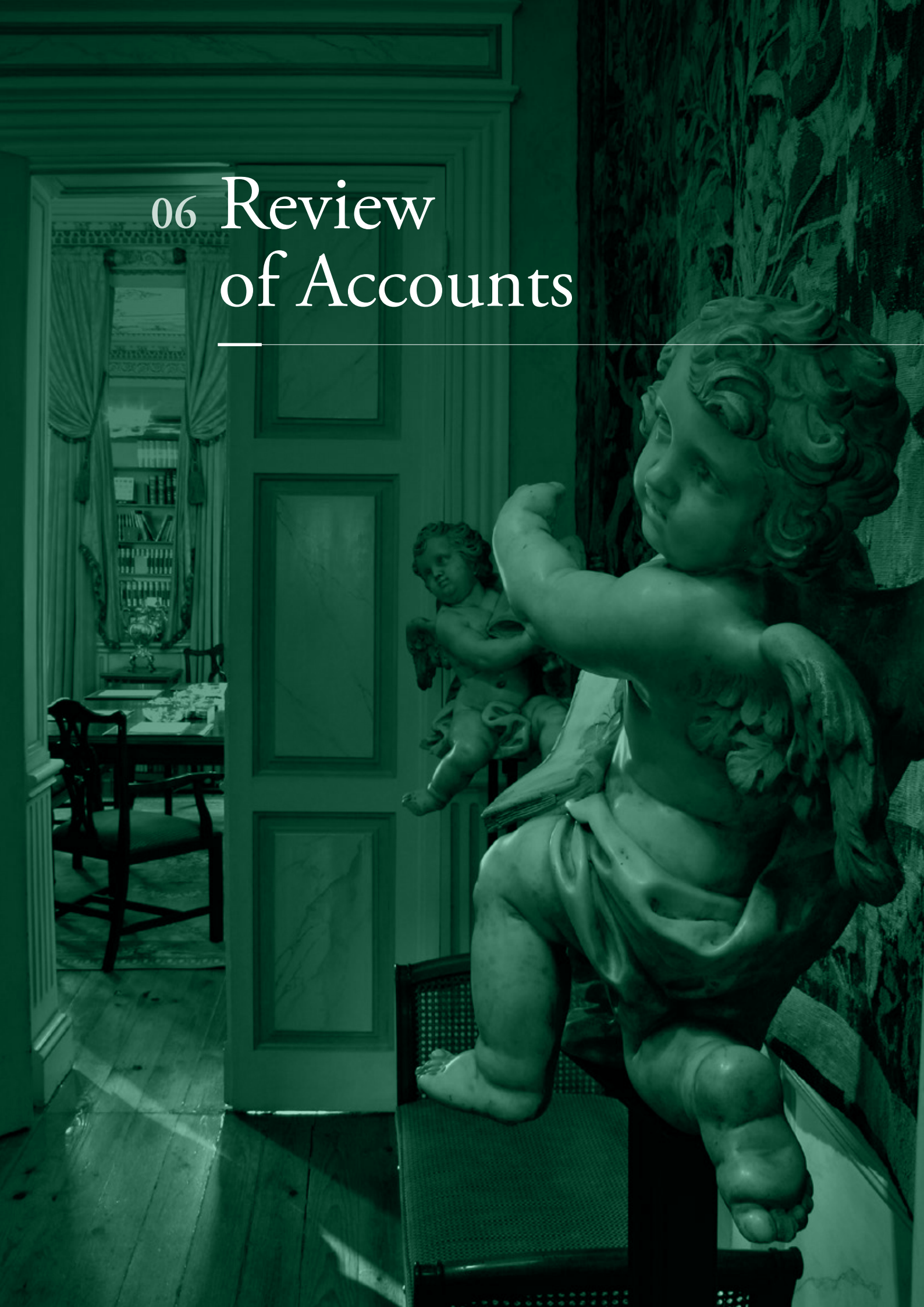
- Support to the Sala 117 project – project for the dissemination of contemporary art, that seeks to find and select new artists, held simultaneously with other shows involving famous artists, especially Portuguese artists from the 20th and 21st centuries, in particular in 2016, José de Guimarães, Júlio Resende (jointly with the Júlio Resende Foundation – Lugar do Desenho) and Armanda Passos. Three renowned plastic art artists, who have been awarded several prizes and distinctions and are present in several national and international art collections;

- The Bank promoted a classical music concert at the Grand Hall of Palácio da Bolsa in Porto. The recital «Winterreise» – Winter Journey by Franz Schubert, interpreted by the renowned baritone Wolfgang Holzmair and Philippe Cassard on the piano, is the most representative piece of music of the Lied style;

- Participation in the concert «No Tenors Allowed» with Thomas Hampson and Luca Pisaroni, a show promoted by Calouste Gulbenkian Foundation in the Grand Auditorium;

- Sponsorship of the «Teresa Salgueiro 2016/2017» tour, who will be performing in various events throughout the year.

06 Review of Accounts



6.1. INDIVIDUAL ACCOUNTS

2016 ended with net negative results of **351 025 EUR** which, compared to the positive **817 417 EUR** in 2015 represents a decrease of 142.94 %.

The results under analysis reflect a number of year-on-year changes which, given their importance, are shown below in detail:

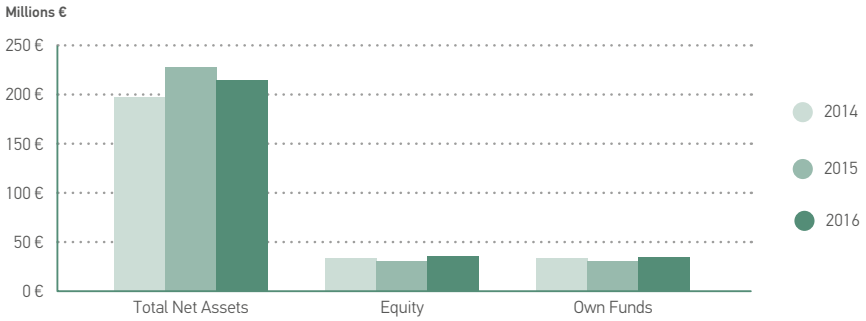
Financial leeway fell 8.98 % in line with the similar variation of net fees (-29.95 %). Assets and liabilities evaluated at fair value through profit or loss and financial assets available for sale, as a whole, also recorded a negative variation of 213.03 %. Currency revaluation reversed the trend seen in 2015, recording a year-on-year rate of -101.57 %. Structure costs, as a whole, decreased by 4.83 %. Value adjustments associated with loans to clients and amounts receivable from other debtors together with the impairment of other financial assets had an overall negative impact of 400.37 %.

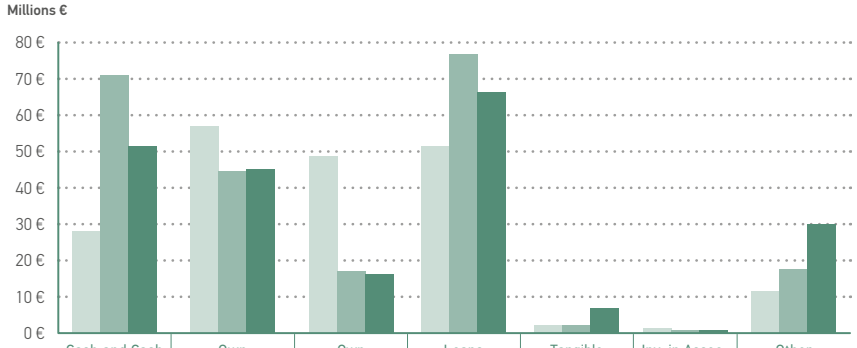
The main performance indicators are shown in the table **«Summary of Indicators»**, which shows the major developments of the Bank in 2016.

Compared with 2015, Net Assets fell 5.57 % to **214.8 million EUR** as a result of the decrease in liquid assets in central banks and other credit institutions (-27.67 %), in deposits in credit institutions (-5.88 %), loans to clients (-13.97 %), partly offset by the Bank's securities portfolio, which remained relatively stable (+1.97 %), as a result of the investment in property, plant and equipment (+274.26 %) and other assets (+80,42 %). At the same time, **Equity** increased significantly, amounting now to **34.5 million EUR**, as a result of the positive change in the investment portfolio. **Own Funds** have followed this trend, standing now at **34.3 million EUR** in 2016.

	2016	VAR %	2015	VAR %	2014 (*)
Total Net Assets	214 796 037 €	-5.88 %	227 672 920 €	14.90 %	197 979 094 €
Equity	34 558 195 €	13.19 %	30 683 410 €	-10.10 %	33 961 995 €
Own Funds	34 284 389 €	8.27 %	31 706 753 €	-6.50 %	33 913 021 €

Composition of Assets

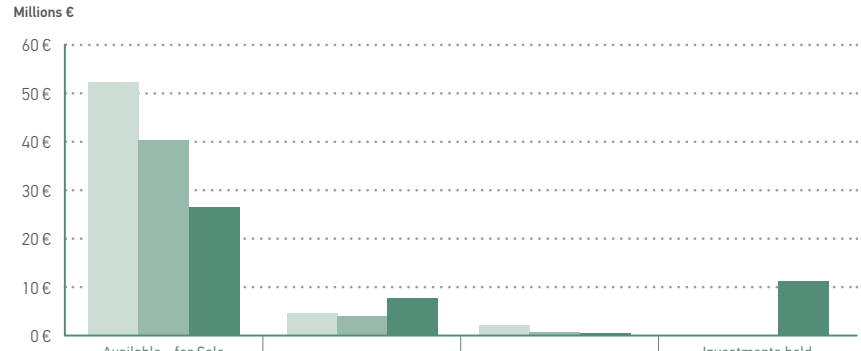




	Cash and Cash Equivalents	Own Portfolio	Own Deposits	Loans	Tangible Assets	Inv in Assoc. Companies	Other Assets
2014	28 015 770 €	56 837 813 €	48 568 789 €	51 437 542 €	1 869 617 €	314 378 €	11 602 433 €
2015	71 032 813 €	44 191 393 €	17 004 583 €	76 845 037 €	1 985 471 €	25 000 €	17 140 615 €
2016	51 375 562 €	45 194 813 €	16 004 888 €	66 113 462 €	6 825 392 €	25 000 €	29 256 920 €

Evolution of Securities Portfolio

The Bank's securities portfolio (investments, trading, and securities held to maturity) alone accounts for 20.98 % of net assets, compared to 19.36 % in 2015. In absolute and aggregated values, for each of the years, it represented 45 million EUR and 44 million EUR, respectively (excluding liabilities held for trading).

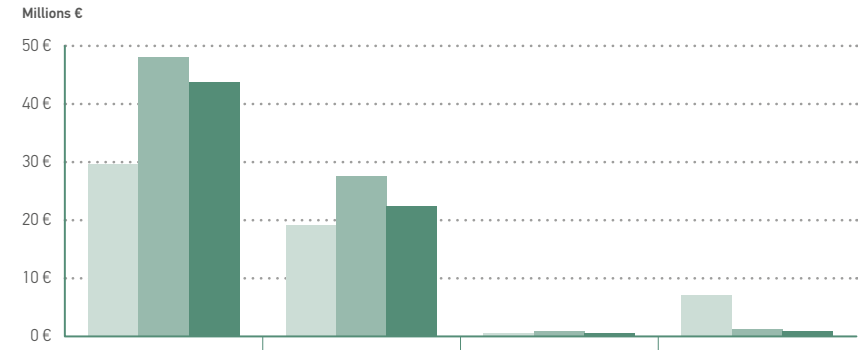


	Available - for Sale Investments	Trading - Assets	Trading - Liabilities	Investments held until Maturity
2014	52 032 929 €	4 804 337 €	1 959 205 €	0 €
2015	40 331 185 €	3 858 017 €	470 404 €	0 €
2016	26 411 328 €	7 637 076 €	39 256 €	11 011 818 €

Loan Portfolio Development

The loan portfolio fell by about 12.7 %, in part due to the early amortisation of two large transactions. Despite the drop in the volume of loans granted in 2016, this activity is still important to the Bank. A significant increase is estimated for 2017, in particular as a result of the boost in loan granting for the acquisition of transferable securities.

This portfolio, which has particular characteristics and is for specific purposes, represents the contracts validated by a notary, most of which have to be registered in the land register, even though the Bank does not grant consumer credit or housing credit. Moreover, the Bank holds, in most operations, personal guarantees from debtors or guarantors.



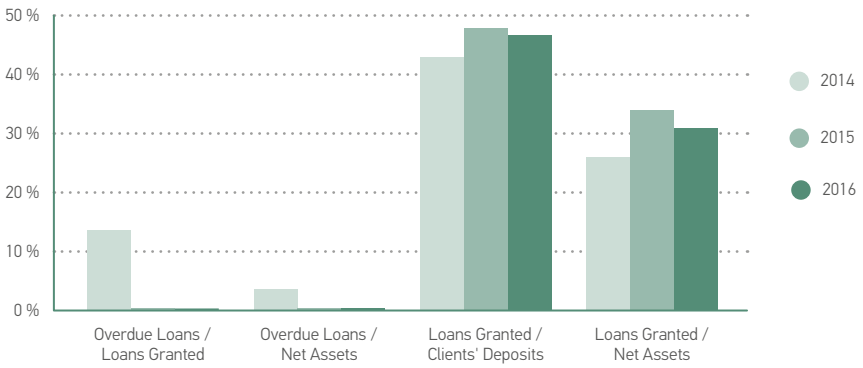
	Current Accounts	Loans	Authorized Overdrafts	Overdue Loans
2014	29 871 709 €	19 202 790 €	148 552 €	6 885 289 €
2015	48 107 065 €	27 831 222 €	299 140 €	612 208 €
2016	44 147 769 €	22 477 530 €	182 968 €	273 535 €

	31/12/2016		31/12/2015	
LOAN CONTRACTS	NO. OF CONTRACTS	OUTSTANDING LOANS	NO. OF CONTRACTS	OUTSTANDING LOANS
Loans	28	22 477 530 €	26	27 831 222 €
Acquisition of Securities Real Estate	2	2 600 000 €	2	2 050 000 €
Cash-Flow Support	23	18 992 115 €	22	25 696 135 €
Miscellaneous Investments	3	885 415 €	2	85 068 €
Escrow Accounts	35	44 147 769 €	40	48 107 065 €
Acquisition of Securities Real Estate	6	3 864 234 €	11	9 379 764 €
Cash-Flow Support	18	25 666 254 €	23	29 339 004 €
Miscellaneous Investments	11	14 617 281 €	6	9 388 297 €
Authorised Bank Overdrafts	2	182 968 €	2	299 140 €
TOTAL	**65**	**66 808 267 €**	**68**	**76 237 427 €**

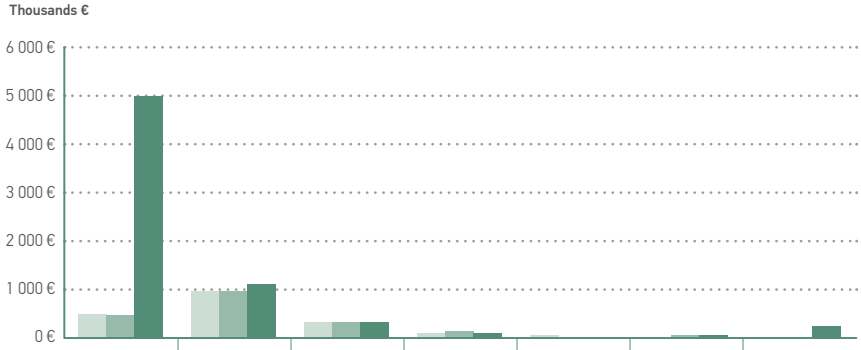
Real estate collateral is reviewed periodically by accredited and independent technical evaluators, based on prudential criteria that reflect the evolution of the real estate markets, the nature of the properties, their potential for use, and liquidity. Other guarantees consist of pledges of financial investment portfolios. New loans were mostly granted to clients with a low risk profile. As a result of this policy, there is no evidence of impairment in the Bank's loan portfolios, whether regular or overdue, the latter being quite incipient.

The Bank has not changed its loan granting policy, both in terms of type, purpose and associated guarantees. Overdue loans and their provisioning remains at the same level as in the previous year, even showing a slight improvement.

	2016	2015	2014	2013
Overdue Loans / Loans Granted	0.41 %	0.80 %	13.39 %	0.32 %
Overdue Loans / Net Assets	0.13 %	0.27 %	3.47 %	0.05 %
Loans Granted / Clients' Deposits	46.40 %	47.65 %	42.74 %	41.06 %
Loans Granted / Net Assets	30.78 %	33.67 %	25.89 %	17.06 %



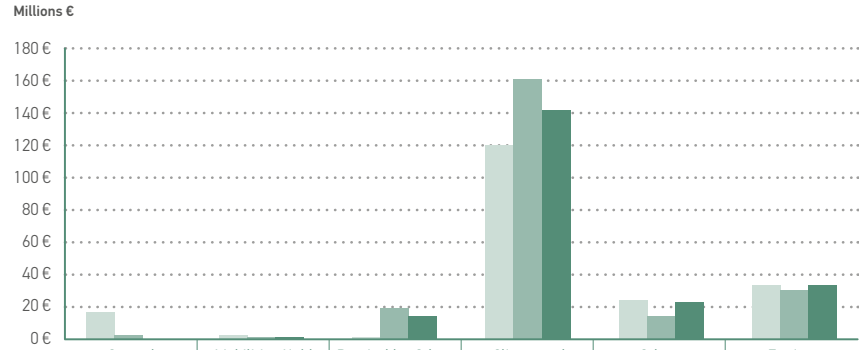
Fixed Assets (Property, Land and Equipment and Intangible Assets) – Net Value



	Tangible Assets Buildings	Tangible Assets Equipment	Tangible Assets Finance Lease Assets	Intangible Assets Software	Intangible Assets Assets in Progress	Other Intangible Assets	Tangible Assets in Progress
2014	488 508 €	951 738 €	343 692 €	96 248 €	26 164 €	0 €	0 €
2015	480 320 €	963 239 €	338 163 €	162 223 €	0 €	41 527 €	0 €
2016	5 019 730 €	1 092 040 €	332 634 €	105 519 €	0 €	51 516 €	223 953 €

The net fixed assets have registered a year-on-year growth rate of 243.8 %, most of which result from investments, in particular the acquisition of 6 new buildings, four of which were previously occupied by the Bank.

Composition of Liability and Equity



	Central Banks	Liabilities Held for Trading	Receivables Other Credit Institutions	Clients and Other Loans	Other Liabilities	Equity
2014	17 229 154 €	1 959 205 €	692 621 €	120 336 085 €	24 506 595 €	33 961 995 €
2015	2 013 878 €	470 404 €	19 682 386 €	161 267 872 €	14 259 443 €	30 530 931 €
2016	0 €	39 256 €	14 800 320 €	142 478 359 €	22 919 907 €	34 558 195 €

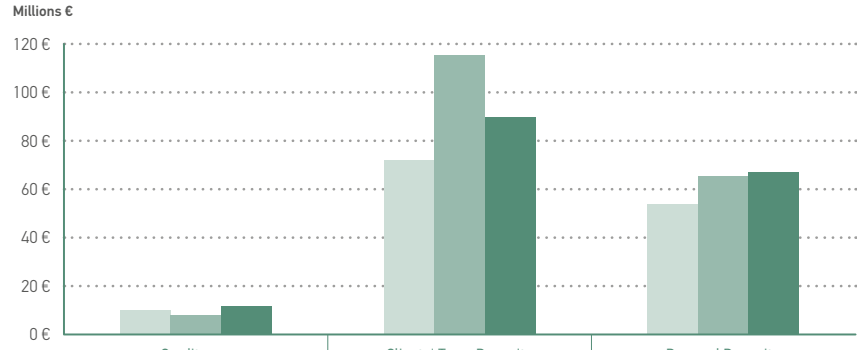
Liabilities have registered an overall decrease of 8.83 % compared to the 197.7 million EUR in 2015, deposits from central banks are practically nil, deposits from other credit institutions dropped 24.8 %, and clients' deposits and other loans dropped 11.7 %, in part offset by the increase of 72.4 % in other liabilities.

Regarding **Net Worth**, equity showed a positive development of 4.03 million EUR as a direct result of the valuation of the investment portfolio recorded in reserves, which in itself justifies a positive variation of 4.4 million EUR.

Evolution of Clients' Deposits

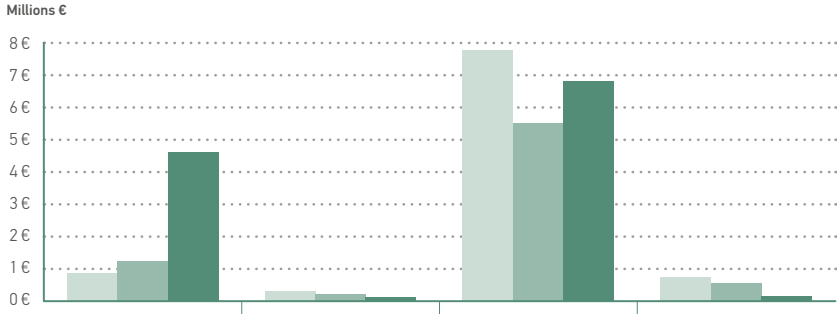
As shown in the charts below, the overall result of **Clients' Deposits** fell by 10.97 %, but the demand deposits remained at a level equal to that of 2015. Term deposits of corporate clients fell by 22.51 %, as they preferred to apply their funds in other applications in part due to the sharp drop in interest rates. On the other hand, funds invested in management models increased 23.93 % and so did those associated with transactions in derivatives (+56 %).

Clients' Deposit



	Creditors	Clients' Term Deposits	Demand Deposits
2014	9 684 253 €	71 725 464 €	53 861 810 €
2015	7 523 347 €	115 187 909 €	65 194 116 €
2016	11 735 776 €	89 260 572 €	66 292 977 €

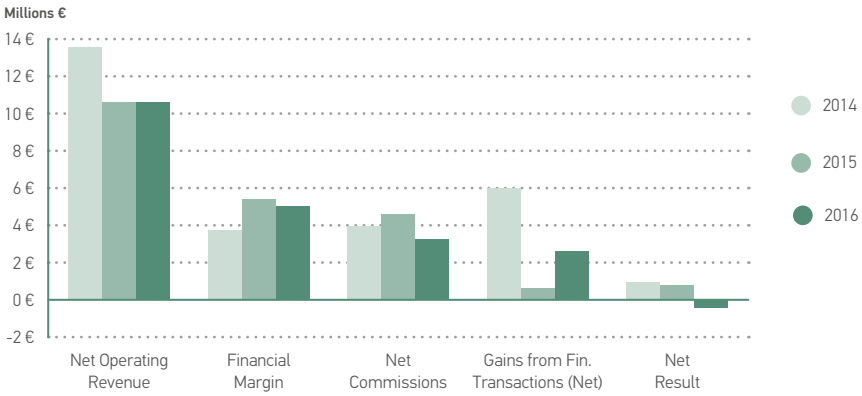
Creditors by Type (Break-Down)



	Operations on Derivatives	GoBullingPro	Managed Accounts	Sight Deposit Accounts
2014	876 748 €	323 757 €	7 760 890 €	722 858 €
2015	1 211 854 €	226 502 €	5 515 603 €	569 389 €
2016	4 631 817 €	91 871 €	6 835 496 €	176 592 €

	2016	VAR %	2015	VAR %	2014
Net Operating Revenue	10 403 234 €	-2.20 %	10 637 661 €	-22 %	13 673 703 €
Financial Margin	4 981 821 €	-8.98 %	5 473 493 €	47 %	3 727 904 €
Net Fees	3 290 785 €	-29.95 %	4 697 611 €	17 %	4 009 905 €
Gains From Financial Transactions (Net)	2 741 014 €	2.323.42 %	635 414 €	-90 %	6 074 037 €
Net Result	-351 025 €	-142.94 %	817 417 €	-18 %	996 047 €

Net Operating Revenue amounted to 10.4 million EUR, which is slightly lower than in 2015 (-2.2 %). This decrease is owed to a drop of 8.98 % in financial margin, accompanied by a decrease in net fees (-29.95 %), largely offset by the net results of financial transactions, which reached 1.5 million EUR year-on-year, thus achieving a negative **Net Result** in 2016 of 351 thousand EUR.

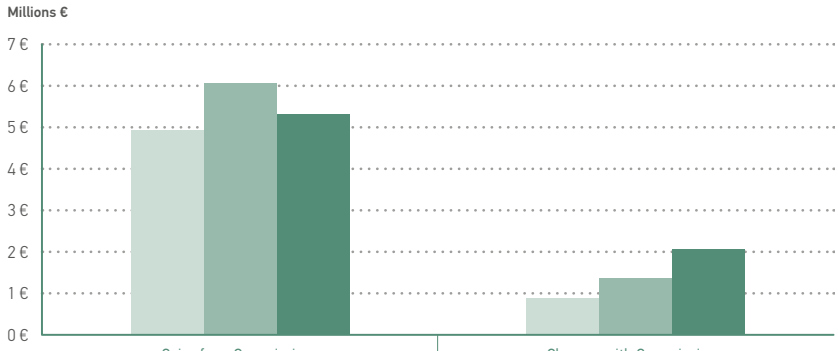


A drop of 29.95 % was recorded for **Net Fees/Commissions**, as the result of the 11.61 % in commissions received and an increase of 51.35 % in commissions paid. Note that for revenues, the difference between the two periods under analysis represents a decrease of 704 million EUR and an increase in commissions paid of 702 million EUR. The exceptional factors seen in 2015 external to the current activity were not repeated in 2016, thus contributing to the negative variation in this banking product component.

In net terms, platform trading fees dropped by 17.81 %, that is, 180.9 million EUR, and fees related to other services, in particular consultancy, dropped by 75.42 %, alone representing a reduction of 1.4 million EUR, explained by the exceptional situation in 2015. In terms of net fees, note also the slightly positive variations in fees charged on derivatives and bank transfers, which all together represented 65 million EUR, as well as on custody fees, which increased +66.94 % to close to 68 million EUR.

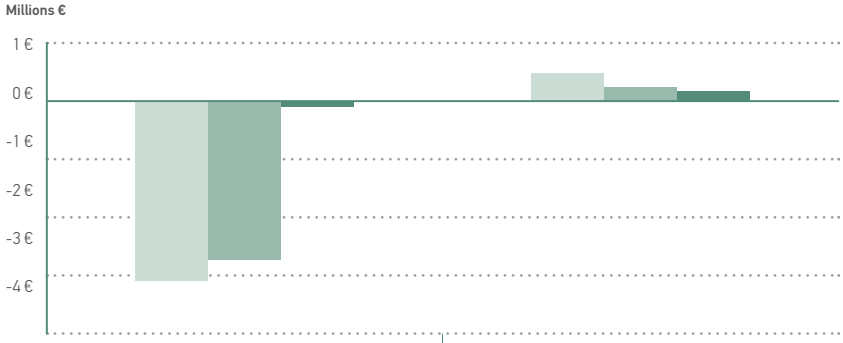
Individually, portfolio management fees received dropped 9.97 %, *i.e.,* a reduction of 100 million EUR. Event processing fees followed the same negative trend, dropping 38.05 %, *i.e.,* -42 million EUR, and OTC trading decreased 48.54 %, *i.e.,* -81 million EUR. In share trading, the performance of fees received was remarkable, representing an increase of 109.16 %, *i.e.,* an increase of 413 million EUR. Note also the performance of execution and settlement fees paid, which dropped 32.04 % *i.e.* -78 million EUR.

Evolution of Net Fees/Commissions



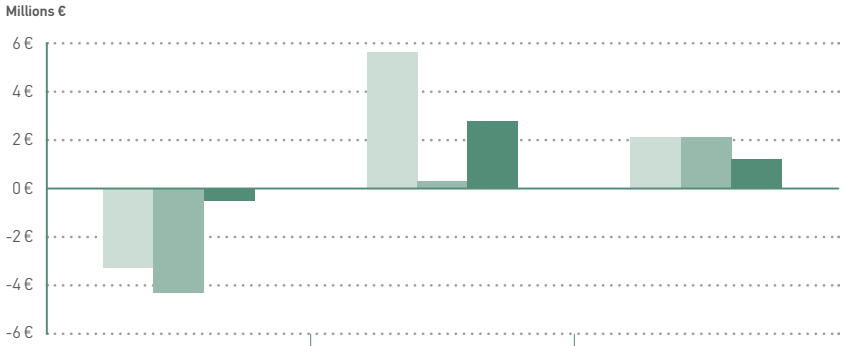
	Gains from Commissions	Charges with Commissions
2014	4 914 900 €	904 995 €
2015	6 065 862 €	1 368 251 €
2016	5 361 619 €	2 070 834 €

Gains and Losses – Financial Assets and Liabilities Held for Trading



	Gains/Losses (Results)	Interests
2014	-3 100 024 €	445 455 €
2015	-2 707 533 €	266 072 €
2016	-113 754 €	202 304 €

Gains and Losses – Financial Assets and Liabilities Held for Sale



	Gains/Losses (Reserves)	Gains/Losses (Results)	Interests
2014	-3 256 713 €	5 646 457 €	2 137 360 €
2015	-4 329 012 €	345 303 €	2 144 577 €
2016	-506 017 €	2 783 775 €	1 263 016 €

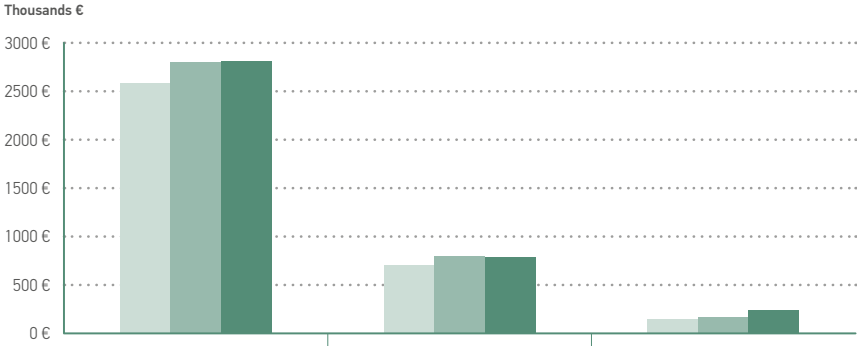
As can be seen in the above charts, the poor performance of **Gains from Financial Transactions** in 2016 in the mentioned portfolios as regards interest charge dropped about 945 million EUR, although it was partly offset by the interest in the portfolio of held-to-maturity assets, which in this period amounted to 559 million EUR.

The performance of financial gains or losses was different in both reserves – with a very significant valuation in the portfolio of assets held for sale, corresponding to an increase of 4.3 million EUR, and in the results of this same portfolio, with a positive result of 2.8 million EUR, largely due to a significant part of the position held in the Retail Properties real estate investment fund.

As regards the trading portfolio, although the figures for 2016 are still negative (-114 million EUR), it recovered about 2.6 million EUR compared to 2015.

In 2016 the **Revaluation of Currency Position** recorded a negative result of 39 million EUR, emphasising the stability in exchange rate developments of the euro against the US dollar.

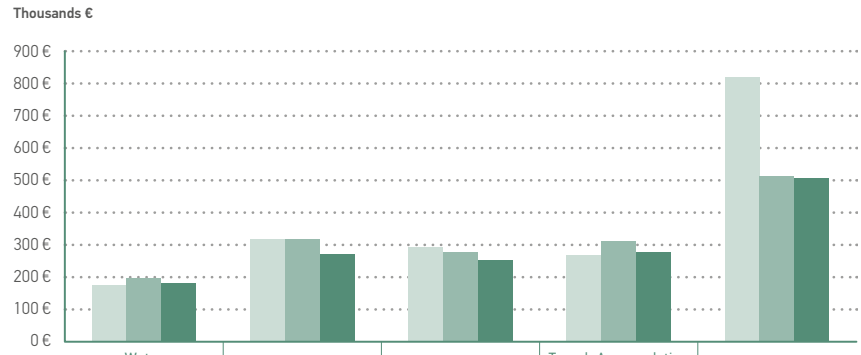
Staff Costs



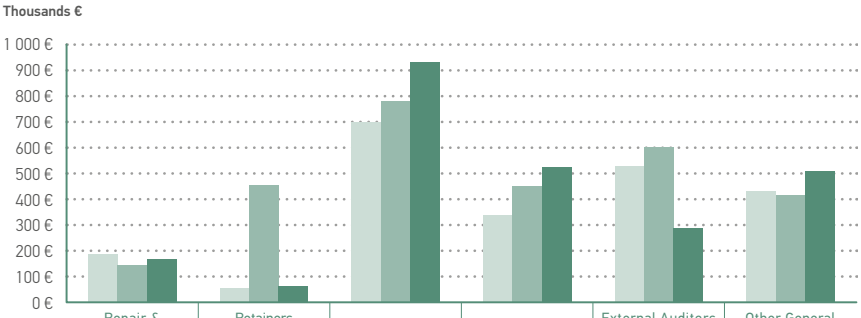
	Remuneration	Social Charges	Other Charges
2014	2 578 792 €	704 885 €	146 648 €
2015	2 789 056 €	802 207 €	153 395 €
2016	2 819 594 €	779 075 €	244 095 €

Staff costs show a moderate growth of 2.6% justified by the need to strengthen the Bank with the recruitment of 5 new employees, while the salary level remained stable.

