Annual Report 2016

Banco BNI Europa

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Management report

The Internet banking and mobile banking platform for customers, together with other online/digital banking initiatives, have been recognised by a number of international entities, resulting in several awards including "Most Innovative Bank", "Best Internet Bank" and "Best New Digital Bank".

Pedro Pinto Coelho CHAIRMAN OF THE BOARD OF DIRECTORS

Message from the Chairman of the Board of Directors

Dear Shareholders,

2016 saw major growth in Banco BNI Europa's business, resulting in increases in assets, deposits, banking income and the number of customer accounts. In view of its exponential growth, Banco BNI Europa probably had the highest growth of all Portuguese banks in 2016.

At the same time, the year saw the creation of three new business areas and respective brands for the credit card, mortgage and online credit businesses. These areas' products and services will be launched over the course of 2017, bringing something innovative to the Portuguese market and taking the bank into segments not being addressed by other financial operators on the market.

As a result, in addition to adjusting its governance model, the bank more than doubled its number of employees, thereby strengthening both its business areas and control and support areas.

From an international standpoint, a number of partnerships were created to diversify funding sources and the European credit portfolio.

The launch of an Internet banking and mobile banking platform for customers in 2016, together with other online/digital banking initiatives, were recognised by a number of international entities, resulting in several awards including "Most Innovative Bank", "Best Internet Bank" and "Best New Digital Bank".

With a view to ensuring high standards of customer service quality, a call centre team was launched in the last quarter of 2016. This event was an important milestone in the bank's growth strategy, giving it flexible solutions for developing its business and customer relations.

2017 will be crucial in consolidating Banco BNI Europa's business, particularly with the launch of new business areas. In addition, the product and service range will likely expand through partnerships with companies known for their innovation and focus on online/digital solutions. This strategic direction will allow Banco BNI Europa to position itself as a "challenger bank" from the standpoint of open architecture and differentiation.

We believe this positioning will allow Banco BNI Europa to stand out as a benchmark in the new "Fintech" generation of European banks and continue its fast-paced growth, with greater profitability and solvency.

I. Vision, mission and values

VISION

Banco BNI Europa, as a young bank still in its consolidation phase, aspires to be a benchmark in financial sustainability, operating efficiency and image in the domestic and international markets. We believe that *i)* offering innovative and competitive solutions, *ii)* operating in new business segments and *iii)* establishing solid partnerships to leverage added value is the only way to contribute towards the success of our customers, shareholders, employees and other stakeholders.

MISSION

We aspire to be a benchmark bank, with in-depth knowledge of the financial sector and the markets where we do business, **by creating innovative products and services and following high standards of conduct and ethics**, together with corporate principles of transparency and rigour.

VALUES

Customer Focus

Products and services centred on customer needs, fully committed to exceeding their expectations to provide satisfaction and gain loyalty.

Confidence

Customers are our most important asset. We build relationships for the future based on confidence, business sustainability, confidentiality and transparency.

Rigour

We do business in an ethical, conscientious, responsible and professional manner.

Innovation

We are geared towards innovation, constantly creating new tools, methodologies, products and services which put us on the cutting edge of the financial market.

Teamwork

We respect people. We share the responsibility for improving our performance to achieve our goals for everyone's success.

II. Code of conduct and professional ethics

Banco BNI Europa sees itself as a benchmark bank in the Portuguese financial system for the quality and innovation of the products and services it offers to customers, its cooperative, transparent relationship with supervisory authorities and its healthy relationship with all of its employees.

Banco BNI Europa's Code of Corporate Conduct and Ethics is a declaration of the ethical values and professional standards which the members of the Board of Directors and employees promise to follow, without exception, to sustain and strengthen our reputation for integrity, fairness with our partners and assumption of calculated risks.

Banco BNI Europa has assumed the following obligations to its customers and to the financial system:

- Integrity
- General obligation of confidentiality
- Equal treatment
- Prioritising of customer interests
- Technical confidence, diligence and transparency
- Cooperation with customers
- Fair, respectful, discreet and non-discriminatory treatment of customers
- Combating money laundering
- Prohibition on the use of confidential information
- Defence of the market

With a view to fulfilling its obligations, the bank has a governance and internal control model proportional and suited to financial sector regulations and the size and complexity of its business, based on policies, regulations and procedural manuals on relevant issues such as preventing and managing conflicts of interest and the reporting of irregularities.

III. Key indicators and Highlights

Key indicators

2016 was Banco BNI Europa's second full financial year, and the first year after redefining the business strategy in October 2015. Implementing the business strategy launched at the end of 2015 entailed major changes to the bank's business and key business indicators, as summarised below:

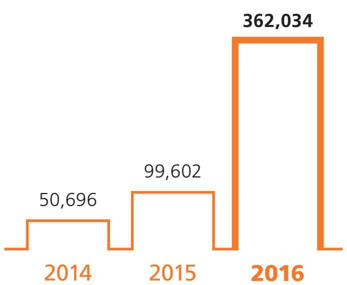
Balance Sheet Indicators

Thousand euros

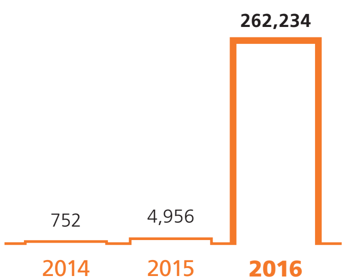
ACTIVITY	2014	2015	2016
Total Net Assets	**50,696**	**99,602**	**362,034**
Business volume[1]	1,190	34,545	532,126
Loans to customers[2]	0	1,734	48,135
Customer funds	752	4,956	262,234
Own portfolio[3]	3	13,841	206,234
Off-balance-sheet	434	14,014	15,523
Number of employees[4]	18.5	20.5	52
Number of customers	11	117	8,316
Turnover per employee	64	1,685	10,233
Transformation ratio[5]	0.0%	35.0%	18.4%

(1) Includes loans to customers as per note (2), customer funds, own portfolio and off-balance-sheet
(2) Includes loans to customers, shares/bonds whose underlying assets are loans and commercial paper
(3) Includes financial assets at fair value through results, financial assets available for sale and financial assets held to maturity, not including financial assets already appearing under the item "loans to customers"
(4) Includes external employees working full-time for the bank
(5) Calculated based on the item "loans to customers" as per note (2) and on customer funds

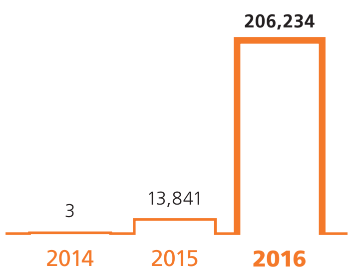
TOTAL ASSETS



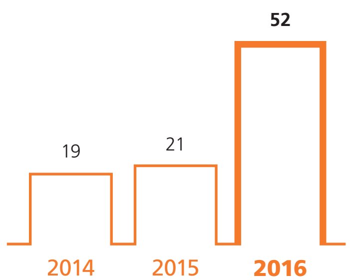
CUSTOMER DEPOSITS



OWN PORTFOLIO



NUMBER OF EMPLOYEES



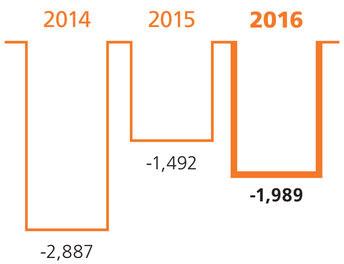
Income Indicators

Thousand euros

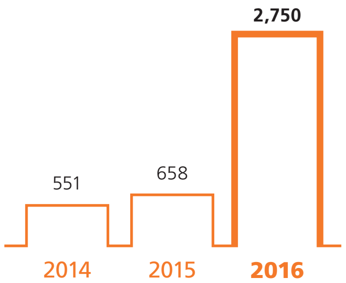
ACTIVITY	2014	2015	2016
Financial Margin	340	403	146
Net Fees and Commissions	23	229	351
Financial Transaction Results	-29	21	2,213
Other Operating Results[(1)]	217	5	41
Banking Income	551	658	2,750
Banking Income per Employee	30	32	53
Operating Costs[(2)]	3,393	3,412	5,365
Cost to Income	616%	518%	195%
Loan Impairment	0	-67	4
Impairment from Other Assets	0	-129	127
Cost of Risk (bp)	0	-385	1
Net Income	**-2,887**	**-1,492**	**-1,989**
ROA	-5.7%	-1.5%	-0.5%
ROE	-14.0%	-5.3%	-7.9%

(1) Includes Income from Capital Instruments
(2) Includes capitalised income and expenses in projects with future economic benefits

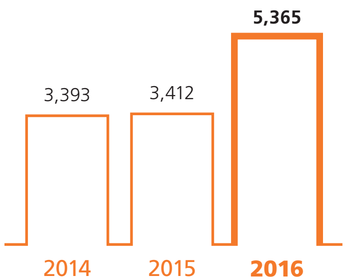
NET INCOME



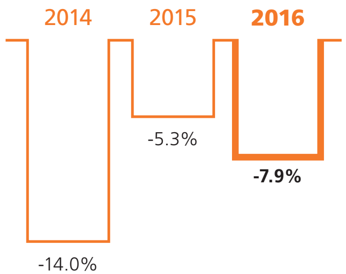
BANKING INCOME



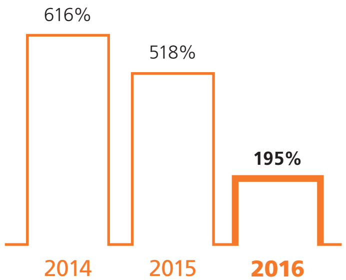
OPERATING COSTS (2)



ROE



COST TO INCOME

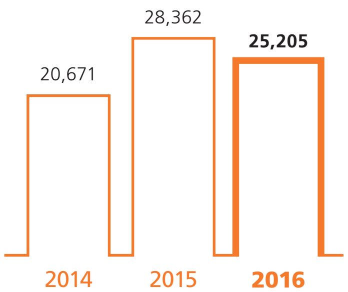


Capital Indicators

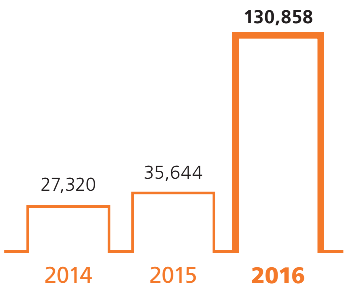
Thousand euros

ACTIVITY	2014	2015	2016
Net Worth	20,671	28,362	25,205
Total Equity	19,182	25,682	20,830
Risk Weighted Assets	27,320	35,644	130,858
Solvency Ratio	**70.2%**	**72.1%**	**15.9%**
Common Equity Tier 1 Ratio (CRD IV/CRR *phasing in*)	70.2%	72.1%	15.9%
Common Equity Tier 1 Ratio (CRD IV/CRR *fully implemented*)	70.2%	68.7%	14.7%

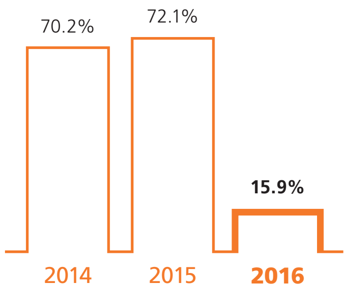
EQUITY



RISK WEIGHTED ASSETS



COMMON EQUITY TIER 1 RATIO



2016 Highlights

The following highlights occurred at Banco BNI Europa in 2016:

Launch of **online account** opening feature, **homebanking** and the corresponding mobile app.

Awards from specialised media, including:

> **"Excellence in Growth for Retail Banking Portugal 2016"** from "Finance Digest"

> **"Best Internet Bank Portugal 2016"** from "Global Business Outlook"

> **"Best Digital Bank Portugal 2016"** from "Global Banking & Finance Review"

> **"Most Innovative Bank in Portugal in 2016"** from "International Finance Magazine"

Term deposits raising campaign in partnership with DECO.

Launch of the bank's **new website**.

IV. Corporate boards

In the General Meetings of Shareholders held on 21 March and 15 June 2016, shareholders appointed the bank's new corporate boards for the time period of 2016-2019, comprised of the following members:

BOARD OF DIRECTORS

Pedro Nuno Munhão Pinto Coelho | Chairman

António Miguel Maurício Rola Costa | Member

Nuno Luís do Rosário Martins | Member

Carlos Alberto Rodrigues Ballesteros Amaral Firme | Member

EXECUTIVE COMMITTEE

Pedro Nuno Munhão Pinto Coelho | Chairman

António Miguel Maurício Rola Costa | Member

Nuno Luís do Rosário Martins | Member

GENERAL MEETING OF SHAREHOLDERS

Pedro Miguel Patrício Raposo | Chairman

Marta Guerreiro Pereira Rosa | Secretary

FISCAL BOARD

Telmo Francisco Salvador Vieira | Chairman

Rui Manuel Lopes Amendoeira | Member

Isabel Paiva, Miguel Galvão & Associados SROC Lda. | Member
(Represented by Isabel Gomes de Novais Paiva)

José Luís Guerreiro Nunes | Substitute Member

STATUTORY AUDITOR

PricewaterhouseCoopers & Associados – SROC, Lda. | Statutory Auditor
(Represented by Carlos José Rodrigues Figueiredo, Statutory Auditor (ROC) no. 1737)

Carlos Manuel Sim Sim Maia, Statutory Auditor (ROC) no. 1138 | Substitute Statutory Auditor

V. Macroeconomic environment

According to the IMF's latest estimates, the world economy grew 3.1% in 2016, down 0.1 percentage points from 2015 and falling short of projections at the start of the year. This is the lowest growing rate since the year of the great recession (2009).

The U.S. economy largely contributed to this performance. The year wrapped up with growth below 2%, primarily due to weak performance in U.S. investment, which was hampered by problems from low oil prices among energy sector companies.

The less robust Chinese economy, which has been adjusting its growth model, also impacted 2016 growth. The world's second-largest economy grew 6.7% in 2016, the slowest rate in the past 26 years. After three decades of annual growth averaging nearly 10%, the Chinese economy has slowed down in recent years, engaged in a transition to an economic model aimed at making domestic consumption the primary driver of growth.

U.S. economy

In the third quarter of 2016, the U.S. economy grew 3.5% over the previous quarter. Economic dynamics in the U.S.A. were weaker than expected, particularly in the first half of the year (with the growth of just 0.8% and 1.4% in the first and second quarters). Compared to the 1.6% and 1.3% expansion in the first and second quarters of 2015, it is clear that the first half of 2016 was the weakest since 2013. GDP was up 1.7% year-over-year in September, 0.4 percentage points (p.p.) higher than the previous quarter.

Although domestic consumption saw robust performance, always remaining above 2.4% annually during the first three quarters, the main cause of the U.S. economy's worse performance was essentially lower investment, which in the energy sector (due to low oil prices) and in various political and financial uncertainties (the Chinese economy, Brexit, elections) were the underlying reasons for postponing certain investments.

The U.S. job market saw a decrease in the unemployment rate, which was 4.7% in December compared to 4.6% in the previous month. This was the lowest since August 2007, with the number of unemployed falling by around 387 thousands to 7.4 million. In turn, participation in the job market fell 0.1 p.p. to 62.7%. Wages began to rise by around 2.5% in 2016.

Recent trends in consumer confidence were also positive, closing the year at 98.2 points (University of Michigan index). This is the highest level since January 2004, and likely reflects the anticipated impact of the tax and public investment policies announced by the new president Donald Trump.

Inflation rose gradually in 2016, particularly in the second half of the year, coming in at 1.7% in November, well above the annual minimum of 0.8% in July. Excluding food and energy costs, the core inflation rate stands at 2.1%, above the 2% reference rate monitored by the Federal Reserve.

Euro area economy

In the Euro area, the GDP was up 0.3% in the third quarter of 2016, unchanged compared to the previous quarter. Average annual growth in the first three months of the year was 1.7%, down from the average of 1.9% during the same period in 2015.

The economy of the European region benefited from a number of factors including low oil prices, the after-effects of the depreciation of the euro, an accommodating monetary policy and a fiscal policy more favourable to growth. Private consumption was the big winner, becoming the main driver of economic recovery. However, just as in the U.S.A., investment and foreign demand prevented a more robust increase.

In line with the improved unemployment rate (9.8% in November, the lowest since July 2009), consumer and business confidence indices rose sharply in the last quarter of 2016, hitting their highest values since 2015 and 2011, respectively.

Year-over-year retail sales were up 2.4% in October, primarily from non-food product sales. The inflation rate has started to show signs of increasing: after the -0.2% rate seen in April, inflation ended the year at 1.1%, the highest since September 2013, although largely due to the recovery of energy prices. Although the recovery in oil prices in the markets has also affected the core inflation component (through transportation costs and other secondary effects), in average annual terms this component was up only 0.1 p.p. year-over-year, averaging 0.9% over the entire year.

Portuguese economy

The domestic economy grew 0.8% in the third quarter of 2016 after a 0.3% rise in the previous quarter. GDP was up 1.6% year-over-year, 0.7 p.p. above the previous quarter, the highest of any euro area country.

Growth continues to be galvanised by foreign demand, primarily due to a stronger acceleration in exports (5.4%) compared to imports (1.6%). Private consumption continued to grow in 2016, but at a slower pace compared to 2015. Consumption during the year was up around 2.0%, slightly below the previous year's rate of 2.6%. The first quarter of 2016 saw stronger growth (2.5%) in anticipation of several increases in indirect taxes scheduled to go into effect in the State Budget in April 2016, with the two following quarters seeing year-over-year increases below 2%.

Trends in investment continue to be less positive. Gross fixed capital formation saw consecutively smaller year-over-year decreases in the first three quarters (-2.7%, -2.4% and -1.5%, respectively). This was due to external uncertainty factors (financial volatility at the start of the year and political uncertainty), together with some domestic uncertainty with regard to the viability of the political solution, particularly at the start of the year, and ongoing problems in Portuguese banking, which pushed investors away.

In line with other euro member countries, Portugal's unemployment rate also maintained a downward trajectory, wrapping up 2016 at 10.5% (11.9% at the same time in 2015), the lowest level since the last quarter of 2009. The number of unemployed fell 1.8%, while employment was up 1.3%.

According to Banco de Portugal (BdP), the Portuguese economy is expected to close 2016 with 1.2% growth (0.1 p.p. more than expected in October), with a slightly higher pace of 1.4% in 2017. Private consumption will rise 2.1% in 2016 and 1.3% in 2017. In turn, investment is expected to recover in 2017, with a rise of 4.4% (-1.7% in 2016). Finally, exports grew 3.7% in 2016, and are expected to grow 4.8% in 2017.

According to the Directorate-General for Budget (DGO), public administration budget implementation through November 2016 had a €4,336 million deficit, €394 million less than the same period in 2015. This trend resulted in revenue growth (+1.9%) which was higher than that of expenses (+1.3%), with a primary balance surplus of €3,646 million, up €713 million year-over-year. 2016 was the first year in which the public deficit was below the target of 3% of GDP, which marks the maximum desirable level under Europe's Stability and Growth Pact, making it possible for the EC to close the Excessive Deficit Procedure.

Revenues benefited from positive trends in most components, except for direct taxes. Changes in expenses primarily reflect higher staff costs from social benefits and government debt interest charges, partially offset by lower expenses for the acquisition of current goods and services and capital.

Public debt, according to BdP, was €242 billion in November 2016, €1.3 billion lower than the end of the previous month. This decrease was accompanied by a less pronounced reduction of assets in deposits (€0.6 billion). The net public debt of central government deposits fell €0.7 billion compared to the previous month, totalling €224 billion. At the end of 2016, the public debt ratio according to the Maastricht criteria will be close to that of the previous year, around 129% of GDP, with the potential for a slight decline.

2016 was also marked by ongoing inflation, which in average terms will wrap up the year at 0.6%, just slightly above the 0.5% seen in 2015. However, the anticipated rise in oil prices will accelerate Portugal's inflation, which is expected to average 1.2% in 2017.

Angolan economy

2016 was marked by major adversities on the macroeconomic front, particularly low oil prices in the international market, almost always below 50 dollars per barrel. Oil production data in 2016 fell 1.7% year-over-year, with average production of around 1.74 million barrels per day, falling short of the goal of 1.79 million barrels. As such, according to data published by the ministry of finance, the oil market's performance can be explained by the effects of volume and pricing compared to the previous year.

The reduction in oil market revenues and subsequent government revenue loss resulted in less public investment and public spending. Note that 95% of Angola's export revenues are related to the oil market. In addition, the lack of available foreign currency in a year marked by the end of auctions in U.S. dollars and lower availability of euros resulted in a decrease in imports tied to consumption and investment. As a result of these restricting factors, growth expectations according to international agency estimates will be less than 0.6% (0% according to the IMF).

In terms of public finance, according to the amended budget, 2016 was a year of high deficit (5.9%), with the underlying factor of the average price of oil at $40.9.

According to data from Moody's (which does not include the Sonangol debt), the estimated debt increase was 53.3% compared to 52.5% in the previous year.

The 2016 monetary data are particularly negative in terms of inflation, which averaged 32%, with average inflation reaching 41.2% in November. Note that inflation in November and December surpassed the threshold of 40%.

In terms of the exchange market, the exchange devaluation in the official market was 22.6% during the year. The highest increases were seen in the first four months of the year. On the first day of January, there was an initial devaluation of 15%, followed by several smaller devaluations over the course of the year. However, the decline in the kwanza's value to around 166.7 U.S. dollars was still insufficient to bring the Angolan currency's value to the indicative price on the parallel market, which began trading above 600 U.S. dollars (after transacting at around 490 U.S. dollars in 2016).

In view of the current backdrop, Angola's macroeconomic context in 2017 will be marked by changes in the price of oil. The recent OPEC agreement to reduce oil production at the start of 2017, together with the agreement between OPEC, Russia and Mexico, may allow prices to stabilise. This stabilisation already occurred at the end of 2016, with oil closing the year above $55 per barrel, higher than the 2016 average.

VI. Context of the portuguese banking sector

The financial system was marked by the failure to sell Novo Banco, a process which will continue into 2017, now in the final negotiation phase with potential buyers. Even so, temporary nationalisation still remains a possibility. Similarly, the capitalisation process of Caixa Geral de Depósitos was not finalised, and will continue into 2017. The strategic plan of Caixa Geral de Depósitos (CGD) includes cutting 2,200 workers by 2020.

In 2016, the Portuguese banking system again witnessed a decrease in profitability despite improved capital ratios and indicators on bad loans. Although slightly positive, the banking system's profits in the first three quarters of 2016 were down year-over-year, largely due to a decrease in results from financial transactions. The financial margin increased 5.8% in the three quarters of 2016 (year-over-year), following the trend observed since 2014. This increase came from cuts to interest expenses which exceeded the reduction in the interest income.

Solvency levels were up slightly in 2016, primarily justified by the decrease in risk weighted assets and reduction of assets, resulting in a 0.2% rise in the Tier 1 ratio in the third quarter of 2016. The banking system's total assets maintained a progressive decline in 2016, reflecting trends in credit granted.

The loss in bank income was accompanied by several efforts to streamline their structures. Despite this, cost-to-income ratios remain high compared to the reference values of more efficient European institutions. The high stock of non-earning assets on banks' balance sheets, mostly non-performing loans (NPLs), coupled with the need to recognise impairment losses tied to these exposures, significantly limited the ability to generate positive results. At the end of 2016, the non-earning assets of the system's seven largest banks totalled €53 billion, with impairments of €21 billion. The domestic banking system has been particularly penalised by higher levels of impairment, since gross operating income is comparable to the European average.

2016 also saw a decrease in financing obtained on the interbank market, down 2.5% between the end of 2015 and the third quarter of 2016, with total deposits down 0.7%. There was also a decrease in central bank financing in the Portuguese banking system, accounting for around 6.5% of the banking system's total assets (the lowest amount since the start of the Economic and Financial Assistance Programme, as opposed to the maximum of €64.1 billion, accounting for 12.5% of all assets, in June 2012).

2016 saw an ongoing major reduction to private and non-financial company debt. However, levels of indebtedness remain very high, with de-leveraging efforts expected to continue in the coming year to boost the resilience of domestic banking. The significant reduction in the Portuguese banking system's leveraging is quite clear, with the transformation ratio falling from values exceeding 150% in 2010 to nearly 100% in 2016. Currently, banks finance the economy using customer resources alone, while in 2011 around 40% of financing was done based on other sources.

Although the quality of assets has improved slightly due to a minor decrease in the ratio of credit at risk (12.6% in the third quarter of 2016), this decrease reflects developments in the non-financial company segment, which has seen a simultaneous drop in credit at risk and a rise in credit. Of particular note is the record purchase of national public debt in 2016 by the Portuguese banking system, with banks investing €14.2 billion in Portuguese sovereign bonds as of November, the highest amount since 2000, the year in which Banco de Portugal's statistics began. In this way, 2016 will surpass the already high amount from 2015 (€11.2 billion), beating the 2010 record of €13.6 billion.

Also as a result of the BES and BANIF resolutions, and with a view to financing the vehicle which supports costs through the Resolution Fund, Banco de Portugal announced that banks will boost contributions to this fund, with a base rate of 0.0291% to go into effect in 2017, as per Banco de Portugal (BdP) Instruction no. 21/2016 published on 26 December.

In addition, one of the concerns among regulators in 2016 was the "parallel banking system", with Portuguese banks becoming subject to limits of exposure to this system. As defined by the European Central Bank, this system includes activities involving the brokering of credit and transformation of liquidity and maturity which occur outside of the regulated banking system.

VII. BNI Europa context

Business in 2016

Weaknesses in the Angolan economy led to a redefinition of the bank's strategy at the end of 2015 to focus on making Banco BNI's business autonomous as an Angolan financial institution and key shareholder. This strategic overhaul steered its business towards the European market and market niches in Portugal, with the creation of new business areas for this purpose, whose products and services will be launched in 2017. These new market offerings will be done with proprietary brands and innovative products and services with high added value vis-à-vis the current banking and financial market.

In view of this, 2016 was a year of consolidation and attracting resident and non-resident customers, continued investments in the bank's portfolio to underpin its financial margin, the implementation of new business areas, the launch of the electronic banking channel to expand customer transaction options and, in a residual manner, the credit business in the Portugal-Angola platform through the potential dynamics of trade finance transactions.

Four new areas were created over the course of 2016: Online Banking, Online Credit, Credit Cards and Senior Offers, redefining the business scope of customer banking to include a focus on corporate banking and expanding the business spectrum of the Markets and Investments area.

Internally, to support the anticipated growth of its business, the bank has reorganised itself internally by strengthening the support and control areas of Information Technologies, Accounting, Planning and Management Control, Internal Control and Risk, Compliance and Auditing and Inspection.

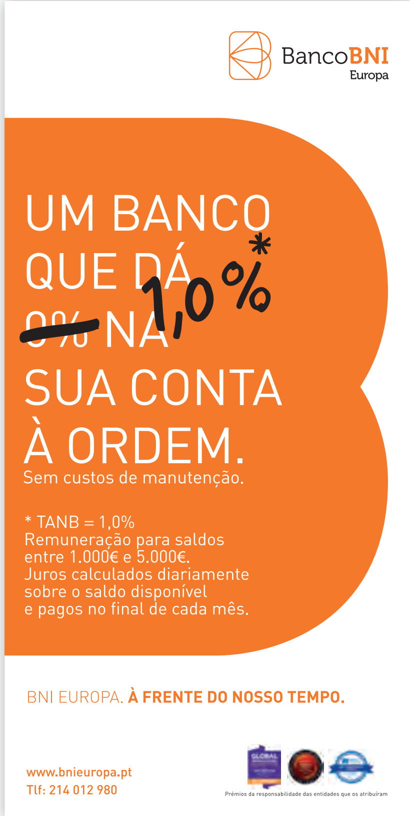
In the area of Information Technologies, the bank has invested in improvements to existing systems and in partnerships with key digital banking entities, launching the online account opening feature, homebanking and the corresponding mobile app, together with the initial development of essential applications for new business areas and improvements to information systems to streamline the bank's management.

With regard to creating brand awareness, leveraging the partnership between its key shareholder Banco BNI and Sporting Clube de Portugal, over the year the bank developed a strategy for communication and contacting potential customers to publicise the BNI and BNI Europa brand, with a presence at the Alvalade XXI stadium as a sponsor of League I football games, together with permanent static advertising in the stadium and at Sporting's athletic facility.

Starting with the need to disseminate the brand, and as part of implementing the online bank strategy, the bank's website was overhauled to give it a less institutional and more business-oriented appearance, adding improvements in terms of image, features and the user experience. This marked the start of a new means of customer communication, aimed at being innovative and standing out from the rest of the market.

To supplement the new online features, and with the goal of creating a closer and better relationship with existing and potential customers, the bank launched its call centre in the last quarter of 2016, providing a new means of commercial contact with longer hours, and a key tool for proactively enhancing customer management and running campaigns to attract new customers.

Portugal Sporting Club



Rooted in the new features available to customers, namely by strengthening the on-site commercial team, homebanking, online account opening and the call centre, the bank has launched products and services of engagement and transaction, and has established key partnerships for consolidated business growth, including a campaign to launch the welcome deposit, the interest-bearing current account, term deposits with promotional rates for DECO associates and the telemarketing outbound campaign - CONNECTA.

Also in the foreign market, 2016 was marked by a high number of activities such as participation in events of international renown, commercial and institutional presentation initiatives, and negotiating and formalising partnerships and/or partnership projects, resulting in extensive growth in this market, both from the standpoint of attracting new deposits as well as acquiring financial instruments representing credit.

As a result of its various initiatives, international visibility and 2016 results, Banco BNI Europa received four awards from the specialised print media, including the "***Excellence in Growth for Retail Banking Portugal 2016***" award from "Finance Digest", the "***Best Internet Bank Portugal 2016***" award from "Global Business Outlook", the "***Best Digital Bank Portugal 2016***" award from *Global Banking & Finance Review* and the "***Most Innovative Bank in Portugal in 2016***" award from *International Finance Magazine*, acknowledging the bank's activities and strategy of investing in innovative multi-channel solutions.

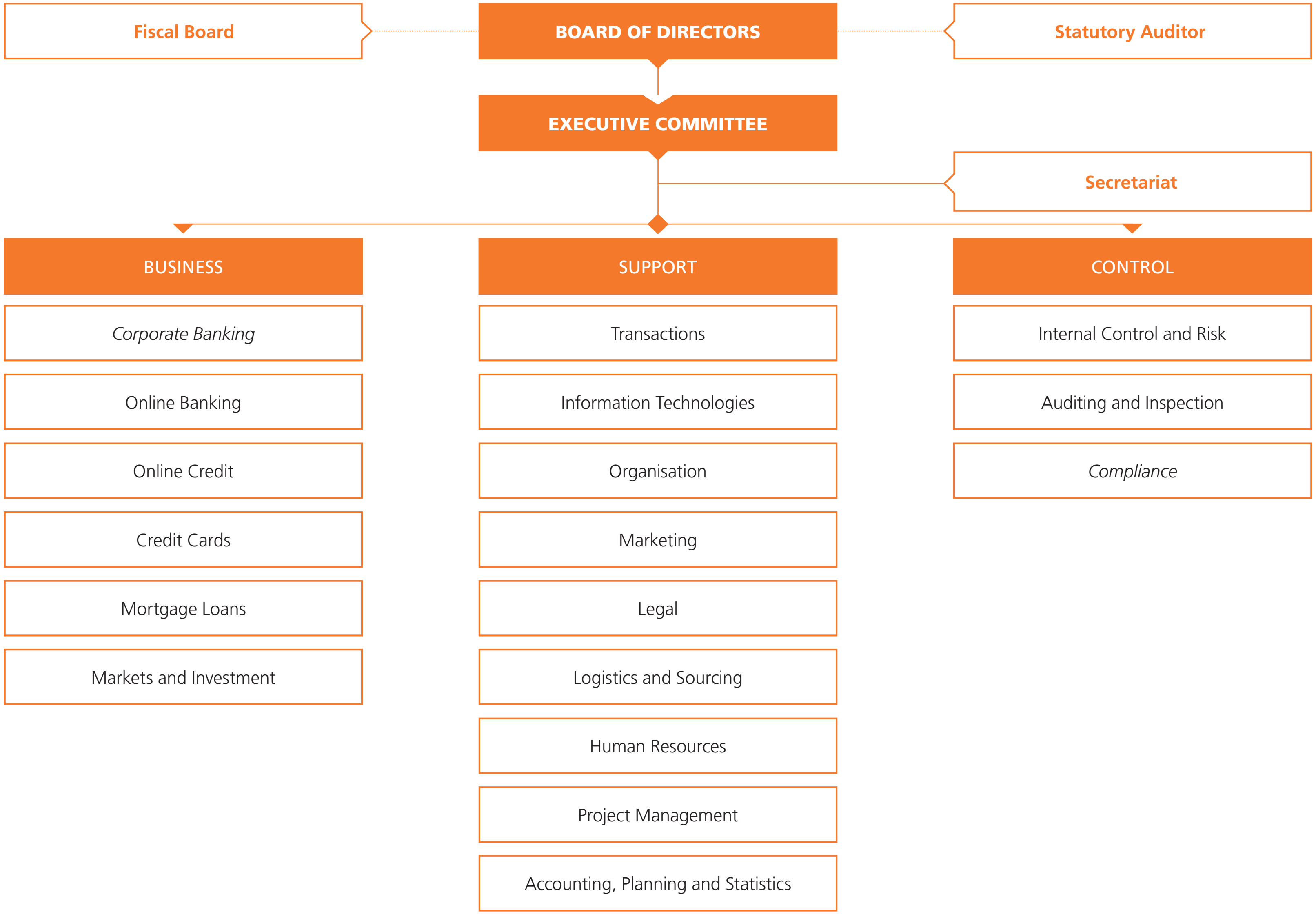
2017 Prospected business

Based on the achievements of 2016, 2017 is a year of great importance to the bank. The goals laid out are ambitious, with growth prospects similar to those of 2016. The business strategy is based on continuing to establish partnerships with credit and deposit platforms in different jurisdictions to boost diversity, reduce balance sheet risk and drive profitability through higher revenues and a lower percentage cost of funding. Equally important in 2017 will be the launch of brands representing new business units at the bank, which will expand and diversify the customer base. Continued improvements to business support and information systems will be essential for every new product and service in order to accelerate and streamline customer relations and proximity, namely by deploying fully online processes (recruitment of individual customers and consumer credit). Corporate homebanking will also be launched in 2017 to expand the range of products and services in this segment.

With regard to the BNI Europa brand, investments will be made in consolidating awareness, communication and the sales process for new products and services, and in strengthening confidence and recognition among customers and other stakeholders.

Organisational and human structure

In response to the growth challenges of its business, Banco BNI Europa's organisational structure underwent changes throughout the course of 2016. On today's date in 2017, it has the following structure:



The legal, human resources, project management and auditing and inspection areas were outsourced in 2016, together with accounting activities, with the legal and human resources areas internalised as of today's date.

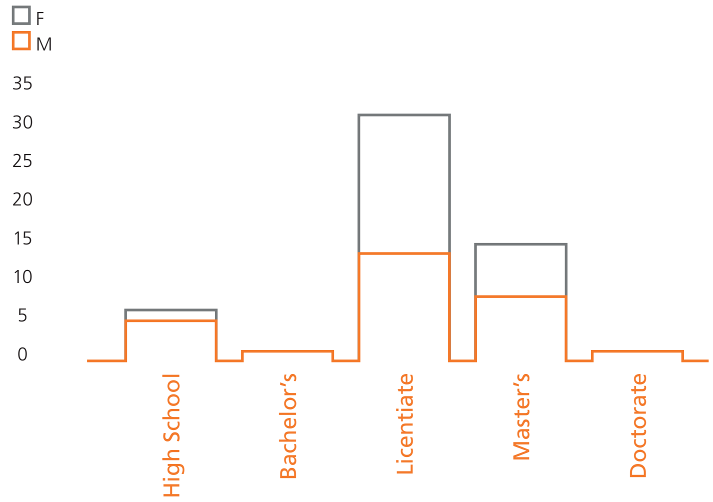
Over the course of 2016, the bank redefined, established and activated some of committees and formalised their regulations.