General Administrative Costs



	Water Electricity Fuel	Rents and Leases	Communications	Travel, Accomodation and Rep. Costs	Advertising
2014	175 417 €	315 097 €	294 650 €	268 442 €	822 271 €
2015	198 789 €	314 984 €	277 472 €	310 553 €	510 827 €
2016	182 335 €	267 688 €	253 062 €	272 321 €	506 165 €



	Repair & Maintenance	Retainers & Fees	IT	Informations	External Auditors and Consultants	Other General Costs
2014	185 883 €	59 029 €	701 431 €	340 872 €	533 093 €	433 790 €
2015	140 235 €	460 240 €	784 756 €	449 144 €	600 526 €	416 178 €
2016	165 407 €	63 412 €	932 345 €	523 563 €	288 181 €	514 364 €

In 2016, General Administrative Costs dropped by 11.09 %, due to the fact that less advisors and external auditors were required in technically demanding and complex operations, accompanied by an identical reduction in retainers and fees. The Bank continued to be concerned about cost containment. The only emphasis is the increase in costs with the development of business-related computer solutions, justified by the Bank's intention to keep digital solutions in line with the recent strategic definitions and its aim to provide better products and services.

Financial strength remained stable, and the solvency ratio (Tier I) reached 21.83 %, well above the minimum level required by regulation.


"Look at the market . . . Will our shares recover? . . .
At present only the barometer is rising! . . ."
A reproduction of a drawing from the Arnhold and S. Bleichroeder Inc. collection.

6.2. CONSOLIDATED ACCOUNTS

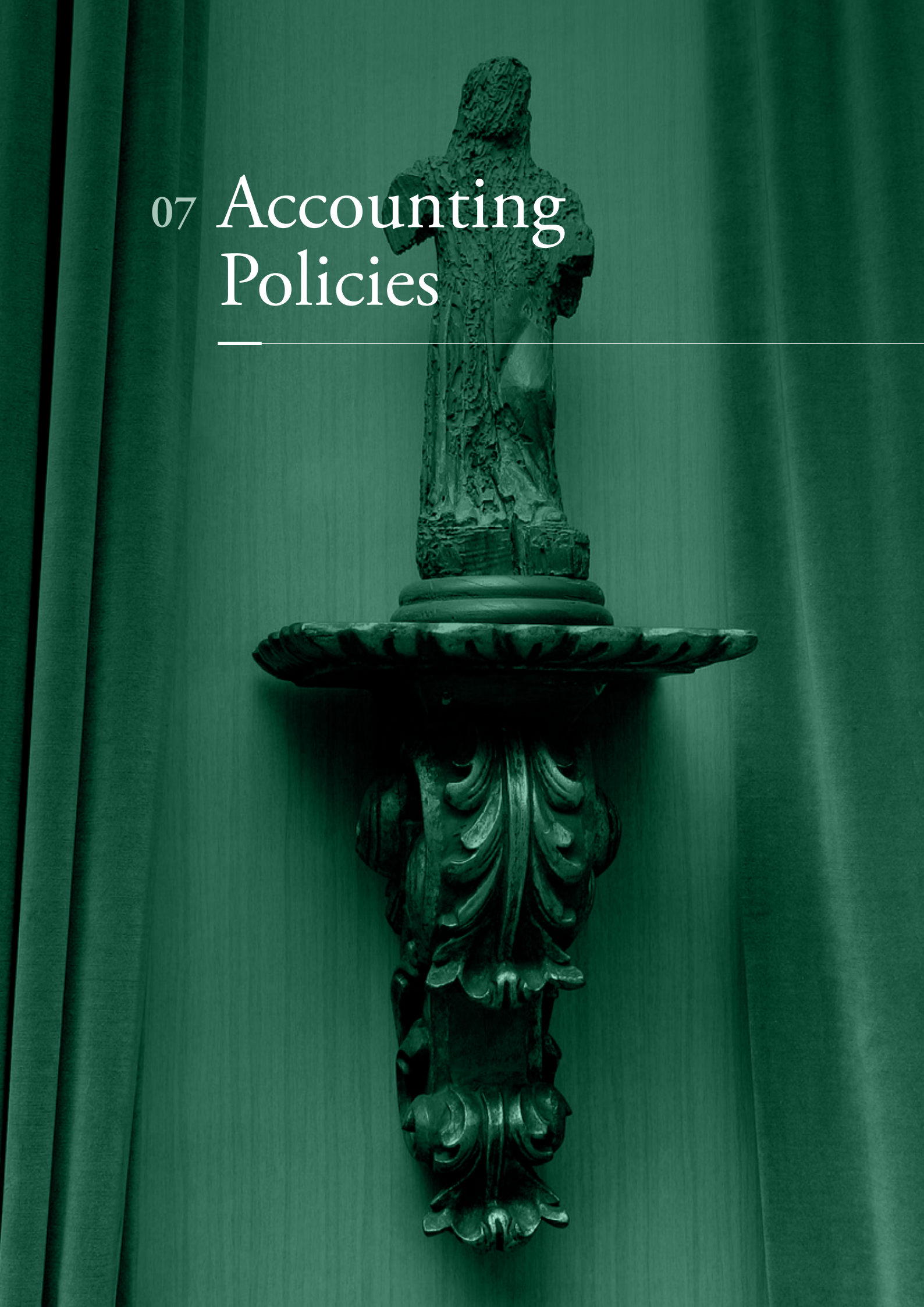
Due to the low volume of the financial statements of the sole related entity, considered in the scope of consolidation in 2016, and to the exclusive and decisive contribution of the Bank, stated in the analysis to the individual accounts, only the following notes are worthy of note:

The **Consolidated Net Assets**, compared to 2015, dropped 5.56 %, amounting to 215 million EUR, in line with the evolution of the Bank's similar figure.

The **Consolidated Net Results** in 2016 was of **357 218 EUR** (negative) with the contributions of the only consolidated company and of the Bank, after the cancellation of reciprocal transactions. The Bank alone closed with an equally negative net result of **351 025 EUR**.

These variations are reflected in their corresponding annexes.

07 Accounting Policies



Basis of Presentation

Banco L. J. Carregosa, SA (the «Bank») is a private capital Bank with head-office in Portugal operating under the appropriate permits issued by the Portuguese authorities since November 2008.

Comparability of Information

The individual financial statements of Banco Carregosa up to 31 December 2015, inclusive, were prepared and presented in conformity with the Adjusted Accounting Standards (AAS) issued by Banco de Portugal.

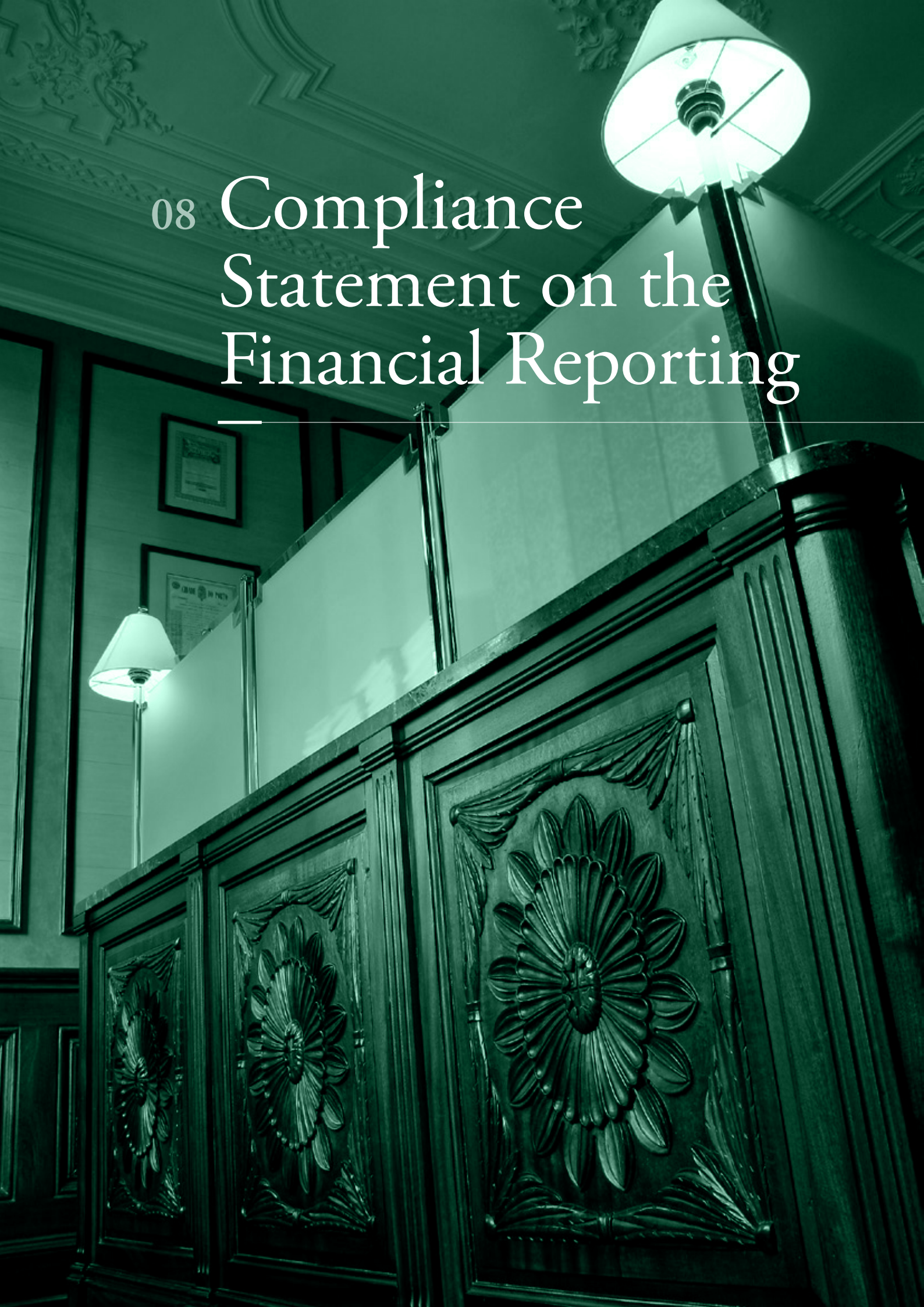
The AAS issued by Banco de Portugal were based on the International Financial Reporting Standards (IFRS) in force and adopted in the European Union, with the exception of the matters defined in Notice 1/2005 paragraphs 2 and 3, and in Notice 4/2005 paragraph 2 of Banco de Portugal (AAS). The AAS referred to the standards issued by the International Accounting Standards Board ('IASB') as well as to the interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and by their predecessors, with the exception of the matters defined in Notices 1/2005 and 4/2005 of Banco de Portugal, in particular valuation and provisions for lending, for which Notice 3/95 of Banco de Portugal was used.

As of 1 January 2016, following the publication of Notice 5/2015, of 30 December, of Banco de Portugal, the individual financial statements of the Bank were processed in conformity with the International Financial Reporting Standards (IAS/IFRS) adopted in the European Union, which were already used in the preparation and presentation of its consolidated financial statements since 2005.

Following this change, the portfolio of loans granted, guarantees provided and other similar operations were tested for impairment losses calculated in accordance with the requirements laid down in International Accounting Standard 39 – Financial Instruments: Recognition and Measurement (IAS 39), in lieu of the posting of provisions for specific risks and for general credit risks and country risk, as per Notice 3/95, of 30 June, of Banco de Portugal.

To that end, the Individual Balance Sheet as at 31 December 2015 and the Individual Statements of Profit and Loss and Statement of Comprehensive Income for the year ended 31 December 2015 were restated.

08 Compliance Statement on the Financial Reporting

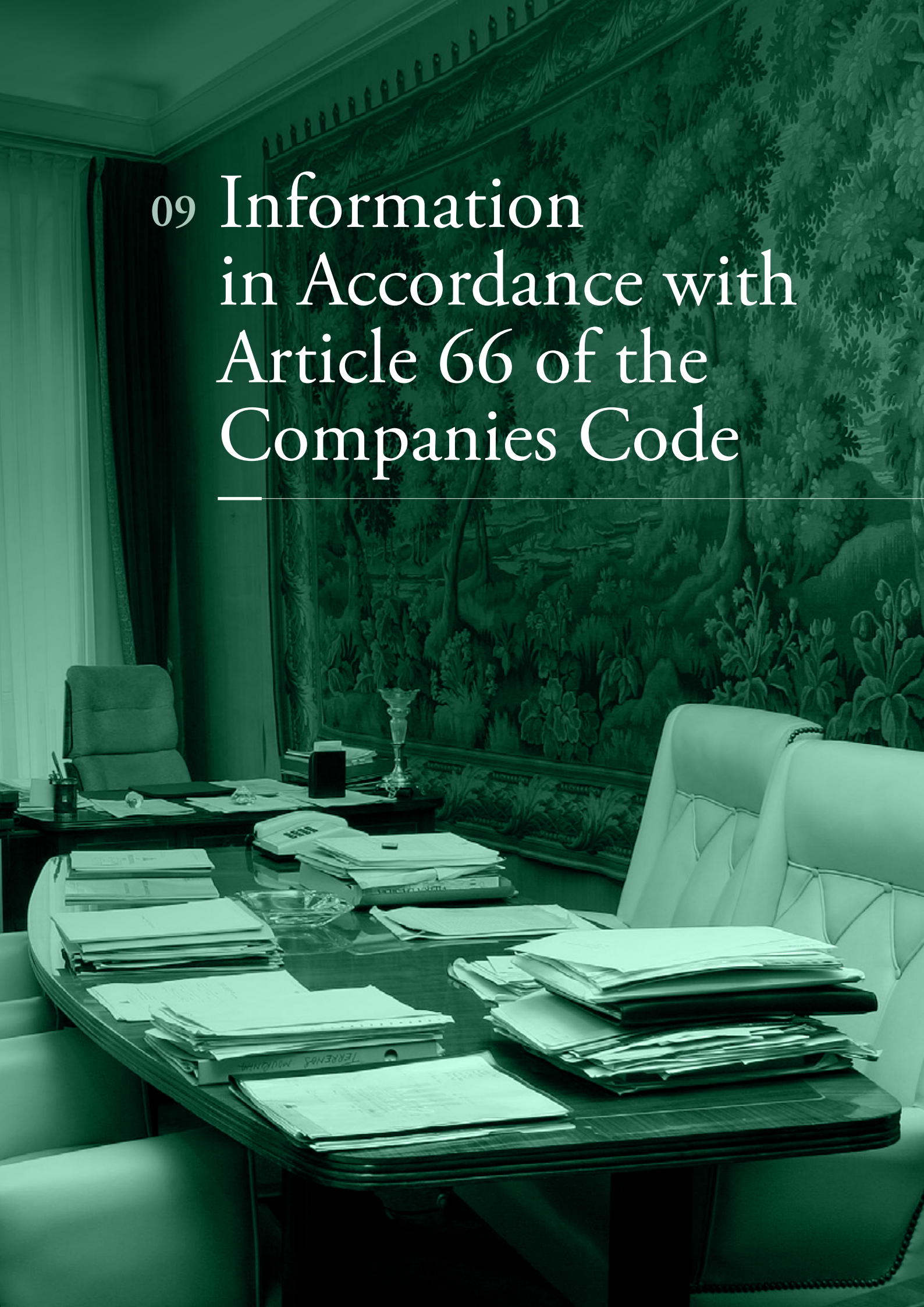


The members of the Board of Directors of Banco Carregosa hereby declare that:

To the best of their knowledge, the financial statements referred to before give a true and fair view of the assets and liabilities, financial situation and results of Banco Carregosa and of the Group, in accordance with the said standards, and have been approved at the Board of Directors meeting held on 8 May 2017;

The management report faithfully describes the evolution of businesses, performance and financial position of Banco Carregosa and of the Group in the 2016 financial year.

09 Information in Accordance with Article 66 of the Companies Code



The company and its related entities have no outstanding debts towards the State.

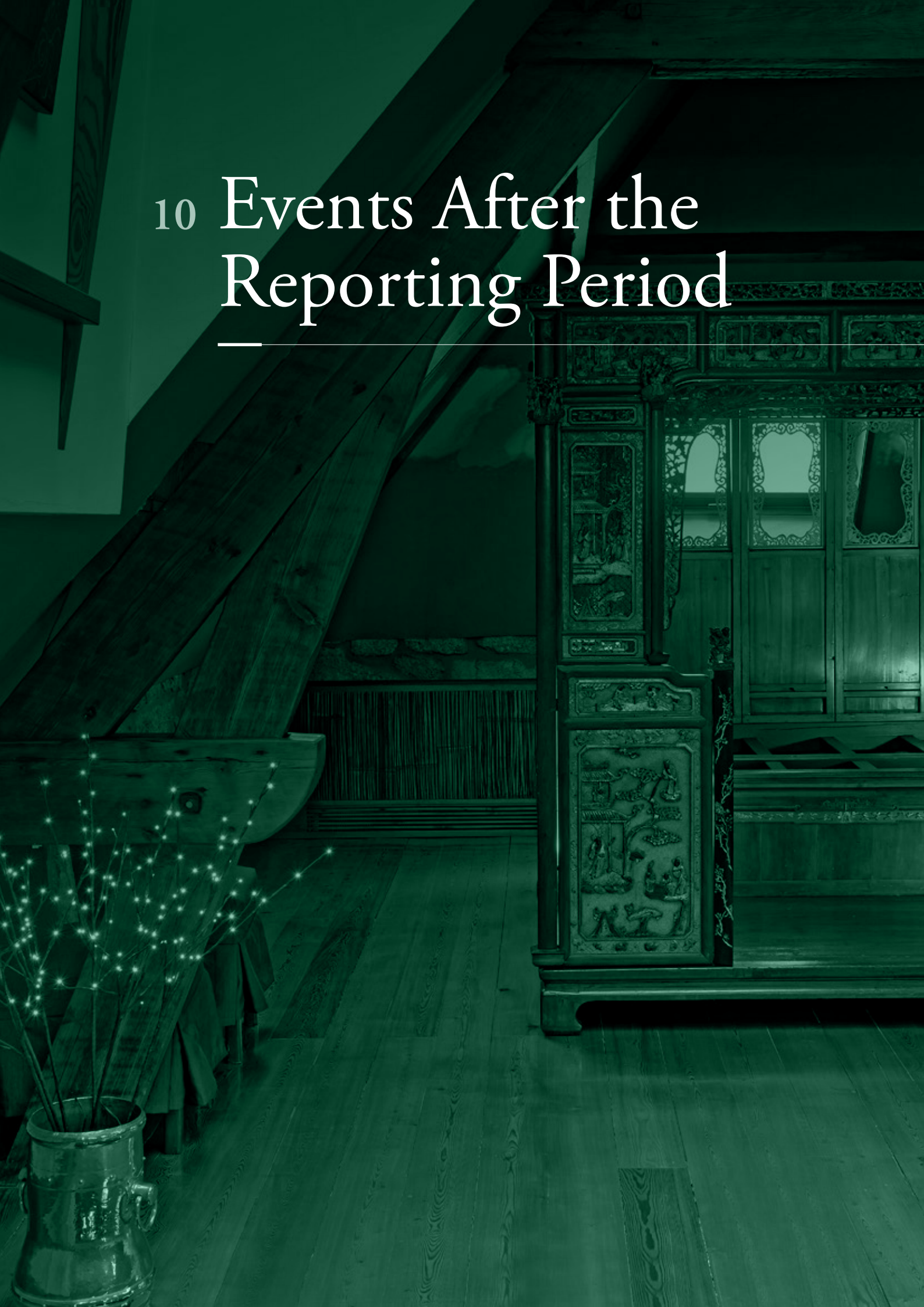
The Bank did not acquire, nor dispose of, nor does it hold any own shares.

Four loan agreements were entered into with Director Dr. António Marante and/or entities in connection thereof, in the total amount of 2 025 000 EUR. The granting of these loans were first authorised by the Board of Directors, the Director having no part in the voting, and all complemented with favourable opinions of the Supervisory Committee, in compliance with Article 397 of the Companies Code and Article 85(5)(8) of the RGICSF.

Under Chapter VI, Article 66(1)(b) of the C.S.C. (Companies Code), the annex to the consolidated and individual accounts (notes 35 and 34, respectively) contains the fees for the financial year charged by the statutory auditor or audit firm in connection with the statutory audit of annual accounts, the total fees charged for other assurance and reliability services, the total fees charged for tax advisory services, and the total fees charged for other non-audit services.

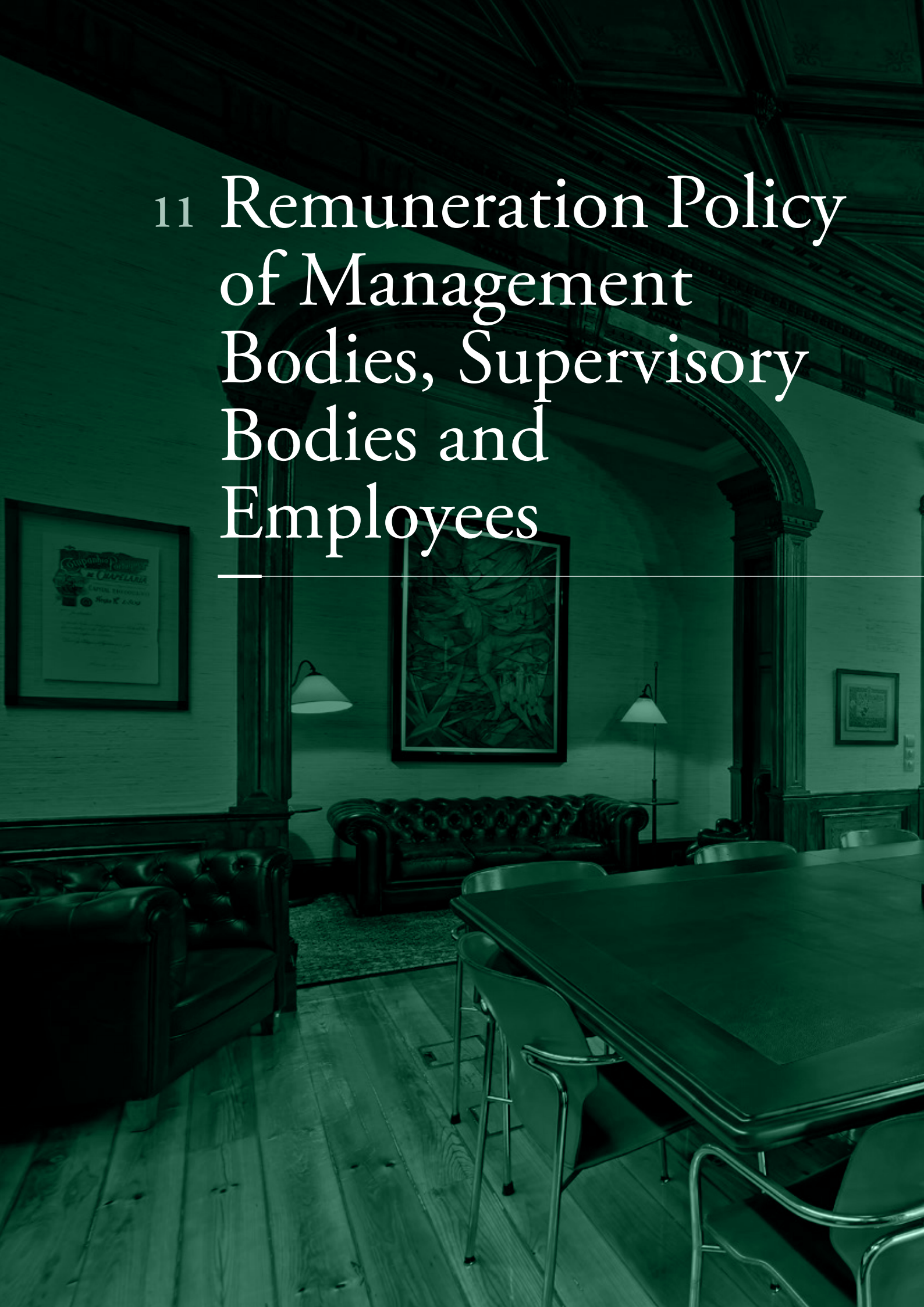
The mandatory incorporation of the AAS and international accounting standards is fulfilled.

10 Events After the Reporting Period



In late April, the number of overdue loans with a maturity of less than 90 days increased, yet with no material effect in terms of impairments of the loan portfolio at the date of the financial statements compared to the value of real guarantees associated thereto.

11 Remuneration Policy of Management Bodies, Supervisory Bodies and Employees



Pursuant to Article 18 of Banco de Portugal Notice no. 10/2011, of 29/12, it is hereby declared that the remuneration policy has been prepared in accordance with the principles and rules set out in said Notice no. 10/2011, and also in accordance with paragraph 24 of the annex to Decree-law no. 104/2007, of 03/04, as amended by Decree-law no. 88/2011, of 20/07.

This policy, as will be explained in more detail below, is appropriate and proportional to the size and organisation of the institution, avoiding excessive risk exposure, and is based on the values of justice and equity, accountability and transparency, valuing the effective performance of its employees.

11.1. REMUNERATION POLICY OF THE MANAGEMENT MEMBERS AND SUPERVISORY BODIES OF BANCO L. J. CARREGOSA, S.A.

The remunerations of the governing bodies of Banco Carregosa are decided by a Remuneration Committee elected by the General Shareholders' Meeting, pursuant to the Company's articles of association.

Mandated for the three-year period 2015/2017, this Committee is composed of Dr. José Inácio Sousa Lima, the chairman, Mr. Jorge Manuel da Conceição Freitas Gonçalves, non-executive director, and by Dr. Sérgio Nuno Reis Perdigão.

The Committee decided that there would be no variable remuneration dependent or not on the individual or collective performance. It also decided that the conditions for social welfare and retirement pensions of the executive directors would not be different from those of the remaining employees of the Bank.

For the 2016 financial year, the monthly fixed remunerations for the members of the management bodies were determined as follows:

	2016
Chairwoman of the Board of Directors	4 000.00 €
Chairman of the Executive Committee	6 000.00 €
Voting members of the Executive Committee	5 800.00 €

Fixed remunerations are payable on a 14-month/year basis.

The members of the Executive Committee of Banco Carregosa only hold positions of responsibility in other companies on behalf of or in the interest of Banco Carregosa, and the remunerations earned are to be considered in the overall remuneration, decided by the Remunerations Committee.

The remaining members of the Board of Directors of Banco L. J. Carregosa, S.A. not mentioned in the preceding table receive an attendance fee of 1000 EUR.

The Chairman of the Supervisory Committee and its voting members receive an attendance fee of 760 EUR and 560 EUR, respectively.

The members of the Remunerations Committee do not receive any remuneration in the exercise of their functions.

If the members of the Board of Directors are dismissed from office, according to the policy of Banco Carregosa they will receive compensation as provided by law. The members of the Board of Directors will not receive any additional payment, the same criteria applying to the remaining collaborators.

11.2. REMUNERATION OF OTHER EMPLOYEES OF BANCO L. J. CARREGOSA, S.A.

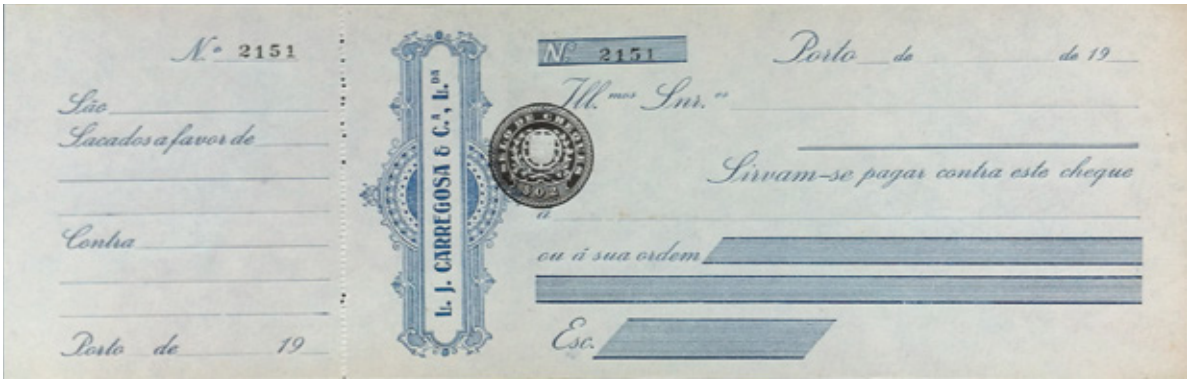
The remuneration setting process is guided by the values of justice and equity, responsibility and balance between functions and employees.

The majority of the remaining Bank employees only receive a fixed salary, the Bank having sought to take into account the level of responsibility, specificity of functions and contributions of each employee. Employees with commercial functions in the Trading department and in affluent banking, in line with the practice in this business segment earn, in addition to a fixed salary, a variable supplement, objective and proportional to the income generated by the clients they monitor. The size of the Bank and the constant scrutiny carried out by managers exist to prevent the conflicts of interest that may be raised by variable remunerations.

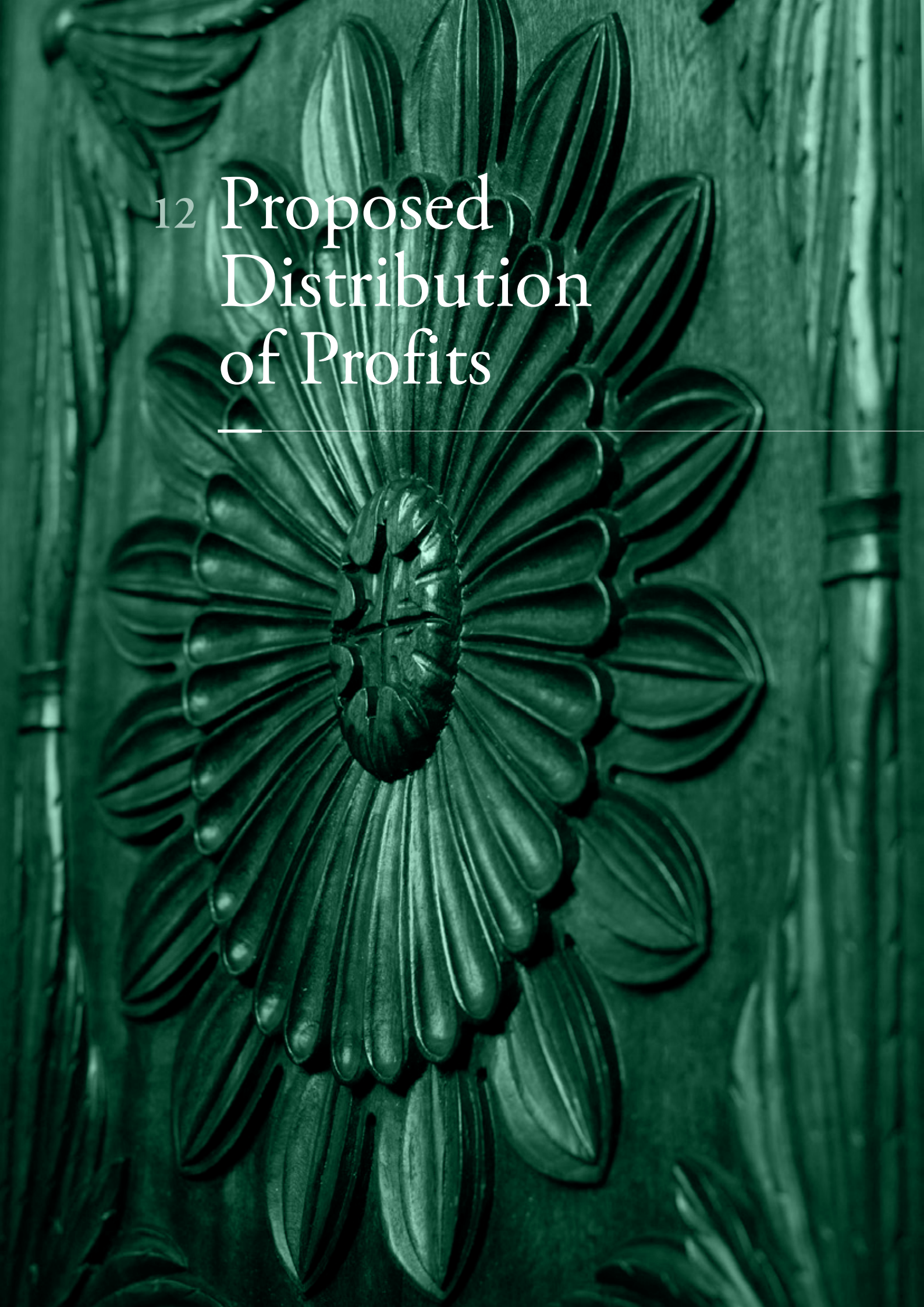
Where necessary, the persons within the units responsible for monitoring functions, for human resources, or external experts are consulted so as to enable them to form an independent opinion on the adequacy of the remuneration, and on its effects on risk management, capital and liquidity of the Bank.

The remuneration of collaborators referred to in Article 1(2) of Notice No. 10/2011 of Banco de Portugal does not include a variable component. Pursuant to Article 17(e), we would also like to inform that 5 new employees were hired. The table below shows the remaining requirements related to said article.