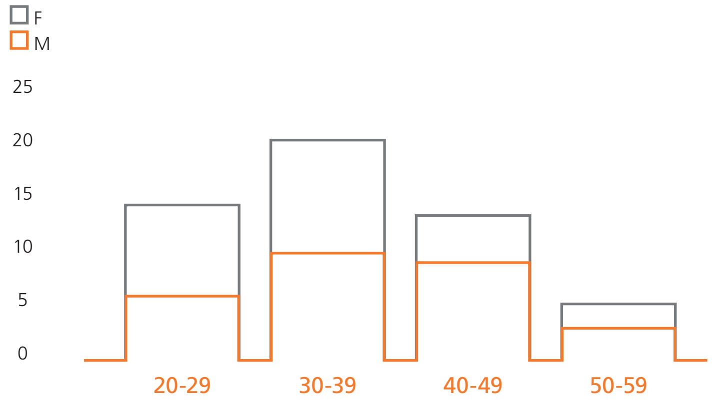
On this date, the committees in place are as follows:

SPECIALISED COMMITTEES			
Corporate Banking	*Compliance*	Internal Control	Credit
Investment	New Products and Services	Risks	Security

The bank's human resources were expanded during the year, with 52 internal and external employees on 31 December 2016 (compared to 21 on 31 December 2015). The breakdown of these employees in terms of their professional categories, age, gender and education is as follows:

	2014	2015	2016
Members of the Board of Directors	3	4	4
Heads of business areas	2	2	6
Heads of support areas	3	2	4
Heads of control areas	2	2	3
Technicians	7	6	19
Secretarial staff	1	1	2
Trainees	0	0	5
External	0,5	3,5	9
Total	**19**	**21**	**52**





In 2016, the bank worked with nine full-time and two part-time external staff members. These staff members supported the bank in the areas of Information Technologies, Human Resources, Internal Control and Risk, and performed duties in the areas of Project Management, Accounting and Statistics, and Auditing and Inspection.

Financial information

As previously mentioned, 2016 saw a change in strategy for the bank vis-à-vis previous years and the birth of Banco BNI Europa, founded on developing business in the Angola-Portugal platform. As a result of this new strategy, the bank increased its deposits with resident and non-resident customers, reducing Banco BNI's dependency on funding to allow new sources of revenue, such as the creation of its own portfolio with diversified investments, the acquisition of financial instruments representing credit and the creation of new business areas with proprietary products unique in the Portuguese market. This strategic repositioning redefined the organisation, adapting it to regulatory and control requirements tied to new challenges in the business, while also making it flexible, efficient and tailored to a bank in the launch phase. Also in 2016, the bank began implementing new business units and defining new products and services which will be launched in 2017. Since the new business units' projects would generate future economic benefits, the bank capitalised their associated costs, recognising them as intangible assets in progress until their conclusion, at which time they will be considered in use and recognised in accordance with their amortisation.

After recording deferred tax assets for tax losses in 2015, and in view of the estimates in the 2017-2021 Business Plan, in 2016 the bank continued its policy of recognising deferred tax assets for 2013 to 2016 tax losses, bearing in mind the prospects for these tax losses' use.

Among the balance sheet indicators shown in the following table, of particular note is the growth in assets (262,440.6 thousand euros), primarily from the significant growth in customer deposits (257,279.3 thousand euros compared to December 2015), allowing portfolio investments in diversified assets to generate adequate yield vis-à-vis risk. This investment in own portfolios, whose main goal was to sustain the bank's financial margin, includes very short-term commercial paper, bonds and exchange-traded funds, together with funds and financial instruments representing credit. In September 2016, in addition to financial assets available for sale and at fair value, a portfolio of financial assets held to maturity was established, which includes euro area public debt instruments, public debt from several emerging markets with good yield vis-à-vis risk, bonds from domestic entities and one bond whose underlying assets are loans. This portfolio totalled 249,295 thousand euros on 31 December 2016.

Thousand euros

	DEC 2016	DEC 2015	CHANGE (ABSOLUTE)	CHANGE (%)
Assets				
Cash and Cash Equivalents in Central Banks	80 102	15 886	64 216	>200%
Investments and availabilities at Credit Institutions	18 836	63 103	-44 267	-70%
Loans to customers	5 074	1 734	3 340	193%
Own portfolio	249 295	13 841	235 454	>200%
Tangible assets	359	456	-97	-21%
Intangible assets	3 793	2 352	1 441	61%
Other	4 576	2 230	2 345	105%
Total	**362 034**	**99 602**	**262 432**	**>200%**
Liabilities				
Central Bank Resources	12	0	12	>200%
Credit Institution Resources	71 261	65 279	5 981	9%
Customer funds	262 234	4 956	257 279	>200%
Other	3 322	1 005	2 318	>200%
Total	**336 829**	**71 240**	**265 590**	**>200%**
Equity				
Total	**25 205**	**28 362**	**-3 157**	**-11%**

Among the income indicators in the following table, of particular note is Banking Income, which reached 2,750 thousand euros (up more than 200% compared to 2015), primarily due to Net Trading income from gains from the sale of securities. In managing its own portfolio, the bank has made gains from the sale of securities whenever their valuation exceeds interest in one or more years. Also of note is the natural rise in operating costs (1,953 thousand euros compared to 2015), aimed at supporting business growth during the year.

Thousand euros

			CHANGE	
	DEC 2016	DEC 2015	(ABSOLUTE)	(%)
Banking Income	**2,750**	**659**	**2,092**	**>200%**
Financial Margin	146	403	-258	-64%
Income from capital instruments	2	0	2	0%
Net Fees and Commissions	351	229	122	53%
Net Trading Income	2,213	21	2,191	>200%
Other results	38	5	34	>200%
Operating Costs	**-5,365**	**-3,412**	**-1,953**	**57%**
Staff Costs	-2,233	-1,434	-798	56%
General administrative costs	-2,579	-1,690	-889	53%
Amortisation and depreciation	-554	-288	-266	93%
Operating Result	**-2,615**	**-2,753**	**139**	**-5%**
Loan Impairment	-4	42	-46	-110%
Impairment for other financial assets	-127	25	-152	-608%
Other provisions	-127	129	-256	-199%
Result Before Taxes	**-2,484**	**-2,949**	**465**	**-16%**
Taxes	**495**	**1,457**	**-963**	**-66%**
Current taxes	-91	-47	-44	94%
Deferred taxes	586	1,505	-919	-61%
Net Income	**-1,989**	**-1,492**	**-497**	**33%**

Capital indicators saw a reduction from the increase in the bank's total assets, which resulted in Weighted Assets of 130,858 thousand euros. Equity decreased 4,852 thousand euros compared to 2015 due to the impact of fair value reserves of the portfolio available for sale, the increase in intangible assets and the loss for the year. However, the bank's capital ratio remains comfortably higher than regulatory limits at 15.9%.

Thousand euros

			CHANGE	
	DEC 2016	DEC 2015	(ABSOLUTE)	(%)
Weighted Assets	130 858	35 644	95 214	>200%
Total Assets	362 034	99 602	262 432	>200%
Weighted Assets/ Total Assets	36,1%	35,8%		
Common Equity Tier I	20 830	25 682	-4 852	-19%
Common Equity Tier I Ratio phasing in ratio	15,9%	72,1%		
Total Equity	20 830	25 682	-4 852	-19%
Phasing in Solvency Ratio	15,9%	72,1%		

Business areas

The Markets and Investments area focuses on cash management, investment portfolio management, institutional investor relations and P2P platform connections for taking deposits and acquiring loans.

The own portfolio investment policy follows premises of geographic diversification and limits proposed and approved by the Board of Directors. Throughout 2016, the bank invested in corporate and sovereign bonds, bond ETFs (to diversify risk), loan funds, loan-collateralised bonds, commercial paper and the acquisition of invoices from regions outside of Portugal, with a view to efficiently managing the bank's resources and maintaining an adequate level of return vis-à-vis risk.

To diversify financing sources and expand them beyond the taking of deposits in Portugal, the area has been seeking new alternatives, with 2016 marked by the significant rise in the volume of deposits, particularly in Germany, providing the bank with significant sustained growth over the year. Deposits taken in Germany do not have the option of early repayment, a key aspect which has given the bank greater stability in its funding, particularly in one to five-year terms.

With regard to efficient liquidity management, the Markets and Investments area works in the monetary market, trading fund underwriting and selling transactions and foreign exchange swaps in three currencies: EUR, USD and GBP. In 2017, with the goal of diversifying and decreasing the percentage of its funding costs, there will be less focus on taking customer deposits through the German platform in favour of other regions, coupled with financing from Banco de Portugal. There are also plans to make investments with more focus on financial instruments representing credit, as it is anticipated that market risks will have considerable levels of volatility. Despite the expected market risks, the area will remain vigilant, and will continue its strategy of making gains whenever opportunities arise for adequate returns vis-à-vis risk.

Online Banking, established at the start of 2016, focuses on obtaining resources from resident and non-resident customers and associated transactions, primarily through the online and digital channel. Along these lines, the first quarter of 2016 was marked by the overhaul of the bank's website and the launch of homebanking, available for individual resident customers. Founded on renewing the website's image and new online features, and without making major investments in brand, product or service advertising, the area achieved sustainable growth and gained recognition in the domestic market as a benchmark in returns offered through term deposits. Despite all of this, in view of external changes to the market and competitors, coupled with internal needs of controlling the cost of funding and extending maturities, in the fourth quarter of 2016 the bank began offering lower rates for term deposits and deposits with longer maturities, thereby continuing to be a market benchmark. Also in the fourth quarter of 2016, Online Banking launched the Call Centre, which has expanded service hours for existing and potential customers (individual Portuguese resident segment) and improved commercial and operating efficiency in opening new accounts. A Telemarketing Outbound campaign and new customer recruitment campaign were also launched in November 2016 through the Call Centre, together with a partnership to attract deposits in association with DECO.

In 2017, the goal will be to expand offerings to individual Portuguese residents with the dissemination of the interest-bearing demand deposit, which will boost transactions and, as a result, revenues. 2017 will also be a year of brand building, with investments to increase brand awareness and create confidence in the market to significantly expand the customer base and cut the direct cost of customer deposits. Essential to this strategy will be the fully online account opening feature, an innovative service on the market which will help to establish business relationships with potential customers.

With regard to individual non-resident customers, with a view to capitalising on synergies with Banco BNI, specific value-added products will be launched for this customer segment.

The business activities of *Corporate Banking* in 2016 aimed to explore existing synergies with Banco BNI, namely by attracting customers in the regions of Portugal and Angola. These activities entailed the purchase of invoices at a discount, and through trade finance solutions such as confirming and advancing documentary credits. However, in view of circumstances in the Angolan economy and the difficulty in carrying out transactions, the area's business model had to be adjusted and geared towards the domestic market, namely small and medium-sized enterprises (SMEs) and institutional customers. As such, the areas of focus revolved around:

- Attracting deposits related to company cash surpluses;
- Developing specialised credit products for companies;
- Originating and structuring loan transactions in the real estate sector;
- Creating synergies with Online Banking in the individual resident and non-resident segments; and
- Galvanising Trade Finance solutions, namely by confirming documentary credits issued by Banco BNI.

The corporate homebanking service, an interest-bearing demand deposit account and factoring and leasing products are all scheduled for launch in 2017. Online Credit is one of the new areas created in 2016. This area includes credit products whose main sales channel is the online. Over the course of 2016, a credit granting process was developed which is innovative and pioneering in the Portuguese market, as well as fully remote, computerised and generally automatic, thereby constituting Portugal's first completely online means of granting credit.

The formal start of business with the first product launch is scheduled for the end of the first quarter of 2017. The consumer credit product to be launched will be in small amounts with short maturities (up to 24 months), initially targeting the independent professional segment, which has seen less market attention in terms of the various credit options provided.

Créditos que encaixam contigo

This product will be launched under its own brand which, although still tied to Banco BNI Europa, will be unveiled to the market in a different manner.

Throughout 2016, the groundwork was also laid to launch other consumer credit products of higher amounts and with longer maturities focused on other segments in the coming years, and to explore other sales channels that can be leveraged with the existing online credit process, namely the "Point of Sale" channel tailored to online sales, which is being explored by the area.

The Credit Cards area, also established in 2016, focuses on creating credit cards which stand out from others on the market, using them as a renewable means of short-term financing, as opposed to the irregular use of small amounts. In line with the other business areas and the bank's strategy, the online channel will be this area's main means of attracting business, in addition to the alternative channel of telephone sales. To this end, the online recruitment process will be a completely remote, computerised and automatic credit granting process leveraging the latest innovations in terms of customer information and identity validation, a pioneer move in Portugal. Based on the credit card's features and novelty in the market, customers will be recruited through enrolment incentives to quickly acquire a significant and profitable market share.

This product will be launched under its own brand which, although still tied to Banco BNI Europa, will be unveiled to the market in a different manner. The proprietary brand is in the final phase of the registry process.

Throughout 2016 and during the start of 2017, the area's focus has been on setting up all operations and defining its brand, with the first credit card's launch scheduled for the third quarter of 2017. This card will initially target segments above the middle class, and is aimed at incorporating innovative solutions into the user experience.

Other value propositions are scheduled to be launched geared towards user segments, in stores or online, or recruitment campaigns backed by various enrolment incentives, including potential partnerships with key merchants/brands, together with exploring other direct sales channels to reach customer segments which do not identify with the online channel but offer high profitability because of their low acquisition cost.

The Mortgage Loan area was also established at the start of 2016, focused on a product tied to mortgage loans. Since this mortgage product has specific and segment-related features (Reverse Loan, with the option of a principal and interest grace period using the home as collateral), this business area's focus was expanded to include other financial solutions for the senior segment (>= 65 years). In addition to credit, these financial solutions also offer savings and insurance products focused on this segment.

The Reverse Loan, the area's flagship product, was developed over the course of 2016, along with the brand, communication strategy and operating processes.

This credit solution, completely innovative in the domestic market, will be marketed in the first quarter of 2017 under its own brand which, in connection with Banco BNI Europa, will be unveiled to the market in a highly innovative manner.

Other Information

The following business-related events occurred during 2016 through the present date:

- Amendment of the bank's articles of association and establishment of the Senior Board by decision of the General Meeting of Shareholders dated 15 June 2016;
- Establishment of the Monitoring and Control Committee by decision of the Board of Directors in a meeting dated 22 September 2016;
- Amendments to the regulations of the Board of Directors and Executive Committee, the latter decided in a meeting of the Board of Directors dated 26 January 2017; and
- Announcement of the resignation of Fiscal Board member Rui Manuel Lopes Amendoeira received on 06 February 2017, effective on 27 March 2017.

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VIII. Risk management and internal control

The bank's Board of Directors is in charge of defining, implementing and periodically reviewing the Internal Control System to ensure that it is suited to the nature, size and complexity of the business and is properly aligned with the bank's risk profile, with the goals of safeguarding:

- The going concern principle, by efficiently allocating resources and executing operations, effectively monitoring and controlling risk, carefully assessing assets and liabilities and securely controlling access to information and communication systems;
- The existence of accounting and management information, both financial and non-financial, which is complete, reliable and timely so as to support decision-making and control processes; and
- Compliance in terms of legal provisions, internal guidelines and rules of ethics and conduct in interacting with customers, counterparties in transactions, shareholders and supervisors/regulators.

The Internal Control System's core functions – risk management, compliance and internal auditing – are equipped with the material and human resources needed to fulfil its mission with the independence, standards and effectiveness required for the bank to properly conduct its business. The Internal Control and Risk Department represents the bank's risk management function, and is in charge of identifying, evaluating, monitoring, controlling and reporting the various types of risks relevant to the business to obtain a well-founded understanding of their nature and magnitude. This department reports directly to the Executive Committee, and operates independently from the areas that assume risks. Its scope includes proactive involvement in managing limits and decisions significantly changing the bank's risk profile. The department is given full access to all activities, documents, information and controls considered relevant to the performance of its duties.

The bank has internal rules governing the management and control of business risks, as laid out in policies and manuals, duly incorporated into the powers of the managing and control boards. Whenever needed, the managing board reviews policies and procedures, ensuring their disclosure to organisational bodies.

In addition to systematically managing risks and controls, in accordance with regulations in force, the bank carries out stress and scenario tests for the principal balance sheet risks, and quantifies economic capital for the most prominent ones.

Internal Control Committees (CCIs) are held at the frequency appropriate to the bank's business, attended by members of the management and managing boards most closely involved in this matter. These committees have associated regulations promoting best standard practices for such forums, including the formalisation, validation and approval of meeting minutes and following of a pre-determined agenda, notwithstanding the discussion of other matters arising over the course of the forum and requiring special attention.

Much like the CCI, there is also an Asset and Liability Management Committee (ALCO), which is subject to rules and norms laid out in specific regulations. This committee also meets at the frequency suited to the bank's business, and includes members of the management and the heads of corporate boards most closely tied to this particular component of the bank's business. As with the CCI, it has meeting minutes which are validated and approved by all of the forum's members, follows a pre-determined agenda and discusses other unplanned matters requiring its attention.

In addition to these committees, there is also a Risk Committee for general discussion of all types of risk applicable to the bank, likewise with specific regulations. This committee has not yet been activated, with plans to do so in the first half of 2017. The bank has implemented other mechanisms to offset the committee's inactive status.

In view of business developments over the course of 2016, it is believed that the main risks to which the bank is exposed gained traction during the year. The Board of Directors has identified them as follows:

Credit risk

Credit risk stems from all of the transactions resulting in actual or potential rights over a given counterparty. Generally speaking, this is the most common risk for commercial banks, and involves the likelihood of negative impacts to the results or to capital due to a counterparty's inability to meet its financial commitments to the institution, including potential restrictions to the transfer of payments from abroad. Credit risk exists primarily in exposure to credit (including securitised credit), credit lines, guarantees and derivatives.

The evaluation of credit follows (i) the principles and norms contained in the Credit Manual and Internal Memoranda describing the underlying procedures for managing transaction life cycles, (ii) the delegation of powers and (iii) approved service levels.

As of the reference date, the bank has no statistical models for the admission of credit risk or performance models for its maintenance and management, due to its minor impact on the balance sheet, as well as the lack of historical standards. Even so, such models will be developed to support decision-making in the bank's business areas, using pools of external data duly chosen to match expected customer profiles as closely as possible.