AREA OF ACTIVITY	TOTAL REMUNERATIONS	
	Fixed	Variable (*)
Management and Supervisory Bodies		
Board of Directors	64 057.24 €	0.00 €
Executive Committee	270 874.85 €	0.00 €
Supervisory Committee	20 120.00 €	0.00 €
Other		
Directors	927 182.32 €	9 392.30 €
Other Employees	1 534 537.51 €	30 579.90 €
Internal Control	175 364.61 €	0.00 €

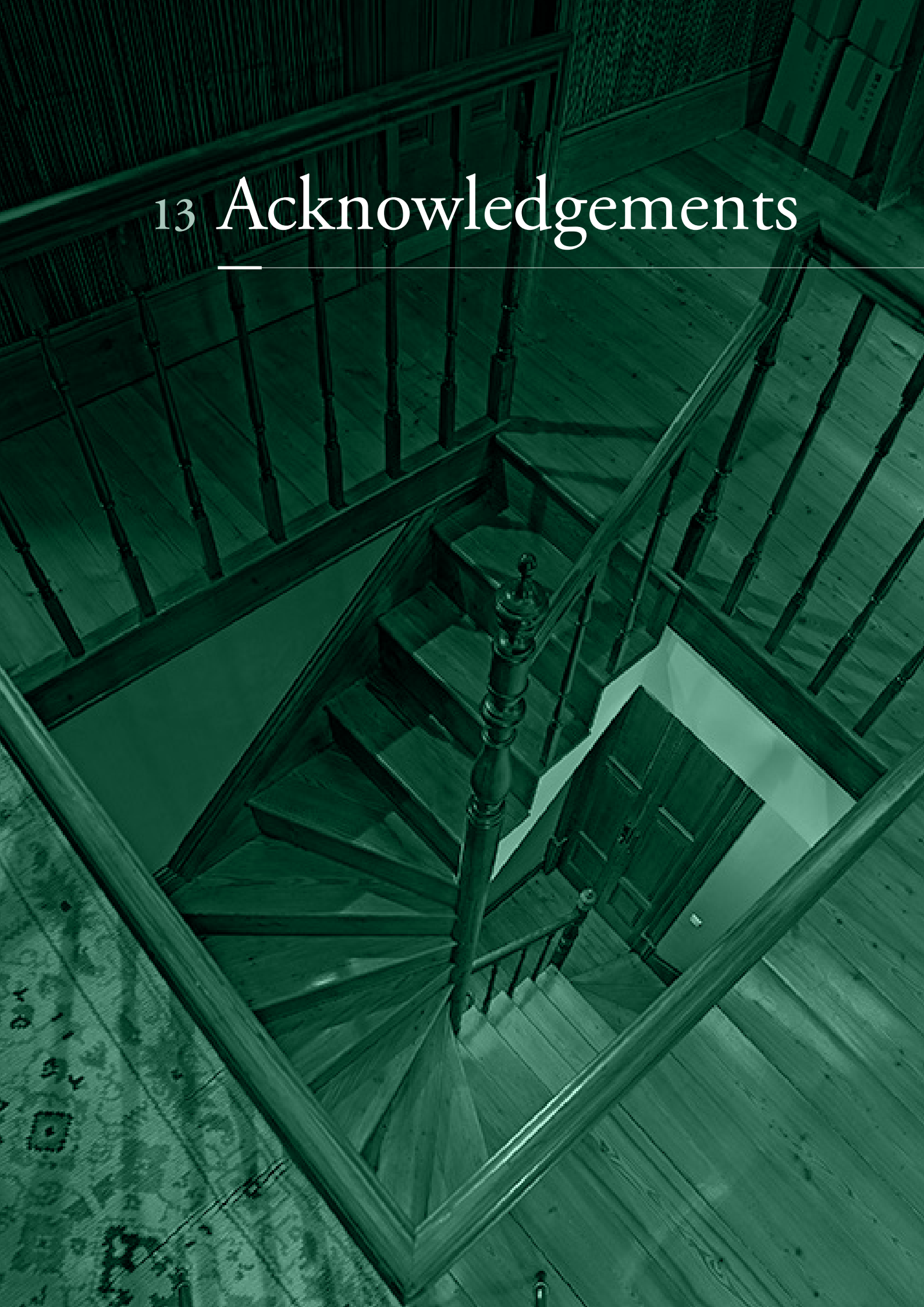


12 Proposed Distribution of Profits



Under Article 66(5)(f), and for the purpose of Article 376(1)(b) both of the Companies Code, and under Article 25 of the Company's articles of association, it is hereby proposed that the net profit for the year in the amount of **351 024.88 EUR** (negative) be recorded in **Retained Earnings.**

13 Acknowledgements



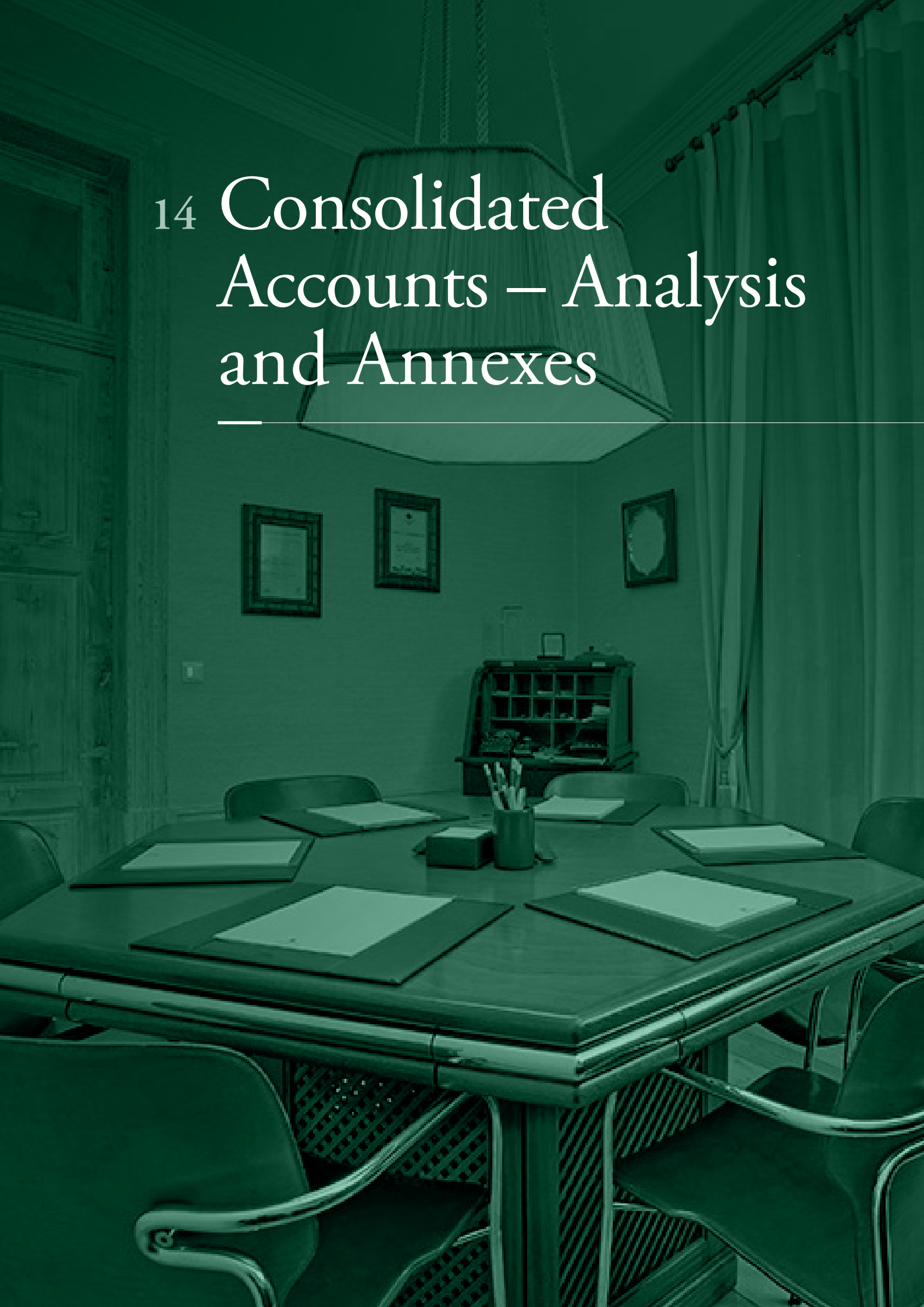
The Board of Directors would like to thank the Shareholders for the trust they placed in it to conduct the company's business, and wishes to extend its thanks to:

Banco de Portugal and CMVM – Comissão de Mercado de Valores Mobiliários – for the understanding and constant productive dialogue throughout this financial year;

The governing bodies, presiding general board members, supervisory committee and statutory audit firm, for the cooperation shown;

The Bank's employees, for their committed, dedicated and competent contribution, indispensable to the smooth running of the Bank.

14 Consolidated Accounts – Analysis and Annexes



CONSOLIDATED BALANCE SHEET AS AT 31 DECEMBER 2016 AND 2015
AMOUNTS STATED IN EUR

		31/12/2016			
	NOTES	VALUE BEFORE PROVISIONS, IMPAIRMENTS AND AMORTISATIONS	PROVISIONS, IMPAIRMENTS AND AMORTISATIONS	NET VALUE	PREVIOUS YEAR
		1	2	3 =1 - 2	
ASSETS					
Cash and liquid assets in central banks	1	33 031 767	–	33 031 767	47 502 895
Liquid assets in other credit institutions	2	18 358 071	–	18 358 071	23 585 448
Financial assets held for trading	3	7 637 439	–	7 637 439	3 858 021
Other financial assets at fair value through profit or loss	4	6 832	–	6 832	3 567
Available for sale financial assets	5	32 207 838	(5 796 510)	26 411 328	40 331 185
Investments in credit institutions	6	16 116 385	–	16 116 385	17 116 330
Loans to clients	7	67 081 808	(968 346)	66 113 462	76 082 331
Held-to-maturity investments	8	11 011 818	–	11 011 818	–
Assets under repurchase agreement		–	–	–	–
Hedging derivatives	9	129 841	–	129 841	–
Non-current assets held for sale	10	85 680	–	85 680	85 680
Investment properties		–	–	–	–
Other property, plant and equipment	11	11 717 384	(4 983 528)	6 733 856	1 815 311
Intangible assets	12	2 712 249	(2 550 075)	162 174	212 831
Investments in associated and subsidiary companies excluded from consolidation		–	–	–	
Current tax assets	13	289 411	–	289 411	–
Deferred tax assets	14	434 710	–	434 710	1 288 906
Other assets	15	30 042 480	(1 549 975)	28 492 505	15 790 416
Total Assets		230 863 712	(15 848 434)	215 015 278	227 672 920

		31/12/2016			
	NOTES	VALUE BEFORE PROVISIONS, IMPAIRMENTS AND AMORTISATIONS	PROVISIONS, IMPAIRMENTS AND AMORTISATIONS	NET VALUE	PREVIOUS YEAR
		1	2	3 =1 - 2	
LIABILITIES					
Deposits from central banks	16			–	2 013 878
Financial liabilities held for trading	17			39 256	470 404
Other liabilities at fair value through profit or loss				–	–
Deposits from other credit institutions	18			14 801 430	19 683 158
Clients' deposits and other loans	19			142 478 356	161 267 870
Liabilities represented by securities				–	–
Financial liabilities associated to asset transfers				–	–
Hedging derivatives				–	–
Non-current liabilities held for sale				–	–
Provisions	20			10 046	47 813
Current tax liabilities	21			554 186	144 870
Deferred tax liabilities				–	–
Instruments representing equity				–	–
Other subordinated liabilities				–	–
Other liabilities	22			22 433 715	13 361 518
Total Liabilities				180 318 989	196 989 511
EQUITY	23				
Equity				20 000 000	20 000 000
Issue premiums				369 257	369 257
Other equity instruments				–	–
Revaluation reserves				(506 017)	(4 883 741)
Other reserves and retained earnings				15 109 819	14 296 181
Own shares				–	–
Consolidated income for the year				(357 218)	813 073
Interim dividends				–	–
Total Equity Attributed to the Group				34 615 842	30 594 770
Minority interests	24			82 447	88 640
Total Equity				34 698 289	30 683 410
Total Liabilities and Equity				215 015 278	227 672 920

The Certified Accountant

The Board of Directors

CONSOLIDATED STATEMENT OF PROFIT AND LOSS
AMOUNTS STATED IN EUR

	NOTES	31/12/2016	PREVIOUS YEAR
Interest and similar income	25	6 176 350	6 904 431
Interest and similar costs	26	(1 193 803)	(1 427 050)
Financial Margin		4 498 547	5 477 381
Income from equity instruments	27	95 200	125 177
Income from services and commissions	28	5 361 619	6 065 862
Charges – services and commissions	29	(2 071 193)	(1 368 718)
Income from assets and liabilities evaluated at fair value through profit and loss	30	(113 395)	(2 707 533)
Income from available for sale financial assets	31	2 783 775	345 303
Income from foreign currency revaluation	32	(38 697)	2 470 609
Income from the disposal of other assets	33	14 490	401 859
Other operating income	34	(562 976)	(147 496)
Net Operating Revenue		10 451 370	10 662 444
Staff costs	35	(4 349 508)	(4 191 282)
General administrative costs	36	(3 486 780)	(4 014 402)
Depreciation and amortisations	37	(593 466)	(616 364)
Provisions net of write-offs	38	37 767	103 243
Credit impairment net of reversals and recoveries	39	(1 476 017)	(319 288)
Impairment of other financial assets net of reversals and recoveries	40	(1 073 379)	(459 128)
Impairment of other assets net of reversals and recoveries	41	–	(81 835)
Income from associated companies and joint ventures (equity method)		–	–
Pre-Tax Profit		(490 012)	1 083 388
Taxes			
Current	42	(239 935)	(287 030)
Deferred	43	366 540	12 237
Profit After Income Tax		(363 411)	808 595
Minority interests		6 193	4 478
Consolidated Income for the Year		(357 218)	813 073
Of which: net income after tax on discontinued operations			–

The Certified Accountant

The Board of Directors

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME
AMOUNTS STATED IN EUR

	31/12/2016	PREVIOUS YEAR
Consolidated Net Result for the Year	(357 218)	813 073
Items that will not be reclassified into profit or loss:		
Property, plant and equipment	3 984	(388)
Actuarial gains or losses (-) with defined benefit pension plans	566	80 920
Items that may be reclassified into profit or loss :		
Cash flow hedging	46 060	–
Available for sale financial assets	5 404 568	(4 825 580)
Income tax related to items that may be reclassified into profit or loss	(1 076 887)	1 169 361
Other Comprehensive Income	4 378 289	(3 576 687)
Overall Comprehensive Income for the Year	4 021 072	(2 762 614)
Attributable to minority interests [non-controlling interests)	6 193	4 478
Attributable to owners of parent-company	4 014 879	(2 767 092)

The Certified Accountant

The Board of Directors

CONSOLIDATED STATEMENT OF CASH FLOW AS AT 31 DECEMBER 2016 AND 2015
AMOUNTS STATED IN EUR

	31/12/2016	PREVIOUS YEAR
CASH FLOWS FROM OPERATING ACTIVITIES :		
Interest and commissions receivable	12 173 247	13 561 942
Interest and commissions paid	(3 366 470)	(3 207 915)
Payments to employees and suppliers	(8 027 920)	(8 102 132)
Deposits from credit institutions	(8 137 468)	4 115 058
Other operating assets and liabilities	(7 359 398)	(18 399 905)
Other receipts from clients	(8 834 733)	15 949 262
Income taxes	(176 645)	2 581 920
Net Cash from Operating Activities	(23 729 387)	6 498 229
CASH FLOWS FROM INVESTMENT ACTIVITIES :		
Dividends received	–	–
Acquisition/Disposal of available for sale assets	18 251 046	5 743 855
Held-to-maturity investments	(11 011 818)	–
Acquisitions of property, plant and equipment and intangible assets	(5 461 355)	(785 173)
Disposal of property, plant and equipment and intangible assets	10 500	115 450
Increase/Decrease in other asset accounts	–	–
Investments in subsidiaries and associated companies	–	–
Net Cash from Investment Activities	1 788 374	5 074 133
CASH FLOWS FROM FINANCING ACTIVITIES :		
Capital increase	–	–
Other equity instruments	–	–
Dividends paid	–	–
Issue of securitised and subordinated debt	–	–
Remuneration paid on cash and other bonds	–	–
Remuneration paid on subordinated debt	–	–
Deposits from credit institutions (not associated with the main revenue-generating activities)	–	–
Net Cash from Financing Activities	–	–
Net increase (decrease) of cash and cash equivalents	(21 941 013)	11 572 362
Exchange differences	–	–
Cash and Cash Equivalents at The Begining of the Year (*)	88 153 802	76 581 440
Cash and Cash Equivalents at Year-End	66 212 789	88 153 802
Cash and liquid assets in central banks	33 031 767	47 502 895
Liquid assets in other credit institutions	18 358 071	23 585 448
Investments in other credit institutions	16 115 287	17 113 055
Overdrafts in other credit institutions	(1 293 336)	(47 596)

The Certified Accountant

The Board of Directors

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS AS AT 31 DECEMBER 2016 (CONSOLIDATED ACTIVITY)
AMOUNTS STATED IN EUR

	AU 31/12/2015				
ACCOUNTS	GROSS VALUE	ACCRUED AMORTISATIONS	INCREASES DUE TO ACQUISIT.	DEPRECIATION	WRITE-OFFS (NET)
OTHER INTANGIBLE ASSETS					
Goodwill	200	0	0	0	0
Set-up costs	0	0			
Multi-year costs	0	0	0	0	0
Data processing systems (software)	2 388 762	(2 217 658)	51 101	(111 746)	0
Other intangible assets	242 529	(201 002)	575	(19 669)	0
Intangible assets in progress	0	0	29 083	0	0
	2 631 491	(2 418 660)	80 758	(131 415)	0
PROPERTY, PLANT AND EQUIPMENT					
Property	525 290	(44 970)	4 569 930	(30 519)	0
Equipment	5 519 178	(4 522 350)	586 714	(426 004)	0
Financial leasing assets	368 570	(30 407)	0	(5 529)	0
Property, plant and equipment in progress	0	0	223 953	0	0
	6 413 037	(4 597 727)	5 380 597	(462 052)	0
TOTAL	9 044 528	(7 016 387)	5 461 355	(593 466)	0

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The Board of Directors

	SETTLEMENTS						
TRANSF.	GROSS VALUE	DEPRECIATION	ACCRUED AMORTISATIONS	ADJUSTED ACQUISITION VALUE	ADJUSTED DEPRECIATION	ADJUSTED ACCRUED AMORTISATIONS	NET VALUE ON 31/12/2016
0	0	0	0	200	0	0	200
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	2 439 863	(111 746)	(2 217 658)	110 459
29 083	0	0	0	272 187	(19 669)	(201 002)	51 516
(29 083)	0	0	0	0	0	0	0
0	0	0	0	2 712 249	(131 415)	(2 418 660)	162 174
0	0	0	0	5 095 220	(30 519)	(44 970)	5 019 731
0	0	0	0	6 105 892	(426 004)	(4 522 350)	1 157 538
0	0	0	0	368 570	(5 529)	(30 407)	332 634
0	0	0	0	223 953	0	0	223 953
0	0	0	0	11 793 634	(462 052)	(4 597 727)	6 733 856
0	0	0	0	14 505 883	(593 466)	(7 016 387)	6 896 030

TABLEAU DE VARIATION DES CAPITAUX PROPRES AU 31 DÉCEMBRE 2016 (CONSOLIDATED ACTIVITY)
AMOUNTS STATED IN EUR

	CAPITAL	ISSUE PREMIUMS	REVALUATION RESERVES
BALANCES AS AT 31 DECEMBER 2014	20 000 000	369 257	(1 227 134)
Changes in fair value reserves			(4 825 967)
Deferred tax			1 169 361
Actuarial gains or losses (-) with pension plans			
Net result for 2015			
Comprehensive income for 2015			
Distribution of dividends			
Other changes in equity			
Minority interests			
BALANCES AS AT 31 DECEMBER 2015	20 000 000	369 257	(4 883 741)
Changes in fair value reserves			5 454 612
Deferred tax			(1 076 888)
Actuarial gains or losses (-) with pension plans			
Net result for 2016			
Comprehensive income for 2016			
Distribution of dividends			
Other changes in equity			
Minority interests			
BALANCES AS AT 31 DECEMBER 2016	20 000 000	369 257	(506 017)

The Certified Accountant

The Board of Directors

LEGAL RESERVES	OTHER RESERVES	RETAINED EARNINGS	RESULT OF THE PERIOD	MINORITY INTERESTS	TOTAL EQUITY
2 157 543	10 352 954	678 647	1 337 757	3 463 228	37 132 251
					(4 825 967)
					1 169 361
	80 920				80 920
			813 073	(4 478)	808 595
					(2 767 092)
					0
3 674	33 068	989 377	(1 337 757)	(87 238)	(398 877)
				(3 282 873)	(3 282 873)
2 161 217	10 466 941	1 668 023	813 073	88 640	30 683 410
					5 454 612
					(1 076 888)
	566				566
			(357 218)	(6 193)	(363 411)
					4 014 879
					0
81 742	735 675	(4 344)	(813 073)		0
				0	0
2 242 959	11 203 182	1 663 679	(357 218)	82 447	34 698 289

ANNEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

[UNLESS EXPLICITLY STATED OTHERWISE, AMOUNTS ARE EXPRESSED IN EUR]

INTRODUCTION

The 2016 financial year of Banco L.J. Carregosa, S.A., (hereinafter referred to as «Banco Carregosa», «Company» or «Carregosa Group», when on a consolidated basis), was the eighth full financial year of activity as a credit institution.

Following the changes in its corporate scope in 2008, Banco Carregosa began to operate in banking and in all other activities expressly authorised under the law, with activity commencing on 4 November of that year.

For prudential purposes and considering the materiality assumed by the Bank in the stake in the Retail Properties real estate investment fund up to November 2016, this fund has been included in the scope of consolidation until, as a result of the disposal of 29.72 % of its share in December 2016, the percentage held relieved the Bank from this obligation and, as such, from having to report it to Banco de Portugal on a consolidated basis.

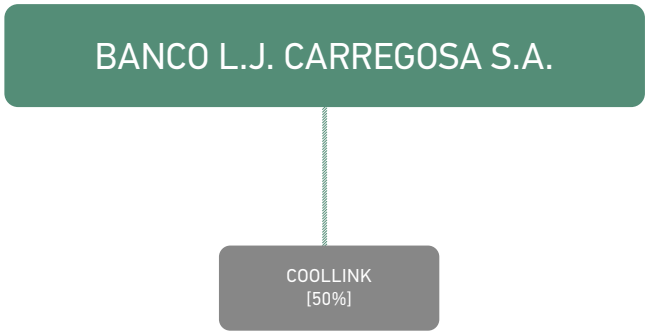
As regards the IT service company CoolLink, Lda, from 2015 on it is no longer considered as an ancillary services company, as reported to Banco de Portugal for the purpose of registration.

COMPANIES INCLUDED IN THE GROUP'S SCOPE OF CONSOLIDATION AS AT 31/12/2016
AMOUNTS STATED IN EUR

ACTIVITY	HEAD-OFFICE	EQUITY	ASSETS	PROFIT/LOSS	EFFECTIVE PARTICIPATION	CONSOLIDATION METHOD
BANKING						
Banco L. J. Carregosa, SA	Portugal	34 558 195	214 796 037	(351 025)	–	Comprehensive
IT SERVICES COMPANY						
CoolLink, Lda (*)	Portugal	164 894	296 722	(12 386)	50.00%	Comprehensive

Note: The figures refer to accounting balances before consolidation adjustments.

Scope of consolidation as at 31/12/2016



As a result of this scope of consolidation, Banco Carregosa consolidates the accounts and has a central position in the Group, in as much as it carries out exclusive activities and for the relative volume of capital and risks.

In 2016 and as indicated by Banco de Portugal, the Bank no longer reports the consolidated financial statements to this entity.

The Group posted a net Profit of 357 218 EUR (negative), with equity standing at 34 615 842 EUR.

The financial statements as at 31 December 2016 were approved by the Board of Directors on 8 May 2017.

The financial statements of the Bank as at 31 December 2016 require the approval of the General Meeting. However, the Board of Directors believes that they will be approved without significant alterations.

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

1.1. BASIS OF PRESENTATION AND COMPARABILITY

The consolidated financial statements were prepared based on the accounting records of Banco Carregosa and of its subsidiaries, and were processed in conformity with the *International Accounting Standards* or International Financial Reporting Standards (IAS/IFRS) adopted in the European Union, as set out in Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, of 19 July, transposed into national law through Banco de Portugal Notice no. 1/2005, of 21 February.

Consolidation of Subsidiary and Associate Companies (IAS 27, 28, and IFRS 3)

Banco Carregosa has a share in Sociedade CoolLink, and the control or power to manage the financial and operational policies of this company.

The consolidated result is calculated through the net income of the Bank and of this subsidiary, after consolidation adjustments, namely the write-off of revenue and costs resulting from transactions made between them, and, as such, are stated in the relevant scope of consolidation.

Comparability with Previous Years

Changes in the Scope of Consolidation

As mentioned in the introduction, the scope of consolidation in the financial year has been changed, although the accounting policies on the definition of the scope of consolidation have remained the same.

Changes in the Accounting Policy (IAS 39)

Impairments on Loans to Clients

With the entry into force of Notice 5/2015, as of 1 January 2016, the Banks were required to prepare their financial statements irrespective of their basis of presentation (individual or consolidated), in accordance with the International Accounting Standards (IAS/IFRS) as adopted in the European Union, replacing the Adjusted Accounting Standards (NCA).

This change affected the form of calculating impairments on loans to clients. In accordance with IAS 8, this change in policy is applied retrospectively. However, insofar as there are no materially relevant impacts on the differences determined in 2015, the comparisons thereof were not restated.

The remaining accounting practices and policies have not changed as a result of this notice.

Structured Deposits

The Bank offers to its clients structured term deposits through a basket of specific products with minimum guaranteed remuneration and a maximum return conditional on the valuation of this basket at maturity. At the same time, the Bank contracts similar options to hedge against the risk of the price increase of this basket, to ensure that it will receive the value of the option should it have to pay the client an interest greater than the minimum interest.

Up to 2016, term deposit interest at the minimum rate and the change in option price were recognised through profit or loss as gains or losses in the trading portfolio, and only the minimum accrued interest rate was recognised (in the active term deposits at a rate of 0.25 %/year).

In 2016, hedging items, more specifically cash flow hedging (interest payable to clients at maturity), were recorded under «Hedging derivatives at positive fair value». The premium was deferred and recognised as spent over the term deposit period. Changes in option price over time and the expected evolution of interest payable were recognised

under revaluation reserves. As the differences achieved in 2015 were not significant, comparative values were not restated.

1.2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies described herein apply to the consolidated financial statements of the Carregosa Group.

1.3. TRANSACTIONS IN FOREIGN CURRENCY

The financial statements of the group companies in foreign currency are previously converted into the euro, based on the indicative foreign exchange rate (*fixing*) disclosed Banco de Portugal.

Assets and liabilities expressed in a currency other than the euro are converted into euro based on the exchange rate at the balance sheet date.

The revenue and costs estimated in the various foreign currencies are converted at the exchange rate of the month in which they are stated.

1.4. INVESTMENTS IN DOMESTIC AND FOREIGN CREDIT INSTITUTIONS

These instruments are measured at fair value, which is normally the consideration paid, net of directly associated transaction costs.

1.5. FINANCIAL ASSETS FOR TRADING

This heading includes the financial assets purchased with the purpose of being sold in the short term and of obtaining a profit due to fluctuations in price or trader's margin, including all derivative financial instruments that are not classified as hedging operations.

Financial assets under this category are recognised at their fair value, and the gains and losses arising from the subsequent valuation are reflected in the results for the period.

1.6. FINANCIAL ASSETS HELD FOR SALE

This heading includes the instruments that can be disposed of in response to or in anticipation of liquidity requirements or changes in interest rates, exchange rates, or market price changes, and that have not been classified into any other financial asset category. Equity instruments and debt instruments are included herein.

These assets are measured at fair value and any related gains and losses are reflected under the heading «Revaluation reserves» until such time as they are sold or subject to

impairment losses. Interest is calculated and recognised in the statement of profit and loss under «Interest and similar income».

1.7. FINANCIAL ASSETS HELD TO MATURITY

Non-derivative financial assets with fixed or determinable payments and defined maturities that the Group intends to and is able to hold to maturity.

These investments are measured at amortised cost, using the effective interest rate method, and tested for impairment.

Impairment losses recognised in financial investments held to maturity are recognised in the statement of profit and loss. If, in a subsequent period, the impairment loss amount decreases and this decrease can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss.

1.8. DERIVATIVE

The Bank performs derivative transactions as a standard activity to meet its clients' requirements and to reduce the exposure to foreign exchange, interest rate and quote fluctuations. Derivative financial instruments are recorded at fair value on their contract date. Moreover, they are disclosed off-balance sheet at their notional value. Subsequently, derivative financial instruments are measured at their fair value. Fair value is calculated: – Based on the quotes obtained in active markets (for e.g., futures traded in organised markets); – based on models that incorporate valuation techniques accepted in the market, including discounted cash-flows and options valuation models.

Embedded Derivatives

Derivative financial instruments embedded in other financial instruments are removed from the underlying contract and treated as autonomous derivatives under IAS 39, whenever: – The economic characteristics and risk of the embedded derivative are not closely related with the underlying contract, as defined in IAS 39; and – The entire combined financial instrument is not recorded at fair value, with the changes in fair value reflected through profit or loss.

Trading Derivatives

All derivative financial instruments not associated with effective hedging relations under IAS 39 are considered derivatives for trading, including: – Derivatives used to hedge risk in assets or liabilities recorded at fair value through profit or loss, thus making hedge accounting unnecessary; – Derivatives used to hedge risk that are not considered effective hedges under IAS 39; – Derivatives used for «trading Trading derivatives are recorded

at fair value, the results of which are determined on a daily basis and recognised in income and expenses for the year, under «Income from assets and liabilities evaluated at fair value through profit or loss». Positive and negative revaluations are recorded under «Financial assets at fair value through profit or loss» and «Financial liabilities at fair value through profit or loss», respectively.

1.9. LOANS TO CLIENTS AND RECEIVABLES FROM OTHER DEBTORS (ACCOUNTS RECEIVABLE)

Loans to clients and receivables from other debtors are the financial assets corresponding to provisions of cash, goods or other services to a certain entity by the Bank. This concept covers the typical activity of granting loans to clients, as well as the creditor positions arising from operations with third parties carried out as part of the institution's activities.

The measurement of value in loans to clients and receivables from other debtors is as follows:

- On the initial recognition date, the financial assets are recorded at par value and may not on that date or on the date on which a subsequent recognition is made be included or recognised in the remaining categories of financial assets, in conformity with Banco de Portugal Notice 1/2005.

- The interest component, including that relative to any premiums/discounts, should be disclosed in the accounts autonomously in the respective net income accounts.

- The value of assets included in this category is subject to correction, in accordance with the criterion of rigour and prudence, so that they reflect their realisable value at all times.

- The correction referred to in the paragraph above cannot be less than that established in Banco de Portugal Circular Letter 02/2014/DSP.

- For the purpose of constituting general provisions, mentioned in the preceding paragraph, the total loans granted by the companies is to be considered, including other liabilities assumed with third parties, such as guarantees or other similar instruments.

1.10. REPOS

Securities sold under repurchase agreement are kept in the portfolio where they were original recorded. The funds received are recorded in their own liability account on the settlement date, the interest value being recognised on an accrual basis. The par value of securities lent is recognised in a specific off-balance sheet item.

1.11. IMPAIRMENTS

All loans are recorded at par value in agreement with Notice 1/2005 of Banco de Portugal. Resulting impairments are in line with the rules laid down in Instruction 5/2013 and in Circular Letter 02/2014/DSP.

The current impairment system checks all the analysed positions individually. The following credit transactions are tested individually for impairment:

- Of a group of clients whose current exposure is more than 5 % of own funds;
- Of a group of clients whose default credit exceeds 50 000 EUR.

The following are taken into consideration in the calculation of individual impairment:

- Estimated business cash flows or client's other loans;
- Cash flows of building projects;
- Expected cash flows related to the execution /pledge of collateral;
- Estimated cash flows arising from calls on private guarantees;
- Cash flows generated by the execution of the financial assets of the debtor with the Bank to settle one-off authorised overdrafts and up to no more than 30 days and overdue loans, originated from contracted loans or otherwise.

When the calculation of individual impairments is nil, then the collective calculation must be provided. Credit ratings are used for the corporate segment, as provided by Ignios, between 1 and 10, with associated one-year probabilities of default. Level 1 stands for the highest probability of default (PD), of 25 %, and 10 stands for the lowest, of 0 %. The Bank added a level 0 to the above levels, with a PD of 100 % for credit default.

1.12. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale whenever it is determined that their book value will be recovered through their sale and not through their continued use.

Assets recorded in this category are measured at the lower of their acquisition cost and fair value, calculated based on the assessment of external independent internal or external experts, minus costs to be incurred in the sale.

1.13. OTHER PROPERTY, PLANT AND EQUIPMENT

Other property, plant and equipment are stated at acquisition cost (including directly attributable costs) minus accumulated depreciation and impairment losses.

Property, plant and equipment are depreciated on a straight-line basis over their expected useful life, within the limits shown in the table below. Using the prudence principle,

and in duly documented exceptional cases, the Executive Committee may decide on lower depreciation periods than those mentioned in the table below, but their tax effect will be considered as at the date on which the decision was made and measured in the appropriate asset account.

EQUIPMENT	YEARS
Vehicles	4 – 8
Furniture and material	8 – 16
Computer equipment	3 – 8
Other property, plant and equipment	5 – 50

Whenever the net book value of property, plant and equipment exceeds its recoverable amount, in accordance with IAS 36 – «Impairment of assets», an impairment loss is recognised in profit or loss. Impairment losses may also be reversed in profit or loss, if the recoverable value of the asset increases in subsequent periods.

1.14. INTANGIBLE ASSETS

The Bank and its subsidiaries record under this heading the costs with development of projects implemented and to be implemented, as well as the cost of software purchased, in either case when the expected impact extends beyond the period in which they are incurred.

Intangible assets are depreciated using the straight-line method, over their estimated useful life, which is, in general, three years.

1.15. OTHER FINANCIAL LIABILITIES – DEPOSITS FROM OTHER CREDIT INSTITUTIONS, DEPOSITS FROM CLIENTS, OTHER LOANS, AND OTHER

Other financial liabilities, which essentially include deposits from clients and deposits from central banks, are initially measured at fair value, which normally corresponds to the consideration received net of directly associated transaction costs.

Financial liabilities held for trading, in particular those resulting from short selling, and the adjustments thereof are recognised through profit or loss.

According to the fair value option, advocated by IAS 39, financial liabilities included under liabilities represented by securities and subordinated liabilities are classified as financial liabilities at fair value, through profit or loss, whenever they meet the classification requirements of this category, in particular due to the fact that they contain one or more embedded derivatives. These liabilities are initially measured at fair value, subsequent changes in fair value being recorded in profit or loss.

1.16. PROVISIONS AND CONTINGENT LIABILITIES

A provision is constituted when there is a present obligation (legal or constructive), arising from past events where future expenditure on resources is probable, and which may be determined reliably. The provision corresponds to the best estimate of any sums which would be necessary to disburse to settle the liability at the balance sheet date.

If the future expenditure on resources is not likely to occur, then this is a contingent liability. Contingent liabilities are only the object of disclosure, save if the possibility of their realisation is remote.

1.17. TAX ON PROFITS

All Group companies are taxed individually. Banco Carregosa and its subsidiary with head-office in Portugal are subject to the tax regime in the Corporate Income Tax Regime and to the Tax Benefit Charter.

1.18. RECOGNITION OF REVENUE AND COSTS

Revenue and costs are recognised over the life of the transactions and according to the accrual accounting principle, in other words, they are recorded as they are generated. Revenues are recognised to the extent that it is likely that the economic benefits flow to the company and the amount of the revenue can be measured. Interest accrued and not collected is reversed in the balance sheet after three months of maturity and are only recognised as revenue when they are actually received.

1.19. FEES AND COMMISSIONS FOR SERVICES PROVIDED

Carregosa Group charges commissions to its clients for providing a broad range of services. Commissions and immediately recognised as revenue, as they relate to specific or one-off services and are not associated to service provisions that are continued over time.

1.20. EMPLOYEE BENEFITS

Based on the Collective Labour Agreement for the Banking Sector (ACTV) as the reference for labour practices, Banco Carregosa made a commitment, exclusively for its employees not integrated in the National Pension System, to grant them or their families cash payments for old-age retirement, early retirement or disability or survivors' pension, by constituting a *Defined Benefit Pension Plan*. This Plan is in line with the ACTV and is subject to the requirements set by Banco de Portugal, in particular its Notice no. 12/2001 and any updates thereto.

To finance these liabilities, Banco Carregosa joined the Fundo de Pensões Horizonte – Valorização da Pensõesgere in 2004. In 2010, responding to the evolution of its obligations

and according to a policy of rigour and good coverage of the liabilities undertaken, the Bank decided to change the pension fund over to another managing entity, «BANIF AÇOR PENSÕES – Sociedade Gestora de Fundos de Pensões SA», subscribing three funds: the Aberto Optimize Capital Pensões Ações pension fund (30 %), the Aberto Optimize Capital Equilibrado pension fund (30 %), and the Aberto Optimize Capital Moderado pension fund (40 %).

Liability for services provided in the past by eligible employees is determined every year based on the date of admission at Banco Carregosa and not on the date on which the employee entered the banking sector. Consequently, the share of responsibilities relating to the period between the date of admission in the banking sector and the date of admission in the company will be chargeable to past employers, except if the latter have transferred the amount of their share of responsibility.

The recognised liabilities correspond to the difference between the current value of pension liabilities and the fair value of pension fund assets, taking into account adjustments relating to deferred actuarial gains and losses. The value of liabilities is determined on an annual basis by independent actuaries, using the «*Projected Unit Credit*» method, and actuarial assumptions regarded as appropriate. Liabilities are reviewed on the basis of a discount rate that reflects the market medium and long term interest rate for bonds listed in the Eurozone by companies rated as being of low risk.

In addition to pensions, as part of the fund's liabilities and for that group of employees, the Bank has also assumed a death grant.

Following an analysis of the current responsibilities and charges with medical assistance, in 2010 the Bank decided to outsource this benefit to Multicare, for all employees, at the same cost.

2. RISK MANAGEMENT

2.1. RISK MANAGEMENT FUNCTION

Risk management consists of the identification, evaluation, measurement, monitoring and control of all materially relevant risks to which the Group is exposed, in order to bring the exposure levels in line with the limits established in the RAS – *Risk Appetite Statement*.

The purpose of this is that the Bank will not be forced to change its strategy or incur in losses that materially affect its financial position. Thus, the risk management policy aims to maintain a balance between:

- Adequate level of capital (principle of solvency);
- Remuneration of risks assumed (principle of profitability);
- Maintaining a stable financing structure.

2.2. ORGANISATIONAL STRUCTURE OF RISK MANAGEMENT

Notwithstanding the ample management powers vested in the Executive Committee by the Board of Directors, including risk monitoring and management and capital allocation, the Board of Directors closely monitors the Bank's risks. It is responsible for analysing and approving, on a yearly basis, the strategy to be followed and the policies to be adopted by the Bank regarding the risks involved in its business, as generally provided for in Notices and Regulations issued by Banco de Portugal, in particular in connection with operating, reputational, legal, compliance and credit risks, and for defining the procedures to be implemented to assess, monitor and mitigate such risks. In this respect, it is for the Board of Directors to approve the main regulatory documents on risk measurement and mitigation matters, in particular the ICAAP and the Recovery Plan.

Given the importance of risk, the Executive Committee is particularly concerned with promoting a culture of careful risk evaluation among all departments and employees. However, the Bank also has a structure with specific functions in risk management.

This control and monitoring function of financial risks is assisted by the Asset and Liability Commission (ALCO), in an advisory capacity. The commission meets at least once a month and is formed by the following members: Executive Committee, the Directors of Private Banking, Financial, Risk, Sourcing and Management departments, and by the persons in charge of Portfolio Management Service. Recommendations are issued at these meetings on the collection and use of funds, through result-risk balance.

The Compliance, Risk and Internal Audit departments, who are part of the Internal Control Group, are in charge of risk monitoring, on a day-to-day basis, providing and compiling information for the Executive Committee and other bodies with relevant functions in the matters involved.

The functions of the Supervisory Committee and the Statutory Audit Firm are similar to those of Internal Control, but with a more general scope, longer time horizons, and a close link to the Board of Directors.

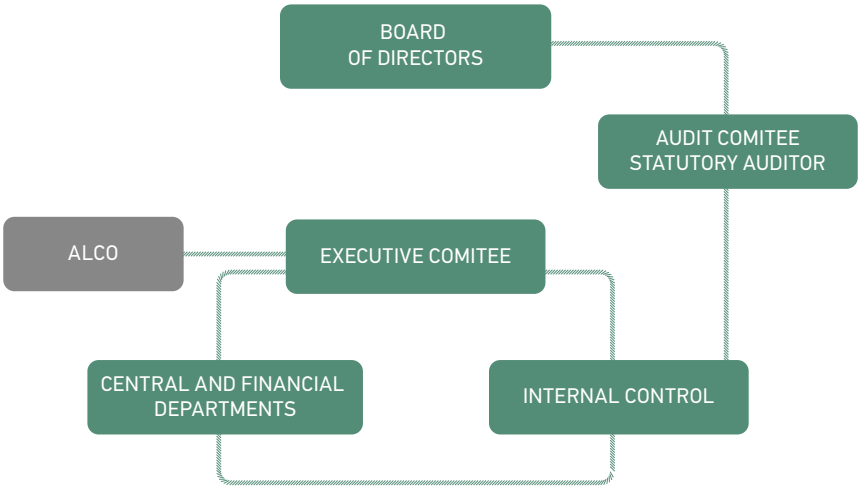
The Credit Committee was created in 2015. Composed by the Central Manager and the Risk and Financial managers, it is responsible for the analysis and monitoring of loans to clients operations, reporting their opinion to the Executive Committee.

As part of the Bank's Recovery Plan, the Recovery Team meets at least once every quarter, or when necessary. It is responsible for managing potential or actual serious risk situations,

and is formed by the Chairman of the Executive Committee, in charge of team coordination, by the Executive Committee members in charge of Risk and Financial, by the Central Managers and those responsible for the Financial, Risk, Compliance and Communication departments, in addition to other members invited to take part in functions.

Note also the Department of Accounting and Management Information, responsible for providing vital information to internal governance.

Internal control is in charge of carrying out projections and scenario analyses/stress tests, the determination of which results from the interactive work between the Executive Committee and the Risk Department, with the contributions of the remaining relevant bodies with broader risk management, control and monitoring functions. Similarly, the measurement of the adequacy of economic capital has material significance on internal governance. It is supplemented by a series of current information, easier to determine but more segregated by type of risk. The models used follow the theroretical bases generally accepted in the banking industry, strengthened by the good practices recommended by national and international regulators.



2.3. MATERIAL RISKS

The following are the risks considered as significant, in particular the Credit Risk, Market Risk, Operating risk, and Liquidity Risk.

Credit risk is the likelihood of negative impacts affecting the results or equity due to the inability of a counterparty to meet its financial commitments with the Bank, including any restrictions on the transfer of payments from abroad. Credit risk is found mainly in credit exposures, credit lines, guarantees, derivatives and the Bank's deposits in other credit institutions. Various methods are used to reduce this risk, in particular the need to deliver solid and liquid guarantees, the use of contractual netting agreements, and the determination and recognition of impairments. The determination of impairments leads to the decrease in value of a particular asset, thus anticipating a potential or effective loss. The posting of impairments can be regarded as a credit risk mitigation technique, enabling the adequacy of capital to meet the credit risk requirements and the actual financing requirement.

Market risk is the likelihood of negative impacts affecting the results or capital due to unfavourable movements in the market price of banking and trading portfolio instruments, including fluctuations in interest rates, foreign exchange rates, stock quotes and price of goods. Market risk results arise mainly from short-term exposures in debt securities and capital, coins, goods and derivatives, and are measured by calculating the value at risk for various time horizons, as defined in EU Regulation 575/2013. The ALCO (Assets and Liabilities Committee) defines the allocation of assets according to the various types of risk incurred. The Risk Department monitors the risks incurred and compliance with the rules on the delegation of powers regarding the current management of the Bank's investments.

Operational risk is the loss resulting from the inadequacy or failure of procedures, staff, internal systems or external events, and also legal risks, as laid down in EU Regulation 575/2013. Operational risk must be assessed at two different levels: technical and organisational. At a technical level, Banco Carregosa has also chosen to invest strongly in computerisation. As a result of this policy, the Bank has a solid computer system, highly flexible and reliable for the Bank's operating processes. The Bank's information systems contain sensitive and confidential private financial and personal data. Only the staff at Banco Carregosa is allowed to access these systems, in addition to subcontracted workers, under an appropriate framework, involved in the system's development or operation, or whose work involves the recording, review or retrieval of that data. This privilege is based on trust, good faith and is duly documented. At organisational level, in particular in the means and form used in reporting, monitoring risk and rules and policies related thereto, the Bank had to redefine and seek a new compromise between commercial interests and risks involved.

To monitor the risk, there is a model that allows the Bank to:

- Determine process-related risks, without regard to existing controls (inherent risk);
- Assess the exposure of various processes to risk, considering the influence of existing controls (residual risk);
- Identify the impact of opportunities to improve the reduction of the more significant exposures (objective risk).

To mitigate operational risk, other arrangements exist, in particular internal report, contingency plans, business continuity plan, internal audit activities, and staff training plans. So far, loss history is not substantial compared to the volume of transactions and/or total revenue of the Bank.

Liquidity risk reflects the Bank's inability to meet its obligations at maturity without incurring in significant losses resulting from the deterioration of the funding conditions (funding risk) and/or from the sale of its assets below market value (market liquidity risk).

The Basel Committee published in 2014 the definition of the liquidity coverage ratio (LCR), and subsequently the delegated act of the European Commission was adopted, which introduced, given the CRD IV/CRR, new metrics and calculation criteria to be implemented by the European Union.

Banco Carregosa favours deposit investments in Central Bank, in other credit institutions and in tradable securities, thus avoiding cash shortfalls. The Executive Committee and those involved in own portfolio management receive a report from the Risk Department every day, which includes:

- Allocation of assets, liabilities and off-balance sheet items;
- Estimates of minimum requirements for own funds;
- Concentration of counterparties;
- Liquidity profile;
- Other prudential indicators.

ALCO analyses the mismatch of asset and liability transactions on a monthly basis, and suggests alterations/corrections of deadlines.

3. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated balance sheet and statement of profit and loss accounts are compared as at 31 December 2016 and 31 December 2015, in conformity with the International Financial Reporting Standards, and consist of the following headings:

3.01. Cash and liquid assets in central banks — Note 01

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Cash	90 609	116 942
Liquid assets at demand with Banco de Portugal	32 941 158	47 385 953
	33 031 767	47 502 895

Demand deposits with Banco de Portugal include interest-earning deposits for meeting the legal requirements on minimum cash availability.

3.02. Liquid assets in other credit institutions — Note 02

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Demand deposits in credit institutions		
Residents	1 616 667	12 832 593
Non-residents	16 741 404	10 752 854
	18 358 071	23 585 448

3.03. Financial assets held for trading — Note 03

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Trading securities		
Securities	7 560 374	3 668 673
Derivative instruments with positive fair value	77 065	189 348
	7 637 439	3 858 021

This portfolio doubled in 2016 compared to the previous financial year, explained by purchases and sales arising from favourable market opportunities, the book trading positions of which are shown in detail in the table below:

FINANCIAL ASSETS HELD FOR TRADING

AS AT 31 DECEMBER 2016, THIS HEADING IS BROKEN DOWN AS FOLLOWS:

NATURE AND TYPE OF SECURITIES	ACQUISITION VALUE	BALANCE SHEET VALUE FAIR VALUE	CAPITAL		IMPAIRMENT
			GAINS	LOSSES	
DEBT INSTRUMENTS					
Issued by residents					
Of other resident issuers					
Non-subordinated debt	5 000 000	5 000 000	–	–	–
Issued by non-residents					
Of other foreign public issuers					
Sovereign bonds	380 452	437 149	56 697	–	–
Of other non-resident issuers					
Non-subordinated debt	340 113	346 223	6 132	22	–
	5 720 565	5 783 372	62 829	22	–
EQUITY INSTRUMENTS					
Issued by residents					
Of other resident issuers					
Shares	262 813	210 006	7 893	60 700	–
Issued by non-residents					
Of other non-resident issuers					
Shares	1 475 222	896 732	4 941	583 431	–
Participation units	27 375	27 244	179	310	–
Other	8 486	8 486	–	–	–
	1 773 896	1 142 468	13 013	644 441	–
OTHER					
Issued by non-residents					
Of other non-resident issuers					
Structured products	662 885	634 534	4 903	33 254	–
	662 885	634 534	4 903	33 254	–
DERIVATIVE INSTRUMENTS WITH POSITIVE FAIR VALUE					
Other					
Unrealised capital gains from futures	–	52 400	–	–	–
Unrealised capital gains from options	–	24 665	–	–	–
	–	77 065	–	–	–
TOTAL	8 157 346	7 637 439	80 745	677 717	–

3.04. Other financial assets at fair value through profit and loss Note 04

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Securities		
Issued by residents	6 832	3 567
	6 832	3 567

This amount refers to the contribution to the Work Compensation Fund. Fair value option, in accordance with IAS 39(9)(b), quotation being obtained from the website of the Work Compensation Fund.

3.05. Available for sale financial assets Note 05

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Issued by residents		
Debt instruments	10 612 131	3 983 127
Equity instruments	656 900	694 700
Other	2 402 585	7 121 622
	13 671 616	11 799 450
Issued by non-residents		
Debt instruments	12 254 563	28 067 344
Equity instruments	19 336	0
Other	465 812	464 392
	12 739 711	28 531 735
	26 411 328	40 331 185

As mentioned in the basis of presentation and significant accounting policies, assets are classified under this heading when they are not intended for divestment in the short term. Changes in fair value are recognised directly in equity under «Revaluation reserves». In 2016 the position of this portfolio dropped as a significant amount was added to the securities portfolio held to maturity.

AVAILABLE FOR SALE FINANCIAL ASSETS
AS AT 31 DECEMBER 2016, THIS HEADING IS BROKEN DOWN AS FOLLOWS:

NATURE AND TYPE OF SECURITIES	ACQUISITION VALUE	BALANCE SHEET VALUE FAIR VALUE	CAPITAL		IMPAIRMENT
			GAINS	LOSSES	
DEBT INSTRUMENTS					
Issued by residents					
Of Portuguese public debt					
Treasury Bonds	221 202	225 632	10 960	6 530	–
Treasury Bills	9 998 473	10 001 500	3 027	–	–
Of other resident issuers					
Non-subordinated debt	407 720	385 000	–	22 720	–
Subordinated debt	4 353 500	–	–	–	4 353 500
Issued by non-residents					
Of other non-resident issuers					
Non-subordinated debt	12 794 180	12 127 403	345 585	452 976	559 386
Subordinated debt	456 992	127 160	18 278	–	348 110
	28 232 067	22 866 695	377 850	482 226	5 260 996
EQUITY INSTRUMENTS					
Issued by residents					
Of other resident issuers					
Shares	2 440 174	656 900	–	1 247 760	535 514
Issued by non-residents					
Shares	–	19 336	19 336	–	–
	2 440 174	676 236	19 336	1 247 760	535 514
OTHER					
Issued by residents					
Of other resident issuers					
Other	1 883 758	2 402 585	518 827	–	–
Issued by non-residents					
Of other non-resident issuers					
Structured products	503 706	465 812	156	38 050	–
	2 387 464	2 868 397	518 983	38 050	–
TOTAL	33 059 705	26 411 328	916 169	1 768 036	5 796 510

3.06. Investments in credit institutions Note 06

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Investments		
In the country		
In other credit institutions	16 111 400	17 108 471
Income receivable	4 985	7 858
	16 116 385	17 116 330

3.07. Loans to clients Note 07

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Domestic loans		
Loans	22 358 730	27 699 222
Current account loans	43 314 251	46 990 333
Overdrafts in demand deposits	182 968	299 140
Foreign loans		
Loans	118 800	132 000
Current account loans	833 519	1 116 732
Overdue loans and interest	168 512	612 208
Income receivable	105 029	174 999
	67 081 808	77 024 634
Impairment for overdue loans and interest	(968 346)	(942 303)
	66 113 462	76 082 331

In 2016, despite the drop in the used balance of loan portfolio, it maintained its position in the Bank's activity as a whole, as regards new operations in each of the loan types offered by the Bank to its clients. Despite the focus on lending, the amount of loans granted dropped compared to 2015, since the new operations were not enough to replace the amounts settled in the meantime. Note that loans are mostly covered by real and personal guarantees that significantly exceed the outstanding amounts. Moreover, impairments are formed in conformity with Notice 5/2015 of Banco de Portugal.

3.08. Investments held to maturity

Note 08

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Investments held to maturity	11 011 818	0
	11 011 818	0

INVESTMENTS HELD TO MATURITY

AS AT 31 DECEMBER 2016, THIS HEADING IS BROKEN DOWN AS FOLLOWS:

NATURE AND TYPE OF SECURITIES	PAR VALUE	ACQUISITION VALUE	EFFECTIVE RATE	BALANCE SHEET VALUE AMORTISED COST
DEBT INSTRUMENTS				
Issued by residents				
Of other resident issuers				
Non-subordinated debt				
EGLPL 5,50 04/19	2 000 000	2 000 000	5.67%	2 021 599
Issued by non-residents				
Of other non-resident issuers				
Non-subordinated debt				
BANBRA 3,75 07/18	1 600 000	1 516 000	6.10%	1 571 831
TRAFIG 5,00 04/20	1 000 000	915 000	7.47%	962 995
BNDES 3,625 01/19	2 000 000	1 910 000	5.37%	2 001 875
BANBRA 3,75 07/18	400 000	392 500	4.62%	401 405
BCOBMG 8,00 04/18	5 976 663	5 976 663	8.24%	4 052 113
TOTAL	12 976 663	12 710 163		11 011 818

3.09. Hedging derivatives

Note 09

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Hedging derivatives		
Positive fair value – Cash flow hedge	129 841	0
	129 841	0

3.10. Non-current assets held for sale

Note 10

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Non-current property, plant and equipment held for sale		
Buildings	85.680	85.680
	85.680	85.680

This corresponds to the purchase price of a property acquired to recover a loan.

3.11. Other property, plant and equipment

Note 11

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Other property, plant and equipment		
Buildings	5 095 200	525 290
Equipment	6 029 642	5 519 178
Finance lease assets	368 570	368 570
Property, plant and equipment in progress	223 953	0
	11 717 384	6 413 037
Accrued amortisations		
Buildings	(75 489)	(44 970)
Equipment	(4 872 104)	(4 522 350)
Finance lease assets	(35 935)	(30 407)
	(4 983 528)	(4 597 727)
	6 733 856	1 815 311

Movements and balances as at 31 December 2016 under the headings «Other property, plant and equipment» and «Intangible assets», including amortisations and impairment adjustments are shown on the map in the annex entitled «Property, plant and equipment and intangible assets as at 31 December 2016».

3.12. Intangible assets Note 12

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Goodwill	200	200
Other intangible assets		
Automatic data processing system (software)	2 439 863	2 388 762
Other	272 187	242 529
	2 712 249	2 631 491
Accrued amortisations		
Automatic data processing system (software)	(2 329 404)	(2 217 658)
Other	(220 671)	(201 002)
	(2 550 075)	(2 418 660)
	162 174	212 831

Despite a slight increase in this asset component, in net terms, note the investment in information systems to support the Bank's business.

3.13 Current tax assets Note 13

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Current tax assets		
Recoverable corporate income tax	289 411	0
	289 411	0

3.14. Deferred tax assets Note 14

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Deferred tax assets		
Temporary differences		
Property, plant and equipment / Intangible assets	31 171	55 933
Impairments	383 060	1 220 736
Tax losses	20 479	12 237
	434 710	1 288 906

This heading reflects only the impact of temporary income tax differences.

3.15. Other assets

Note 15

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Other liquid assets	53	53
Debtors and other investments		
Government sector	0	108 249
Miscellaneous debtors	4 356 853	5 346 450
Miscellaneous investments	10 100 467	4 013 383
Other assets	4 535 884	1 610 903
Other interest and similar income		
Of fixed income issued by residents		
Of Portuguese public debt	4 991	5 969
Of other residents	52 078	39 073
Other income receivable		
Other obligations	255 166	538 601
Fees for services provided	99 641	180 653
Costs with deferred charges		
Insurance	31 170	29 352
Other deferred charges	208 109	151 850
Asset value of pension fund	3 301 366	3 247 540
Other regularisation accounts	7 096 703	618 340
	30 042 480	15 890 416
Accumulated impairments		
Debtors and other investments (*)	(1 549 975)	(100 000)
	(1 549 975)	(100 000)
	28 492 505	15 790 416

(*) Following an extra-judicial agreement signed at the end of 2016, impairment in the amount of 1.45 million EUR was recognised, which includes, on the recommendation of Banco de Portugal, 500 million EUR on amounts receivable up to 2019, of which 50 million EUR were received in early 2017.

Following the above extra-judicial agreement, the sale/purchase contract of a 10 % holding in the equity of a credit institution, the head-office of which is abroad, was terminated, and the advance payment of 50 million EUR was refunded in early 2017.

3.16. Deposits from central banks Note 16

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Deposits from Banco de Portugal		
Other deposits – Loans	0	2 010 000
Interest on deposits from Banco de Portugal		
Loans	0	3 878
	0	2 013 878

3.17. Financial liabilities held for trading Note 17

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Derivative instruments with negative fair value	39 256	470 404
	39 256	470 404

Unrealised losses intended to hedge part of the exposure of the portfolio in USD.

3.18. Deposits from other credit institutions Note 18

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Loans and deposits from domestic credit institutions		
Deposits	13 102 509	19 247 272
Loans	85 043	42 198
Other deposits	2 285	772
	13 189 838	19 290 242
Loans and deposits in foreign credit institutions		
Deposits	403 300	387 518
Loans	1 208 293	5 397
	1 611 593	392 916
	14 801 430	19 683 158

3.19. Deposits from clients and other loans

Note 19

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Deposits from clients		
Deposits		
Of residents		
Demand	49 308 043	44 875 632
Term	70 757 857	76 360 245
Of non-residents		
Demand	16 563 076	19 689 740
Term	5 444 715	19 855 664
	142 073 694	160 781 281
Interest on deposits from clients		
Deposits		
Of residents	381 383	404 534
Of non-residents	23 282	82 054
	404 665	486 589
	142 478 356	161 267 870

3.20. Provisions

Note 20

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Provisions for general credit risks		
Guarantees, commitments	10 046	47 813
	10 046	47 813

3.21. Current tax liabilities

Note 21

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Current tax liabilities		
Corporate income tax payable	539 184	144 870
Other	15 002	0
	554 186	144 870

3.22. Other liabilities Note 22

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Suppliers	203 188	75 159
Suppliers – finance lease assets	35 125	91 251
Creditors – trading in securities	176 593	569 389
Other creditors	380 336	257 327
Futures	4 627 533	1 211 103
Other deposits	6 931 652	5 742 856
VAT payable	68 242	0
Withholding and other taxes payable to the State	372 580	446 411
Contributions to Social Security	76 362	77 061
Contributions to other health systems	4 010	4 351
Unions	752	809
	12 876 372	8 516 072
Liabilities relating to pensions and other benefits	3 492 230	3 380 684
Charges payable		
Staff costs	519 041	532 234
Other charges	136 077	214 036
	655 118	746 270
Other revenue with deferred income	7 773	6 161
Other operations to be regularised	5 402 221	712 331
	22 433 715	13 361 518

The amount stated under «Other deposits» refers to the financial balances of clients arising from derivative transactions invested in the liquidity of portfolio management contracts.

«Other operations to be regularised» includes transactions for the purchase of securities made at the end of the year, pending settlement at the begining of the following financial year.

3.23. Equity attributed to the Group Note 23

The movements and balances as at 31 December 2016 under the equity headings are presented in the annex «Statement of changes in equity capital».

3.24. Minority interests

Note 24

Minority interests in 2016 were calculated according to the following table:

SUBSIDIARIES	EQUITY	% MINORITY INTERESTS	MINORITY INTERESTS
CoolLink, Lda	164 894	50%	82 447
TOTAL	164 894		82 447

3.25. Financial margin

Notes 25 and 26

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Interest and similar income from:		
Deposits in central banks	194	640
Deposits and investments in other credit institutions	3 880	2 783
Interest on deposits in credit institutions	131 297	621 440
Loans to clients	3 588 475	3 641 653
Overdue loans	233 675	144 091
Other financial assets	2 218 829	2 493 824
	6 176 350	6 904 431
Interest and similar costs on:		
Deposits from Banco de Portugal	(63 060)	(12 743)
Deposits from other credit institutions	(103 045)	(113 499)
Interest from creditors and other deposits		
Deposits from clients	(921 882)	(1 280 976)
Liabilities held for trading	(1 761)	(14 303)
Other interest and similar costs	(104 055)	(5 529)
	(1 193 803)	(1 427 050)
	4 982 547	5 477 381

The financial margin decreased slightly in 2016 compared to the same period in the previous year, largely due to the decrease in interest on liquid assets in other credit institutions and on other financial assets not totally offset by the drop in interest paid on borrowings.

3.26. Income from equity instruments — Note 27

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Available for sale financial assets		
Issued by residents		
Participation units	95 200	125 177
	95 200	125 177

These results arise from the distribution of dividends of the investment fund Retail Properties, corresponding to 0.015 EUR and 0.0184 EUR, respectively, in 2016 and 2015, per unit held.

3.27. Revenue and charges – fees/commission services — Notes 28 and 29

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Income – services and fees/commissions from:		
Guarantees and sureties	100 581	40 719
Deposits and values under custody	21 711	19 333
Collection of securities	69 064	111 476
Administration of securities	866 417	967 653
Collective investment undertakings	198 937	140 010
Other services provided	348 462	2 128 615
Operations carried out on behalf of third parties	2 581 117	2 423 641
Other fees/commissions received	1 175 331	234 415
	5 361 619	6 065 862
Charges – services and fees/commissions for:		
Deposits and values under custody	(50 685)	(57 260)
Administration of securities	0	(96)
Other banking services provided by third parties	(21 819)	(28 086)
Operations carried out by third parties	(1 998 689)	(1 277 195)
Other fees/commissions paid	0	(6 081)
	(2 071 193)	(1 368 718)
	3 290 426	4 697 144

In net terms, there was a year-on-year overall variation of -29.95 %, mostly due to an 11.61 % drop in income from services and commissions, and a 51.35 % increase in service and commission charges. As regards the former, other services provided alone justify the variation as a result of the exceptional and one-off operation in 2015, although it was in part offset by an equally exceptional situation associated with a credit operation in 2016. As regards services and fees/commissions charges, in connection with operations carried out by third parties, which increased 56.49 %, they accommodate income from transactions carried out on behalf of third parties, which remained at the same level as in 2015.

3.28. Income from assets and liabilities evaluated at fair value — Note 30

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Gains from:		
Financial assets held for trading		
Securities	3 117 089	2 219 071
Derivative instruments	3 084 904	4 577 767
Financial liabilities held for trading (non-derivative inst.)	0	155 575
	6 201 993	6 952 413
Losses from:		
Financial assets held for trading		
Securities	(3 042 284)	(2 341 817)
Derivative instruments	(3 273 104)	(7 312 128)
Losses Financial liabilities held for trading (non-derivative)	0	(6 001)
	(6 356 518)	(9 659 946)
	(113 395)	(2 707 533)

The result continued to be negative in 2016, although not as much as in 2015. Those losses, however, were offset by the results of currency revaluation and reserves, as per policy presented above.

3.29. Income from available for sale financial assets

Note 31

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Gains from:		
Available for sale financial assets		
Securities		
Issued by residents		
Debt instruments	3 032	165 460
Other (*)	2 324 472	251 541
Issued by non-residents		
Debt instruments	904 263	3 227
Equity instruments	22	0
Other	0	33 107
	3 231 789	453 334
Losses from:		
Available for sale financial assets		
Securities		
Issued by residents		
Debt instruments	(64 655)	(38 000)
Equity instruments	0	(19)
Issued by non-residents		
Debt instruments	(383 360)	(70 012)
	(448 015)	(108 031)
	2 783 775	345 303

(*) According to the applicable rules, this heading shows the amounts relating to the derecognition of financial assets, normally through their disposal. Considering the normally longer period in which investment are made for this portfolio, the disposal of securities generally results from particularly favourable opportunities found for their disposal. Therefore, 2016 saw a positive result from the sale of 4 304 243 participation units of the Retail Properties Real Estate Fund, which alone represented a result of 2.3 million EUR.

3.30. Income from currency revaluation Note 32

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Gains from:		
Exchange differences		
Other items in foreign currency – foreign currencies	1 448 852	5 774 227
Losses from:		
Exchange differences		
Other items in foreign currency – foreign currencies	(1 487 550)	(3 303 617)
	(38 697)	2 470 609

The above results are largely due to the exchange rate fluctuation of the US dollar against the EUR, the currency to which the Bank was more exposed in each of the financial years. In 2016, exchange behaviour was much more stable than in 2015.

3.31. Income from the disposal of other assets Note 33

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Gains from:		
Disposal of loans to clients	0	386 057
Non-financial assets	10 500	15 802
Other gains in financial transactions	3 990	0
	14 490	401 859

3.32. Other operating income

Note 34

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Gains from:		
Other gains and operating income	58 167	264 846
	58 167	264 846
Losses from:		
Other taxes	(209 947)	(173 306)
Donations and membership fees	(73 995)	(91 988)
Contributions to the Deposit Guarantee Fund (FGD)	(80)	(4 000)
Investor Compensation Scheme (SII)	(4 000)	(2 000)
Failure of computer systems or telecommunications	(2 919)	(7 122)
Other costs and operating expenses	(330 202)	(133 926)
	(621 143)	(412 342)
	(562 976)	(147 496)

3.33. Staff costs

Note 35

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Remuneration		
Of management and supervisory bodies	(439 829)	(501 844)
Of employees	(2 766 169)	(2 636 906)
Mandatory social security contributions		
Remuneration-related charges	(779 274)	(767 088)
Other mandatory social security contributions		
Pension fund	(73 426)	(101 247)
Insurance against accidents at work	(16 211)	(15 496)
Other staff costs	(274 598)	(168 701)
	(4 349 508)	(4 191 282)

3.34. General administrative costs

Note 36

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Supplies:		
Water, electricity and fuel	(190 231)	(205 401)
Consumables	(10 957)	(9 895)
Publications	(7 029)	(7 480)
Hygiene and cleaning products	(13 023)	(11 421)
Other third party supplies	(138 796)	(199 266)
	(360 037)	(433 464)
Services:		
Leases and rentals (*)	(281 675)	(327 696)
Communications	(262 701)	(286 209)
Travel, hotel and representation costs	(314 382)	(346 536)
Advertising and publishing	(506 166)	(510 827)
Repairs and maintenance	(133 191)	(140 644)
Insurance	(51 524)	(47 643)
Specialised services		
Retainers and fees	(108 982)	(511 260)
Legal, litigation and notaries	(9 440)	(18 958)
IT services	(288 582)	(196 702)
Security and surveillance	(17 856)	(18 059)
Cleaning services	(1 844)	(1 630)
Information	(473 427)	(449 144)
Databases	(50 135)	(52 012)
Other specialised services		
Advisory services	(2 676)	(848)
Consultants and external auditors	(500 547)	(600 526)
Other third party services		
Public relations and advisory services	(59 976)	(42 087)
Banco de Portugal – Bpnet Service	(2 899)	(2 898)
Housekeeping services	(6 900)	(7 060)
Temporary manpower	(10 004)	0
Other	(43 838)	(20 200)
	(3 126 743)	(3 580 938)
	(3 486 780)	(4 014 402)

(*) Effect in the last quarter of 2016 resulting from the acquisition of buildings for own use.