The bank started its credit business at the end of the first half of 2015, with a change to its business strategy in October of the same year, prioritising digital channels over the habitual channels which traditional banking normally tends to follow. This strategy shift focuses on developing new channels, which have been the focus of attention during this year.

Along these lines, the bank's credit portfolio under the item Loans to Customers, on 31 December 2016, has a net amount of 5,074 thousand euros in the balance sheet accounts, and a net amount of 2,165.3 thousand euros in the off-balance-sheet accounts, for a total of 7,278.0 thousand euros. In terms of credit at risk, as defined in Banco de Portugal Instruction no. 22/2011, the bank has 43.2 thousand euros, accounting for 0.84% of the credit recorded in the balance sheet accounts. Note that a considerable part of this credit portfolio is comprised of securitised credit, namely receivables purchased at a discount, accounting for 71.0%. This considerable weight affords access to a low average maturity, together with a high degree of diversification, bearing in mind that the average amount associated with these receivables is low – less than 10 thousand euros. The remaining credit is for loan agreements, standard, with allocations related to the business activity associated with the respective borrowers. In addition, the bank has laid out its policy, methodology and procedures for assessing impairment losses in the Accounts Receivable and Credit Impairment Manual. Given the relative weight of business-related loans in the credit portfolio, all of these have been assessed individually in accordance with the reference criteria in Banco de Portugal Circular Letter no. 2/2014. The portion of the credit portfolio represented by securitised credit has been evaluated via the expected loss (EL), calculated based on probability of default (PD) and estimates of loss-given default (LGD), generated based on historical data.

The credit portfolio recorded in the item "Loans to Customers" is shown in the following table, together with respective impairment values, for the balance sheet and off-balance-sheet accounts.

Thousand euros

BALANCE SHEET ITEM	CREDIT	IMPAIRMENT	RATE OF IMPAIRMENT
Subtotal Non-Securitised Credit	1 484,5	6,2	0,4%
Subtotal Securitised Credit	3 626,2	29,6	0,8%
Total Balance Sheet	5 110,7	35,8	0,7%
Total Non-Balance sheet	2 167,2	1,9	0,1%

In addition to calculating impairment, the bank regularly assesses the quality of its credit portfolio in an attempt to (i) properly match diversification to risk, (ii) comply with limits established for the purposes of controlling concentration risk, and (iii) assess profitability indicators for its operations.

With regard to cash and investments at credit institutions, the bank has a total of 19,032 thousand euros at institutions located in Portugal and Germany.

There is also direct exposure to credit risks tied to the portfolio of securities held as own portfolio investments. An analysis is carried out of all issuers proposed for investment, a procedure first done by the Markets and Investments Department and then supplemented, in an independent manner, by the Internal Control and Risk Department. Issuers held in the portfolio undergo regular periodic monitoring for the purpose of updating financial information, potential changes in rating, macroeconomic events, etc. Furthermore, the credit risk associated with counterparties who issue securities is evaluated in conjunction with the managing board in terms of daily control of market risks, namely trends in the credit spread between the acquisition date and change in the interest rate structure.

On the reference date, the portfolio of bonds available for sale was 135,106 thousand euros (revaluation amount), with the following breakdown:

Thousand euros

RATING		**CURRENCY**		**COUNTRY**	
AAA	237	EUR	118 753	Portugal	77 684
AA+	486	USD	16 353	Italy	12 680
AA	1 448			Spain	12 551
A+	668			Brazil	6 190
A	489			Mexico	5 489
A-	1 533			Rest of the World	20 510
BBB+	29 373				
BBB	4 440				
BBB-	4 858				
BB+	80 087				
BB	4 215				
BB-	1 485				
B+	1 023				
NR	4 762				

Note: the ratings of S&P and Fitch were used for distribution purposes

The category "NR" represents a group of investments in instruments without a rating, with the amount shown tied to investments associated with the companies Sonae, Sugal and Galp.

The concentration of investments in the "EUR" currency is a strategic option aimed at controlling exposure to foreign exchange risk. The bank has pursued a strategy of investing in Portugal, largely through government bonds, which also accounts for the concentration in the "BB+" rating.

In addition to this portfolio of bonds available for sale, the bank also has 46,722 thousand euros in ETFs (exchange-traded funds). The ETF portfolio is divided into three components: (i) Fixed-income, allowing for more diversified investment in bonds, (ii) interest rate hedging, to mitigate exposure to foreign exchange risk in assets, and (iii) gold, an investment completely unrelated to other portfolio transactions.

Thousand euros

CURRENCY		**TYPE OF INVESTMENT**	
EUR	41 343	*Fixed Income*	38 693
USD	5 379	Gold	441
		Interest Rate Hedging	7 588

Because of the Social Security Compensation Fund totalling 16.4 thousand, the assets available for sale portfolio totals 181,845 thousand euros.

The portfolio of assets held to maturity totals 46,739 thousand euros, primarily comprised of the following types of investments:

- "FinTex" bond at the fixed amount of 31,000 thousand euros, whose underlying assets are consumer credit in Germany, and whose purpose is to invest in assets equivalent to credit granted to customers;
- Debt instruments of key Portuguese companies in their respective business sectors; and
- Sovereign debt instruments.

The Board of Directors believes that these assets' credit risk is adequate, and that the monitoring tools in place will sufficiently safeguard them, with no objective evidence of impairment as of this date.

Country risk

Country risk is tied to specific changes or disturbances of a political, economic or financial nature at the locations where counterparties operate which may compromise the complete fulfilment of their contractual obligations, regardless of their desire to do so. In view of its relationship with the majority shareholder, the bank has exposure to Angola, whose external rating (S&P and Fitch) is ranked at level "B", totalling 2,167.2 thousand euros, all of which is included in the bank's credit portfolio.

All other positions have zero country risk.

Concentration risk

Concentration risk results from the possibility that a given exposure or group of exposures may give rise to significant losses ultimately compromising the bank's solvency. This risk may be tied to credit, liquidity, market or operating risk. It may arise from inadequate diversification policies and practices.

Since the bank went into business recently, the levels of diversification of the primary asset items still have some degree of concentration. In 2016, the bank diversified its investments in terms of financial institutions as well as in terms of granting customer credit, acquiring third-party credit and portfolio investments. With regard to liabilities, measures are also underway to diversify sources of financing and fund-raising, together with resource acquisition by expanding the customer base.

Liquidity risk

Liquidity risk results from the bank's potential inability to finance its assets or meet its liabilities on their due dates, potential difficulties in settling portfolio positions or the inability to access financing under acceptable market conditions (spreads).

The bank has internal processes for managing liquidity risk which identify, assess and control such risks, including specific procedures for monitoring contractual due dates. In 2016, the bank enhanced its market position in terms of diversifying sources of financing by means of the following:

- Strong focus on non-resident peer-to-peer platforms to acquire term deposits;
- Dissemination of the bank's products and services via appropriate communication means (e.g. DECO); and
- Access, if necessary, to Banco de Portugal intraday credit.

In the bank's current phase, these sources of financing are primarily managed by the Markets and Investments Department, Online Banking Department and Corporate Banking Department, since a large part of current obligations are tied to these areas.

Market risk

Market risk is characterised by the likelihood of negative impacts on the results or on capital due to unfavourable changes in the market price of trading portfolio instruments caused by changes in stock prices, the price of merchandise, interest rates or exchange rates. This risk is primarily associated with short-term positions in debt and capital instruments, currencies, merchandise and derivatives. As of the reference date of this report, the bank has no portfolio of financial assets held for trading.

Foreign exchange risk

Foreign exchange risk involves the likelihood of negative impacts on the results or on capital due to unfavourable changes in exchange rates, caused by changes to the prices of instruments with open positions in foreign currency, or due to a change in the institution's competitive position because of major fluctuations in exchange rates.

On 31 December 2016, in addition to transactions expressed in euros, the only applicable currency was the U.S. dollar (USD), which had a difference between assets and liabilities of 1,553 thousand US dollars (1,474 thousand euros).

The bank has no financial holdings that may lose value because of exchange rate variation. Furthermore, the bank has a policy of avoiding materially relevant open foreign-exchange positions, and hedges transactions or positions whenever the internally set risk level is surpassed.

Interest rate risk

Interest rate risk in the banking portfolio is characterised by the likelihood of negative impacts on the results or on capital due to unfavourable changes in interest rates, staggered maturities or dates for adjusting interest rates, the lack of a perfect correlation between interest rates received and accrued for various instruments, or the existence of embedded options in financial instruments on or off the balance sheet.

The bank's strategy uses a balance sheet approach with a balanced mismatch between assets and liabilities and their associated currencies, so that any assets sensitive to interest rates are offset by liabilities. The duration of the portfolio of financial assets available for sale was 2.73 years in euros and 2.66 years in dollars. The exposure to a parallel movement of 1 b.p. in the yield curve results in an economic loss of 25.3 thousand euros and 4.7 thousand dollars. The average yield associated with this portfolio is 1.03% in euros and 3.48% in dollars, with a variable rate of 6% and a fixed rate of 94%.

Risk of non-compliance with laws, norms and regulations

This risk involves the bank's need to operate in accordance with the laws, rules, norms, regulations and domestic and international agreements governing its business, which must be safeguarded to avoid legal penalties, regulatory penalties, financial losses or the loss of reputation for failing to comply with laws, regulations, codes of conduct, best practices and other standards.

The bank has been structured from an organisational and functional standpoint, with internal rules and policies addressing this risk, both in terms of the areas in charge of fulfilling obligations and in terms of the Compliance Department, which is responsible for monitoring and safeguarding this risk.

In view of the stronger procedures and controls implemented throughout 2016, the Board of Directors believes that the bank is equipped with sufficient resources needed to properly manage this risk.

Internal control

In 2016, the bank completed its Internal Control Report, pursuant to Banco de Portugal Notice no. 5/2008.

In this domain, formal procedures have been established in the Internal Control Manual, providing the basis for the principles and responsibilities of ensuring an adequate environment of control. All of the organisation's structures are involved in finding shortcomings in internal control and areas for improvement to help streamline operations and curb operating risk.

At the same time, these control areas are also in charge of conducting self-assessment questionnaires, pursuant to the requirements laid out for these areas by Banco de Portugal Notice no. 5/2008. Status checks are performed regularly on remedial actions aimed at rectifying shortcomings or pursuing areas for improvement, whether by internal boards, the supervisory board, the statutory auditor or the Monitoring and Control Committee.

IX. Corporate governance

According to the bank's statutes, its corporate boards are the General Meeting of Shareholders, the Board of Directors, the Executive Committee, the Fiscal Board and the Statutory Auditor.

General Meeting of Shareholders

At the General Meeting of Shareholders, shareholders decide on matters attributed by law or by the articles of association, together with all other issues not entrusted to other corporate boards.

The General Meeting of Shareholders' powers are those provided for by law and by the articles of association, including:

- Electing:
  - The Board of the General Meeting of Shareholders;
  - The members of the Board of Directors;
  - The members of the Executive Committee;
  - The members of the Fiscal Board; and
  - The Statutory Auditor.
- Assessing the Board of Directors' report, and discussing and voting on the balance sheet, accounts and other legally required documentation;
- Deciding on the allocation of profits for the year;
- Deciding on any amendments to the articles of association and capital increases; and
- Handling all other matters for which it has been summoned, or for which it has been legally empowered.

Voting Rights

The bank's capital is represented by 6,850,000 ordinary shares with a nominal value of five euros each.

Pursuant to the articles of association, voting rights are allocated proportionally by one vote for every 200 shares held. Shareholders holding a lower number of shares may join together to meet the minimum required number, subsequently representing themselves by any member of their group. There are no restrictions to voting rights.

Company Management

The Board of Directors, comprised of at least four members elected by the General Meeting of Shareholders for four-year terms, subject to re-election, is responsible for managing and representing the bank.

Its decisions are made by a majority of votes, with the Chairman having the casting vote.

The Board of Directors is charged with exercising the powers of managing and representing the company, and carrying out all acts needed to pursue the activities of its corporate purpose, namely:

- Defining the bank's general policies;
- Approving the strategic plan and other annual and multi-year plans and budgets, together with their amendments, while periodically monitoring their execution;
- Preparing documents for the rendering of accounts and proposal for the allocation of profits for submission to the General Meeting of Shareholders;
- Proposing any amendments to the articles of association and capital increases, together with the issuance of bonds beyond the scope of its powers, submitting the corresponding proposals to the General Meeting of Shareholders;
- Approving BNI Europa's Code of Corporate Conduct and Ethics;
- Preparing proposals for the remuneration of corporate board members, if a remuneration committee does not exist, for submission to the General Meeting of Shareholders for approval;
- The Board of Directors is also responsible for carrying out all acts needed or appropriate to pursue the activities of the bank's corporate purpose, namely:
  - Representing the company in and out of court, as a plaintiff or defendant, bringing and contesting any judicial or arbitration proceedings, making admissions in, compromising in and withdrawing from any proceedings, and engaging in arbitration;
  - Deciding, with the utmost latitude provided for by law and by the articles of association, on the acquisition, disposal or encumbrance of any assets or rights;
  - Deciding on the company's holding of equity stakes in other companies or in their establishment, in companies governed by special laws and in equity partnership agreements, in incorporated joint ventures and in European economic interest groupings, regardless of their corporate purpose; and
  - Establishing legal representatives to carry out given acts, or categories of acts, defining the extent of their respective delegated powers.
- Exercising other powers attributed by law or by the General Meeting of Shareholders.

To ensure its regular operation, the Board of Directors delegates the day-to-day running of the company to an Executive Committee, comprised of a minimum of three members, under the limits established in the decision granting this delegation.

Company Oversight

The company's oversight is allocated to the Fiscal Board and to the Statutory Auditor.

Fiscal Board

An Fiscal Board, comprised of three acting members and one substitute member, oversees the company's business, pursuant to the law. The members of the Fiscal Board, including its Chairman, are elected by the General Meeting of Shareholders for a four-year term, subject to re-election.

The Fiscal Board has the following powers:

- Overseeing the process of preparing and disclosing financial information;
- Overseeing the effectiveness of systems for internal control, internal auditing and risk management;
- Receiving notifications of irregularities submitted by shareholders, company employees or other individuals;
- Overseeing the legal revision of the accounts; and
- Assessing and overseeing the independence of the statutory auditor, namely when providing additional services to the company.

Statutory Auditor

A Statutory Auditor, who may be an individual or firm with the status of statutory auditor, appointed by the General Meeting of Shareholders by proposal of the Fiscal Board for a four-year term, subject to re-election, is responsible for examining the company's accounts. The Statutory Auditor must carry out all analyses and checks needed for the revision and certification of the accounts.

Company Secretary

The company has a secretary appointed by the Board of Directors, whose active duty coincides with the term of office of the appointing Board of Directors.

The secretary's powers are those provided for by law.

Relationships between the Company and the Management

There were no business dealings in 2016 between the company and its managers.

X. Remuneration policy

To fulfil legal and regulatory requirements, the Board of Directors proposed that the General Meeting of Shareholders approve the remuneration policy and subsequent amendments found in the supporting documentation to the agenda for the meetings held on 21 March 2016 and 15 June 2016.

The fixed remuneration amounts allocated to the managing and supervisory boards in 2016 were 711,754 euros (2015: 711,017 euros) and 37,259 euros (2015: 39,734 euros), respectively, with associated Social Security contributions of 172,736 euros (2015: 169,391 euros). The number of remunerated managing board members averaged 3.6 in 2016 (3.3 in 2015).

The managing and supervisory boards received no variable remuneration in 2016. During this year, there was likewise no unpaid deferred remuneration, nor any remuneration deferred, paid or subject to reduction from adjustments according to the individual performance of the managing and supervisory boards.

Euros

			GROSS	NET
Pedro Nuno Munhão Pinto Coelho	Chairman of the Board of Directors/Chairman of the Executive Committee	Full year	274,462.9	138,836.0
António Miguel Maurício Rola Costa	Member of the Board of Directors/Member of the Executive Committee	Full year	215,008.0	101,558.3
Nuno Luís do Rosário Martins	Member of the Board of Directors/Member of the Executive Committee	Full year	185,727.6	88,378.1
Paulo Alexandre Jacob dos Santos Santana(1)	Member of the Board of Directors/Member of the Executive Committee	To: 21 March	32,685.5	16,276.5
Carlos Alberto Rodrigues Firme	Member of the Board of Directors	From: 22 September	3,870.8	2,515.7
Telmo Francisco Salvador Vieira	Chairman of the Fiscal Board	From: 5 September	5,756.0	4,833.3
Rui Manuel Lopes Amendoeira(2)	Member of the Fiscal Board	From: 5 September	3,914.1	0.0
Isabel Gomes de Novais Paiva	Member of the Fiscal Board	From: 5 September	3,914.1	3,286.7
Pedro Manuel Travassos de Carvalho	Chairman of the Fiscal Board	To: 4 September	9,527.2	8,000.0
Ana Gomes & Cristina Doutor SROC	Member of the Fiscal Board	To: 4 September	14,147.9	11,880.0
of which:				
Internal control report			2,334.2	1,960.0
Money laundering report			4,668.3	3,920.0
Total			**749,014.1**	**375,564.6**

(1) Board of Directors//Executive Committee member Paulo Alexandre Jacob dos Santos Santasa was dismissed on 21 March to hold a position in the Internal Control and Risk Department.
(2) Fiscal Board member Fiscal Rui Manuel Lopes Amendoeira, by resigning on 06 February 2017, also waived his corresponding remuneration; as such, given the legality of the decision, he was paid nothing.

Pursuant to control functions and the provisions of Article 1(2) of Banco de Portugal Notice no. 10/2011, the bank hired an individual in charge of risk functions in 2016, and decided to outsource internal auditing to the company PKF & Associados – SROC, Lda.

The combined remuneration of internal employees by business area is shown in the following table:

Euros

AREA	GROSS	NET
Customer Banking and Online Banking	246,231.7	154,070.9
Markets and Investments	126,788.4	78,326.9
Business Units	311,277.3	191,013.2
Support Areas	390,254.5	247,434.0
Control Areas	366,445.4	210,964.5
Total	**1,440,997.2**	**881,809.4**

XI. Outlook

The economic and financial backdrop in 2017 harbours a number of major uncertainties, with persistent relevant risks regarding the performance of the global, European and especially the Angolan and Portuguese economies. The effects of the victory of Donald Trump, Brexit and the elections in the euro area's three leading economies (France, Germany and Italy), together with the ambiguous market price of oil in several economies such as Angola, will continue to be restricting factors, with ensuing impacts on the Portuguese economy.