In compliance with Chapter VI Article 66-A(1)(b) of the C.S.C. (Companies Code), the following fees were posted for Banco Carregosa, there being no other type of service provision:

STATUTORY AUDIT FIRM	
Statutory audit	60 200
Assurance and reliability services	7 950
Other (CoolLink)	1 700
	69 850

3.35. Depreciation and amortisations — Note 37

As mentioned in Note 10, balances and transactions under «Other property, plant and equipment» and «intangible assets», including amortisations and impairment adjustments are shown in Annex IV.

3.36. Provisions net of write-offs — Note 38

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Gains from:		
Provisions for general credit risks	0	122 190
Provisions for guarantees and commitments	90 515	0
Losses from:		
Provisions for general credit risks	0	(18 948
Provisions for guarantees and commitments	(52 748)	0
	37 767	103 242

3.37. Loan impairment net of reversals and recoveries — Note 39

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Regular loans	(36 769)	(268 912)
Overdue loans (includes other debtors)	(1 439 248)	(50 376)
	(1 476 017)	(319 288)

3.38. Impairment of other financial assets net of reversals and recoveries Note 40

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Available for sale financial assets		
Debt instruments	(1 073 379)	(345 128)
Equity instruments	0	(114 000)
	(1 073 379)	(459 128)

IMPAIRMENT

2016			2015
TITLE	VALUE	VALUE	TITLE
Debt instruments			Debt instruments
BESPL 7,25 11/23	210 700	345 128	Grupo Bes
ESFG 6,875	1 235		
OGXPBZ 8,50 06/15	318 594		Equity instruments
OI 5,75 02/22	601 521	114 000	Pagaqui
OIBRBZ 5,75 02/22 (Reversal)	-58 671		
	1 073 379	459 128	

3.39. Impairment of other assets net of reversals and recoveries Note 41

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Invest. in subsidiaries, assoc. companies and joint ventures	0	81 835
	0	81 835

3.40. Taxes Note 42 e 43

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Current	(239 935)	(287 030)
Deferred	366 540	12 237
	126 605	(274 793)

Current taxes recognised in 2016 in the amount of 239 935 EUR result from income tax calculated according to the tax law applicable to Banco Carregosa, totalling 232 426 EUR, and to the participated company CoolLink, in the amount of 7 512 EUR.

Deferred taxes recorded in 2015, in the amount of 12 237 EUR relate to tax losses calculated for CoolLink.

3.41. Off-balance sheet accounts

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Commitments to third parties:		
Irrevocable commitments		
Potential commitments to the Investor Compensation Scheme (SII)	358 569	337 401
Revocable commitments		
Credit lines	14 485 425	13 574 988
Account overdraft facilities	17 032	860
	14 861 026	13 913 249
Liability for service provision:		
Of deposits and values under custody	399 045 419	401 343 248
Administrative amounts of the institution	124 243 186	115 230 551
Other	0	(0)
	523 288 605	516 573 798
Services provided by third parties:		
For deposits and values under custody	316 188 895	303 307 036
	316 188 895	303 307 036
Foreign exchange transactions and derivative instruments:		
Foreign exchange forward transactions – trading	0	250 000
Futures and forward options – trading	11 300 044	24 966 927
Options – trading	140 077	172 642
	11 440 121	25 389 569
Guarantees provided and any other services:		
Personal guarantees	11 090 313	6 316 152
Real guarantees	10 180 000	180 000
	21 270 313	6 496 152
Guarantees received:		
Personal guarantees	64 356 150	63 700 534
Real guarantees	178 964 929	180 781 226
	243 321 079	244 481 759
Other off-balance sheet items:		
Write-offs	1 340 261	1 340 261
Accrued interest	43 649	21 421
Miscellaneous accounts	(1 131 753 949)	(1 111 523 246)
	(1 130 370 038)	(1 110 161 564)

3.42. Contingent liabilities originated by the Resolution Fund

In accordance with Decree-law 24/2013, establishing the operation of the Resolution Fund (hereinafter referred to as «RF»), the Bank has since 2013 made an initial contribution followed by the mandatory annual contributions, as stated in articles 3 and 4 of said diploma.

In a circular letter in 2015, Banco de Portugal explained that the periodic contribution to the RF should be regarded as a cost in the year in which it is paid, that is, in late April of each year.

In a press release issued in 2015, the RF clarified that a special contribution to finance the resolution measure applied to BES is unlikely to happen. As such, and as mentioned in the press release, the possibility of a special contribution seems quite remote.

Pursuant to the previous paragraph and as reported in December 2015, Banco de Portugal decided to hold the FR liable for any negative effects of future decisions arising from the Banco Espirito Santo SA resolution process, which entails responsibilities and contingencies. According to the publicly available information, the sum of claims is high and the amount of claimed losses that the FR may incur remains unclear, as well as any losses arising from the sale of Novo Banco.

A similar situation was also clarified by Banco de Portugal on 19 and 20 December 2015 regarding BANIF.

Accordingly, as at 31 December 2016 there is no estimate as to the amount of possible losses in connection with the sale of Novo Banco, with the claims relating to Banco Espirito Santo, and the possible losses resulting from the resolution of BANIF. Given the measures announced in September 2016, special or extraordinary contributions from the Bank to finance these resolution measures are not expected.

Related parties:

As at 31 December 2016 and 2015, the Bank is controlled by the following shareholders, with a holding of more than 2 %:

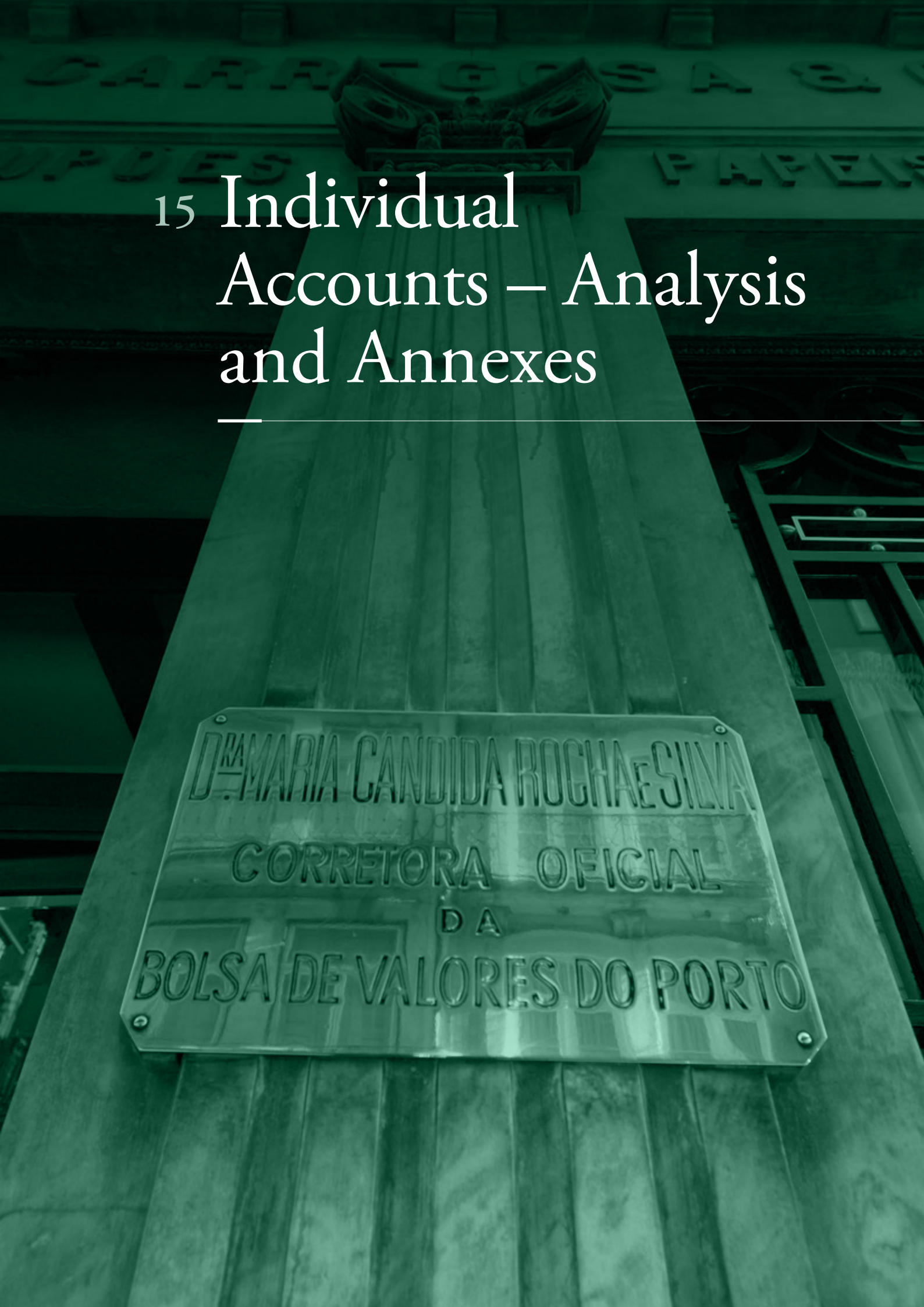
SHAREHOLDING COMPOSITION:			31/12/2016
	NO. OF SHARES	%	VOTING RIGHTS
Maria Cândida Cadeco da Rocha e Silva	58 649 733	29.32	58 649
Jorge Manuel da Conceição Freitas Gonçalves	37 768 937	18.88	37 768
Amorim Projetos, SGPS, SA	15 880 743	7.94	15 880
António José Paixão Pinto Marante	10 000 000	5.00	10 000
Grupo Norwich, SA	9 999 990	4.99	9 999
Mauricio Zlatkin	9 999 000	4.99	9 999
Sophia Capital-Fundo Capital Risco	8 510 000	4.26	8 510
Imocarregosa-Gestão e Comercialização Imobiliária, S.A.	7 068 342	3.53	7 068
Ruasgest, SGPS, SA	4 764 223	2.38	4 764

SHAREHOLDING COMPOSITION:			31/12/2015
	NO. OF SHARES	%	VOTING RIGHTS
Maria Cândida Cadeco da Rocha e Silva	58 649 733	29.32	58 649
Jorge Manuel da Conceição Freitas Gonçalves	37 768 937	18.88	37 768
Amorim Projetos, SGPS, SA	15 880 743	7.94	15 880
António José Paixão Pinto Marante	10 000 000	5.00	10 000
Grupo Norwich, SA	9 999 990	4.99	9 999
Mauricio Zlatkin	9 999 000	4.99	9 999
Sophia Capital-Fundo Capital Risco	8 510 000	4.26	8 510
Imocarregosa-Gestão e Comercialização Imobiliária, S.A.	7 068 342	3.53	7 068
Ruasgest, SGPS, SA	4 764 223	2.38	4 764

Remuneration of the Board of Directors

The Board of Directors of the Bank was considered, in accordance with IAS 24, as the only «key» management members of the Bank. The remunerations earned by the Board of Directors during the years ended 31 December 2016 and 2015 are shown in Note 35 to this annex.

15 Individual Accounts – Analysis and Annexes



INDIVIDUAL BALANCE SHEET AS AT 31 DECEMBER 2016 AND 2015
AMOUNTS STATED IN EUR

		31/12/2016				01/01/2015
	NOTES	VALUE BEFORE PROVISIONS, IMPAIRMENTS AND AMORTI-SATIONS	PROVISIONS, IMPAIRMENTS AND AMORTI-SATIONS	NET VALUE	PREVIOUS YEAR (*)	(*)
		1	2	3 =1 - 2		
ASSETS						
Cash and liquid assets in central banks	1	33 031 686	–	33 031 686	47 502 888	1 566 250
Liquid assets in other credit institutions	2	18 343 694	–	18 343 694	23 529 925	26 449 520
Financial assets held for trading	3	7 637 076	–	7 637 076	3 858 017	4 804 337
Other financial assets at fair value through profit or loss	4	4 751	–	4 751	2 191	547
Available for sale financial assets	5	32 207 838	(5 796 510)	26 411 328	40 331 185	52 032 929
Investments in credit institutions	6	16,004 888	–	16 004 888	17 004 583	48 568 789
Loans to clients	7	67 081 808	(968 346)	66 113 462	76 082 331	50 730 981
Investments held to maturity	8	11 011 818	–	11 011 818	–	–
Assets under repurchase agreement		–	–	–	–	–
Hedging derivatives	9	129 841	–	129 841	–	–
Non-current assets held for sale	10	85 680	–	85 680	85 680	85 680
Investment properties		–	–	–	–	–
Other property, plant and equipment	11	11 512 507	(4 844 149)	6 668 358	1 781 721	1 783 937
Intangible assets	12	2 653 875	(2 496 841)	157 034	203 750	122 412
Investments in associated and subsidiary companies excluded from consolidation	13	25 000	–	25 000	25 000	314 378
Current tax assets	14	289 411	–	289 411	–	2 586 946
Deferred tax assets	15	414 231	–	414 231	1 276 669	246 475
Other assets	16	30 017 755	(1 549 975)	28 467 780	15 778 266	8 685 911
Total Assets		230 451 858	(15 655 821)	214 796 037	227 462 207	197 979 094

	NOTES	31/12/2016 VALUE BEFORE PROVISIONS, IMPAIRMENTS AND AMORTI-SATIONS	31/12/2016 PROVISIONS, IMPAIRMENTS AND AMORTI-SATIONS	31/12/2016 NET VALUE	PREVIOUS YEAR (*)	01/01/2015 (*)
		1	2	3 =1 - 2		
LIABILITIES						
Deposits from central banks	17			–	2 013 878	17 229 154
Financial liabilities held for trading	18			39 256	470 404	1 959 205
Other liabilities at fair value through profit or loss				–	–	–
Deposits from other credit institutions	19			14 800 312	19 682 386	692 621
Clients' deposits and other loans	20			142 478 359	161 267 872	120 336 085
Liabilities represented by securities				–	–	–
Financial liabilities associated to asset transfers				–	–	–
Hedging derivatives				–	–	–
Non-current liabilities held for sale				–	–	–
Provisions	21			10 046	47 813	151 056
Current tax liabilities	22			547 650	142 392	–
Deferred tax liabilities				–	–	–
Instruments representing equity				–	–	–
Other subordinated liabilities				–	–	–
Other liabilities	23			22 362 219	13 306 532	23 648 978
Total Liabilities				180 237 842	196 931 276	164 017 099
EQUITY	24					
Equity				20 000 000	20 000 000	20 000 000
Issue premiums				369 257	369 257	369 257
Other equity instruments				–	–	–
Revaluation reserves				(506 017)	(4 883 741)	(554 340)
Other reserves and retained earnings				15 045 980	14 227 997	13 151 031
Own shares				–	–	–
Income for the year				(351 025)	817 417	996 047
Interim dividends				–	–	
Total Equity				34 558 195	30 530 931	33 961 995
Total Liabilities and Equity				214 796 037	227 462 207	197 979 094

(*) Restated amounts

The Certified Accountant

The Board of Directors

INDIVIDUAL FINANCIAL STATEMENTS
31 DECEMBER 2016 AND 2015
AMOUNTS STATED IN EUR

	NOTES	31/12/2016	PREVIOUS YEAR(*)
Interest and similar income	25	6 175 624	6 900 543
Interest and similar costs	26	(1 193 803)	(1 427 050)
Financial Margin		4 981 821	5 473 493
Income from equity instruments	27	95 200	125 177
Income from services and fees	28	5 361 619	6 065 862
Charges – services and fees	29	(2 070 834)	(1 368 251)
Income from assets and liabilities evaluated at fair value through profit or loss	30	(113 754)	(2 707 533)
Income from available for sale financial assets	31	2 783 775	345 303
Income from foreign currency revaluation	32	(38 697)	2 470 609
Income from the sale of other assets	33	14,490	401 859
Other operating income	34	(610 384)	(168 857)
Operating Revenue		10 403 234	10 637 661
Staff costs	35	(3 842 764)	(3 744 658)
General administrative costs	36	(3 968 782)	(4 463 702)
Depreciation and amortisations	37	(556 957)	(573 157)
Provisions net of write-offs	38	37 767	103 242
Loan impairments net of reversals and recoveries	39	(1 476 017)	(319 287)
Impairment of other financial assets net of reversals and recoveries	40	(1 073 379)	(459 128)
Impairment of other assets net of reversals and recoveries	41	–	(81 835)
Pre-Tax Profit		(476 897)	1 099 136
Taxes		125 872	(281 719)
Current	42	(232 426)	(281 719)
Deferred	43	358 298	0
Profit After Income Tax		(351 025)	817 417

Of which: Net income after tax on discontinued operations
(*) Restated amounts

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The Board of Directors

STATEMENT OF OTHER COMPREHENSIVE INCOME
AMOUNTS STATED IN EUR

	31/12/2016	PREVIOUS YEAR
Consolidated Net Result for the Year	(351 025)	817 417
Items that will not be reclassified into profit or loss:		
Property, plant and equipment	3 984	(388)
Actuarial gains or losses (-) with defined benefit pension plans	566	80 920
Items that may be reclassified into profit or loss:		
Cash flow hedges	46 060	–
Available for sale financial assets	5 404 568	(5 498 373)
Income tax related to items that may be reclassified into profit or loss	(1 076 888)	1 169 361
Other Comprehensive Income	4 378 289	(4 248 481)
Total Comprehensive Income for the Year	4 027 072	(3 431 064)

The Certified Accountant

The Board of Directors

STATEMENT OF CASH FLOW FOR THE YEARS ENDED 31 DECEMBER 2016 AND 2015
AMOUNTS STATED IN EUR

	31/12/2016	PREVIOUS YEAR
CASH FLOWS FROM OPERATING ACTIVITIES :		
Interest and commissions receivable	11 959 632	13 391 163
Interest and commissions paid	(3 366 470)	(3 207 915)
Payments to employees and suppliers	(7 983 178)	(8 096 080)
Deposits from credit institutions and central banks	(8 137 814)	4 114 496
Other operating assets and liabilities	(7 223 873)	(18 267 521)
Other receipts from clients	(8 834 732)	15 949 262
Income taxes	(169 284)	2 586 786
Net Cash from Operating Activities	(23 755 720)	6 470 192
CASH FLOWS FROM INVESTMENT ACTIVITIES:		
Dividends received	–	–
Acquisition/Disposal of available for sale assets	18 281 046	5 743 855
Held-to-maturity investments	(11 011 818)	–
Acquisitions of property, plant and equipment and intangible assets	(5 396 878)	(751 928)
Disposal of property, plant and equipment and intangible assets	10 500	115 450
Investments in subsidiaries and associated companies	–	–
Net Cash from Investment Activities	1 852 851	5 107 377
CASH FLOWS FROM FINANCING ACTIVITIES :		
Capital increase	–	–
Dividends paid	–	–
Issue of securitised and subordinated debt	–	–
Remuneration paid on cash and other bonds	–	–
Remuneration paid on subordinated debt	–	–
Deposits from credit institutions (not associated with the main revenue-generating activities)	–	–
Net Cash from Financing Activities		
Net increase (decrease) of cash and cash equivalents	(21 902 869)	11 577 569
Cash and cash equivalents at the beginning of the year	87 989 801	76 412 232
Cash and cash equivalents at the end of the year	66 086 931	87 989 801
Cash and Cash Equivalents at the Begining of the Year	87 989 801	76 412 232
Cash and Cash Equivalents at Year-End	66 086 931	87 989 801
Cash and liquid assets in central banks	33 031 686	47 502 888
Liquid assets in other credit institutions	18 343 694	23 529 925
Investments in other credit institutions	16 004 888	17 004 583
Overdrafts in other credit institutions	(1 293 336)	(47 596)

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The Board of Directors

PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS AS AT 31 DECEMBER 2016 (INDIVIDUAL ACTIVITY) ANNEX IV

AMOUNTS STATED IN EUR

	AU 31/12/2015				
ACCOUNTS	GROSS VALUE	ACCRUED AMORTISATIONS	INCREASES ACQUISITIONS	DEPRECIATION	WRITE-OFFS (NET)
OTHER INTANGIBLE ASSETS					
Data processing systems (software)	2 334 331	(2 172 108)	47 357	(104 061)	0
Other intangible assets	242 529	(201 002)	575	(19 669)	0
Intangible assets in progress	0	0	29 083	0	0
	2 576 861	(2 373 110)	77 015	(123 730)	0
PROPERTY, PLANT AND EQUIPMENT					
Buildings	522 936	(42 616)	4 569 930	(30 519)	0
Equipment	5 377 388	(4 414 149)	525 981	(397 179)	0
Financial lease assets	368 570	(30 407)	0	(5 529)	0
Property, plant and equipment in progress	0	0	223 953	0	0
	6 268 894	(4 487 172)	5 319 863	(433 227)	0
TOTALS	8 845 754	(6 860 283)	5 396 878	(556 957)	0

The Certified Accountant

The Board of Directors

	SETTLEMENTS							
TRANSF.	GROSS VALUE	DEPRECIATION	ACCRUED AMORTISATIONS	ADJUSTED ACQUISITION VALUE	ADJUSTED DEPRECIATION	ADJUSTED ACCRUED AMORTISATIONS	NET VALUE ON 31/12/2016
0	0	0	0	2 381 689	(104 061)	(2 172 108)	105 519
0	0	0	0	272 187	(19 669)	(201 002)	51 516
0	0	0	0	0	0	0	0
0	0	0	0	2 653 875	(123 730)	(2 373 110)	157 035
0	0	0	0	5 092 866	(30 519)	(42 616)	5 019 731
0	0	0	0	5 903 369	(397 179)	(4 414 149)	1 092 040
0	0	0	0	368 570	(5 529)	(30 407)	332 634
0	0	0	0	223 953	0	0	223 953,17
0	0	0	0	11 588 757	(433 227)	(4 487 172)	6 668 358
0	0	0	0	14 242 632	(556 957)	(6 860 283)	6 825 393

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2016 (INDIVIDUAL ACTIVITY)
AMOUNTS STATED IN EUR

	CAPITAL	ISSUE PREMIUMS	REVALUATION RESERVES
BALANCES AS AT 31 DECEMBER 2014	20 000 000	369 257	(554 340)
Changes in fair value reserves			(5 498 761)
Deferred tax			1 169 361
Actuarial gains or losses (-) with pension plans			
Net result of 2015			
Comprehensive income for 2015			
Distribution of dividends			
Other changes in equity			
BALANCES AS AT 31 DECEMBER 2015	20 000 000	369 257	(4 883 741)
Changes in fair value reserves			5 454 612
Deferred tax			(1 076 888)
Actuarial gains or losses (-) with pension plans			
Net result of 2016			
Comprehensive income for 2016			
Distribution of dividends			
Other changes in equity			
BALANCES AS AT 31 DECEMBER 2016	20 000 000	369 257	(506 017)

The Certified Accountant

The Board of Directors

LEGAL RESERVES	OTHER RESERVES	RETAINED EARNINGS	RESULT OF THE PERIOD	TOTAL EQUITY
2 157 543	10 352 954	640 535	996 047	33 961 995
				(5 498 761)
				1 169 361
	80 920			80 920
			817 417	817 417
				(3 431 064)
				0
3 674	33 068	959 304	(996 046)	0
2 161 217	10 466 941	1 599 839	817 417	30 530 931
				5 454 612
				(1 076 888)
	566			566
			(351 025)	(351 025)
				4 027 264
				0
81 742	735 675		(817 417)	(0)
2 242 959	11 203 182	1 599 839	(351 025)	34 558 195

ANNEX TO THE INDIVIDUAL FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016

[UNLESS EXPLICITLY STATED OTHERWISE, AMOUNTS ARE EXPRESSED IN EUR]

1. GENERAL INFORMATION

Banco L.J. Carregosa, SA (Bank or Carregosa) is a commercial bank with head-office in Portugal, at Av. da Boavista nº 1083, in Porto, duly authorised by the Portuguese authorities. It began to operate as a commercial bank in November 2008, following the merger of the brokerage company L.J. Carregosa and Personal Value, by notarial deed on 17 May that year.

The Bank has a network of three agencies in Portugal.

2. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1. BASIS OF PRESENTATION AND COMPARABILITY

As of 1 January 2016, following the publication of Notice 5/2015, of 30 December, of Banco de Portugal, the individual financial statements of the Bank were processed in conformity with the International Financial reporting Standards (IAS/IFRS) adopted in the European Union, which were already used in the preparation and presentation of its consolidated financial statements since 2005.

Following this change, the portfolio of loans granted, guarantees provided and other similar operations became subject to impairment losses calculated in accordance with the requirements provided for in International Accounting Standard 39 – Financial Instruments: Recognition and Measurement (IAS 39), in lieu of the posting of provisions for specific risks and for general credit risks and country risk, as per Notice 3/95, of 30 June, of Banco de Portugal.

To that end, the Individual Balance Sheet as at 31 December 2015 and the Individual Statements of Profit and Loss, the Statement of Comprehensive Income and the Statement of Changes in Equity for the period ended 31 December 2015 were restated.

Reconciliation of Transition Adjustments to IFRS

The Bank adopted the IFRS on 1 January 2016, and applied these standards retrospectively to all periods reported, the impact of which is as follows:

In the balance sheet
In assets – loans to clients (-762 706 EUR)
In liabilities – provisions (-762 706 EUR)

In the statement of profit and loss
Provisions net of write-offs (+268 911 EUR)
Loan impairment net of reversals and recoveries (-268 911 EUR)

Comparability with Previous Years

Change in Accounting Policy (IAS 39)

Impairments on Loans to Clients

With the entry into force of Notice 5/2015, as of 1 January 2016, the Banks were required to prepare their financial statements irrespective of their basis of presentation (individual or consolidated), in accordance with the International Accounting Standards (IAS/IFRS) as adopted in the European Union, replacing the Adjusted Accounting Standards (NCA).

This change affected the form of calculating impairments on loans to clients. In accordance with IAS 8, this change in policy is applied retrospectively. However, insofar as there are no materially relevant impacts on the differences determined in 2015, the comparisons thereof were not restated.

The remaining accounting practices and policies have not changed as a result of this notice.

Structured Deposits

The Bank offers to its clients structured term deposits through a basket of specific products with minimum guaranteed remuneration and a maximum return conditional on the valuation of this basket at maturity. At the same time, the Bank contracts similar options to hedge against the risk of the price increase of this basket, to ensure that it will receive the value of the option should it have to pay the client an interest greater than the minimum interest.

Up to 2016, term deposit interest at the minimum rate and the change in option price were recognised through profit or loss as gains or losses in the trading portfolio, and only the minimum accrued interest rate was recognised (in the active term deposits at a rate of 0.25 %/year).

In 2016, hedging items, more specifically cash flow hedging (interest payable to clients at maturity), were recorded under «Hedging derivatives at positive fair value». The premium was deferred and recognised as spent over the term deposit period. Changes in option price over time and the expected evolution of interest payable were recognised under revaluation reserves. As the differences achieved in 2015 were not significant, comparative values were not restated.

2.2. SUMMARY OF THE SIGNIFICANT ACCOUNTING POLICIES

The most significant accounting polices used in the preparation of the financial statements were as follows:

2.2.1. ACCRUAL ACCOUNTING

The Bank adopts the accrual accounting principle for most of the financial statement headings. As such, revenue and costs are recognised as they are generated, regardless of when they are paid or received.

2.2.2. TRANSACTIONS IN FOREIGN CURRENCY

Assets and liabilities expressed in foreign currency are converted into euro at the exchange rate (fixing) at the balance sheet date, which are converted at the average exchange rate of the month indicated by Banco de Portugal.

Revenue and costs relating to transactions in foreign currency are recognised in the period in which they occur, according to the effect that these transactions have on the currency position. On the date of the agreement, spot and forward purchases are posted to the currency position.

2.2.3. INVESTMENTS IN CREDIT INSTITUTIONS IN THE COUNTRY AND ABROAD

These instruments are measured at fair value, which is normally the consideration paid, net of directly associated transaction costs.

2.2.4. FINANCIAL ASSETS HELD FOR TRADING

This heading includes the financial assets purchased with the purpose of being sold in the short term and of obtaining a profit due to fluctuations in price or trader's margin, including all derivative financial instruments that are not classified as hedging operations.

Financial assets under this category are recognised at their fair value, and the gains and losses arising from the subsequent valuation are reflected in the results for the period.

2.2.5. FINANCIAL ASSETS HELD FOR SALE

This heading considers the instruments that can be sold in response to or in anticipation of liquidity needs or changes in interest rate, exchange rates or changes in their market price, and that have not been recognised in any other category of financial assets. Equity instruments, investments in participation units of funds and debt instruments are included herein.

These assets are measured at fair value and any related gains and losses are reflected under the heading «Revaluation reserves» until such time as they are sold or subject to impairment loss. Interest is calculated and recognised in the statement of profit and loss under «Interest and similar income».

2.2.6. FINANCIAL ASSETS HELD TO MATURITY

Non-derivative financial assets with fixed or determinable payments and defined maturities that the Group intends to and is able to hold to maturity.

These investments are measured at amortised cost, using the effective interest rate method, and subject to impairment tests.

Impairment losses recognised in financial investments held to maturity are recognised in the statement of profit and loss. If, in a subsequent period, the impairment loss amount decreases and this decrease can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss.

2.2.7. DERIVATIVES

The Bank performs derivative transactions as a standard activity to meet its clients' requirements and to reduce the exposure to foreign exchange, interest rate and quote fluctuations. Derivative financial instruments are recorded at fair value on their contract date. Moreover, they are disclosed off-balance sheet at their notional value. Subsequently, derivative financial instruments are measured at their fair value. Fair value is calculated: – Based on the quotes obtained in active markets (for e.g., futures traded in organised markets); – Based on models that incorporate valuation techniques accepted in the market, including discounted cash-flows and options valuation models.

Embedded Derivatives

Derivative financial instruments embedded in other financial instruments are removed from the underlying contract and treated as autonomous derivatives under IAS 39, whenever: – The economic characteristics and risk of the embedded derivative are not closely related with the underlying contract, as defined in IAS 39; and – The entire combined financial instrument is not recorded at fair value, with the changes in fair value reflected through profit or loss.

Trading Derivatives

All derivative financial instruments not associated with effective hedging relations under IAS 39 are considered derivatives for trading, including: – Derivatives used to hedge risk in assets or liabilities recorded at fair value through profit or loss, thus making hedge accounting unnecessary; – Derivatives used to hedge risk that are not considered effective

hedges under IAS 39; – Derivatives used for «trading». Trading derivatives are recorded at fair value, the results of which are determined on a daily basis and recognised in income and expenses for the year, under «Income from assets and liabilities evaluated at fair value through profit or loss». Positive and negative revaluations are recorded under «Financial assets at fair value through profit or loss» and «Financial liabilities at fair value through profit or loss», respectively.

2.2.8. LOANS TO CLIENTS AND RECEIVABLES FROM OTHER (ACCOUNTS RECEIVABLE)

Loans to clients and receivables from other debtors are the financial assets corresponding to provisions of cash, goods or other services to a certain entity by the institution. This concept covers the typical activity of granting loans to clients, as well as the creditor positions arising from operations with third parties carried out as part of the institution's activities.

The measurement of value of loans to clients and receivables from other debtors is as follows:

- On the initial recognition date, the financial assets are recorded at par value and may not on that date or on the date on which a subsequent recognition is made be included or recognised in the remaining categories of financial assets, in conformity with Notice 1/2005 of Banco de Portugal.

- The interest component, including that relative to any premiums/discounts, should be disclosed in the accounts autonomously in the respective net income accounts.

- The value of assets included in this category is subject to correction, in accordance with the criterion of rigour and prudence, so that they reflect their realisable value at all times.

- The correction referred to in the paragraph above cannot be less than that established in Banco de Portugal Circular Letter 02/2014/DSP.

For the purpose of constituting impairments, the total loans granted by the companies is to be considered, including other liabilities assumed with third parties, such as guarantees or other similar instruments.

2.2.9. REPOS

Securities sold under repurchase agreement are kept in the portfolio where they were originally recorded. The funds received are recorded in their own liability account on the settlement date, the interest value being recognised on an accrual basis. The par value of securities lent is recognised in a specific off-balance sheet item.

2.2.10. NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale whenever it is determined that their book value will be recovered through their sale and not through their continued use.

Assets recorded in this category are measured at the lower of their acquisition cost and fair value, calculated based on the assessment of external independent internal or external experts, minus costs to be incurred in the sale.

2.2.11. IMPAIRMENTS

All loans are recorded at par value in agreement with Notice 1/2005 of Banco de Portugal. Resulting impairments are in line with the rules laid down in Instruction 5/2013 and in Circular Letter 02/2014/DSP and are reported every month to Accounting to be recorded.

The current impairment system checks all the analysed positions individually. The following credit transactions are tested individually for impairment:

- Of a group of clients whose current exposure is more than 5 % of own funds;
- Of a group of clients whose default credit exceeds 50 000 EUR.