With regard to Banco BNI Europa's prospects, given the initiatives and processes currently underway, the Board of Directors is confident that the bank will continue to move forward and grow, with particular emphasis on the following:

- Expanding the customer base and operations among resident customers, non-resident customers and in the individual and SME segments;
- Diversifying products and services offered to customers;
- Launching new business lines;
- Focusing on electronic banking and streamlining processes for customer relations; and
- Establishing partnerships to serve as differentiating assertions which add value for the bank's customers and other stakeholders.

To consolidate the bank's growth strategy and strengthen its capital ratios, plans are in place to issue subordinated debt by the end of the first half of 2017.

In this context, 2017 is expected to be a year of major growth, backed by greater diversity in sources of funding and a reduction to the percentage of funding costs, the granting of credit through investing in financial instruments representing customer credit and the generation or direct acquisition customer credit.

XII. Subsequent events

There have been no relevant subsequent occurrences that should be considered considered for the purposes of preparing the financial statements for the period ending 31 December 2016.

XIII. Proposed distribution of earnings

The Board of Directors proposes to the General Meeting of Shareholders that the negative net result for the year ending 31 December 2016, totalling -1,989,240.79 euros (negative one million, nine hundred and eighty nine thousand, two hundred and forty euros and seventy nine cents) be transferred to retained earnings.

XIV. Thanks

The Board of Directors wishes to thank everyone who worked with the bank in 2016, namely its employees, suppliers, service providers and other corporate boards.

Lisbon, 21 February 2017

Pedro Nuno Munhão Pinto Coelho | Chairman

António Miguel Maurício Rola Costa | Member

Nuno Luís do Rosário Martins | Member

Carlos Alberto Rodrigues Ballesteros Amaral Firme | Member

Financial statements

Balance sheet

on 31 December 2016 and 2015

Euros

	NOTES	2016	2015
ASSETS			
Cash and cash equivalents in central banks	16	80,102,203	15,886,249
Cash on hand at other credit institutions	17	7,779,257	14,913,128
Other financial assets at fair value through results	18	7,060,820	-
Financial assets available for sale	19	181,845,144	11,639,062
Investments at credit institutions	20	11,056,966	48,189,928
Loans to customers	21	5,074,246	1,726,045
Investments held to maturity	22	60,388,868	2,202,263
Other tangible assets	23	358,643	455,883
Intangible assets	24	3,792,526	2,351,659
Current tax assets	25	7,847	5,327
Deferred tax assets	26	2,515,504	1,590,371
Other assets	27	2,052,197	634,443
Total Assets		**362,034,222**	**99,594,357**
LIABILITIES			
Central Bank Resources	-	12,132	-
Resources at other credit institutions	28	71,260,513	65,279,257
Resources from customers and other loans	29	262,234,343	4,955,696
Provisions	30	26,903	27,590
Current tax liabilities	25	91,422	47,430
Other liabilities	31	3,204,065	922,228
Total Liabilities		**336,829,379**	**71,232,201**
EQUITY			
Capital	32	34,250,000	34,250,000
Revaluation reserves	33	(1,463,589)	(295,516)
Other reserves and retained earnings	34	(5,592,328)	(4,100,473)
Net result for the year	-	(1,989,241)	(1,491,854)
Total Capital		**25,204,843**	**28,362,156**
Total Liabilities and Capital		**362,034,222**	**99,594,357**

CERTIFIED ACCOUNTANT

BOARD OF DIRECTORS

Income statement

for the years ending 31 December 2016 and 2015

Euros

	NOTES	2016	2015
Interest and similar income	4	3,306,407	600,025
Interest and similar expenses	4	3,160,585	196,623
Strict financial margin		145,822	403,402
Income from capital instruments	5	2,392	-
Financial Margin		148,214	403,402
Income from services and fees	6	439,377	259,886
Expenses from services and fees	6	88,285	30,901
Results from financial assets available for sale	7	2,211,281	(1,409)
Currency revaluation results	8	1,534	22,851
Other operating income	9	38,204	4,606
Banking income		2,750,326	658,435
Staff Costs	10	2,232,535	1,434,289
General administrative costs	11	2,578,537	1,689,781
Amortisation for the year	12	554,079	287,823
Operating costs		5,365,151	3,411,892
Loan impairment net of reversals and recoveries	13	(3,785)	41,763
Provisions net of refunds and write-offs		-	25,000
Impairment from other financial assets	13	(127,206)	129,062
Impairments and provisions		(130,991)	195,824
Result before taxes		**(2,483,834)**	**(2,949,282)**
Current taxes	14	91,422	47,148
Deferred taxes	14	(586,015)	(1,504,576)
Taxes		(494,593)	(1,457,428)
Net result for the year		**(1,989,241)**	**(1,491,854)**
Basic earnings per share	15	(0.32)	(0.24)
Diluted earnings per share	15	(0.32)	(0.24)

CERTIFIED ACCOUNTANT

BOARD OF DIRECTORS

Cash flow statement

for the years ending 31 December 2016 and 2015

Euros

	NOTES	2016	2015
Cash flow from operating activities			
Interest, fees and other income received	-	1,660,696	733,035
Interest, fees and other income paid	-	(1,383,985)	(215,665)
Payments to suppliers and employees	-	(4,559,211)	(2,797,430)
Other payments and receipts	-	3,238,485	(169,308)
		(1,044,015)	**(2,449,368)**
Change to operating assets and liabilities		**-**	
Loans to customers	-	(3,219,258)	(1,872,619)
Credit institution resources	-	5,980,627	36,923,064
Customer funds	-	255,087,260	4,200,947
		257,848,629	**39,251,392**
Cash flow net of operating activities, before income tax		**256,804,614**	**36,802,024**
Income tax paid	-	38,364	(36,049)
		256,842,978	**36,765,975**
Cash flow from investment activities			
Investments at credit institutions	-	37,098,489	(29,703,868)
Financial assets available for sale	-	(170,063,643)	(12,147,409)
Acquisitions of tangible and intangible assets	-	(1,897,707)	(1,290,607)
Other financial assets at fair value through results	-	(7,060,820)	
Investments held to maturity	-	(57,837,214)	(2,200,000)
Cash flow net of investment activities		**(199,760,895)**	**(45,341,884)**
Cash flow from financing activities			
Capital increase	-	-	9,250,000
Cash flow net of financing activities		**-**	**9,250,000**
Net change in cash and cash equivalents	-	57,082,083	674,091
Cash and cash equivalents at the start of the year	-	30,799,378	30,125,285
Cash and cash equivalents at the end of the year		**87,881,461**	**30,799,378**
Cash and cash equivalents include:			
Cash and cash equivalents in central banks	16	79,906,503	15,886,249
Cash on hand at other credit institutions	17	7,974,957	14,913,128
Total		**87,881,461**	**30,799,378**

CERTIFIED ACCOUNTANT

BOARD OF DIRECTORS

Statement of changes in equity

for the years ending 31 December 2016 and 2015

Euros

	TOTAL CAPITAL EQUITY	CAPITAL	LEGAL RESERVE	FAIR VALUE RESERVES	RETAINED EARNINGS	NET INCOME FOR THE YEAR
Balances on 31 December 2014	**20,899,581**	**25,000,000**	**-**	**54**	**(1,442,197)**	**(2,658,277)**
Allocation of results	-	-	-	-	(2,658,277)	2,658,277
Revaluation reserves from valuation at fair value	(381,365)	-	-	(381,365)	-	-
Deferred tax reserves resulting from valuation at fair value losses	85,795	-	-	85,795	-	-
Capital increase to hedge	9,250,000	9,250,000	-	-	-	-
Net result for the year	(1,491,854)	-	-	-	-	(1,491,854)
Balances on 31 December 2015	**28,362,156**	**34,250,000**	**-**	**(295,516)**	**(4,100,474)**	**(1,491,854)**
Allocation of results	-	-	-	-	(1,491,854)	1,491,854
Revaluation reserves resulting from valuation at fair value	(1,507,191)	-	-	(1,507,191)	-	-
Deferred tax reserves resulting valuation at fair value	339,118	-	-	339,118	-	-
Net result for the year	(1,989,241)	-	-	-	-	(1,989,241)
Balances on 31 December 2016	**25,204,843**	**34,250,000**	**-**	**(1,463,589)**	**(5,592,328)**	**(1,989,241)**

CERTIFIED ACCOUNTANT

BOARD OF DIRECTORS

Comprehensive income statement

for the years ending 31 December 2016 and 2015

Euros

	2016	2015
Items that may be reclassified for the income statement		
Fair value reserve	(1,888,502)	(381,311)
Taxes	424,913	85,795
Other comprehensive income for the year after taxes	(1,463,589)	(295,516)
Net result for the year	(1,989,241)	(1,491,854)
Total comprehensive income from the year	**(3,452,830)**	**(1,787,370)**

CERTIFIED ACCOUNTANT

BOARD OF DIRECTORS

Notes to the financial statements

Introduction

BNI – Banco de Negócios Internacional (Europa), S.A. ("bank" or "Banco BNI Europa") is a limited company with its registered office in Portugal at Praça Marquês de Pombal n.º 16 - 3º Andar, incorporated by public deed dated 02 June 2009. The bank resulted from the change to the name and corporate purpose of BIT – TITANIUM, Consultoria de Banca e Seguros, S.A., which became a bank via public deed dated 09 April 2012. At the time of the company's initial establishment, its main business was the provision of strategic and economic consultancy services for banking and insurance, the provision of accounting-related services, corporate management and consultancy, technical consultancy support for creating, developing, expanding and modernising financial and non-financial companies, activities involving promotion, marketing and financial market prospecting, with the option of the company's participation in establishing or acquiring stakes in companies whose corporate purpose differs from those above, in companies governed by special laws and in incorporated joint ventures.

At this time, Banco BNI Europa's corporate purpose is limited to the banking business, including all supplementary, related and similar transactions compatible with this business and permitted by law. The bank entered into the banking business on 16 July 2014.

NOTE 1

Basis of presentation

Under the provisions of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002, as transposed into Portuguese legislation through Decree Law no. 35/2005 of 17 February and Banco de Portugal Notice no. 5/2015 of 20 December, the bank's financial statements have been prepared in accordance with International Accounting Standards ("IAS"), as adopted by the European Union.

These International Accounting Standards entail the application of International Financial Reporting Standards (IFRS) to individual financial statements, as adopted, at any given time, by European Union regulations, and following the conceptual layout for preparing and presenting financial statements subject to these norms.

The IFRS include accounting standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC) and their predecessor bodies.

The bank's financial statements shown here are for the period ending 31 December 2016, and have been prepared according to the IAS, which include the IFRS in force as adopted by the European Union through 31 December 2016.

These financial statements were approved in a meeting of the Board of Directors on 21 February 2017.

They are expressed in euros, and have been prepared in accordance with the historic cost principle, except for assets and liabilities recorded at fair value. The totals shown in the financial statements and their notes may have small discrepancies from rounding to the nearest unit.

Preparing the financial statements according to the IAS requires the bank to make judgements and estimates, and to use assumptions affecting the application of accounting policies and the amounts of income, costs, assets and liabilities. Any changes to these assumptions or differences vis-à-vis reality may impact current estimates and judgements. Areas involving a higher degree of judgment or complexity, or which use significant assumptions or estimates in the financial statements' preparation, have been analysed in Note 3.

NOTE 2

Main accounting policies

The publication of Notice no. 5/2015 repealed Notice no. 3/1995 and Notice no. 1/2005 governing the establishment of provisions by credit institutions and financial firms, for the following purposes: i) specific credit risk, ii) general credit risks, iii) expenses for retirement and survivors pensions, iv) losses from securities and financial assets, v) losses from other investments, and vi) country risk. The entry into force of this notice, effective as of 01 January 2016, required banks to draw up their financial statements regardless of their basis of presentation (individual or consolidated) in accordance with International Accounting Standards (IAS), replacing the Adjusted Accounting Standards (AAC).

The change resulting from the repeal of the Adjusted Accounting Standards (AAC) and presentation of financial statements on an individual basis according to the International Accounting Standards (IAC) as of 01 January 2016, as per the provisions of IFRS 1, on 31 December 2015, had impacts namely in terms of the reclassification of provisions for general credit risks from liabilities under the item "Provisions" in the AAC to assets under the item "Impairment" totalling 7,715 euros.

In accordance with IAS 8, this policy change has been applied retroactively. However, insofar as there are no impacts in reference to 01 January 2015, they are not shown in the comparative balance sheet in reference to this date.

In view of the fewer number of transactions in 2015, namely those associated with loans to customers, the retroactive application in the 2015 accounts has no effect on the results.

The remaining accounting practices and policies have undergone no changes; as such, all amounts are compatible with those of the previous year.

The most significant accounting policies used in preparing the financial statements are as follows:

2.1 Financial assets

An instrument is classified as a financial asset when a contractual obligation exists to settle it by means of cash or another financial liability, regardless of its legal form.

Financial assets include financial assets for trading and at fair value through the results, financial assets held to maturity, financial assets available for sale, credit and other amounts receivable.

2.1.1. Financial assets at fair value through results

This item includes financial assets initially classified at fair value through the results, provided that they meet the conditions to be recognised as such, namely:

i) it eliminates or significantly lowers an inconsistency in measurement or recognition (sometimes called an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising gains and losses on them on different bases, or

ii) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel (as defined in IAS 24 - Related Party Disclosures (as revised in 2003)), for example the entity's board of directors and chief executive officer.

Gains and losses from changes in fair value are recognised in the results.

2.1.2. Financial assets available for sale

Financial assets available for sale, held for the purpose of being maintained by the bank, namely bonds, treasury bonds and capital instruments, are classified as available for sale, except when classified in another category of financial assets.

Financial assets available for sale are initially recognised at fair value, including the transactions' associated costs or income. Financial assets available for sale are subsequently measured at fair value. Changes in fair value are recorded against fair value reserves (equity) until the time of their sale or until the recognition of impairment losses, in which case they are recognised in the results.

At the time of disposal of financial assets available for sale, any cumulative gains or losses recognised in the fair value reserves are recognised under the item "Results from financial assets available for sale" in the income statement.

Interest from debt instruments is recognised based on the effective interest rate, including a premium or discount when applicable. Dividends are recognised in the results when the right to receive the dividends is attributed.

On each balance sheet date, an assessment is made of the existence of any objective evidence of impairment. A financial asset or group of financial assets is considered impaired whenever there exists objective evidence of impairment resulting from one or more events occurring after its/their initial recognition, such as: (i) for listed securities, a continued devaluation or devaluation of significant magnitude in share price, and (ii) for unlisted securities, when the event (or events) has/have an impact on the estimated future cash flows of the financial asset, or group of financial assets, which may be reasonably estimated.

2.1.3. Investments held to maturity

This category includes non-derivative financial assets with fixed or determinable payments and fixed maturities, which the bank has the intent and ability to keep to maturity, and which have not been designated for any other financial asset category.

The financial assets classified in this category are initially recognised at fair value plus transaction costs, then subsequently measured at amortised cost based on the effective rate method, minus impairment losses.

On each balance sheet date, an assessment is made of the existence of any objective evidence of impairment. A financial asset or group of financial assets is considered impaired whenever there exists objective evidence of impairment resulting from one or more events occurring after its/their initial recognition, such as: (i) for listed securities, a continued devaluation or devaluation of significant magnitude in share price, and (ii) for unlisted securities, when the event (or events) has/have an impact on the estimated future cash flows of the financial asset, or group of financial assets, which may be reasonably estimated.

2.1.4. Loans to customers

"Loans to customers" includes loans originating at the bank, not intended for short-term sale, recorded on the date of credit provision to the customer, at nominal value, according to Banco de Portugal Notice no. 1/2005, plus transaction costs, subsequently valued at amortised cost based on the effective rate method, minus impairment losses.

Loans to customers are recognised on the balance sheet unless: (i) the bank's contractual rights related to their cash flows have expired, (ii) the bank has substantially transferred all of the risks and benefits associated with their ownership, or (iii) the control of the assets has been transferred, even when the bank retains part, but not substantially all, of the risks and benefits associated with their ownership.

The existence of objective evidence of impairment in the loan portfolio must be evaluated on a regular basis. Any impairment losses found are recorded against the results, then subsequently reversed if the amount of the estimated loss decreases at a later time.

After initial recognition, a loan or portfolio of customer loans with similar risk characteristics may be classified with impairment when there exists objective evidence of impairment resulting from one or more events impacting the estimated value of the future cash flows of the loan or customer loan portfolio, whose measurement may be reasonably estimated.

In accordance with IAS 39, a customer loan which is individually assessed as being impaired should not be included in a loan portfolio assessed collectively with regard to impairment.

A customer loan which is individually assessed as not being impaired should be included in a collective impairment assessment.

When collectively assessing impairment, loans are grouped together based on similar credit risk characteristics, as per the risk assessment defined by the bank. Future cash flows for a loan portfolio whose impairment is assessed collectively are estimated based on contractual cash flows and historical experience with regard to losses. The methodology and assumptions used to estimate future cash flows are reviewed regularly by the bank to monitor the difference between estimated and actual losses.

2.2 Financial liabilities

An instrument is classified as a financial liability when a contractual obligation exists to settle it by means of cash or another financial asset, regardless of its legal form.

Non-derivative financial liabilities include resources from credit institutions, loans, responsibilities represented by securities and other subordinated liabilities.

These financial liabilities are recorded (i) initially at fair value, minus transaction costs incurred, and (ii) subsequently at their amortised cost, based on the effective rate method.

2.3 Derivative financial instruments

The bank designates derivatives and other financial instruments to hedge interest rate risk and foreign exchange risk resulting from financing and investment activities. Derivatives which do not qualify for hedge accounting are recorded as trading derivatives. Hedging derivatives are recorded at fair value, with revaluation gains and losses recognised according to the hedge accounting model used by the bank. A hedging relationship exists when:

- Formal hedging documentation exists on the initial date of the relationship;
- It is expected that hedging will be highly effective;
- The hedging's effectiveness can be reliably measured;
- The hedging is assessed on a continuous basis and actually determined to be highly effective over the financial reporting period; and
- In relation to hedging for a scheduled transaction, the transaction is highly probable, and has exposure to changes in cash flows that could ultimately affect the results.