The following are taken into consideration in the calculation of individual impairment:

- Estimated cash flows of the client's business or client's other loans;
- Cash flows of building projects;
- Expected cash flows related to the execution /pledge of collateral;
- Estimated cash flows arising from calls on private guarantees;
- Cash flows generated by the execution of the financial assets of the debtor with the Bank to settle one-off authorised overdrafts and up to no more than 30 days and overdue loans, originated from contracted loans or otherwise.

When the calculation of individual impairments is nil, then the collective calculation must be provided. Credit ratings are used for the corporate segment, as provided by Ignios, between 1 and 10, with associated one-year probabilities of default. Level 1 stands for the highest probability of default (PD), of 25 %, and 10 stands for the lowest, of 0 %. The Bank added a level 0 to the above levels, with a PD of 100 % for credit default.

2.2.12. PROPERTY, PLANT AND EQUIPMENT

Other property, plant and equipment are stated at acquisition cost, including service vehicles and other equipment.

Property, plant and equipment are depreciated on a straight-line basis over their expected useful life, within the limits shown in the table below. Using the prudence principle, and in duly documented exceptional cases, the Executive Committee may decide on lower depreciation periods than those mentioned in the table below, but their tax effect will be considered as at the date on which the decision was made and measured in an appropriate asset account.

EQUIPMENT	YEARS
Vehicles	4 – 8
Furniture and material	8 – 16
Computer equipment	3 – 8
Other property, plant and equipment	5 – 50

2.2.13. INTANGIBLE ASSETS

The Bank records under this heading the costs with development of projects implemented and to be implemented, as well as the cost of software purchased, in either case when the expected impact extends beyond the period in which they are incurred.

Intangible assets are depreciated using the straight-line method and twelfths, over their estimated useful life, which is, in general, three years.

2.2.14. OTHER FINANCIAL LIABILITIES – DEPOSITS FROM OTHER CREDIT INSTITUTIONS, DEPOSITS FROM CLIENTS, OTHER LOANS AND OTHER

Other financial liabilities, which essentially include deposits from clients, are initially measured at fair value, which normally corresponds to the consideration received net of directly associated transaction costs.

According to the fair value option, advocated by IAS 39, financial liabilities included under liabilities represented by securities and subordinated liabilities, are classified as financial liabilities at fair value, through profit or loss, whenever they meet the classification requirements of this category, in particular due to the fact that they contain one or more embedded derivatives. These liabilities are initially measured at fair value, subsequent changes in fair value being recorded in profit or loss.

2.2.15. PROVISIONS AND CONTINGENT LIABILITIES

A provision is constituted when there is a present obligation (legal or constructive) arising from past events where future expenditure on resources is probable, and which may be determined reliably. The provision corresponds to the best estimate of any sums which would be necessary to disburse to settle the liability at the balance sheet date.

If the future expenditure on resources is not likely to occur, then this is a contingent liability. Contingent liabilities are only the object of disclosure, save if the possibility of their realisation is remote.

2.2.16. RECOGNITION OF REVENUE AND COSTS

Revenue and costs are recognised over the life of the transactions and according to the accrual accounting principle, in other words, they are recorded as they are generated. Revenues are recognised to the extent that it is likely that the economic benefits flow to the company and the amount of the revenue can be measured. Interest accrued and not collected is reversed in the balance sheet after three months of maturity and are only recognised as revenue when they are actually received.

2.2.17. FEES AND COMMISSIONS FOR SERVICES PROVIDED

Banco Carregosa charges commissions to its clients for providing a broad range of services. Commissions are, as a general rule, immediately recognised as revenue, as they relate to specific or one-off services and are not associated to service provisions that are continued over time.

2.2.18. INCOME TAX

Income tax includes current taxes and deferred taxes. They are recognised in the statement of profit and loss, except when related to items directly recognised in equity, in which case they are also recognised against the equity.

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

Deferred tax assets and liabilities correspond to the amount of recoverable and payable tax in subsequent periods arising from temporary differences between the value of an asset or a liability in the balance sheet and its tax base. Deferred taxes assets are recognized only to the extent that it is probable that future taxable profits will be available to absorb deductible temporary differences. Deferred tax assets are not recognised for taxable temporary differences associated with investments in subsidiary and associated companies, when the Bank controls the reversal of temporary differences and when it is probable that they will not be reversed in the future.

2.2.19. EMPLOYEE BENEFITS

Based on the *Collective Labour Agreement for the Banking Sector* (ACTV) as the reference for labour practices, Banco Carregosa made a commitment, exclusively for its employees not integrated in the National Pension System, to grant them or their families cash payments for old-age retirement, early retirement or disability or survivors' pension. These payments consist of a percentage which increases according to the number of years worked by the employee, applied to the salary table negotiated on an annual basis for the active staff members.

To finance these liabilities, Banco Carregosa joined the Fundo de Pensões Horizonte – Valorização da Pensõesgere in 2004. In 2010, responding to the evolution of its obligations and according to a policy of rigour and good coverage of the liabilities undertaken, the Bank decided to change the pension fund over to another managing entity, «BANIF AÇOR PENSÕES – Sociedade Gestora de Fundos de Pensões SA», subscribing three funds: the Aberto Optimize Capital Pensões Ações pension fund (30 %), the Aberto Optimize Capital Equilibrado pension fund (30 %), and the Aberto Optimize Capital Moderado pension fund (40 %).

As mentioned before, liabilities for services provided in the past by eligible employees are determined every year based on the date of admission at Banco Carregosa and not on the date on which the employee entered the banking sector. Consequently, the share

of responsibilities relating to the period between the date of admission in the banking sector and the date of admission in the company will be chargeable to past employers, except if the latter have transferred the amount of their share of responsibility.

The recognised liabilities correspond to the difference between the current value of pension liabilities and the fair value of pension fund assets, taking into account adjustments relating to deferred actuarial gains and losses. The value of liabilities is determined on an annual basis by independent actuaries, using the «*Projected Unit Credit*» method, and actuarial assumptions regarded as appropriate. Liabilities are reviewed on the basis of a discount rate that reflects the market medium and long term interest rate for bonds listed in the Eurozone by companies rated as being of low risk.

In addition to pensions, as part of the fund's liabilities and for that group of employees, the Bank has also assumed a death grant in the event of death-in-service.

Following an analysis of the current responsibilities and charges with medical assistance, in 2010 the Bank decided to outsource this benefit to Multicare, for all employees who do not benefit from the SAMS, at the same cost.

IAS 19 – Benefits to employees (amendment) – this standard was reviewed to include several changes, in particular as regards:

- Recognition of actuarial and financial gains and losses arising from differences between assumptions used in determining liabilities and income expected from assets and the actual amounts, as well as those resulting from changes in actuarial and financial assumptions in the period against equity;
- A single interest rate is now applied to liabilities and plan assets;
- The difference between the real return of the fund's assets and the single interest rate is recognised as actuarial gains/losses; and
- Gains posted in results correspond only to the cost of current service and to the net interest expense.

2.2.20. SEGMENT REPORTING

Banco Carregosa conducts its business through a network common to the various traded products; therefore segment reporting is not appropriate.

Since the Bank's activities take place in Portugal and Spain, thorough a satellite office, we feel it is not relevant to present geographical segment reporting.

ON May 15, 1975

THE REPUBLIC OF PORTUGAL

7272

17

NO. M 7271

1000

1000

REPUBLIC OF PORTUGAL

7% EXTERNAL LOAN BOND DUE 1976

DUE NOVEMBER 15, 1976

The Republic of Portugal (the hereinafter called the "Republic") for value received, hereby promises to pay to bearer, or if this Bond be registered as to principal, to the registered owner hereof, the principal sum of

ONE THOUSAND DOLLARS

In Witness Whereof the Republic has caused this Bond to be executed with the facsimile signatures of the Minister of Finance of the Republic, the President of the Junta do Crédito Público and another member of the Junta do Crédito Público in office at the date of this Bond (which execution shall be valid whether or not a successor of any of them shall be in office at the date of issue of this Bond) and has caused the Seal of the Junta do Crédito Público to be duly affixed hereto and the coupons appertaining hereto to be executed with the facsimile signature of the Minister of Finance of the Republic in office at the date of this Bond.

Dated: November 15, 1966

REPUBLIC OF PORTUGAL

By

Minister of Finance

By

President of the Junta do Crédito Público

By

Member of the Junta do Crédito Público

CERTIFICATE OF AUTHENTICATION

This is one of the Bonds of the issue of 7% External Loan Bonds due 1976, within referred to.

MORGAN GUARANTY TRUST COMPANY OF NEW YORK as Authenticating Agent,

By

Authorized Officer

3. NOTES TO THE INDIVIDUAL FINANCIAL STATEMENTS

The balance sheet and statement of profit and loss accounts are comparable as at 31 December 2016 and 31 December 2015, in conformity with the IFRS and are broken down into the following headings:

3.01. Cash and deposits in central banks — Note 01

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Cash	90 528	116 934
Current deposits with Banco de Portugal	32 941 158	47 385 953
	33 031 686	47 502 888

Demand deposits with Banco de Portugal include interest-earning deposits for meeting the legal requirements on minimum cash availability.

3.02. Deposits in other credit institutions — Note 02

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Demand deposits in monetary institutions		
Residents	1 602 290	12 777 071
Non residents	16 741 404	10 752 854
	18 343 694	23 529 925

3.03. Financial assets held for trading — Note 03

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Trading securities		
Securities	7 560 011	3 668 669
Derivative instruments with positive fair value	77 065	189 348
	7 637 076	3 858 017

This portfolio shows a remarkable growth compared to the previous financial year, justified by purchases and sales arising from favourable market opportunities, the book trading positions of which are shown in detail in the table below.

FINANCIAL ASSETS HELD FOR TRADING AS AT 31 DECEMBER 2016, THIS HEADING WAS BROKEN DOWN AS FOLLOWS:
AMOUNTS STATED IN EUR

NATURE AND TYPE OF SECURITIES	ACQUISITION VALUE	BOOK VALUE FAIR VALUE	CAPITAL GAINS	CAPITAL LOSSES	IMPAIRMENT
DEBT INSTRUMENTS					
Issued by residents					
Of other resident issuers					
Non-subordinated debt	5 000 000	5 000 000	–	–	–
Issued by non-residents					
Of other foreign public issuers					
Foreign agency bonds	380 452	437 149	56 697	–	–
Of other non-resident issuers					
Non-subordinated debt	340 113	346 223	6 132	22	–
	5 720 565	5 783 372	62 829	22	–
EQUITY INSTRUMENTS					
Issued by residents					
Of other resident issuers					
Shares	262 461	209 654	7 893	60 700	–
Issued by non-residents					
Of other non-resident issuers					
Shares	1 475 211	896 721	4 941	583 431	–
Participation units	27 375	27 244	179	310	–
Other	8 486	8 486	–	–	–
	1 773 533	1 142 105	13 013	644 441	–
OTHER					
Issued by non-residents					
Of other non-resident issuers					
Structured products	662 885	634 534	4 903	33 254	–
	662 885	634 534	4 903	33 254	–
DERIVATIVE INSTRUMENTS WITH POSITIVE FAIR VALUE					
Other					
Unrealised capital gains from futures	–	52 400	–	–	–
Unrealised capital gains from options	–	24 665	–	–	–
	–	77 065	–	–	–
TOTAL	8 156 983	7 637 076	80 745	677 717	–

3.04. Other financial assets at fair value through profit or loss — Note 04

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Securities		
Issued by residents	4 751	2 191
	4 751	2 191

This amount refers to the contribution to the Work Compensation Fund. Fair value option, in accordance with IAS 39(9)(b), quotation being obtained from the website of the Work Compensation Fund.

3.05. Available for sale financial assets — Note 05

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Issued by residents		
Debt instruments	10 612 131	3 983 127
Equity instruments	656 900	694 700
Other	2 402 585	7 121 622
	13 671 616	11 799 450
Issued by non-residents		
Debt instruments	12 254 563	28 067 344
Equity instruments	19 336	0
Other	465 812	464 392
	12 739 711	28 531 735
	26 411 328	40 331 185

As mentioned in the basis of presentation and in the significant accounting policies, assets are classified under this heading when they are not intended for divestment in the short term. Changes in fair value are directly recognised in equity under the heading «Revaluation reserves». In the 2016 financial year, this portfolio diminished as a result of the integration of a substantial amount in the portfolio of held-to-maturity securities.

AVAILABLE FOR SALE FINANCIAL ASSETS AS AT 31 DECEMBER 2016, THIS HEADING IS BROKEN DOWN AS FOLLOWS:
AMOUNTS STATED IN EUR

NATURE AND TYPE OF SECURITIES	ACQUISITION VALUE	BOOK VALUE FAIR VALUE	CAPITAL		IMPAIRMENT
			GAINS	LOSSES	
DEBT INSTRUMENTS					
Issued by residents					
Of Portuguese public debt					
Treasury Bonds	221 202	225 632	10 960	6 530	–
Treasury Bills	9 998 473	10 001 500	3 027	–	–
Of other resident issuers					
Non-subordinated debt	407 720	385 000	–	22 720	–
Subordinated debt	4 353 500	–	–	–	4 353 500
Issued by non-residents					
Of other non-resident issuers					
Non-subordinated debt	12 794 180	12 127 403	345 585	452 976	559 386
Subordinated debt	456 992	127 160	18 278	–	348 110
	28 232 067	22 866 695	377 850	482 226	5 260 996
EQUITY INSTRUMENTS					
Issued by residents					
Of other resident issuers					
Shares	2 440 174	656 900	–	1 247 760	535 514
Issued by non-residents					
Shares	–	19 336	19 336	–	–
	2 440 174	676 236	19 336	1 247 760	535 514
OTHER					
Issued by residents					
Of other resident issuers					
Other	1 883 758	2 402 585	518 827	–	–
Issued by non-residents					
Of other non-resident issuers					
Structured products	503 706	465 812	156	38 050	–
	2 387 464	2 868 397	518 983	38 050	–
TOTAL	33 059 705	26 411 328	916 169	1 768 036	5 796 510

3.06. Investments in credit institutions Note 06

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Investments		
In the country		
In other credit institutions	16 000 000	17 000 000
In income receivable	4 888	4 583
	16 004 888	17 004 583
	16 004 888	17 004 583

3.07. Loans to clients Note 07

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Domestic credit		
Loans	22 358 730	27 699 222
Current account loans	43 314 251	46 990 333
Overdrafts in demand deposits	182 968	299 140
Foreign loans		
Loans	118 800	132 000
Current account loans	833 519	1 116 732
Overdue loans and interest	168 512	612 208
Income receivable	105 029	174 999
	67 081 808	77 024 634
Impairments for overdue loans and interest	(968 346)	(942 303)
	66 113 462	76 082 331

In 2016, despite the drop in the used balance of loan portfolio, it maintained its position in the Bank's activity as a whole, as regards new operations in each of the loan types offered by the Bank to its clients. Despite the focus on lending, the amount of loans granted dropped compared to 2015, since the new operations were not enough to replace the amounts settled in the meantime. Note that loans are mostly covered by real and personal guarantees that significantly exceed the outstanding amounts. Moreover, impairments are formed in accordance with Notice 5/2015 of Banco de Portugal.

3.08. Investments held to maturity

Note 08

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Investments held to maturity	11 011 818	0
	11 011 818	0

INVESTMENTS HELD TO MATURITY AS AT 31 DECEMBER 2016, THIS HEADING IS BROKEN DOWN AS FOLLOWS:
AMOUNTS STATED IN EUR

NATURE AND TYPE OF SECURITIES	PAR VALUE	ACQUISITION VALUE	EFFECTIVE RATE	BALANCE SHEET VALUE AMORTISED COST
DEBT INSTRUMENTS				
Issued by residents				
Of other resident issuers				
Non-subordinated debt				
EGLPL 5,50 04/19	2 000 000	2 000 000	5.67%	2 021 599
Issued by non-residents				
Of other non-resident issuers				
Non-subordinated debt				
BANBRA 3,75 07/18	1 600 000	1 516 000	6.10%	1 571 831
TRAFIG 5,00 04/20	1 000 000	915 000	7.47%	962 995
BNDES 3,625 01/19	2 000 000	1 910 000	5.37%	2 001 875
BANBRA 3,75 07/18	400 000	392 500	4.62%	401 405
BCOBMG 8,00 04/18	5 976 663	5 976 663	8.24%	4 052 113
TOTAL	12 976 663	12 710 163		11 011 818

3.09. Hedging derivatives

Note 09

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Hedging derivatives		
Positive fair value – Cash flow hedge	129 841	0
	129 841	0

3.10. Non-current assets held for sale

Note 10

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Non-current property, plant and equipment held for sale		
Buildings	85 680	85 680
	85 680	85 680

These assets correspond to the purchase price of a property acquired to recover a loan.

3.11. Other property, plant and equipment — Note 11

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Other property, plant and equipment		
Buildings	5 092 866	522 936
Equipment	5 827 119	5 377 388
Finance lease assets	368 570	368 570
Property, plant and equipment in progress	223 953	0
	11 512 507	6 268 894
Accrued amortisations		
Buildings	(73 135)	(42 616)
Equipment	(4 735 079)	(4 414 149)
Finance lease assets	(35 935)	(30 407)
	(4 844 149)	(4 487 172)
	6 668 358	1 781 721

3.12. Intangible assets — Note 12

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Other intangible assets		
Automatic data processing system (software)	2 381 689	2 334 331
Other	272 187	242 529
	2 653 875	2 576 861
Accrued amortisations		
Automatic data processing system (software)	(2 276 170)	(2 172 108)
Other	(220 671)	(201 002)
	(2 496 841)	(2 373 110)
	157 034	203 750

Movements and balances as at 31 December 2016 under «Other property, plant and equipment» and «intangible assets», including amortisations and impairment adjustments are presented in the accompanying map «property, plant and equipment and intangible assets as at 31 December 2016». In late 2016 the Bank purchased 6 buildings, 3 of which already house the current business and the other 3 will allow for a future expansion.

3.13. Investment in assoc. & subsid. companies excluded from consolidation Note 13

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Valued at historical cost – in country		
In country	25 000	25 000
	25 000	25 000

The value stated in this period corresponds to the investment in the company CoolLink, Lda.

3.14. Current tax assets Note 14

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Current tax assets		
Recoverable corporate income tax	0	0
Other	289 411	0
	289 411	0

3.15. Deferred tax assets Note 15

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Deferred tax assets		
Temporary differences		
Property, plant and equipment/ Intangible assets	31 171	55 933
Impairments	383 060	1 220 736
	414 231	1 276 669

This heading reflects only the impact of temporary income tax differences. As stressed by the accounting policies, temporary differences identified between depreciation accepted for tax purposes are recognised as well as those stated in accounting and on impairments.

3.16. Other assets

Note 15

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Other financial availabilities	53	53
Loans and accrued interest	0	0
Debtors and other investments		
Government sector	0	108 249
Miscellaneous debtors	4 351 968	5 346 757
Miscellaneous investments	10 100 467	4 013 383
Other assets	4 535 884	1 610 903
Other interest and similar income		
Of fixed income issued by residents		
Of Portuguese public debt	4 991	5 969
Of other national public issuers	0	0
Of other residents	52 078	39 073
Other income receivable		
Other commitments	255 166	538 601
Fees and commissions for services provided	99 641	180 653
Deferred charges		
Insurance	31 170	29 352
Other deferred charges	188 269	139 393
Asset value of pension fund	3 301 366	3 247 540
Other regularisation accounts	7 096 703	618 340
	30 017 755	15 878 266
Accumulated impairments		
Debtors and other investments (*)	(1 549 975)	(100 000)
	(1 549 975)	(100 000)
	28 467 780	15 778 266

(*) Following an extra-judicial agreement signed at the end of 2016, impairment in the amount of 1.45 million EUR was recognised, which includes, on the recommendation of Banco de Portugal, 500 million EUR on amounts receivable up to 2019, of which 50 million EUR were received in early 2017.

Following the above extra-judicial agreement, the sale/purchase contract of a 10 % shareholding in the equity of a credit institution, the head-office of which is abroad, was terminated, and the advance payment of 50 million EUR was refunded in early 2017.

3.17. Deposits from central banks Note 17

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Deposits from Banco de Portugal		
Other deposits – Loans	0	2 010 000
Interest on deposits from Banco de Portugal		
Loans	0	3 878
	0	2 013 878

3.18. Financial liabilities held for trading Note 18

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Derivative instruments with negative fair value	39 256	470 404
	39 256	470 404

Unrealised losses intended to hedge part of the exposure of the portfolio in USD.

3.19. Deposits from other credit institutions Note 19

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Deposits from domestic credit institutions		
Deposits	13 102 509	19 247 272
Loans	85 043	42 198
Other deposits	1 167	0
	13 188 719	19 289 470
Deposits from foreign credit institutions		
Deposits	403 300	387 518
Loans	1 208 293	5 397
	1 611 593	392 916
	14 800 312	19 682 386

3.20. Deposits from clients and other loans

Note 20

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Deposits from clients		
Deposits		
Of residents		
Demand deposits	49 308 046	44 875 634
Term deposits	70 757 857	76 360 245
Of non-residents		
Demand deposits	16 563 076	19 689 740
Term deposits	5 444 715	19 855 664
	142 073 694	160 781 283
Interest on deposits from clients		
Deposits		
Of residents	381 383	404 534
Of non-residents	23 282	82 054
	404 665	486 589
	142 478 359	161 267 872

3.21. Provisions

Note 21

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Provisions for general credit risks		
Unsecured loans	0	47 813
	0	47 813
Other provisions		
For guarantees and other commitments	10 046	0
	10 046	0
	10 046	47 813

3.22. Current tax liabilities

Note 22

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Current tax liabilities		
Corporate income tax payable	532 648	142 392
Other	15 002	0
	547 650	142 392

3.23. Other liabilities Note 23

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Suppliers	247 929	140 436
Suppliers – finance lease assets	35 125	91 251
Creditors – transferable securities operations	176 593	569 389
Other creditors	379 060	257 327
Futures	4 627 533	1 211 103
Other deposits	6 931 652	5 742 856
VAT payable	41 543	0
Withholding and other taxes payable to the State	366 469	440 491
Contributions to Social Security	67 235	67 642
Contributions to other health systems	4 010	4 351
Collections on behalf of third parties	752	809
	12 877 901	8 525 656
Liabilities relating to pensions and other benefits	3 492 230	3 380 684
Charges payable		
Salaries payable	455 644	467 664
Other charges payable	122 544	214 036
	578 188	681 700
Other revenue with deferred income	7 773	6 161
Operations to be regularised	5 406 128	712 331
	22 362 219	13 306 532

The amount stated under «Other deposits» refers to the financial balances of clients arising from both derivative transactions and investments in the liquidity of portfolio management contracts.

«Other operations to be regularised» includes transactions for the sale of securities made at the end of the year, pending settlement in the subsequent financial year.

3.24. Equity Note 24

The «Statement of changes in equity» shows a positive variation compared to 2015 in the amount of 4 027 264.30 EUR, due to the changes in the revaluation reserves of securities portfolios and other reserves, and to the actual income for the year.

3.25. Financial margin

Notes 25 and 26

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Interest and similar income from:		
Interest on deposits in central banks	194	640
Interest on deposits in other credit institutions	3 880	2 783
Interest on investments in credit institutions	130 571	617 553
Interest on loans to clients	3 588 475	3 641 653
Interest on overdue loans	233 675	144 091
Interest and similar income from other financial assets	2 218 829	2 493 824
	6 175 624	6 900 543
Interest and similar costs on:		
Deposits from Banco de Portugal	(63 060)	(12 743)
Deposits from other credit institutions	(103 045)	(113 499)
Interest from creditors and other deposits		
Interest on deposits from clients	(921 882)	(1 280 976)
Interest on liabilities held for trading	(1 761)	(14 303)
Other interest and similar costs	(104 055)	(5 529)
	(1 193 803)	(1 427 050)
	4 981 821	5 473 493

3.27. Income from equity instruments

Note 27

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Available for sale financial assets		
Issued by residents		
Participation units	95 200	125 177
	95 200	125 177

These results arise from the distribution of dividends of the investment fund Retail Properties, corresponding to 0.015 EUR and 0.018 EUR, in 2016 and 2015, respectively, per unit held.

3.28. Revenue and charges – services and fees/commissions Notes 28 and 29

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Income from services and fees/commissions for:		
Guarantees and sureties	100 581	40 719
Deposits and values under custody	21 711	19 333
Collection of securities	69 064	111 476
Administration of securities	866 417	967 653
Collective investment undertakings	198 937	140 010
Other services provided	348 462	2 128 615
Operations carried out on behalf of third parties	2 581 117	2 423 641
Other fees/commissions received	1 175 331	234 415
	5 361 619	6 065 862
Charges – services and fees/commissions for:		
Deposits and values under custody	(50 685)	(57 260)
Administration of securities	0	(96)
Other banking services provided by third parties	(21 461)	(27 619)
Operations carried out by third parties	(1 998 689)	(1 277 195)
Other fees/commissions paid	0	(6 081)
	(2 070 834)	(1 368 251)
	3 290 785	4 697 611

In net terms, there was a year-on-year overall variation of -29.95 %, mostly due to a 11.61 % drop in income from services and commissions, and a 51.35 % increase in service and commission charges. As regards the former, other services provided alone justify the variation as a result of the exceptional and one-off operation in 2015, although it was in part offset by an equally exceptional situation associated with a credit operation in 2016. As regards services and fees/commissions charges, in connection with operations carried out by third parties, which increased 56.49 %, they accommodate income from transactions carried out on behalf of third parties, which remained at the same level as in 2015.

3.29. Income from assets and liabilities evaluated at fair value Note 30

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Gains from:		
Financial assets held for trading		
Securities	3 116 730	2 219 071
Derivative instruments	3 084 904	4 577 767
Financial liabilities held for trading (non derivative instr.)	0	155 575
	6 201 634	6 952 413
Losses from:		
Financial assets held for trading		
Securities	(3 042 284)	(2 341 817)
Derivative instruments	(3 273 104)	(7 312 128)
Losses on neg. financial liabilities (non derivative.)	0	(6 001)
	(6 315 388)	(9 659 946)
	(113 754)	(2 707 533)

The result remained negative in 2016, although not as much as in 2015. Those losses, however, were offset by the results of currency revaluation and reserves, as per policy presented above.

3.30. Income from available for sale financial assets

Note 31

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Gains from:		
Available for sale financial assets		
Securities		
Issued by residents		
Debt instruments	3 032	165 460
Other (*)	2 324 472	251 541
Issued by non-residents		
Debt instruments	904 263	3 227
Equity instruments	22	0
Other	0	33 107
	3 231 789	453 334
Losses from:		
Available for sale financial assets		
Securities		
Issued by residents		
Debt instruments	(64 655)	(38 000)
Equity instruments	0	(19)
Issued by non-residents		
Debt instruments	(383 360)	(70 012)
	(448 015)	(108 031)
	2 783 775	345 303

(*) According to the applicable rules, this heading shows the amounts relating to the derecognition of financial assets, normally through their disposal. Considering the normally longer period in which investment are made for this portfolio, the disposal of securities generally results from particularly favourable opportunities found for their disposal. Therefore, 2016 saw a positive result from the sale of 4 304 243 participation units of the Retail Properties fund, which alone represented a positive result of 2.3 million EUR.

3.31. Income from currency revaluation Note 32

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Gains from:		
Exchange differences		
Other items in foreign currency – foreign currencies	1 448 852	5 774 227
Losses from:		
Exchange differences		
Other items in foreign currency – foreign currencies	(1 487 550)	(3 303 617)
	(38 697)	2 470 609

The above results are largely due to the exchange rate fluctuation of the US dollar against the euro, the currency to which the Bank was more exposed in each of the financial years, although lower in 2016.

3.32. Income from the disposal of other assets Note 33

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Gains from:		
Gains from the assignment of loans to clients	0	386 057
Non-financial assets	10 500	15 802
Other gains in financial transactions	3 990	0
	14 490	401 859

3.33. Other operating income

Note 34

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Gains from:		
Other income and operating revenues	10 420	24 2044
	10 420	24 2044
Losses from:		
Other taxes	(209 611)	(172 972)
Donations and membership fees	(73 995)	(90 948)
Contributions to the Deposit Guarantee Fund	(80)	(4 000)
Contributions to the Investor Compensation Scheme	(4 000)	(2 000)
Failure of computer systems or telecommunications	(2 919)	(7 122)
Other costs and operating expenses	(330 198)	(133 860)
	(620 804)	(410 902)
	(610 384)	(168 857)

3.34. Staff costs

Note 35

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Remunerations		
Of management and supervisory bodies	(362 830)	(425 761)
Of employees	(2 456 765)	(2 363 295)
Mandatory social security contributions		
Remuneration-related charges	(691 499)	(687 580)
Other mandatory social security contributions		
Pension fund	(73 426)	(101 247)
Insurance against accidents at work	(14 150)	(13 380)
Other staff costs	(244 095)	(153 395)
	(3 842 764)	(3 744 658)

In December 2016, the Bank had 84 employees in Portugal, whereas in 2015 the 79 employees included two staff in Spain, an office that has, in the meantime, been during this reporting period.

BREAKDOWN BY PROFESSIONAL CATEGORY	31/12/2016	31/12/2015
Administration	4	5
Management	20	16
Technical	15	16
Administrative	14	14
Commercial/operational	22	19
Other	9	9
	84	79

Liabilities for retirement and survivors pensions

Banco Carregosa provides a Pension Plan to employees not integrated in the National Pension System on 31 December 2010, meaning about one third of the staff at Banco Carregosa.

The Pension Plan of Banco Carregosa is a defined benefit plan that follows the provisions of the *Collective Labour Agreement for the Banking Sector* (ACT) and is subject to the requirements set by Banco de Portugal. Amounts paid depend on the number of years worked by the Employee and the salary table stipulated by the ACTV.

Benefits granted by the Banco Carregosa Pension Plan:

- Old-age retirement pension or presumable disability;
- Deferred survivors pensions;
- Immediate survivors pensions;
- Post-retirement contributions to SAMS (medical-social aid assistance for bank employees);
- Death grant.

Liabilities for services provided in the past by eligible employees are determined every year based on the date of admission at Banco Carregosa and not on the date on which the employee entered the banking sector. Consequently, the share of responsibilities relating to the period between the date of admission in the banking sector and the date of admission in the company will be chargeable to past employers, except if the latter have transferred the amount of their share of responsibility.

The benefits relating to disability pensions and immediate survivors pensions are covered by a life insurance policy.

In addition, the Bank also has responsibilities and costs of health care of its employees. The employees who as at 31 December 2010 were integrated in CAFEB can benefit from the Medical-Social Aid Services (SAMS) of their unions. The remaining employees' benefits are covered by the MULTICARE health insurance, which offers similar terms and conditions to the SAMS medical aid services.

Responsibilities for retirement and survivors pensions and their costs arising from the Bank's pension plan have been prepared through an actuarial evaluation performed by an actuary of the company CFPO Consulting – Soluções Atuariais e Financeiras, Lda., and managed by BANIF AÇOR PENSÕES – Sociedade Gestora de Fundos de Pensões, S.A.

The Bank's pension plan is a defined benefit plan in line with the ACTV – *Collective Vertical Labour Agreement* for the Banking Sector. As at 31 December 2016, the pension plan of Banco Carregosa included 16 active employees, 47 with acquired rights, and five pensioners.

Decree-law no. 1-A/2011, of 3 January, provided for changes in the calculation of responsibilities in pension funds. From the date when banking employees integrated in CAFEB changed to the General Social Security Scheme on 31 December 2010, the fund will no longer be responsible for the full ACT pension; from that date on, only the supplemental pension resulting from the difference between the ACT pension and the Social Security pension will be taken into consideration.

According to the method used in this evaluation, the current value of responsibilities with past services as at 31 December 2016 amounts to 3 492 229.86 EUR, of which 741 385.16 EUR relate to the current pension payments. The fund's value at the same date is of 3 301 365.58 EUR, meaning an overall financing coverage of 94.53 %.

The minimum pension plan financing is subject to the provisions laid down by Banco de Portugal, in other words, current pension payments must be fully financed as well as acquired rights of 95 % of liability for past services of the active population. Accordingly, the Bank complies with such provisions, as in February 2016 an extraordinary contribution was made in the amount of 96 509.55 EUR in order to cover the minimum financing required.

Given the level of financing in 2015, contributions were made in 2016.

The recommended contribution for 2017 is of **70 090.26 EUR** representing 19.48 % of wages covered by the fund foreseen for 2016. The respective report is available at the head-office of the institution for consultation.

3.35. General administrative costs

Note 36

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Supplies:		
Water, electricity and fuel	(182 335)	(198 789)
Consumables	(4 610)	(5 655)
Publications	(6 934)	(7 480)
Hygiene and cleaning products	(13 023)	(11 421)
Other third party supplies	(135 572)	(194 165)
	(342 474)	(417 511)
Services:		
Leases and rentals	(267 688)	(314 984)
Communications	(253 062)	(277 472)
Travel, hotel and representation costs	(272 321)	(310 553)
Advertising and publishing	(506 166)	(510 827)
Repairs and maintenance	(131 897)	(140 235)
Insurance	(50 107)	(46 591)
Specialised services		
Retainers and fees	(63 412)	(460 240)
Legal, litigation and notaries	(5 076)	(18 082)
IT services	(932 345)	(784 756)
Security and surveillance	(17 489)	(17 327)
Cleaning services	(608)	(648)
Information	(473 427)	(449 144)
Databases	(50 135)	(52 012)
Other specialised services		
Advisory services	(2 676)	(848)
Consultants and external auditors	(500 547)	(600 526)
Other third party services:		
Public relations and advisory services	(59 976)	(42 087)
Banco de Portugal – Bpnet Service	(2 899)	(2 898)
Housekeeping services	(6 900)	(7 060)
Temporary manpower	(10 004)	0
Other	(19 572)	(9 904)
	(3 626 308)	(4 046 192)
	(3 968 782)	(4 463 702)

(*) Impact on the last quarter of 2016, resulting from the acquisition of the buildings for own use.