When a derivative financial instrument is used to hedge foreign exchange variations arising from monetary assets or liabilities, no hedge accounting model is applied. Any gains or losses associated with the derivative are recognised in results for the year, along with the changes in foreign exchange risk of the underlying monetary items.

2.4 Offsetting of financial instruments

Financial assets and liabilities are shown on the balance sheet at their net value when the legal option exists to offset the recognised amounts, with the intention to settle them at their net value, or to realise the asset and settle the liability simultaneously.

2.5 Non-current assets held for sale

Non-current assets or groups for disposal (groups of assets for collective disposal in a single transaction, and directly associated liabilities which include at least one non-current asset) are classified as held for sale when their balance sheet value is recovered primarily through a sales transaction (including those acquired exclusively for the purpose of sale), the assets or groups for disposal are available for immediate sale and the likelihood of sale is high.

Assets received as payment in kind for credit, which may include real estate, equipment and other goods, are recorded, at the time of initial recognition, at their fair value minus expected cost of sale or at the balance sheet value of the credit to be recovered, whichever is lower. The unrealised losses determined for these assets are recorded in the results. Regular assessments are obtained, giving rise to impairment losses, whenever the resulting value of these assessments is less than the book value. Potential gains from assets received in kind for credit recovery are not recognised on the balance sheet.

2.6 Tangible assets

Tangible assets are recorded at acquisition cost, minus respective cumulative amortisation and impairment losses. The cost includes expenses not directly attributable to the assets' acquisition.

Any subsequent tangible asset costs are only recognised if it is likely that the assets will result in future economic benefits to the bank. All maintenance and repair expenses are recognised as a cost, in accordance with the principle of accrual-based accounting.

Amortisation for tangible assets is calculated using the straight-line method at the following rates, which reflect the assets' expected useful life:

	NUMBER OF YEARS
Real estate:	
Works in leased properties	8
Equipment:	
Furniture and materials	4 to 8
Machinery and tools	5 to 8
Computer equipment	3 to 7
Interior installations	8 to 10
Security equipment	5 to 8
Other equipment	5 to 8

When evidence exists of an asset's potential impairment, IAS 36 requires an estimate of its recoverable value, with recognition of an impairment loss whenever an asset's net value exceeds its recoverable value. Impairment losses are recognised on the income statement.

The recoverable value is determined by the asset's net sale price or value-in-use, whichever is higher, with the latter calculated based on the present value of estimated future cash flows expected from the asset's continued use and sale at the end of its useful life.

2.7 Intangible assets

Costs incurred for software acquisition, production and development are capitalised, together with any additional expenses incurred by the bank for their implementation. In the cases where the requirements of International Accounting Standard 38 – Intangible Assets are met, the direct internal costs incurred for software development are capitalised as intangible assets.

These costs are amortised on a linear basis over the assets' expected useful life, which normally ranges from 3 to 6 years.

All other charges related to computer services are recognised as costs at the time they are incurred.

2.8 Leases

The bank classifies leasing transactions as financial or operating leases according to their substance and not their legal form, in compliance with the criteria laid out in IAS 17 – Leases. Transactions in which the underlying risks and benefits of an asset's ownership are transferred to the lessee are classified as financial leases. All other leasing transactions are classified as operating leases.

All payments made under operating lease agreements are recorded as costs in their corresponding periods. Financial leasing agreements are recorded on their start date, in assets and liabilities, at the acquisition cost of the leased asset, which is equivalent to the present value of outstanding lease payments. Lease payments are comprised of (i) the financial charge, deducted from results, and (ii) the amortisation of capital, deducted from liabilities.

Operating leases

Payments made by the bank under operating lease agreements are recorded as costs in their corresponding periods.

2.9 Income tax

Income taxes include current taxes and deferred taxes. Income taxes are recognised in the results, except when related to items recognised directly under equity, in which case they are also recorded against equity.

Current taxes are those expected to be paid based on the taxable profit calculated according to tax rules in force, and using the approved (or substantially approved) tax rate.

Deferred taxes are calculated, based on the balance sheet, against the temporary differences between the book values of assets and liabilities and their tax base, using the approved (or substantially approved) tax rate on the balance sheet date, which is expected to apply at the time the temporary differences are reversed.

Deferred tax liabilities are recognised for all taxable temporary differences, from differences resulting from the initial recognition of assets and liabilities not affecting accounting or tax profits, and from differences related to investments and subsidiaries insofar as they are unlikely to be reversed in the future. Deferred tax assets are recognised only insofar as it is likely that future taxable profits will exist that can offset the deductible temporary differences.

2.10 Provisions

Provisions are recognised when (i) the bank has a present, legal or constructive obligation, (ii) demand for its payment is likely, and (iii) a reliable estimate of the obligation's value can be made.

When the discount effect is material, the provision corresponds to the present value of expected future payments, discounted at a rate which takes the obligation's associated risk into account.

2.11 Financial guarantees

Financial guarantees are defined as contractual agreements requiring the issuer to make payments to compensate the holder for losses incurred for breaches of the contractual terms of debt instruments, namely the payment of principal and/or interest.

Financial guarantees are initially recognised at their fair value. Subsequently, these guarantees are measured by one of the following, whichever is higher: (i) the initially recognised fair value, or (ii) the amount of any obligation arising from the guarantee agreement, measured as of the balance sheet date. Any change in the value of an obligation associated with financial guarantees is recognised in the results.

Financial guarantees normally have a set maturity and periodic fee charged in advance, which varies according to the counterparty risk, amount and contract duration. On this basis, the fair value of guarantees on the date of their initial recognition is more or less equivalent to the amount of the initial fee received, taking into account that the agreed conditions are market conditions. As such, the amount recognised on the contract date is equal to the amount of the initial fee received, which is recognised in the results during its corresponding period. Subsequent fees are recognised in the results in their corresponding periods.

2.12 Capital instruments

An instrument is classified as a capital instrument when there is no contractual obligation for its settlement by means of cash or another financial asset, regardless of its legal form, with a residual interest in the assets of an entity after deducting all of its liabilities.

Any costs directly attributable to the issuance of capital instruments are recorded against equity as a deduction from the issuance amount. Amounts paid and received for the purchase and sale of capital instruments are recorded in equity, net of transaction costs.

Distributions made on behalf of capital instruments are subtracted from equity as dividends, when declared.

2.13 Recognition of interest

Results from interest from financial instruments measured at amortised cost are recognised in the items "interest and similar income" or "interest and similar costs" using the effective rate method. The effective interest rate is the rate which precisely discounts estimated future payments or receipts during the financial instrument's expected lifetime or, when appropriate, a shorter time period, for the financial asset's or liability's balance sheet net present value.

The effective interest rate is set at the initial recognition of the financial assets or liabilities, and is not subsequently revised.

To calculate the effective interest rate, future cash flows are estimated based on all of the financial instrument's contractual terms and conditions, but not considering any future credit losses. This calculation includes fees comprising an integral part of the effective interest rate, transaction costs and all premiums and discounts directly related to the transaction. In the case of financial assets or groups of similar financial assets for which impairment losses have been recognised, the interest recorded in "interest and similar income" is determined based on the interest rate used to measure the impairment loss.

Specifically with regard to the policy for recording interest on past-due credit, the following aspects are considered:

- Interest on past-due credit with real guarantees, until reaching the prudentially assessed hedging limit, are recorded against the results in accordance with IAS 18 under the assumption that there exists a reasonable likelihood of their recovery; and
- Interest already recognised and unpaid for overdue credit more than 90 days past not covered by a real guarantee is written off, and is not recognised until its receipt, since its likelihood of recovery is considered remote under the scope of IAS 18.

2.14 Recognition of income from services and fees

Income from services and fees is recognised in the following manner:

- Income from services and fees obtained from the performance of a significant act is recognised in the results once the significant act is complete;
- Income from services and fees obtained as the services are being provided is recognised in the results in its corresponding period; and
- Income from services and fees comprising an integral part of a financial instrument's effective interest rate is recognised in the results using the effective interest rate method.

2.15 Earnings per share

Basic earnings per share are calculated by dividing the net result by the average weighted number of ordinary shares in circulation during the year.

Diluted earnings per share are calculated by adjusting the effect of all potentially dilutive ordinary shares to the average weighted number of ordinary shares in circulation and to the net result.

2.16 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents are amounts recorded in the balance sheet with a maturity of less than three months from the date of acquisition/contracting, including cash, cash on hand at central banks and cash on hand at credit institutions.

Cash and cash equivalents do not include deposits of a mandatory nature at central banks.

2.17 Transactions in foreign currency

Transactions in foreign currency are converted using the transaction date's exchange rate. Monetary assets and liabilities expressed in foreign currency are converted into euros using the exchange rate in effect on the balance sheet date. Exchange differences resulting from this conversion are recognised in the results.

Non-monetary assets and liabilities recorded at historical cost, expressed in foreign currency, are converted using the transaction date's exchange rate.

Non-monetary assets and liabilities expressed in foreign currency, recorded at fair value, are converted at the exchange rate in effect on the date of the fair value's determination.

The resulting exchange differences are recognised in the results, except with regard to differences involving shares classified as financial assets available for sale, which are recorded in reserves.

2.18 Employee benefits

The bank recognises, as expenses, short-term benefits for employees working in the respective accounting period, then as a liability after subtracting the amount already paid.

Profit-sharing and bonus plans

The bank recognises the expected expense of payments for profit-sharing and bonuses when it has a present, legal or constructive obligation to make these payments as a result of past occurrences, and is able to make a reliable estimate of the obligation.

Obligations for holidays, holiday allowances and Christmas bonuses

In accordance with legislation in force in Portugal, employees are entitled to one month of holidays and one month of holiday allowances per year, a right which is acquired in the year prior to their payment. In addition, employees are entitled to one month of Christmas bonuses per year, a right which is acquired over the course of the year and settled in December of each calendar year. As such, these responsibilities are recorded in the period in which employees acquire the respective right, regardless of the date of payment.

Since the bank has no benefit or contribution plan in place, it has no responsibility to pay pensions for retirement due to old age, retirement due to disability or survivors' pensions.

NOTE 3

Main estimates and judgments used in preparing financial statements

The IAS establish a series of accounting procedures and require the Board of Directors to make the judgments and estimates needed to decide which is the most appropriate accounting treatment. The main accounting estimates and judgments used in the bank's application of the accounting principles are discussed in this note in order to provide a better understanding of how their application affects the bank's results as reported and their disclosure.

A wide-ranging description of the main accounting policies used by the bank is provided in Note 2 to the financial statements.

Considering that, in certain situations, there are alternatives to the accounting treatment adopted by the Board of Directors, the results reported by the bank could have been different had a different treatment been chosen.

The Board of Directors considers that the choices made are appropriate and that the financial statements present a true and fair view of the bank's financial position and the result of its operations in all materially relevant aspects.

3.1 Income Taxes, current and deferred

In order to determine the value of income taxes, a number of interpretations and estimates are required. There are various transactions and calculations for which the determination of the final value of the tax payable is uncertain during the normal business cycle.

Other interpretations and estimates could result in a different level of tax on profits, current and deferred, from that recognised in the period and set out in Note 14.

The Tax Authorities have power to review the bank's calculation of its taxable income, over a period of four or six years, in cases where there are fiscal losses to be carried over. This means that the taxable income may still be adjusted, due mainly to differences in the interpretation of tax law. However, the bank's Board of Directors is confident that there will be no significant adjustments to taxes on income recorded in the financial statements.

3.2 Fair value of derivative financial instruments

Fair value is based on market listed prices when available and, failing these, is determined on the basis of the prices for recent similar arm's length transactions or else using valuation methods based on discounted future cash flows considering market conditions, the effect of time, the yield curve and volatility factors. These methods may require the use of assumptions or judgments in estimating the fair value.

Consequently, the use of different methods or different assumptions or judgments in applying a given model may lead to financial results different from those reported and indicated in Notes 18 and 19.

3.3 Impairment losses on loans to customers

The bank periodically reviews its loans portfolio in order to assess the existence of impairment, as referred to in Note 2.1.4. In order to determine whether an impairment loss should be recognised, the loan assessment process incorporates a number of estimates and judgments. This process includes factors such as default frequency, loss recovery rates and estimates of both future cash flows and of the respective receipt dates. The use of alternative methodologies and other assumptions and estimates could result in different levels of impairment losses from those recognised and indicated in Note 21.

3.4 Impairment of available-for-sale financial assets

An impairment is deemed to exist in available-for-sale financial assets when there is a continued or substantial reduction in their fair value or when an impact is expected on the assets' future cash flows. This determination requires judgment, meaning that it is necessary to assess all the information relevant to reaching a decision, in particular the normal volatility of the prices of financial instruments. For this purpose, and as a consequence of severe market volatility, the following parameters are regarded as triggering impairment:

(i) Equity securities: continuing or substantial reduction in their market value in relation to their acquisition cost;

(ii) Debt securities: whenever there is objective evidence of events with an impact on the recoverable value of these assets' future cash flows.

In addition, valuations are also obtained by marking to market or marking to model, methods which require the use of given assumptions or judgment in setting the fair value estimates.

The use of alternative methods and different assumptions and estimates may result in a different level of recognised impairment losses. The value of impairment for available-for-sale financial assets determined using the criteria described above is indicated in Note 19.

NOTE 4

Strict financial margin

This item comprises:

Euros

	2016	2015
Interest and similar income:		
Cash and balances at central banks	28	113
Investments at credit institutions	179,129	197,952
Interest on loans to customers	482,528	59,734
Interest on overdue credit	37	1
Interest on other financial assets	2,585,537	337,288
Commission income associated with amortised cost	59,148	4,937
	3,306,407	**600,025**
Interest and similar expense:		
Central Bank Resources	104,874	-
Credit institution resources	219,597	174,903
Interest on customer deposits	2,421,781	21,720
Other loans	2,636	-
Commission expense associated with amortised cost	411,698	-
	3,160,585	**196,623**
Strict financial margin	**145,822**	**403,402**

The account for Interest and similar income, totalling Euros 3,306,407 (2015: Euros 600,025), comprises mostly income from investment in bonds, exchange-traded funds and commercial paper investments, with a value of Euros 2,585,537 (2015: Euros 337,288) and interest on short-term placements by a range of banks, in particular Caixa Geral de Depósitos, S.A., Millennium BCP, S.A. and Commerzbank AG, totalling Euros 179,129 (2015: Euros 197,952), in addition to interest on loans to customers, with a value of Euros 482,528 (2015: Euros 59,734) and commissions at amortised cost, of Euros 59,148 (2015: 4,937 euros).

In the account for Interest and similar expense, interest on deposits by other credit institutions refers to interest on customer deposits, amounting to Euros 2,421,781 (2015: Euros 21,720), and to interest on investments by Banco de Negócios Internacional, S.A., based in Angola and Caixa de Crédito Agrícola Mútuo da Chamusca, totalling Euros 219,597 (2015: Euros 28,739, where the remaining Euros 146,164 related to interest payable on short term loans contracted from Banco Privado Internacional, S.A., based in Cape Verde).

NOTE 5

Income from capital instruments

The account for Income from equity instruments, totalling Euros 2,392 (2015: Euros 0) comprises mostly yields on investments in exchange-traded funds (ETF) which were only made in 2016.

NOTE 6

Net service and commission income

This item comprises:

Euros

	2016	2015
Fee and commission income:		
Documentary operations	56,364	47,281
For commitments accepted	128,878	34,061
For services rendered	169,839	144,033
Other charges received	84,297	34,512
	439,377	**259,886**
Fee and commission expense:		
For guarantees received	213	1,184
For third party banking services	88,072	29,717
	88,285	**30,901**
Net service and commission income	**351,093**	**228,985**

The account for Service and commission income, with a value of Euros 439,377 (2015: Euros 259,886) is higher than in the previous period as a result of growing banking business. The item **Documentary operations** relates to commission on documentary remittances which resulted from the confirmation of letters of credit. The item **For services rendered** includes commission on transfers of operations ordered by customers of Banco de Negócios Internacional, S.A., research and arrangement fees and commissions on lending operations. The item **For commitments accepted** includes commissions associated with guarantees provided in connection with credit facilities.

The account for Fee and commission expense, with a value of Euros 88,285 (2015: Euros 30,901) comprises banking services provided by third parties, totalling Euros 88,072 (2015: Euros 29,717), which refer essentially to the costs of maintaining and providing services relating to accounts with corresponding banks and financial counterparties, as well as commissions relating to a bank guarantee in favour of the bank, with a value of Euros 213 (2015: Euros 1,184), issued in connection with the lease of the bank's premises (note 11).

NOTE 7

Results from financial assets available for sale

The balance in this account, Euros 2,211,281 (2015: Euros -1,409), relates to actual gains or losses on the sale of bonds, in accordance with the accounting policy described in Note 2.1.2.

NOTE 8

Currency revaluation results

The balance in this account, Euros 1,534 (2015: Euros 22,851) relates to effective income derived from actual foreign exchange operations and the results relating to the process of revaluation of monetary assets and liabilities expressed in foreign currency in accordance with the accounting policy described in Note 2.17.

NOTE 9

Other operating income

This item comprises:

Euros

	2016	2015
Other operating income:		
Reimbursement of expenses	53,923	60,059
Prior period adjustments	232,367	-
Other operating income	738	7,544
	287,028	**67,603**
Other operating costs:		
Indirect taxes	70,573	18,840
Other operating costs	178,251	44,157
	248,824	**62,997**
Other operating income	**38,204**	**4,606**

The item Other operating income includes **Reimbursement of expenses** totalling Euros 53,923 (2015: Euros 60,059) relating to the reinvoicing of expenses to Banco de Negócios Internacional, S.A., and also **Other operating income** totalling Euros 738 (2015: Euros 7,544) relating to the allowance received from IEFP in connection with a traineeship. The item **Prior period adjustments**, totalling Euros 232,367 (2015: Euros 0) refers fundamentally to the value of the VAT rebate sought in connection with application of the pro-rata method to the financial years of 2014 and 2015 (see Note 27).

The item Other operating costs includes **Indirect taxes** totalling Euros 70,573 (2015: Euros 18,840), most of which refers to the banking sector levy, totalling Euros 51,198 (2015: Euros 18,756), as well as **Other operating costs** totalling Euros 178,251 (2015: Euros 44,157), of which Euros 8,527 (2015: Euros 8,215) refers to contributions to the Deposit Guarantee Fund and the Resolution Fund, which have been payable since the bank started its operations. The item **Other operating costs** also includes the sum of Euros 147,341 (2015: Euros 35,039) relating to the write-off of the intangible asset "Oracle", use of which was discontinued in 2016.

NOTE 10

Staff Costs

This item comprises:

Euros

	2016	2015
Remuneration	2,247,930	1,397,033
Mandatory social charges	493,253	299,298
Remuneration and capitalised charges	(687,034)	(316,940)
Other charges	178,387	54,898
	2,232,535	**1,434,289**

The bank is engaged in a vast range of projects, including its core application, means of payment, *Homebanking*, *Online Credit*, Cards, Mortgage Lending, AML Software and the latest Lendico, Raisin, Savedo and Edebex platforms. These projects have demanded significant internal efforts to support their implementation, and this task has fallen primarily to internal manpower, without whom the projects could not have been implemented, and have prepared the way for generating future economic benefits. Accordingly, as required by IAS 38, the sum of Euros 687,034 was capitalised in 2016 (2015: Euros 316,940) in relation to internal and external staff costs, in proportion to the time allocated to each project and needed to put these intangible assets into operation.

The account for Personnel costs totals Euros 2,232,535, and the increase in relation to the previous year (2015: Euros 1,434,289) is explained by the growing workforce and the increase in paid assignments carried out by members of the Fiscal Board.

The total value of fixed remuneration assigned to the Directors and members of the Fiscal Board in 2016, recorded under **Remuneration**, totalled Euros 749,014 (2015: 750,751) and Social Security contributions stood at 172,736 (2015: 169,391).

No sums were paid to the Board of Directors or members of the Fiscal Board by way of variable remuneration in 2016 or 2015.

The account for **Other expenses**, totalling Euros 178,387 (2015: Euros 54,898), comprises employer's liability insurance and health insurance, canteen costs and occupational medicine expenses, which grew as a result of workforce expansion.

The bank's personnel broke down as follows into the main occupational categories:

	2016	2015
Members of the Board of Directors	4	4
Heads of business areas	6	2
Heads of support areas	4	3
Heads of control areas	3	2
Technicians	19	5
Secretarial staff	2	1
Trainees	5	-
	43	**17**

NOTE 11

General administrative costs

This item comprises:

Euros

	2016	2015
Water, power and fuel	41,741	26,441
Printed materials and consumables	17,810	10,258
Other third party supplies	326	3,493
Hygiene and cleaning products	16,043	13,013
Books and technical documentation	45	-
Fast-wearing tools and utensils	-	22
Rentals	347,127	312,038
Communication and postage	116,861	56,372
Travel, accommodation and entertainment	102,700	45,876
Advertising and publications	112,969	62,912
Upkeep and repair	27,851	20,008
Personnel training	18,218	10,272
Insurance	16,641	11,841
Legal and notarial services	728	581
Safety and security	13,607	7,335
IT	17,869	34,679
Information	20,939	23,721
Data bank	50,312	53,527
Other specialist services	1,433,247	857,784
Other third party services	223,504	139,610
	2,578,537	**1,689,781**

The item **Rentals,** totalling Euros 347,127 (2015: Euros 312,038), refers primarily to rentals paid for the lease of premises where the bank carries on its business, with a value of Euros 145,045 (2015: Euros 141,911), to the rental of IT expenses, totalling Euros 42,089 (2015: Euros 53,654), as well as to vehicle rental, totalling Euros 134,250 (2015: Euros 116,350) of which rentals were reinvoiced (Note 9) with a value of Euros 22,895 (2015: 44,071 euros).

The item **Other specialist services**, totalling Euros 1,433,247 (2015: Euros 857,784), refers essentially to costs relating to consultancy, totalling Euros 513,986 (2015: Euros 120,343), software maintenance costs, totalling Euros 422,970 (2015: Euros 446,130), the cost of legal services, at Euros 146,208 (2015: Euros 89,838) and the cost of accounting services, totalling Euros 158,529 (2015: 104,923 euros).

The item **Other third party services**, totalling Euros 223,504 (2015: Euros 139,610) relates essentially to software licensing costs, totalling Euros 49,496 (2015: 109,879 euros).

The bank has entered into operating leases where the outstanding rentals, at 31 December 2016, totalled Euros 252,060 (2015: Euros 243,867), of which it will reinvoice to third parties the sum of Euros 15,577 (2015: 57,222 euros). These contracts are regarded as operating leases as they fail to meet the criteria for qualifying as finance leases, defined in International Accounting Standard 17 - Leases.

The amount stated above is payable with the following maturities:

Euros

	2016	2015
1 year and under	108,505	97,260
1 to 5 years	143,555	146,607
	252,060	**243,867**

The fees agreed (excluding VAT) with the bank's statutory audit firm for its services are as follows:

Euros

	2016	2015
PricewaterhouseCoopers (PwC)		
Legal audit services	19,000	18,000
Reliability assurance services	5,000	3,750
Other services	4,250	4,500
	28,250	**26,250**

NOTE 12

Amortisation and depreciation

This item comprises:

Euros

	2016	2015
Tangible assets:		
Real estate:		
Works in rented properties	82,216	66,142
Equipment:		
Furniture and materials	20,097	19,162
Machinery and tools	2,578	2,396
IT equipment	3,614	4,879
Interior fittings	822	532
Safety equipment	6,902	6,902
Other equipment	423	390
	116,651	**100,402**

NOTE 13

Provisions and impairment

The item Provisions and impairment contains a balance of Euros -130,991 (Dec15: Euros 195,824), explained by the reversal of provisions into financial assets.

The account **Loan impairment, net of reversal and recovery** has a value of Euros -3,785 (Dec15: Euros 41,763), which includes impairments on loans to customers and provisions associated with guarantees provided. Impairments for specific lending risks are written off from the balance of the account for loans to customers as explained in Note 21.

The account **Impairment of other financial assets** presents a balance of Euros -127,320 (Dec15: Euros 128,062) and includes the impairments referring to securities recorded in the available-for-sale portfolio.

Provisions and impairments stood as follows at 31 December 2016 and 31 December 2015:

Euros

	2016	2015
Impairment	1,903	2,590
Provisions for other risks and charges	25,000	25,000
Total	**26,903**	**27,590**

NOTE 14

Taxes

Income tax expense in the period breaks down as follows:

Euros

	2016	2015
Current taxes:		
For the period	91,422	48,430
Prior period adjustments	-	(1,282)
	91,422	**47,148**
Deferred taxes:		
Tax losses carried forward (Note 27)	(586,015)	(1,504,576)
	(586,015)	**(1,504,576)**
Taxes	**(494,593)**	**(1,457,428)**

The bank is subject to Corporation Tax (IRC) and the corresponding surtax.

Current and deferred taxes for the periods ended 31 December 2016 and 2015 were calculated on the basis of a nominal IRC and Municipal Surtax rate of 22.5%, in accordance with Law 2/2014, of 16 January (which approved the Corporation Tax Reform), plus an additional rate of up to 7%, relating to the State Surtax levied on taxable profits in excess of 35 million Euros, under **Law 82-B/2014, of 31 December (2015 State Budget Law).**

The bank's self-assessment tax returns are subject to inspection and potential adjustment by the Tax Authorities during a period of four or six years, depending on whether or not there are tax losses carried forward. This means there may potentially be additional tax assessments due essentially to different interpretations of tax legislation, although the Directors are confident that, in the context of the financial statements, no additional charges of significant value will occur.

As stated in Note 2.9 and in Note 3.1, the bank periodically assesses the probability of recovering tax losses, reviewing for this purpose the execution of the Business Plan and the main critical variables and estimates underpinning it. Deferred tax assets recognised in relation to tax losses are detailed in Note 26.

NOTE 15

Earnings per share

Earnings per share are calculated as follows:

Euros

	2016	2015
Net Income	(1,989,241)	(1,491,854)
Average number of shares	6,282,329	6,282,329
Earnings per share (base)	**(0.32)**	**(0.24)**
Earnings per share (diluted)	**(0.32)**	**(0.24)**

The base earnings per share are calculated by dividing the net profits by the weighted average number of ordinary shares outstanding during the period.

The diluted earnings per share are calculated by adjusting for the effect of all the potential ordinary shares (convertibles, options etc.) on the weighted average number of ordinary shares in circulation and on net income.

At 31 December 2016 and 2015, the bank had no such potential ordinary shares with a diluting effect, and consequently the diluted earnings per share are identical to the base earnings per share.

NOTE 16

Cash and equivalents in central banks

Cash includes liquid amounts and others of a similar nature, such as notes and coins which are legal tender in the country or abroad.

This item breaks down as follows:

Euros

	2016	2015
Cash and balances		
Cash in national currency	34,491	22,835
Cash in foreign currency	20,321	9,185
Current accounts at Banco de Portugal	77,487,792	15,441,029
Total cash and liquid funds	**77,542,603**	**15,473,049**
Minimum reserves at central banks		
Deposits at Banco de Portugal	2,559,600	413,200
Total minimum reserves	**2,559,600**	**413,200**
	80,102,203	**15,886,249**

The account for **Cash in national currency and in foreign currency**, totalling Euros 54,812 (2015: Euros 32,020), corresponds to amounts deposited in safes, amounting to Euros 34,491 and Euros 20,321 (in dollar coins).

The item **Current accounts at Banco de Portugal** includes the balance intended to meet the legal requirements for minimum cash reserves, totalling Euros 2,559,600 (2015: Euros 413,200), calculated on the basis of the value of deposits and other liabilities, as well as immediately available deposits of 77,292,092 (2015: 15,441,029 euros).

The rules on constituting cash reserves, under the guidelines of the European System of Central Banks (Euro Zone), requires a balance to be maintained in deposits with the central bank equivalent to 1% of the average value of deposits and other liabilities, over each period in which reserves are constituted. This rate is different for countries outside the Euro Zone.

NOTE 17

Balances at credit institutions

This item breaks down as follows:

Euros

	2016	2015
Current accounts in Portugal	4,807,835	1,934,923
Current accounts abroad	3,167,122	12,978,205
	7,974,957	**14,913,128**

The item **Current accounts in Portugal** refers to seven accounts that the bank has with three credit institutions in the country, and the item **Current accounts abroad** to eight accounts with four credit institutions abroad, with the following amounts deposited at each institution:

Euros

	2016	2015
Current accounts in Portugal		
In Euros		
Caixa Geral de Depósitos, S.A.	550,700	495,732
Millennium BCP, S.A.	3,681,233	1,215,947
Banco de Investimento Global, S.A. (BiG)	147,090	50,000
In Dollars		
Millennium BCP, S.A.	138,009	136,816
Banco de Investimento Global, S.A. (BiG)	94,477	-
In Sterling		
Millennium BCP, S.A.	627	36,428
	4,612,135	**1,934,923**
Current accounts abroad		
In Euros		
Commerzbank AG	-	2,555,814
DeutscheBank AG	88,582	498,975
Barclays Bank	550,377	-
Byblosbank BE	-	-
In Dollars		
Byblosbank BE	3,061	3,074
DeutscheBank US	1,689,620	9,920,342
Barclays Bank	121,417	-
In Sterling		
Barclays Bank	714,066	-
	3,167,122	**12,978,205**
	7,779,257	**14,913,128**

NOTE 18

Other financial assets at fair value through results

The item **Other financial assets at fair value through profit or loss** comprises exchange-traded funds (ETFs) issued by non-residents.

As described in the accounting policy referred to in Note 2.1.1, Other financial assets at fair value through profit or loss are stated at their market value, and the respective fair value recorded against profit or loss, as per Note 7.

NOTE 19

Financial assets available for sale

This item breaks down as follows:

Euros

	2016	2015
Portuguese public debt instruments	73,910,774	2,060,460
Unsubordinated debt instruments		
Issued by residents	5,785,626	4,186,105
Issued by non-residents	23,156,935	3,028,046
Subordinated debt instruments		
Issued by non-residents	2,215,120	1,213,131
Foreign public debt instruments	30,038,797	1,272,802
Capital instruments		
Issued by non-residents	-	10
Other available-for-sale financial assets		
Issued by non-residents	46,721,546	-
Employees' Compensation Fund	16,346	7,569
Impairment	-	(129,062)
	181,845,144	**11,639,062**

In March 2015, the bank started to form its own investment portfolio, by acquiring bonds, which now present a total value of Euros 181,828,798 (2015: Euros 11,760,555). The bond portfolio includes eligible securities, with a value of Euros 73,910,774 (2015: Euros 2,060,460), some of which have been given as collateral in connection with settlements as a member of Target II.

The bank also owns units in the Employee Compensation Fund with a value of Euros 16,346 (2015: 7,569 euros). The units refer to the value of contributions to the individual capitalisation fund intended to guarantee payment of up to half of redundancy payments, as required by Article 12 of Law 70/2013, of 30 August.

As described in the accounting policy referred to in Note 2.1.2, available-for-sale financial assets are stated at their market value, and the respective fair value recorded against fair value reserves, as per Note 33.

NOTE 20

Investments at credit institutions

This item breaks down as follows:

	2016	2015
		Euros
Investments in credit institutions in Euros		
Millennium BCP, S.A.	3,341,911	341,911
Banco de Investimento Global, S.A. (BiG)	7,700,000	3,450,000
Interest receivable	15,055	8,169
Investments in credit institutions in Dollars		
Millennium BCP, S.A.	-	13,777,900
Caixa Geral de Depósitos, S.A.	-	15,155,690
CommerzBank AG	-	1,837,053
Banco Finantia, S.A.	-	2,755,580
Novo Banco, S.A.	-	4,822,265
Interest receivable	-	25,292
Head office and branches of the institution itself		
BNI – Banco de Negócios Internacional, S.A.	-	6,000,000
Interest receivable	-	16,067
	11,056,966	48,189,928
	0	0
	2016	2015
	Euros	Euros
Up to 3 months	7,705,616	41,586,191
3 months to 1 year	3,351,351	6,603,737
	11,056,966	**48,189,928**

This item breaks down by maturities as follows:

	2016	2015
		Euros
Up to 3 months	7,705,616	41,586,191
3 months to 1 year	3,351,351	6,603,737
	11,056,966	**48,189,928**

The item **Investments in credit institutions**, totalling Euros 11,056,966 (2015: Euros 48,189,928) decreased significantly due to a lower level of funding by credit institutions, as a result of investment in financial instruments and discontinuation of the overdraft facility for Banco de Negócios Internacional, S.A. (Euros 5,000,000).

A deposit of Euros 141,911 has been made with Millennium BCP, S.A., as collateral for a bank guarantee of the same amount issued in the bank's favour.

Two other term deposits have been made with Millennium BCP, S.A., with a value of Euros 200,000 and Euros 3,000,000, which have been pledged to secure liabilities accepted by the bank to Millennium BCP, S.A., relating to the means of payment service.

NOTE 21

Loans to customers

This item breaks down as follows:

Euros

	2016	2015
Loans falling due:		
Internal		
Corporate		
Loan Accounts	712,055	701,634
Overdrafts on current accounts	3	36
Current account lending	728,113	-
Personal Clients		
Other loans	44,304	69,865
External		
Corporate		
Loan Accounts	3,439,704	1,101,083
Personal Clients		
Current account lending	37	-
	4,924,215	**1,872,619**
Interest receivable	19,081	-
Commissions at amortised cost	(638)	(107,401)
Overdue credit:	167,432	-
	167,432	-
Credit impairment and provisions		
Internal	(6,212)	-
External	(29,631)	(31,458)
	(35,844)	**(31,458)**
	5,074,246	**1,733,760**

The account Loans to customers breaks down as follows in terms of maturity of operations:

Euros

	2016	2015
Up to 3 months	4,519,384	36
3 months to 1 year	37	962,224
1 to 5 years	554,826	208,432
More than 5 years	-	563,067
	5,074,246	**1,733,760**

Breakdown of Loans to customers by type of security:

Euros

	2016	2015
Loans falling due:		
Loans secured by collateral	728,113	962,224
Loans secured by personal guarantees	756,359	771,499
Loans otherwise secured	-	-
Unsecured loans	3,439,581	36
	4,924,052	**1,733,760**
Overdue credit:		
Loans secured by collateral	-	-
Loans secured by personal guarantees	-	-
Loans otherwise secured	-	-
Unsecured loans	150,832	-
	150,832	**-**
	5,074,884	**1,733,760**

Exposure to gross lending falling due and due breaks down as follows by value of loan:

Euros

	2016	2015
Loans falling due:		
Less than or equal to 50 000	3,064,164	36
50 000 to 250 000	344,930	208,432
250 000 to 500 000	787,008	-
500 000 to 1 000 000	728,113	563,067
More than 1 000 000	-	1,101,083
	4,924,215	**1,872,619**
Overdue credit:		
Less than or equal to 50 000	167,432	-
50 000 to 250 000	-	-
250 000 to 500 000	-	-
500 000 to 1 000 000	-	-
More than 1 000 000	-	-
	5,091,647	**1,872,619**

Breakdown of Loans to customers by type of rate:

Euros

	2016	2015
Loans to customers:		
Fixed rate	5,074,246	1,733,760
Variable rate		-
	5,074,246	**1,733,760**

NOTE 22

Investments held to maturity

This item breaks down as follows:

Euros

	2016	2015
Short term debt instruments issued by residents	14,650,907	2,200,000
Portuguese public debt instruments	2,004,651	-
Debt instruments: other non-resident public issuers	5,010,096	-
Unsubordinated debt instruments	38,371,560	-
of which interest:	351,654	2,263
	60,388,868	**2,202,263**

The bank started to form its own investment portfolio in March 2015, having defined and implemented a strategy designed to maximise yields on its short term liquid funds in Euros and Dollars. To this end the bank acquired deposit certificates and commercial paper from Portuguese issuers.