Consultants and external auditors

In compliance with Chapter VI Article 66-A(1)(b) of the C.S.C. (Companies Code), the following fees were posted for the statutory audit firm, there being no other type of service provision:

STATUTORY AUDIT FIRM	
Statutory Audit	60 200
Assurance and reliability services	7 950
	68 150

3.33. Depreciations and amortisations — Note 37

	31/12/2016	31/12/2015
Property, plant and equipment		
Of buildings	(30 519)	(8 188)
Of equipment	(397 179)	(394 011)
Of finance lease assets	(5 529)	(5 529)
	(433 227)	(407 727)
Intangible assets	(123 730)	(165 430)
	(556 957)	(573 157)

As mentioned in Note 9, the balances and transactions of the headings «Other property, plant and equipment» and «Intangible assets», including amortisations and impairment adjustments, are shown in Annex IV.

3.37. Provisions net of write-offs — Note 38

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Gains from:		
Provisions for general credit risks	0	122 190
Provisions for guarantees and commitments	90 515	0
Losses from:		
Provisions for general credit risks	0	(18 948)
Provisions for guarantees and commitments	(52 748)	0
	37 767	103 242

3.38. Impairment of liabilities net of reversals and recoveries Note 39

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Regular loans	(36 769)	(268 911)
Due loans (includes other debtors)	(1 439 248)	(50 376)
	(1 476 017)	(319 287)

3.39. Impairment of other financial assets net of reversals and recoveries Note 40

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Financial assets available for sale		
Debt instruments	(1 073 379)	(345 128)
Equity instruments	0	(114 000)
	(1 073 379)	(459 128)

IMPAIRMENTS

2016			2015
TITLE	VALUE	VALUE	TITLE
Debt instruments			Debt instruments
BESPL 7,25 11/23	210 700	345 128	Grupo Bes
ESFG 6,875	1 235		
OGXPBZ 8,50 06/15	318 594		Equity instruments
OI 5,75 02/22	601 521	114 000	Pagaqui
OIBRBZ 5,75 02/22 (Reversal)	-58 671		
	1 073 379	459 128	

3.40 Impairment of other assets net of reversals and recoveries Note 41

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Invest. in subsidiaries, assoc. companies and joint ventures	0	81 835
	0	81 835

3.41. Taxes

Note 42

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Current	(232.426)	(281.719)
Deferred	358.298	0
	125.872	(281.719)

Impact of postings in the following note and table:

Current taxes

The difference between taxes calculated at the legal rate and taxes calculated at the actual rate in the 2016 and 2015 reporting years may be itemised as follows:

		2016	2015
1	Profit before tax	-476 897	1 099 136
2	Legal tax rate(corporate income tax+municipal tax)	0.00%	22.50%
3	Normal tax load (1x2)	0	247 306
4	Tax effect of non-deductible expenses	1 782 988	744 112
5	Tax effect of non-taxable income	-2 532 774	-1 309 693
6	Variations in assets	5 766 355	-5 568 384
7	Taxable income /Losses for tax purposes (1+4+5+6)	4 539 672	-5 034 829
8	Reportable tax loss	-7 055 607	-2 505 624
9	Tax (corporate income tax + municipal tax)	445 285	0
10	Autonomous taxation	114 256	142 552
11	Total tax (9+10)	559 541	142 552
12	Effective rate (11/1)	-117 33%	12 97%

In accordance with the law in force, tax returns are subject to review and correction by the tax authorities for a period of four years (five years for Social Security).

In addition, and in accordance with Article 63 of the Corporate Income Tax Code, the tax and customs authority may make whatever corrections it deems necessary to determine the taxable income whenever, due to special relations between the taxpayer and another person, whether or not subject to corporate income tax, different conditions are agreed other than the ones usually agreed between independent individuals, leading to a result other than the one that would have otherwise been calculated had such a relationship not existed. However, the Board considers that any corrections arising from the different interpretations of the law in force by the tax authorities should not have a significant effect on the financial statements in attachment.

Deferred taxes

Deferred taxes recorded in 2016 in the amount of 358 298 EUR result from the impact of temporary differences in income tax on both property, plant and equipment and intangible assets, and on impairments.

3.39. Off-balance sheet accounts

This group is broken down as follows for comparable reporting periods:

	31/12/2016	31/12/2015
Commitments to third parties:		
Irrevocable commitments		
Potential commitments to the Investor Compensation Scheme (SII)	358 569	337 401
Revocable commitments		
Credit lines	14 485 425	13 574 988
Account overdraft facilities	17 032	860
	14 861 026	13 913 249
Liability for service provision:		
Of deposits and values under custody	399 045 419	401 343 248
Administrative amounts of the institution	124 243 186	115 230 551
	523 288 605	516 573 798
Services provided by third parties:		
For deposits and values under custody	316 188 895	303 307 036
	316 188 895	303 307 036
Foreign exchange transactions and derivative instruments:		
Foreign exchange forward transactions – trading	0	250 000
Futures and forward options – trading	11 300 044	24 966 927
Options – trading	140 077	172 642
	11 440 121	25 389 569
Guarantees provided and any other services:		
Personal guarantees	11 090 313	6 316 152
Real guarantees	10 180 000	180 000
	21 270 313	6 496 152
Guarantees received:		
Personal guarantees	64 356 150	63 700 534
Real guarantees	178 964 929	180 781 226
	243 321 079	244 481 759
Other off-balance sheet items:		
Write-offs	1 340 261	1 340 261
Accrued interest	43 649	21 421
Miscellaneous accounts	(1 131 753 949)	(1 111 523 246)
	(1 130 370 038)	(1 110 161 564)

3.42. Contingent liabilities originated by the Resolution Fund

In accordance with Decree-law 24/2013, establishing the operation of the Resolution Fund (hereinafter referred to as «RF»), the Bank has since 2013 made an initial contribution followed by the mandatory annual contributions, as stated in articles 3 and 4 of said diploma.

In a circular letter in 2015, Banco de Portugal explained that the periodic contribution to the RF should be regarded as a cost in the year in which it is paid, that is, in late April of each year.

In a press release issued in 2015, the RF clarified that a special contribution to finance the resolution measure applied to BES is unlikely to happen. As such, and as mentioned in the press release, the possibility of a special contribution seems quite remote.

Pursuant to the previous paragraph and as reported in December 2015, Banco de Portugal decided to hold the FR liable for any negative effects of future decisions arising from the Banco Espirito Santo SA resolution process, which entails responsibilities and contingencies. According to the publicly available information, the sum of claims is high and the amount of claimed losses that the FR may incur remains unclear, as well as any losses arising from the sale of Novo Banco.

A similar situation was also clarified by Banco de Portugal on 19 and 20 December 2015 regarding BANIF.

Accordingly, as at 31 December 2016 there is no estimate as to the amount of possible losses in connection with the sale of Novo Banco, with the claims relating to Banco Espirito Santo, and the possible losses resulting from the resolution of BANIF. Given the measures announced in September 2016, special or extraordinary contributions from the Bank to finance these resolution measures are not expected.

Related parties:

As at 31 December 2016 and 2015, the Bank is controlled by the following shareholders with a holding of more than 2 %:

SHAREHOLDING COMPOSITION: 31/12/2016

	NO. OF SHARES	%	VOTING RIGHTS
Maria Cândida Cadeco da Rocha e Silva	58 649 733	29.32	58 649
Jorge Manuel da Conceição Freitas Gonçalves	37 768 937	18.88	37 768
Amorim Projetos, SGPS, SA	15 880 743	7.94	15 880
António José Paixão Pinto Marante	10 000 000	5.00	10 000
Grupo Norwich, SA	9 999 990	4.99	9 999
Mauricio Zlatkin	9 999 000	4.99	9 999
Sophia Capital-Fundo Capital Risco	8 510 000	4.26	8 510
Imocarregosa-Gestão e Comercialização Imobiliária, S.A.	7 068 342	3.53	7 068
Ruasgest, SGPS, SA	4 764 223	2.38	4 764

SHAREHOLDING COMPOSITION: 31/12/2015

	NO. OF SHARES	%	VOTING RIGHTS
Maria Cândida Cadeco da Rocha e Silva	58 649 733	29.32	58 649
Jorge Manuel da Conceição Freitas Gonçalves	37 768 937	18.88	37 768
Amorim Projetos, SGPS, SA	15 880 743	7.94	15 880
António José Paixão Pinto Marante	10 000 000	5.00	10 000
Grupo Norwich, SA	9 999 990	4.99	9 999
Mauricio Zlatkin	9 999 000	4.99	9 999
Sophia Capital-Fundo Capital Risco	8 510 000	4.26	8 510
Imocarregosa-Gestão e Comercialização Imobiliária, S.A.	7 068 342	3.53	7 068
Ruasgest, SGPS, SA	4 764 223	2.38	4 764

COMPANHIA NACIONAL

DE

CAMINHOS DE FERRO

Sociedade anonyma — Responsabilidade limitada

CAPITAL RS. 1.534:365$000

Emissão de 23:000 obrigações numeradas de 29:401 a 52:400, do capital de Rs. 90$000

Amortisaveis ao par por sorteios semestraes em 30 annos

Vencendo o juro annual de 4 ½ %, ou Rs. 4$050

DESTINADA Á CONSTRUCÇÃO DA LINHA DE MIRANDELLA A BRAGANÇA

Auctorisada por portaria de 2 de julho de 1903

OBRIGAÇÕES DE COUPON N.º 35661 a 35665

RS. 450$000

Estas obrigações teem como garantias, além das receitas liquidas geraes da Companhia, a garantia do Governo Portuguez de 4 ½ %, sobre 25:990$000 réis por cada kilometro construido da linha ferrea de Mirandella a Bragança, nos termos do contracto definitivo de concessão de 24 de outubro de 1902 e da portaria de 30 de junho de 1903. Estas garantias serão devidamente consignadas ás obrigações da presente emissão, fazendo-se opportunamente as devidas inscripções hypothecarias nas competentes conservatorias de registo predial.

O pagamento dos juros vencidos e o reembolso das obrigações sorteadas terão logar nos dias 2 de janeiro e 1 de julho de cada anno na séde da Companhia Nacional.

Lisboa 15 de julho de 1903

A

BRAGANÇA

Os Directores

Pela Companhia Nacional de Caminhos de Ferro

Continuação dos coupons do titulo de cinco obrigações.

COMPANHIA NACIONAL DE CAMINHOS DE FERRO

Transactions and balances between related parties

At the end of the 2016 reporting period, the balances resulting from transactions with related parties are as follows:

	ASSETS	LIABILITIES		
	MISCELLANEOUS DEBTORS	DEPOSITS FROM CLIENTS		OTHER SUPPLIERS
		DEMAND DEPOSITS	TERM DEPOSITS	
Participated comp.				
CoolLink, Lda	615	3	0	52 064
	615	3	0	52 064

At the end of the 2015 reporting period, the balances resulting from transactions with related parties are as follows:

	ASSETS	LIABILITIES		
	MISCELLANEOUS DEBTORS	DEPOSITS FROM CLIENTS		OTHER SUPPLIERS
		DEMAND DEPOSITS	TERM DEPOSITS	
Participated comp.				
CoolLink, Lda	308	2	0	66 909
	308	2	0	66 909

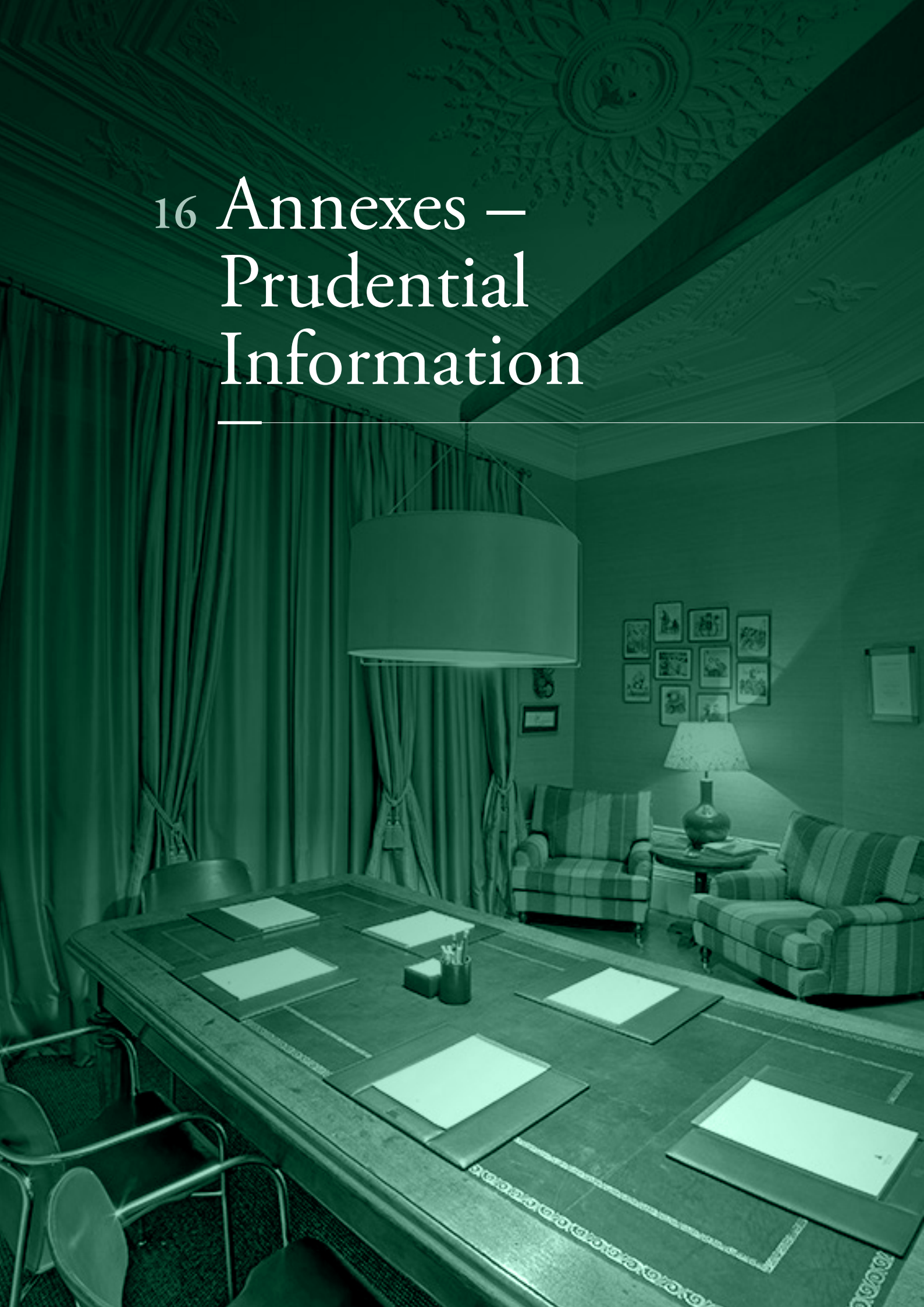
During the 2016, reporting year, the Bank made the following transactions with the following entities:

	INTEREST ON TERM DEPOSITS	FEES/ COMMISSIONS RECEIVED	INCOME FROM EQUITY INST.	SERVICE PROVISION	SERVICES RECEIVED
Participated comp.					
CoolLink, Lda	0	0	0	3 575	643 763
	0	0	0	3 575	643 763

During the 2015, reporting year, the Bank made the following transactions with the following entities:

	INTEREST ON TERM DEPOSITS	FEES/ COMMISSIONS RECEIVED	INCOME FROM EQUITY INST.	SERVICE PROVISION	SERVICES RECEIVED
Participated comp.					
CoolLink, Lda				3 000	588 054
				3 000	588 054

16 Annexes – Prudential Information



I – INFORMATION ON PLEDGED AND UNENCUMBERED ASSETS

Annex specified in Instruction no. 28/2014 of Banco de Portugal.

FORM A – ASSETS

		CARRYING AMOUNT OF PLEDGED ASSETS	FAIR VALUE OF PLEDGED ASSETS	BOOK VALUE OF UN-ENCUMBERED ASSETS	FAIR VALUE OF UN-ENCUMBERED ASSETS
		010	040	060	090
010	ASSETS	25 000 938		189 795 099	
030	Equity instruments	–	–	4 245 927	4 245 927
040	Debt securities	10 193 160	10 193 160	30 340 206	30 766 941
120	Other assets	–		16 018 358	

FORM B – COLLATERAL RECEIVED

		FAIR VALUE OF PLEDGED COLLATERAL RECEIVED OR OF OWN DEBT SECURITIES ISSUED	FAIR VALUE OF COLLATERAL RECEIVED OR OF OWN DEBT SECURITIES ISSUED AND PLEDGEABLE
		010	040
130	Collateral received	–	–
150	Equity instruments	–	–
160	Debt securities	–	–
230	Other collateral received	–	–
240	Own debt securities issued other than own *covered bonds* or ABS	–	–

FORM C – PLEDGED ASSETS, PLEDGED COLLATERAL RECEIVED AND RELATED LIABILITIES

		RELATED LIABILITIES, CONTINGENT LIABILITIES AND SECURITIES LENT	ASSETS, COLLATERAL RECEIVED AND OWN DEBT SECURITIES ISSUED OTHER THAN OWN COVERED BONDS OR PLEDGED ABS
		010	030
010	Carrying amount of selected financial liabilities	39 256	260 840

CIRCULAR LETTER 2/14/DSPDR OF BANCO DE PORTUGAL

Measuring the loan portfolio impairment

1. Credit risk management policy

1.1. Credit risk management

Credit risk is the likelihood of negative impacts affecting the results or equity due to the inability of a counterparty to meet its financial commitments with the Bank, including any restrictions on the transfer of payments from abroad. Credit risk is found mainly in credit exposures (including securitised loans), credit lines, guarantees, derivatives and the Bank's deposits in other credit institutions.

Various methods are used to reduce this risk, in particular the need to deliver solid and liquid guarantees, the use of contractual netting agreements, and the determination and recognition of impairments.

In order to meet legal and regulatory requirements, and based on the adoption of the best practices in credit risk management, Banco Carregosa has implemented a procedure for the various phases of the lending activity:

1.1.1. Granting of loans

The lending process is the initial phase of the analysis of the client's risk profile and the operation.

At the express request of the client, the necessary documents may be obtained to prepare the risk analysis. Before this information is sent to the Risk Department, the Director of the department in question together with the Commercial Department assesses the feasibility of the loan.

As regards the private segment, the credit risk assessment is based on an internal risk assessment model (rating model) consisting of qualitative and quantitative information.

As regards the corporate segment, credit rating is obtained directly from Ignios, to establish the counterparty risk level.

Cumulatively, the analysis also includes the client's management capacity, the value of the client's assets, loan guarantees, the sector framework and the integration of the operation/client in the loan portfolio (determination of the concentration risk).

Thus it is possible to calculate the impact of the operation on impairments, own funds and their requirements, and major risks.

1.1.2. Monitoring of loan portfolio

The monitoring of the loan portfolio is essential to anticipate pre-default situations, allowing the Bank to:

- identify the factors that prove the deterioration of the client's creditworthiness;
- define solutions to renegotiate the debt.

1.1.3. Credit recovery

If a credit default situation is found, measures are taken to recover such credit. In the case of private loans, the special schemes PARI/PERSI (PARI – Action Plan for the Risk of Non-Compliance / PERSI – Extra-Judicial Settlement of Disputes) are activated, in accordance with Decree-law 227/2012.

1.1.4. Concentration risk management

The Risk Department is responsible for the concentration risk management, identifying, measuring and monitoring the exposures to which the securities portfolio is subject.

All operations are analysed by the Risk Committee, who makes a recommendation as regards the operation. This recommendation is analysed by the Executive Committee, which bases its decision on the recommendation of the Credit Committee.

2. Policy on the write-off of loans

When the conditions for the write-off are met, the operation is taken to the Credit Committee and the application of the write-off is proposed. If there are no tax consequences, bad debts in arrears for more than 24 months and for which and impairment loss in the same amount of the loan is recognised (and accepted for tax purposes) must be removed from the balance sheet.

3. Impairment reversal policy

Impairment is reversed whenever there is:

- A significant improvement in the capacity of the client to honour the payment, with a positive impact on the client's credit rating;
- Increase in collateral.

Under these conditions a new impairment is calculated, directly reversing the previous impairment.

4. Description of the restructuring measures applied and their associated risks, as well as the control and mechanisms thereof

The restructuring of a loan takes place whenever there are changes to the terms and conditions of the contract. For that purpose a note must be added indicating «restructured loan due to the client's financial difficulties» in accordance with Instruction 32/2013 of Banco de Portugal (BdP).

Loans must be marked in the Bank's computer system as «restructured due to the client's financial difficulties».

Solutions for the recovery of the loan must take into consideration the client's current situation and in the best interest of Banco Carregosa.

5. Description of the evaluation process and collateral management

5.1. Mortgage guarantees

5.1.1. Evaluation

Mortgage guarantees are evaluated by an expert evaluator registered with the CMVM, who will be responsible for drafting a report on the property. This evaluation contains the copies of blueprints, the property registration document and the fiscal property register certificate, where provided.

5.1.2. Revaluation and review

Mortgage guarantees are revaluated by an expert evaluator on a two-year basis, except in situations where a more regular revaluation is necessary.

5.2. Other guarantees

- Listed securities are evaluated mark-to-market at the reporting date;
- Non-listed securities are evaluated every year by the Business Area based on the last audited accounts, whenever the area fulfils the necessary conditions, according to the asset's specificities;
- Exceptionally, and in special situations, the Bank may use evaluators suited to the nature of the collateral;
- Guarantees without evaluation which potentially may not be called on are regarded as equal to zero.

6. Nature of principles, estimates and hypothesis used when measuring impairment

The calculation of impairment is the sum of the impairments determined for each lending operation:

- Lending operations tested individually for impairment are evaluated at their current value, plus the current exposure of expected cash flows, adjusted to the contract interest rate;
- The remaining lending operations and those that according to the first method have returned zero impairment are tested collectively for impairments.

7. Description of the methods for calculating impairment, including how portfolios are segmented to reflect the various characteristics of loans

The Loan Impairment Model conforms to each operation according to the purpose of the loan (type of instrument), type of collateral, and sector of activity.

8. Indication of signs of impairment per loan segments

8.1. Loans with signs of impairment:

- Overdue loans with arrears of less than 90 days;
- Restructuring due to financial difficulties;
- BdP indicators;
- Insolvency requests or Special Revitalisation Process (PER).

8.2. Loans subject to impairment:

- Credit default (default of more than 90 days) with the Bank;
- Overdue credit, written-off from assets or in litigation with the financial system;
- Other evidences of financial difficulties;
- Declared insolvency.

9. Indication of the thresholds defined for individual analysis

9.1. Calculation of individual impairment

Individual analysis applies to the credit operations:

- Of a group of clients whose current exposure is more than 5 % of own funds;
- Of a group of clients whose default credit exceeds 50 000 EUR.

10. Policy on internal risk ratings, specifying the treatment given to a borrower classified as in default

Clients found to be in non-compliance are analysed by the Credit Committee. A solution that is more adequate to the client's interests is applied taking into consideration its financial capacity.

11. General description of the calculation of the current value of future cash flows in the determination of impairment losses evaluated individually and collectively

11.1. Calculation of individual impairment

The following are taken into consideration in the calculation of individual impairment:

- Exposure;
- Estimated business cash flows or other client's cash flows;
- Cash flows of building projects;
- Expected cash flows related to the execution /pledge of collateral;
- Estimated cash flows arising from calls on private guarantees;
- Cash flows generated by the execution of the financial assets of the debtor with the Bank to settle one-off authorised overdrafts and up to no more than 30 days and overdue loans, originated from contracted loans or otherwise.

As per Circular Letter 2/14DSPDR of Banco de Portugal, haircuts are applied in the determination of cash flows generated by guarantees and any costs of forced sale are excluded. When the Bank considers that the adjusted market value does not safely reflect the asset's realisable value, additional haircuts are applied. To that end, the haircuts applied previously are used as a guide:

- Regulatory volatility adjustments using the Financial Collateral Comprehensive Method as described in Regulation (EU) 575/2013 for eligible securities;
- 30 % for other securities;
- 35 % for other pledges.

This percentage is restated at the contract discount rate plus any maintenance costs of the underlying asset.

11.2. 11.2. Calculation of collective impairment

When the calculation of individual impairments is nil, then the collective calculation must be provided. Credit ratings are used for the corporate segment, as provided by *Ignios*, between 1 and 10, with associated one-year probabilities of default. Level 1 stands for the highest probability of default (PD), of 25 %, and 10 stands for the lowest, of 0 %. The Bank added a level 0 to the above levels, with a PD of 100 % for credit default.

As regards the private segment, the Bank has in place a model based on the knowledge of the client and its solvency situation, as well as on the maturity of the operation. For the sake of prudence, the upper threshold of the results produced by this model is level 7 (PD of 0.4 %).

12. Description of the rescue period used for the various segments and reasons for its suitability

The rescue period is the time elapsed since the loss event occurs until it is noticed, which can be divided into 2 moments:

- First moment when the information emerges;
- Second moment, at a later date, when indicators are obtained that prove the existence of objective impairment evidence.

Banco Carregosa uses indicators that show a potential impairment loss, enabling it to quickly anticipate any deterioration in their clients' solvency standing.

ANNEX V CIRCULAR LETTER 2/14/DSPDR OF BDP

Information disclosure forms

a) Breakdown of exposures and related impairment

a.1)

	EXPOSURE AS AT 31.12.2016					
SEGMENT	TOTAL EXPOSURE	COMPLIANT LOANS	OF WHICH SETTLED	OF WHICH RESTRUCTURED	DEFAULTING LOANS	OF WHICH RESTRUCTURED
Construction & CRE	36 069 313	36 069 313		3 830 000	4 610	
Corporate	13 969 694	13 969 694		1 500 000	32 277	
Guarantees	6 681 181	6 681 181		–	–	
Individual	12 905 026	12 905 026		6 722 648	7 683	
Non-contracted	–	–		–	133 189	
Transferable securities	3 864 234	3 864 234		–	–	
Total	73 489 448	73 489 448		12 052 648	177 758	–

	IMPAIRMENT AS AT 31.12.2016		
SEGMENT	TOTAL IMPAIRMENT	COMPLIANT LOANS	DEFAULTING LOANS
Construction & CRE	188 987	182 713	6 275
Corporate	330 681	307 628	23 053
Guarantees	10 046	10 046	–
Individual	312 884	305 201	7 683
Non-contracted	131 668	–	131 668
Transferable securities	4 097	3 934	163
Total	978 363	809 522	168 842

a.2)

TOTAL EXPOSURE AS AT 31.12.2016

	COMPLIANT LOANS				DEFAULTING LOANS	
	DAYS IN ARREARS < 30					
SEGMENT	TOTAL EXPOSURE 31.12.2016	NO EVIDENCE	WITH EVIDENCE	SUB-TOTAL	DAYS IN ARREARS <= 90*	DAYS IN ARREARS > 90
Construction & CRE	36 069 313	10 600 000	3 830 000	14 430 000	49 855	4 610
Corporate	13 969 694	800 000	1 500 000	2 300 000	1 396	32 277
Guarantees	6 681 181	–	–	–	–	–
Individual	12 905 026	–	6 722 648	6 722 648	–	7 683
Non-contracted	–	–	–	–	4 993	133 189
Transferable securities	3 864 234	2 000 000	–	2 000 000	1 631	–
Total	73 489 448	13 400 000	12 052 648	25 452 648	57 875	177 758

TOTAL IMPAIRMENT AS AT 31.12.2016

	COMPLIANT LOANS			DEFAULTING LOANS	
SEGMENT	TOTAL IMPAIRMENT	DAYS IN ARREARS < 30	DAYS IN ARREARS BETWEEN 30-90	DAYS IN ARREARS <= 90*	DAYS IN ARREARS > 90
Construction & CRE	188 987	184 378	–	1 665	2 945
Corporate	330 681	307 677	–	49	22 956
Guarantees	10 046	10 046	–	–	0
Individual	312 884	305 201	–	–	7 683
Non-contracted	131 668	–	–	467	131 200
Transferable securities	4 097	2 334	–	163	1 600
Total	978 363	809 636	–	2 344	166 384

* Loan with instalments of principal or accrued interest for less than 90 days, but about which there is evidence justifying its classification as credit risk, including bankruptcy, liquidation of debtor, among others.

b) Breakdown of loan portfolio by segment and by year of production

	CORPORATE			CONSTRUCTION & CRE		
YEAR OF PRODUCTION	NO. OF TRANSACTIONS	AMOUNT	IMPAIRMENT	NO. OF TRANSACTIONS	AMOUNT	IMPAIRMENT
2004 and prior years						
2005						
2006						
2007						
2008						
2009						
2010						
2011				1	280 000	5 653
2012						
2013	2	1 500 000	85 281	2	2 100 000	8 937
2014	2	1 480 017	9 662	5	4 709 420	48 274
2015	8	4 675 996	206 975	5	6 714 937	24 364
2016	7	6 313 681	28 764	11	22 264 956	101 759
Total	19	13 969 694	330 681	24	36 069 313	188 987

c) Breakdown of gross loan exposure and impairment evaluated individually and collectively by segment, sector and geographical spread

c.1) By segment:

	CONSTRUCTION & CRE		CORPORATE		GUARANTEES	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	28 798 580	79 970	6 792 588	116 982	4 034 857	3 051
Collective	7 270 733	109 018	7 177 106	213 699	2 646 324	6 996
Total	36 069 313	188 987	13 969 694	330 681	6 681 181	10 046

	INDIVIDUAL		N/NON-CONTRACTED		TRANSFERABLE SECURITIES		TOTAL	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION								
Individual	10 916 229	276 554	–	84 683	3 747 195	3 161	54 289 450	564 400
Collective	1 988 797	36 330	–	46 984	117 039	936	19 199 999	413 963
Total	12 905 026	312 884	–	131 668	3 864 234	4 097	73 489 448	978 363

c.2) By sector of activity:

	REAL ESTATE ACTIVITIES		PRIVATE		FINANCIAL INTERMEDIATION, EXCEPT INSURANCE AND PENSION FUNDS	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	24 709 749	65 951	14 663 424	364 398	4 100 000	103 519
Collective	6 025 113	100 150	4 598 508	87 875	1 093 271	9 344
Total	30 734 862	166 102	19 261 933	452 273	5 193 271	112 863

	CROPS, ANIMAL PRODUCTION, HUNTING, FORESTRY AND FISHING		RETAIL TRADE, EXCEPT OF MOTOR VEHICLES AND MOTORCYCLES		PROPERTY DEVELOPMENT (BUILDING PROJECT DEVELOPMENTS); BUILDING CONSTRUCTION	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	3 985 840	2 989	2 692 588	13 463	2 237 848	11 189
Collective	155 777	125	750 000	6 000	191 392	2 003
Total	4 141 617	3 114	3 442 588	19 463	2 429 241	13 192

	HUMAN HEALTH ACTIVITIES		ACCOMMODATION		WHOLESALE TRADE (INCLUDING AGENTS), EXCEPT OF MOTOR VEHICLES AND MOTORCYCLES	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual			1 900 000	2 890		
Collective	2 185 837	12 014	280 000	5 653	1 000 000	5 000
Total	2 185 837	12 014	2 180 000	8 544	1 000 000	5 000

	ARCHITECTURE, ENGINEERING AND RELATED ACTIVITIES; TESTS AND TECHNICAL ANALYSIS		MANUFACTURE OF ELECTRICAL EQUIPMENT		ACTIVITIES OF AUXILIARY FINANCIAL AND INSURANCE SERVICES	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual						
Collective	875 000	4 375	812 500	122	634 383	152 105
Total	875 000	4 375	812 500	122	634 383	152 105

	EDUCATION		ADMINISTRATIVE SERVICES AND SUPPORT GIVEN TO COMPANIES		SPECIALISED CONSTRUCTION ACTIVITIES	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual						
Collective	380 017	950	203 000	5 052	15 201	190
Total	380 017	950	203 000	5 052	15 201	190

	CONSULTANCY AND IT SERVICE ACTIVITIES		TOTAL	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION				
Individual			54 289 450	564 400
Collective	–	23 005	19 199 999	413 963
Total	–	23 005	73 489 448	978 363

c.3) By geographical spread:

	PORTUGAL		SPAIN		SÃO TOMÉ E PRÍNCIPE	
30.06.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION						
Individual	54 289 450	564 400				
Collective	18 247 680	227 389	634 383	152 105	199 135	159
Total	72 537 130	791 789	634 383	152 105	199 135	159

	BRAZIL		TOTAL	
31.12.2016	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
EVALUATION				
Individual			54 289 450	564 400
Collective	118 800	34 310	19 199 999	413 963
Total	118 800	34 310	73 489 448	978 363

d) Breakdown of restructured loan portfolio by restructuring measure used

	COMPLIANT LOANS			DEFAULTING LOANS		
MEASURE	NO. OF TRANSACTIONS	EXPOSURE	IMPAIRMENT	NO. OF TRANSACTIONS	EXPOSURE	IMPAIRMENT
Extension to the deadline	6	12 052 648	317 551			
Grace period						
Reduction of rate						

	TOTAL		
MEASURE	NO. OF TRANSACTIONS	EXPOSURE	IMPAIRMENT
Extension to the deadline	6	12 052 648	317 551
Grace period			
Reduction of rate			

e) Inward/Outward flows in the restructured loan portfolio:

	31.12.2016
Opening balance of the restructured loan portfolio /gross of impairment)	12 052 648
Restructured loans in the period	–
Interest accrued on restructured portfolio	–
Payment of restructured loans (partial or total)	–
Loans reclassified from «restructured» to «normal»	–
Other	–
Closing balance of the restructured loan portfolio (gross of impairment)	12 052 648

f) Breakdown of the fair value of collateral underlying the loan portfolio of the Corporate, Construction & CRE and Housing segments

	CONSTRUCTION & CRE			
	BUILDINGS		OTHER REAL COLLATERAL*	
	NUMBER	AMOUNT	NUMBER	AMOUNT
FAIR VALUE				
< 0,5M€	25	7 609 000	10	613 072
>=0,5M€ and <1M€	15	10 756 500	3	2 531 021
>= 1M€ and <5M€	7	16 608 000	1	4 312 092
>=5M and <10M€	4	26 868 000	1	6 401 250
>=10M and <20M€			1	10 576 250
>=20M and <50M€				
>=50M				
Total	51	61 841 500	16	24 433 684

* Example: Shares, bonds, deposits, material assets.

	CORPORATE			
	BUILDINGS		OTHER REAL COLLATERAL	
	NUMBER	AMOUNT	NUMBER	AMOUNT
FAIR VALUE				
< 0,5M€	24	1 620 000	14	1 006 997
>=0,5M€ and <1M€	12	7 591 000	1	525 000
>= 1M€ and <5M€	6	13 181 700	2	4 882 075
>=5M and <10M€				
>=10M and <20M€				
>=20M and <50M€				
>=50M				
Total	42	22 392 700	17	6 414 072

g) LTV ratio of segments

SEGMENT/RATIO	NO. OF BUILDINGS	COMPLIANT LOAN	NON-COMPLIANT LOAN	IMPAIRMENT
individual				
With no associated collateral			7 683	7 683
<60%		7 858 972		111 268
>=60% e <80%		2 112 025		136 839
>=80% e <100%		438 092		5 755
>=100%		2 495 936		51 338
Transferable securities				
With no associated collateral				
<60%		3 768 290		3 330
>=60% e <80%		95 944		768
>=80% e <100%				
>=100%				
Construction & CRE				
With no associated collateral		118 800	4 610	34 310
<60%		20 919 166		87 104
>=60% e <80%		14 865 728		66 859
>=80% e <100%				
>=100%		165 620		714
Corporate				
With no associated collateral		200 000	23 005	28 053
<60%		6 099 474		28 990
>=60% e <80%		3 185 837	9 272	106 021
>=80% e <100%		3 100 000		9 512
>=100%		1 384 383		158 105
Non-contractualised			133 189	131 668
With no associated collateral				
<60%				
>=60% e <80%				
>=80% e <100%				
>=100%				
Garanties				
With no associated collateral		29 013		116
<60%		25 773		1 289
>=60% e <80%				
>=80% e <100%				
>=100%		6 626 395		8 642
Total		73 489 448	177 758	978 363

h) Breakdown of the fair value and net book value of property received as payment in kind, per type of asset and seniority

ASSET 31.12.2016	NO. OF PROPERTIES	ASSET FAIR VALUE	BOOK VALUE
LAND			
Urban	1	112 000	85 000
Total	1	112 000	85 000

i) Breakdown of the loan portfolio by internal risk degree

	LOW DEGREE			MEDIUM DEGREE		
SEGMENT	9	8	7	6	5	4
Construction & CRE				1 165 620	24 786 069	2 955 000
Corporate		1 562 500	2 000 000	2 249 520	1 300 000	5 172 604
Guarantees				63 691	6 360 183	25 773
Individual			2 337 150	995 731	2 980 442	182 968
Non-contracted						
Transferable securities				3 864 234		
Total	-	1 562 500	4 337 150	8 338 796	35 426 694	8 336 345

	HIGH DEGREE			TOTAL
SEGMENT	3	2	1	
Construction & CRE	3 031 490	2 126 591	2 004 543	36 069 313
Corporate	1 000 000		685 069	13 969 694
Guarantees		75 000	156 535	6 681 181
Individual			6 408 734	12 905 026
Non-contracted			–	–
Transferable securities				3 864 234
Total	4 031 490	2 201 591	9 254 882	73 489 448

j) Disclosure of risk parameters associated with the impairment model by segment

	IMPAIRMENT			
	PD (%)			
SEGMENTS	< 30 DAYS WITH NO EVIDENCE	< 30 DAYS WITH EVIDENCE	BETWEEN 30-90 DAYS	LGD (%)
Construction & CRE	19%		0%	0%
Corporate	31%		0%	2%
Guarantees	1%		0%	0%
Individual	31%		0%	1%
Non-contracted	0%		0%	13%
Transferable securities	0%		0%	0%

Porto, 28 April 2017

The Certified Accountant
Eugénia Santos

The Board of Directors
Chairwoman: Maria Cândida Cadeco Rocha e Silva

Jorge Manuel Conceição Freitas Gonçalves
António José Paixão Pinto Marante
João Pedro Portugal da Cunha
Francisco Miguel Melhorado de Oliveira Fernandes
Paulo Martins de Sena Esteves
Paulo Armando Morais Mendes

17 Legal Certification of Accounts

AUDIT REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Banco L. J. Carregosa, S.A. (the Group), which comprise the consolidated balance sheet as at 31 December 2016 (showing a total of 215 015 278 EUR and total equity of 34 698 289 EUR, including a negative net result of 357 218 EUR), the consolidated statement of profit and loss by nature, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, which include a summary of the significant accounting policies.

In our opinion, the consolidated financial statements in attachment give a true and fair view, in all material aspects, of the consolidated financial position of Banco L. J. Carregosa, S.A. as at 31 December 2016, of its financial performance, and of the consolidated cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union.

Bases for the opinion

Our audit was carried out in accordance with the International Standards on Auditing (ISA) and other technical standards and guidelines of *Ordem dos Revisores Oficiais de Contas* (Register of Auditors). Our responsibilities under these standards are described in «Responsibilities of the auditor for the audit of the consolidated financial statements» below. Under the law in force, we are independent of the Entities that form the Group and comply with other ethical requirements under the terms of the code of ethics of *Ordem dos Revisores Oficiais de Contas*.

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

Areas relevant to the audit

The areas relevant to the audit are those that, according to our professional judgement, were the most important for the auditing of consolidated financial statements for the current period. These areas were considered in the auditing of consolidated financial statements as a whole, and in the formation of our opinion, and we do not give a separate opinion thereon.

Description of the most significant risks of material misstatements found

Impairments on loans to clients (Notes 1.9, 1.11 and 7)

As at 31 December 2016, the balance of «Loans to clients» amounts to 66 113 462 EUR, net of accumulated losses on accumulated impairment losses on loans recorded by the Bank («impairment losses») in the amount of 968 346 EUR. Provisions for guarantees and other commitments assumed by the Bank have also been recorded in the amount of 10 046 EUR.

Impairment losses represent the best estimate of the Bank's management body of the losses incurred in its loan portfolio as at the date of consolidated financial statements. Given the characteristics of the Bank's loan portfolio, a very significant number of clients are tested individually for impairment.

The calculation of impairments is the sum of the impairments determined for each credit operation:

a) Credit operations tested individually for impairment are evaluated at their current value, plus the current exposure to expected cash flows, adjusted to the contract interest rate.

b) The remaining credit operations and those that according to the first method have returned zero impairment are tested collectively for impairments.

The following credit operations are tested individually for impairment:

a) Of a group of clients whose current exposure is more than 5 % of own funds.

b) Of a group of clients whose default credit exceeds 50 000 EUR.

The determination of impairment losses tested individually is based on the significant knowledge by the management of the available information, in particular the identification of signs of impairment and the estimate of the current sum the Bank expects to recover from loans, which also includes assumptions about future events that may not materialise as expected, and reflects the management's intentions at all times.

The determination of impairments tested collectively is based on a rather complex model, as it considers several variables.

The Bank's loan portfolio includes relevant exposures to economic operators whose main activity is construction or real estate, which have been the hardest hit by the economic environment in which they operate.

Since this is an area in which the management's estimates are highly subjective and somewhat complex, and also due to the nature of the amounts involved in the consolidated financial statements of the Bank, loan portfolio impairment was considered a relevant area in our audit.

Summary of the response to the risks of material misstatements analysed

Impairments on loans to clients (Notes 1.9, 1.11 and 7)

We have analysed the relevant monitoring activities implemented by the Bank for the purpose of quantifying impairment losses on its loan portfolio.

We based our analysis on a sample of clients significantly representative of the loan portfolio to examine the fairness of the impairment loss estimate in the consolidated financial statements based on the Bank's understanding of the clients' economic and financial situation, the prospects for the progress of their activity, and the valuation of existing collateral. From this analysis we reached our own opinion on whether signs of impairment exist, and at the same time assessed whether the management body identified and recognised the impairments in a timely manner.

More specifically, in terms of loans tested collectively, we took the following steps:

a) Understand the main characteristics of the impairment model and critically analyse the fairness of the Bank's methodologies.

b) Analyse, based on sampling, the calculation of the risk parameters and of collective impairment.

As regards substantial restructured loans, the analysis focuses on the evaluation of existing collateral, so that their seniority is of no more than 6 months, and also on the ability to meet the defined restructuring.

We have reviewed the disclosures on loan impairment, taking into consideration the applicable accounting rules

Description of the most significant risks of material misstatements found

Impairment on other assets (Notes 1.9, 1.11 and 15)

As at 31 December 2016, «Other assets» recorded a balance of 28 492 505 EUR, net of accumulated impairment losses recorded by the Bank («impairment losses») in the amount of 1 549 975 EUR.

As disclosed in note 15 of the annex to the consolidated financial statements, an impairment was posted in 2016 for a recognised debt in the amount of 1 449 975 EUR.

Whenever signs of impairment are identified, these assets are tested for impairment. This evaluation implies a stringent judgement by the management body. For this reason, this was considered a relevant area in our audit.

Summary of the response to the risks of material misstatements analysed

Impairment on other assets (Notes 1.9, 1.11 and 15)

We have analysed the relevant monitoring activities implemented by the Bank for the purpose of quantifying impairment losses for other assets.

We have examined the fairness of impairment tests prepared by the Bank for other assets, in particular based on internal and external information, evaluating the recoverable amount compared to the carrying amount.

We have reviewed the disclosures on the impairment of other assets, taking into consideration the applicable accounting rules.

Responsibilities of the management body and supervisory body for the consolidated financial statements

The management body is responsible for:

- preparing the consolidated financial statements that give a true and fair view of the Group's financial position, financial performance and cash flows, in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union;
- preparing the management report in compliance with the applicable legal and regulatory provisions;
- creating and maintaining an appropriate internal control system with a view to preparing financial statements free from material misstatements due to fraud or error;
- adopting accounting policies and criteria appropriate to the circumstances; and
- assessing the Group's capacity to maintain continuity, disclosing, where applicable, any matters likely to raise significant doubts as to the continuity of its activities.

The supervisory body is responsible for supervising the preparation and disclosure of the Group's financial information.

Responsibilities of the auditor for the audit of the consolidated financial statements

Our responsibility is to be reasonably assured that the consolidated financial statements, as a whole, are free from material misstatements due to fraud or error, and to issue a report with our opinion. Reasonable assurance means a high level of safety, but it is does not guarantee that an audit carried out in accordance with the ISA will always detect a material misstatement, if there is one. Misstatements may arise from fraud or error and are considered material if, alone or jointly, it can be reasonably expected that they will influence the economic decisions of users made on the basis of those financial statements.

As part of an ISA audit, our judgments are professional and our attitude is one of professional scepticism during the audit. We also:

- identify and assess the material risks of misstatement in the consolidated financial statements, due to fraud or error, establish and execute auditing procedures that respond to such 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 due to fraud is greater than the risk of not detecting a material misstatement due to error, as the fraud may involve collusion, forgery, intentional omissions, misrepresentations or overlap of internal control;

- obtain a relevant understanding of internal control for the purpose of auditing with a view to establishing auditing procedures suited to the circumstances, but not to express an opinion on the efficacy of the Group's internal control;

- assess the adequacy of the accounting policies used and the fairness of accounting estimates and their disclosures by the management body;

- ascertain how the management body considers the going concern assumption and, based on the audit evidence obtained, whether there is any material uncertainty related with events or conditions likely to raise significant doubts about the Group's ability to continue its activities. If we do conclude that a material uncertainty exists, we must refer in our report the related disclosures included in the financial statements or, if such disclosures are not appropriate, change our opinion. Our conclusions are based on the audit evidence obtained as of the date of our report. Nonetheless, future events or conditions may cause the Group to discontinue its activities;

- assess the presentation, structure and overall content of the consolidated financial statements, including disclosures, and whether they represent the underlying transactions and events in such a way that the presentation is fair;

- obtain sufficient and appropriate audit evidence on the financial information of the Group's entities or activities to express an opinion on the consolidated financial statements. We are responsible for guiding, supervising and performing the Group's audit and are ultimately responsible for our audit opinion;

- inform the persons in charge of governance, including the supervisory body, inter alia, the scope and planned timetable of the audit, and the significant conclusions thereof, including any significant internal control deficiency identified during the audit;

- of the matters we inform the persons in charge of governance, including the supervisory body, we determine what the most important were in auditing the consolidated financial statements of the current year and what the relevant audit matters were. Our report describes such matters, except where their public disclosure is prohibited by law or regulation;

- declare to the supervisory body that we have complied with the relevant ethical requirements on independence, and report any an all relationships and other matters that may be perceived as threats to our independence and, where applicable, the existing safeguards approaches.

We are also responsible for ensuring that the information in the management report is consistent with the consolidated financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the management report

In compliance with Article 451(3)(e) of the Companies Code, we are of the opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements in force, that the information contained therein is consistent with the audited financial statements, and that, taking into account our knowledge and assessment of the Bank, we have not identified any material misstatements.

On the additional information foreseen under Article 10 of Regulation (EU) No 537/2014

In compliance with Article 10 of Regulation (EU) no 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the relevant audit matters, we also inform that:

- We have been appointed auditors of Banco L. J. Carregosa, S.A. (the Group's parent company) for the first time at the General Shareholders' Meeting of 27 May 2015, for a term between 2015 and 2017.

- The management body has confirmed that it is not aware of any fraud or suspicion of fraud having a material effect on the financial statements. When planning and executing our audit in accordance with the ISA, we have maintained an attitude of professional scepticism and established audit procedures to respond to possible material misstatements in the consolidated financial statements due to fraud. As a result of our work, we have not identified any material fraud-related misstatements therein.

- We confirm that our audit opinion is consistent with the additional report we have prepared and submitted to the Bank's supervisory body on 9 May 2017.

- We hereby declare that we have not rendered any services prohibited under Article 77(8) of the Articles of Association of *Ordem dos Revisores Oficiais de Contas* and that we have remained independent of the Group during the course of the audit.

Porto, 9 May 2017

Marques da Cunha, Arlindo Duarte & Associados – S.R.O.C., Lda., SROC no. 52
represented by Dr. Joaquim Manuel Martins da Cunha, ROC no. 859

Companhia de Cabinda

SOCIEDADE ANONYMA DE RESPONSABILIDADE LIMITADA

SOCIÉTÉ ANONYME À RESPONSABILITÉ LIMITÉE

Sede em LISBOA, Rua Ivens, 56, 1º

Siége à LISBONNE, Rua Ivens, 56, 1º

CAPITAL

ESCUDOS OURO 522.000 OU

ESCUDOS OR 522.000 OU

116.000

TITULO

DE UMA ACÇÃO ORDINARIA

INTEIRAMENTE LIBERADA

DE ESC. OURO 4.5 OU £ 1.

AO PORTADOR

Os Administradores.

Nº 20193

TITRE

D'UNE ACTION ORDINAIRE

ENTIÈREMENT LIBÉRÉE

DE ESC. OR 4.5 OU £ 1.

AU PORTEUR

Les Administrateurs.

SOCIEDADE ANONYMA DE RESPONSABILIDADE LIMITADA — COMPANHIA DE CABINDA — SOCIÉTÉ ANONYME À RESPONSABILITÉ LIMITÉE

TALÃO — ACÇÃO ORDINARIA — Nº 20193 — ACTION ORDINAIRE — TALON

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AUDIT REPORT ON THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Banco L. J. Carregosa, S.A. (the Bank), which comprise the balance sheet as at 31 December 2016 (showing a total of 214 796 037 EUR and total equity of 34 558 195 EUR, including a negative net result of 351 025 EUR), the statement of profit and loss by nature, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, which include a summary of the significant accounting policies.

In our opinion, the financial statements in attachment give a true and fair view, in all material aspects, of the financial position of Banco L. J. Carregosa, S.A. as at 31 December 2016, of its financial performance, and of the cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union.

Bases for the opinion

Our audit was carried out in accordance with the International Standards on Auditing (ISA) and other technical standards and guidelines of *Ordem dos Revisores Oficiais de Contas* (Register of Auditors). Our responsibilities under these standards are described in «Responsibilities of the auditor for the audit of the financial statements» below. Under the law in force, we are independent of the Bank and comply with other ethical requirements under the terms of the code of ethics of *Ordem dos Revisores Oficiais de Contas*.

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

Areas relevant to the audit

The areas relevant to the audit are those that, according to our professional judgement, were the most important for the auditing of financial statements for the current period. These areas were considered in the auditing of financial statements as a whole, and in the formation of our opinion, and we do not give a separate opinion thereon.

Description of the most significant risks of material misstatements found

Impairments on loans to clients (Notes 2.2.8, 2.2.11 and 7)

As at 31 December 2016, the balance of «Loans to clients» amounts to 66 113 462 EUR, net of accumulated losses on accumulated impairment losses on loans recorded by the Bank («impairment losses») in the amount of 968 346 EUR. Provisions for guarantees and other commitments assumed by the Bank have also been recorded in the amount of 10 046 EUR.

Impairment losses represent the best estimate of the Bank's management body of the losses incurred in its loan portfolio as at the date of individual financial statements. Given the characteristics of the Bank's loan portfolio, a very significant number of clients are tested individually for impairment.

The calculation of impairments is the sum of the impairments determined for each credit operation:

a) Credit operations tested individually for impairment are evaluated at their current value, plus the current exposure to expected cash flows, adjusted to the contract interest rate.
b) The remaining credit operations and those that according to the first method have returned zero impairment are tested collectively for impairments.

The following credit operations are tested individually for impairment:

a) Of a group of clients whose current exposure is more than 5 % of own funds.
b) Of a group of clients whose default credit exceeds 50 000 EUR.

The determination of impairment losses tested individually is based on the significant knowledge by the management of the available information, in particular the identification of signs of impairment and the estimate of the current sum the Bank expects to recover from loans, which also includes assumptions about future events that may not materialise as expected, and reflects the management's intentions at all times.

The determination of impairments tested collectively is based on a rather complex model, as it considers several variables.

The Bank's loan portfolio includes relevant exposures to economic operators whose main activity is construction or real estate, which have been the hardest hit by the economic environment in which they operate.

Since this is an area in which the management's estimates are highly subjective and somewhat complex, and also due to the nature of the amounts involved in the individual financial statements of the Bank, loan portfolio impairment was considered a relevant area in our audit.

Summary of the response to the risks of material misstatements analysed

Impairments on loans to clients (Notes 2.2.8, 2.2.11 and 7)

We have analysed the relevant monitoring activities implemented by the Bank for the purpose of quantifying impairment losses on its loan portfolio.

We based our analysis on a sample of clients significantly representative of the loan portfolio to examine the fairness of the impairment loss estimate in the financial statements, based on the Bank's understanding of the clients' economic and financial situation, the prospects for the progress of their activity, and the valuation of existing collateral. From this analysis we reached our own opinion on whether signs of impairment exist, and at the same time assessed whether the management body identified and recognised the impairments in a timely manner.

More specifically, in terms of loans tested collectively, we took the following steps:

a) Understand the main characteristics of the impairment model and critically analyse the fairness of the Bank's methodologies.
b) Analyse, based on sampling, the calculation of the risk parameters and of collective impairment.

As regards substantial restructured loans, the analysis focuses on the evaluation of existing collateral, so that their seniority is of no more than 6 months, and also on the ability to meet the defined restructuring.

We have reviewed the disclosures on loan impairment, taking into consideration the applicable accounting rules.

Description of the most significant risks of material misstatements found

Impairment of other assets (Notes 2.2.8, 2.2.11 and 16)

As at 31 December 2016, «Other assets» recorded a balance of 28 467 780 EUR, net of accumulated impairment losses recorded by the Bank («impairment losses») in the amount of 1 549 975 EUR.

As disclosed in note 16 of the annex to the individual financial statements, an impairment was posted in 2016 for a recognised debt in the amount of 1 449 975 EUR.

Whenever signs of impairment are identified, these assets are tested for impairment. This evaluation implies a stringent judgement by the management body. For this reason, this was considered a relevant area in our audit.

Summary of the response to the risks of material misstatements analysed

Impairment of other assets (Notes 2.2.8, 2.2.11 and 16)

We have analysed the relevant monitoring activities implemented by the Bank for the purpose of quantifying impairment losses for other assets.

We have examined the fairness of impairment tests prepared by the Bank for other assets, in particular based on internal and external information, evaluating the recoverable amount compared to the carrying amount.

We have reviewed the disclosures on the impairment of other assets, taking into consideration the applicable accounting rules.

Responsibilities of the management body and supervisory body for the financial statements

The management body is responsible for:

- preparing the financial statements that give a true and fair view of the Bank's financial position, financial performance and cash flows, in accordance with the International Financial Reporting Standards (IFRS) as adopted in the European Union;
- preparing the management report in compliance with the applicable legal and regulatory provisions;
- creating and maintaining an appropriate internal control system with a view to preparing financial statements free from material misstatements due to fraud or error;
- adopting accounting policies and criteria appropriate to the circumstances; and
- assessing the Bank's capacity to maintain continuity, disclosing, where applicable, any matters likely to raise significant doubts as to the continuity of its activities.

The supervisory body is responsible for supervising the preparation and disclosure of the Bank's financial information.

Responsibilities of the auditor for the audit of the financial statements

Our responsibility is to be reasonably assured that the financial statements, as a whole, are free from material misstatements due to fraud or error, and to issue a report with our opinion. Reasonable assurance means a high level of safety, but it is does not guarantee that an audit carried out in accordance with the ISA will always detect a material misstatement, if there is one. Misstatements may arise from fraud or error and are considered material if, alone or jointly, it can be reasonably expected that they will influence the economic decisions of users made on the basis of those financial statements.

As part of an ISA audit, our judgments are professional and our attitude is one of professional scepticism during the audit. We also:

- identify and assess the material risks of misstatement in the financial statements, due to fraud or error, establish and execute auditing procedures that respond to such 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 due to fraud is greater than the risk of not detecting a material misstatement due to error, as the fraud may involve collusion, forgery, intentional omissions, misrepresentations or overlap of internal control;

- obtain a relevant understanding of internal control for the purpose of auditing with a view to establishing auditing procedures suited to the circumstances, but not to express an opinion on the efficacy of the Bank's internal control;

- assess the adequacy of the accounting policies used and the fairness of accounting estimates and their disclosures by the management body;

- ascertain how the management body considers the going concern assumption and, based on the audit evidence obtained, whether there is any material uncertainty related with events or conditions likely to raise significant doubts about the Bank's ability to continue its activities. If we do conclude that a material uncertainty exists, we must refer in our report the related disclosures included in the financial statements or, if such disclosures are not appropriate, change our opinion. Our conclusions are based on the audit evidence obtained as of the date of our report. Nonetheless, future events or conditions may cause the Bank to discontinue its activities;

- assess the presentation, structure and overall content of the financial statements, including disclosures, and whether they represent the underlying transactions and events in such a way that the presentation is fair;

- inform the persons in charge of governance, including the supervisory body, inter alia, the scope and planned timetable of the audit, and the significant conclusions thereof, including any significant internal control deficiency identified during the audit;

- of the matters we inform the persons in charge of governance, including the supervisory body, we determine what the most important were in auditing the financial statement of the current year and what the relevant audit matters were. Our report describes such matters, except where their public disclosure is prohibited by law or regulation;

- declare to the supervisory body that we have complied with the relevant ethical requirements on independence, and report any an all relationships and other matters that may be perceived as threats to our independence and, where applicable, the existing safeguards approaches.

We are also responsible for ensuring that the information in the management report is consistent with the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

On the management report

In compliance with Article 451(3)(e) of the Companies Code, we are of the opinion that the management report was prepared in accordance with the applicable legal and regulatory requirements in force, that the information contained therein is consistent with the audited financial statements, and that, taking into account our knowledge and assessment of the Bank, we have not identified any material misstatements.

On the additional information foreseen under Article 10 of Regulation (EU) no. 537/2014

In compliance with Article 10 of Regulation (EU) no 537/2014 of the European Parliament and of the Council, of 16 April 2014, and in addition to the relevant audit matters, we also inform that:

- We have been appointed auditors of Banco L. J. Carregosa, S.A. for the first time at the General Shareholders' Meeting of 27 May 2015, for a term between 2015 and 2017.

- The management body has confirmed that it is not aware of any fraud or suspicion of fraud having a material effect on the financial statements. When planning and executing our audit in accordance with the ISA, we have maintained an attitude of professional scepticism and established audit procedures to respond to possible material misstatements in the financial statements due to fraud. As a result of our work, we have not identified any material fraud-related misstatements therein.

- We confirm that our audit opinion is consistent with the additional report we have prepared and submitted to the Bank's supervisory body on 9 May 2017.

- We hereby declare that we have not rendered any services prohibited under Article 77(8) of the Articles of Association of *Ordem dos Revisores Oficiais de Contas* and that we have remained independent of the Bank during the course of the audit.

Porto, 9 May 2017

Marques da Cunha, Arlindo Duarte & Associados – S.R.O.C., Lda., SROC no. 52
represented by Dr. Joaquim Manuel Martins da Cunha, ROC no. 859

18 Report and Opinion of the Supervisory Committee

To the Shareholders

1) The Supervisory Committee presents its report and opinion on the accounting documents submitted by the Board of Directors of **Banco L.J.Carregosa, S.A.** for the year ended 2016, in compliance with legal requirements – Article 420(1)g) and Article 508-D of the Companies Code – and statutory requirements.

2) Throughout the year, the Supervisory Committee made the necessary contacts with the various departments of the Bank to obtain information on the relevant aspects of the business, and followed-up the evolution of various matters under analysis.

3) The Supervisory Committee carried out timely and adequate verifications and

– assessed the accounting policies used in the preparation of the financial information and inspected the effectiveness of the internal control, risk management and internal audit systems.

– analysed the process for preparing the consolidated accounts.

All clarifications were always provided by the Board of Directors and the Bank's services.

4) The Supervisory Committee is unaware of any situation that does not comply with the articles of association or applicable legal requirements.

5) During the year, the Supervisory Committee was able to take note of the professionalism, dedication and strong commitment of the Board of Directors, Executive Committee and of other employees of the Bank and of the Group.

6) All things considered, including the contents of the legal certification of accounts, which were presented to us and with which we agree, it is our opinion that the General Shareholders' Meeting should:

a) Approve the Report and Accounts of the Board of Directors, both of the Bank and of the Group, for the year ended 31 December 2016.

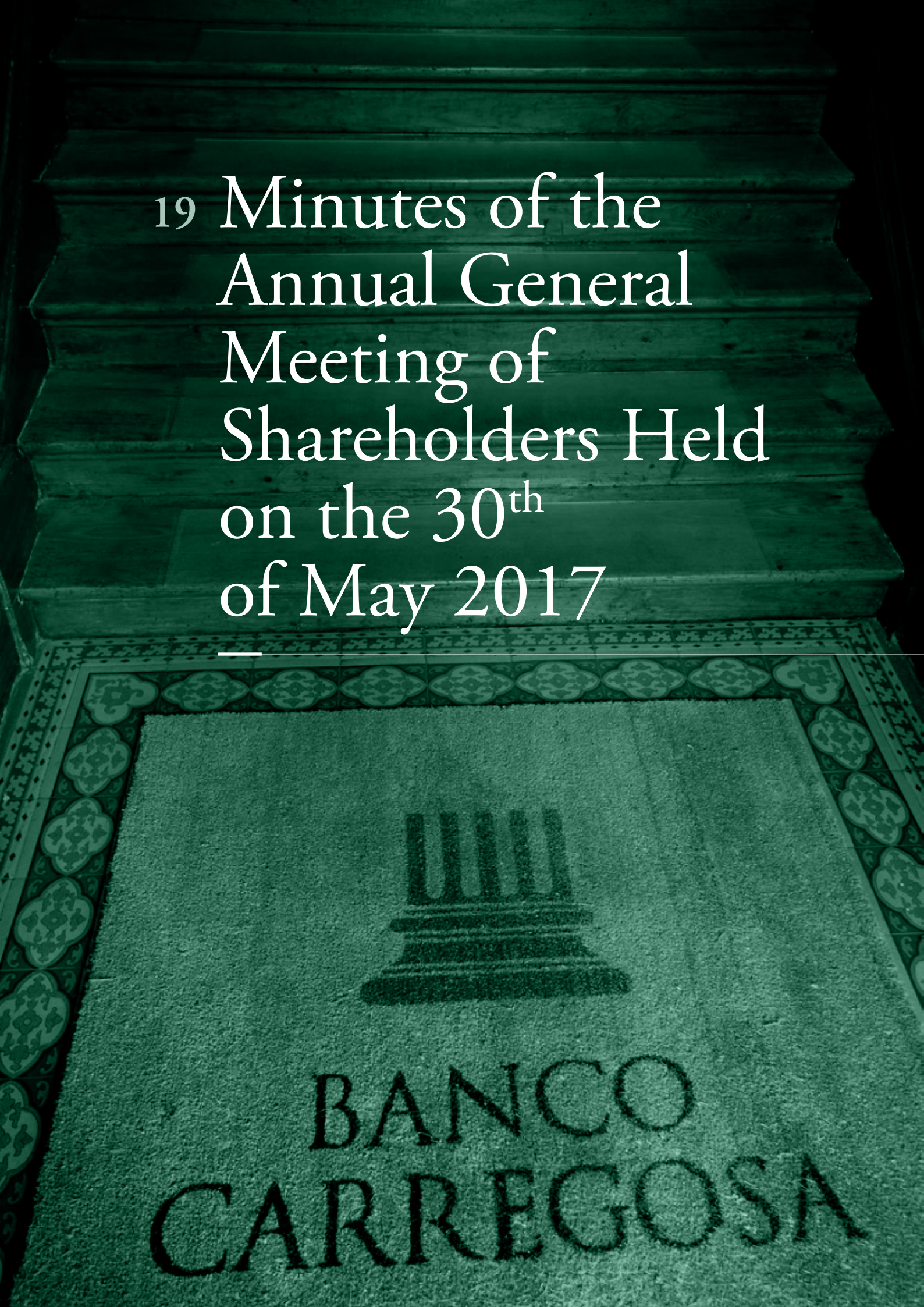
b) Approve the proposal for the appropriation of profits presented in the Report of the Board of Directors.

c) Perform a general assessment of the management and supervision of **Banco L. J. Carregosa, S.A.**, pursuant to Article 455 of the Companies Code.

Porto, 9 May 2017

The Supervisory Committee

19 Minutes of the Annual General Meeting of Shareholders Held on the 30th of May 2017



I HEREBY CERTIFY, according to the Minutes of the General Annual Shareholders' Meeting of **«Banco L. J. Carregosa, S.A.»**, held on **30 May 2017**, that the following proposals were approved:

1) The Annual Report and Accounts and Consolidated Accounts for the 2016 financial year.

2) The net results for the year, in the (negative) amount of 351 024.88 EUR (three hundred and fifty-one thousand and twenty-four euros and eighty-eight cents) be recorded under retained earnings.

3) A vote of praise to the Board of Directors and the Supervisory Committee of the Company, and to each and every one of their members holding office, for the 2016 financial year.

4) The proposed disposal and acquisition of own shares, pursuant to Articles 319 adn 320 of the Portuguese Companies Code was approved unanimously.

5) The proposition for the election, during the current term of office, of two members for the Supervisory Board and the appointment of its Chairman was approved unanimously, having the following composition:
Chairman: Álvaro José Barrigas do Nascimento;
Voting member: Ricardo Jorge Mendes Fidalgo Moreira da Cruz;
Voting member: Maria da Graça Alves Carvalho.

6) The Remunerations Committee Report was approved unanimously.

7) The proposal for setting up the Remunerations and Assessment Committee and its regulations were approved unanimously, having the following composition:

- M. Luís Neiva Santos;
- Mme. Maria Cândida Cadeco da Rocha e Silva;
- M. Álvaro José Barrigas do Nascimento.

8) The changes in the Remuneration Policy of Management and Supervisory Bodies and of the Statutory Audit Firm were approved unanimously.

9) Approval of the changes in the Internal Policy on the Selection and Assessment of the Members of the Management and Supervisory Bodies, of the Statutory Audit Firm and of the Special Function Holders

Porto, 30 May 2017.

The Chairman of the General Shareholders' Meeting,
(Luís Neiva dos Santos)

BANCO L. J. CARREGOSA, S.A.
Av. da Boavista, 1083 · 4100-129 Porto
T. +351 226 086 460 · F. +351 226 086 490

www.bancocarregosa.com
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