NOTE 23

Other tangible assets

This item breaks down as follows:

		Euros
	2016	**2015**
Acquisition value:		
Real estate:		
Works in rented properties	529,133	529,133
Equipment:		
Furniture and materials	163,992	147,801
Machinery and tools	16,598	13,378
IT equipment	26,174	26,174
Interior fittings	4,833	4,833
Safety equipment	50,526	50,526
Other equipment	2,874	2,874
	794,130	**774,719**
Accrued depreciation:		
Current period	(116,651)	(100,402)
Prior periods	(318,837)	(218,434)
	(435,487)	**(318,837)**
	358,643	**455,883**

Movements in Tangible assets, during 2016, are as follows:

Euros

	BALANCE AT 1 JANUARY	ACQUISITIONS/ ALLOCATIONS	TRANSFERS	DISPOSALS/ WRITE-OFFS	BALANCE AT 31 DECEMBER
Acquisition value:					
Real estate:					
Works in rented properties	529,133				529,133
Equipment:					
Furniture and materials	147,801	16,191			163,992
Machinery and tools	13,378	3,220			16,598
IT equipment	26,174				26,174
Interior fittings	4,833				4,833
Safety equipment	50,526				50,526
Other equipment	2,874				2,874
	774,719	**19,411**	**-**	**-**	**794,130**
Accrued depreciation:					
Real estate:					
Works in rented properties	209,475	82,216			291,691
Equipment:					
Furniture and materials	60,151	20,097			80,248
Machinery and tools	6,458	2,578			9,035
IT equipment	18,703	3,614			22,317
Interior fittings	683	822			1,505
Safety equipment	22,086	6,902			28,988
Other equipment	1,281	423			1,704
	318,837	**116,651**	**-**	**-**	**435,487**
	455,883	**(97,240)**	**-**	**-**	**358,643**

Movements in Tangible assets, during 2015, are as follows:

Euros

	BALANCE AT 1 JANUARY 2015	ACQUISITIONS/ ALLOCATIONS	TRANSFERS	DISPOSALS/ WRITE-OFFS	BALANCE AT 31 DECEMBER 2015
Acquisition value:					
Real estate:					
Works in rented properties	529,133	-	-	-	529,133
Equipment:					
Furniture and materials	145,313	2,488	-	-	147,801
Machinery and tools	12,764	614	-	-	13,378
IT equipment	25,230	944	-	-	26,174
Interior fittings	3,140	1,693	-	-	4,833
Safety equipment	50,526	-	-	-	50,526
Other equipment	2,625	249	-	-	2,874
	768,731	**5,988**	**-**	**-**	**774,719**
Accrued depreciation:					
Real estate:					
Works in rented properties	143,334	66,141	-	-	209,475
Equipment:					
Furniture and materials	40,988	19,163	-	-	60,151
Machinery and tools	4,062	2,396	-	-	6,458
IT equipment	13,824	4,879	-	-	18,703
Interior fittings	152	531	-	-	683
Safety equipment	15,183	6,903	-	-	22,086
Other equipment	891	390	-	-	1,281
	218,434	**100,403**	**-**	**-**	**318,837**
	550,297	**(94,414)**	**-**	**-**	**455,883**

NOTE 24

Other intangible assets

This item breaks down as follows:

Euros

	2016	2015
Intangible assets:		
Software in use	2,968,901	1,946,058
Software in development	1,469,324	613,861
	4,438,226	**2,559,920**
Accrued depreciation:		
Current period	(437,439)	(187,421)
Prior periods	(208,261)	(20,840)
	(645,700)	**(208,261)**
	3,792,526	**2,351,659**

In the course of 2014, the bank's board of directors resolved to substitute the business support software, and this process culminated in acquisition of a new core application (PFS Platform, from Exictos).

Given that, for example, the implementation processes for the new core software, for means of payment, homebanking, online lending, credit cards and mortgage lending, were planned to take place in stages, the amounts recorded in the financial statements express the investment already made and in use or still being developed.

Total intangible assets therefore break down as follows:

Euros

	2016	2015
Intangible assets:		
Software in use	**2,968,901**	**1,946,058**
Oracle	34,510	34,510
Exictos	2,060,097	1,505,230
Others (Lmsis, Mainroad, Microsoft)	33,323	32,242
Wolters	39,500	39,500
Saving Global	51,141	-
Homebanking	386,972	-
Means of Payment	363,358	334,576
Software in development	**1,469,325**	**613,862**
Oracle	-	147,341
Exictos	4,132	167,618
Means of Payment	150,952	126,163
Homebanking	35,656	167,007
Saving Global	-	5,733
AML Software	266,531	-
Cards	291,916	-
Online Credit	453,758	-
Mortgage Loans	230,070	-
Lendico	5,466	-
Edebex	5,704	-
Raisin Austria	10,014	-
Savedo Holanda	15,126	-
	4,438,226	**2,559,920**

The bank has stated the intangible asset relating to the core software as in use as it becomes available for the bank's operations, and as in progress in respect of the implementation project under way. In this context, there are also investments to be recognised in future, amounting to approximately Euros 1,469,325 (2015: Euros 613,862), of which Euros 4,132 correspond to implementation of a module in the Exictos core software, Euros 266,531 to the ALM Solution project, Euros 230,070 to the Mortgage Lending project, Euros 150,952 to the Means of Payment project and Euros 453,758 to the Online Lending project.

As stated in Note 10, the projects have demanded significant internal efforts for support implementation, and this task has fallen primarily to internal manpower, without whom the projects could not have been implemented, and have prepared the way for generating future economic benefits. Accordingly, as required by IAS 38, the sum of Euros 687,034 was capitalised in 2016 (2015: 316,940 euros).

Movements in Intangible assets, during 2016, are as follows:

Euros

	BALANCE AT 1 JANUARY	ACQUISITIONS/ ALLOCATIONS	TRANSFERS	DISPOSALS/ WRITE-OFFS	BALANCE AT 31 DECEMBER 2016
Acquisition value:					
Software					
In use	1,946,058	1,081	1,021,762	-	2,968,901
Under way	613,862	2,115,015	(1,021,762)	(237,791)	1,469,324
	2,559,920	**2,116,097**	**-**	**(237,791)**	**4,438,226**
Accrued depreciation:					
Software in use	208,261	437,439	-	-	645,700
	2,351,659	**1,678,658**	**-**	**(237,791)**	**3,792,526**

Movements in Intangible assets, during 2015, are as follows:

Euros

	BALANCE AT 1 JANUARY	ACQUISITIONS/ ALLOCATIONS	TRANSFERS	DISPOSALS/ WRITE-OFFS	BALANCE AT 31 DECEMBER 2015
Acquisition value:					
Software					
In use	1,148,065	944,109	(146,116)	-	1,946,058
In development	377,595	143,234	146,116	(53,083)	613,862
	1,525,660	**1,087,343**	**-**	**(53,083)**	**2,559,920**
Accrued depreciation:					
Software in use	38,884	187,421	-	(18,044)	208,261
	1,486,776	**899,922**	**-**	**(35,039)**	**2,351,659**

NOTE 25

Current tax assets and liabilities

Current tax assets and liabilities break down as follows:

Euros

	2016	2015
Income tax stated in balance sheet		
Assets	7,847	5,327
Liabilities	91,422	47,430
Current tax stated in results	(91,422)	(47,148)

Current taxes, recorded under assets, with a value of Euros 7,847 (2015: Euros 5,327) refer to special payments on account. The payments made in 2016, 2015 and 2014, with a value of Euros 1,260, Euros 1,677 and Euros 1,650, respectively, are deductible from the tax payable in the respective tax year, any remainder being deductible in subsequent periods, up to the 6th financial year thereafter. Any amount which cannot be deducted (after the six financial years), due to the absence of sufficient tax payable, may be received as a rebate, on the bank's request, by making the relevant application.

The payments referring to 2013 and 2012, totalling Euros 2,000, are deductible from tax payable in the 4 financial years subsequent to payment. Any remaining portion which cannot be deducted due to the absence of sufficient tax payable, is repayable on application from the company, provided the requirements established in Article 93.3 of the Corporation Tax Code (CIRC) are met.

During 2016, the tax burden paid, including payments on account, withholding taxes and additional payments, totalled Euros 47,751 (2015: 36,049 euros). The provision for tax on profits was calculated in accordance with the taxation rules in force at the balance sheet date.

The difference between the tax burden assessed and the tax burden paid breaks down as follows:

Euros

	2016	2015
Tax burden assessed (allocations)	(91,422)	(47,148)
Tax burden paid	47,751	36,049
Difference:		
Receivable	7,847	5,327
Payable	91,422	47,430

NOTE 26

Deferred tax assets and liabilities

The **Deferred tax Assets and Liabilities** recognised in the balance sheet break down as follows:

Euros

	2016		2015	
	ASSETS	**LIABILITIES**	**ASSETS**	**LIABILITIES**
By temporary differences resulting from valuation at fair value	424,913	-	85,795	-
Tax losses	2,090,591	-	1,504,576	-
	2,515,504	**-**	**1,590,371**	**-**
Net deferred taxes	**2,515,504**	**-**	**1,590,371**	**-**

Deferred tax assets relating to tax losses carried forward and tax credits are recognised when there is a reasonable expectation of future taxable profits. Uncertainty about the recoverability of tax losses carried forward and tax credits is considered when determining deferred tax assets.

Deferred tax assets and liabilities are stated at their net value whenever under the applicable legislation the bank is able to set off current tax assets against current tax liabilities and whenever the deferred taxes relate to the same tax.

The bank calculated deferred tax on tax losses carried forward on the basis of a nominal corporation tax (IRC) rate of 21%, in accordance with Law 82-B/2014, of 31 December (2015 State Budget Law).

Movements in deferred taxes break down as follows:

Euros

	2016	2015
Balance at 1 January	1,590,371	-
Recognised in results	586,015	1,504,576
Recognised in reserves	339,118	85,795
Balance at 31 December	**2,515,504**	**1,590,371**

Deferred tax assets relating to tax losses carried forward break down as follows by year of expiry:

YEAR GENERATED	YEAR OF EXPIRY	FISCAL LOSS	ESTIMATED FISCAL LOSS FOR RECOVERY		DEFERRED TAX ASSET	REMARKS
2013	2018	2,123,833	2,123,833	100%	446,005	Estimate for recovery in 2018
2014	2026	2,826,912	2,826,912	100%	593,652	Estimate for recovery after 2026
2015	2027	2,440,823	2,440,823	100%	512,573	Estimate for recovery after 2027
2016	2021	2,563,627	2,563,627	100%	538,362	Estimate for recovery after 2028
		9,955,195	**9,955,195**		**2,090,591**	

As stated in Note 2.9, on the basis of the requirements of International Accounting Standard 12, deferred tax assets were recognised on the basis of the bank's expectations as to their recoverability.

The assessment of the recoverability of deferred tax assets was based on the business plan for 2017-2021, although the tax losses generated in 2014, 2015 and 2016 may be used over a period of 12 years (2026, 2027 and 2028, respectively).

The expectation of generating future taxable income is supported fundamentally by the following assumptions:

- Growth in the bank's balance sheet in 2017 and subsequent periods;
- Issue of subordinated debt in June 2017, with a value of 12.5 million dollars, to be subscribed in full by the shareholder or a related entity;
- Increase in customer lending, both directly (through the launch of new products), and indirectly (through online lending platforms):
- Diversification of funding sources and the consequent reduction in the bank's funding costs;
- Increased yields on assets through investment in assets with longer maturities.

NOTE 27

Other assets

This item breaks down as follows:

Euros

	2016	2015
Public administrative sector	379,803	67,515
Other accounts receivable	77,173	28,079
Deferred expenses	522,568	97,356
Other interest and similar income	-	134,882
Other accounts receivable	79,449	56,495
Other operations for settlement	993,204	250,116
	2,052,197	**634,443**
Impairment from Other Assets	-	-
	2,052,197	**634,443**

The item **Public administrative sector**, totalling Euros 379,803 (2015: Euros 67,515), refers to VAT recoverable.

The item **Other accounts receivable**, totalling Euros 77,173 (2015: Euros 28,079), corresponds to invoices issued in relation to the reinvoicing of expenses incurred on behalf of third parties, including expenses relating to vehicles and respective insurance.

The item **Deferred expenses** is made up principally of the sum of Euros 69,681 (2015: Euros 43,966) relating to the costs of software licenses and related operational maintenance and Euros 38,553 (2015: Euros 20,107) relating to health insurance costs and Euros 13,952 (2015: Euros 12,432) relating to office rental costs.

The item **Other accounts receivable**, totalling Euros 79,449 (2015: Euros 56,495), corresponds to the commitment fee on overdraft facilities and documentary credits, totalling Euros 58,099 (2015: Euros 42,612) and management fees on lending operations totalling Euros 21,350 (2015: 13,883 euros).

The item **Other operations for settlement** includes the amount of 464,426 Euros (2015: Euros 248,519) relating to the provision of funds for the BNI Suppliers payment account, the sum of Euros 256,143 (2015: Euros 0) relating to the deposit of the Mastercard collateral, the sum of Euros 62,414 (2015: Euros 49,964), relating to advances to suppliers and personnel, the sum of Euros 82 100 (2015: Euros 112,380) relating to amounts invoiced pending future recognition related to capitalisation projects (note 24), and also includes the sum of Euros 54,020 relating mostly to SEPA transfers settled during the days after the close of the period (2015: 87,684 euros).

NOTE 28

Resources at other credit institutions

This item breaks down as follows:

Euros

	2016	2015
Deposits by credit institutions abroad		
Deposits	71,233,156	37,050,530
Loans	-	28,201,999
Interest payable	27,357	26,728
	71,260,513	**65,279,257**

The account for **Deposits** includes liquid funds in sight accounts of Euros 25,604,134 (2015: Euros 23,020,945) and funds in term deposits totalling Euros 43,100,044 (2015: Euros 12,029,584) held by Banco de Negócios Internacional, S.A.

Deposits by credit institutions break down as follows by maturity:

Euros

	2016	2015
Sight	25,633,112	23,020,945
Up to 3 months	28,609,307	17,419,417
3 months to 6 months	12,947,198	4,825,720
6 months to 9 months	919,365	14,127,610
9 months to 12 months	3,151,531	5,885,565
	71,260,513	**65,279,257**

NOTE 29

Resources from customers and other loans

This item breaks down as follows:

Euros

	2016	2015
Deposits		
Current accounts		
Residents	4,280,158	887,424
Non-residents	1,549,776	1,884,614
	5,829,934	**2,772,038**
Term deposits		
Residents	41,475,462	2,171,886
Non-residents	212,725,788	-
	254,201,250	**2,171,886**
Interest payable	2,203,159	11,772
	262,234,343	**4,955,696**

Deposits break down by maturities as follows:

Euros

	2016	2015
Sight	5,948,030	2,772,038
Up to 3 months	3,655,670	280,221
3 months to 1 year	8,678,749	1,382,109
More than 1 year	243,951,893	521,327
	262,234,343	**4,955,696**

NOTE 30

Provisions

This item breaks down as follows:

Euros

	2016	2015
Impairment	1,903	2,590
Provisions for other risks and charges	25,000	25,000
Total	**26,903**	**27,590**

Movements in Impairments for general lending risks break down as follows:

Euros

	2016	2015
Balance at 1 January	2,590	-
Allocations	1,903	2,590
Reversions	(2,590)	-
Balance at 31 December	**1,903**	**2,590**

The provision for general lending risks was constituted under Notice no. 3/95 of 30 June, no. 2/99 of 15 January, no. 8/03 of 8 February and Instruction no. 27/2000 of 15 December of Banco de Portugal, in keeping with the accounting policy described in Note 2.10.

Movements in the account Provision for other risks and charges break down as follows:

Euros

	2016	2015
Balance at 1 January	25,000	-
Allocations	-	25,000
Reversions	-	-
Balance at 31 December	**25,000**	**25,000**

NOTE 31

Other liabilities

This item breaks down as follows:

Euros

	2016	2015
Public administrative sector	129,386	81,171
Suppliers	296,026	162,950
Other accounts payable	1,011	-
Charges payable for holidays and holiday allowances	364,018	251,715
Other personnel costs	10,662	5,190
Other costs payable	537,272	417,902
Other operations for settlement	1,865,692	3,300
	3,204,065	**922,228**

The item **Public administrative sector**, totalling Euros 129,386 (2015: 81,171), includes the sum of Euros 53,964 (2015: Euros 42,330) relating to tax withheld from employees' salaries, as well as the sum of Euros 57,784

(2015: Euros 38,977) relating to mandatory contributions to Social Security and Redundancy Funds, the sum of 9,653 (2015: 0) relating to withholding taxes on investment income and the sum of Euros 7,984 (2015: Euros 137) relating to the withholding of stamp duty.

The item **Other accounts payable** includes the amount of 537,272 Euros (2015: Euros 417,902) relating to investment not yet invoiced relating to implementation of the new core software. This item also includes miscellaneous expenses not yet invoiced, in particular relating to software maintenance (21,603), accounting services (Euros 17,298), consultancy (Euros 48,162), audit services (Euros 16,836) and communications (Euros 7,500), as well as other smaller amounts.

The item **Other operations for settlement** amounts to a total of 1,865,692 Euros (2015: Euros 3,300), which is essentially explained by operations relating to the purchase of securities.

NOTE 32

Capital

At 31 December 2016 the share capital stood at Euros 34,250,000 (2015: Euros 34,250,000), represented by 6,850,000 shares with a nominal value of 5 Euros, fully subscribed and paid up in cash.

	2016		2015	
	Euros	%	Euros	Euros / %
BNI – Banco de Negócios Internacional, S.A.	31,848,500	92.988%	31,848,500	92.988%
José Jaime Agostinho de Sousa Freitas	1,200,000	3.504%	1,200,000	3.504%
Elizabeth da Graça Isidoro	1,200,000	3.504%	1,200,000	3.504%
Nuno Fernando Teixeira Ferreira da Silva	1,500	0.004%	1,500	0.004%
	34,250,000	**100%**	**34,250,000**	**100%**

The bank's share capital is majority owned by Banco de Negócios Internacional, S.A., with a total of 6,369,700 shares corresponding to 92.988%, and the remaining capital is held by José Jaime Agostinho de Sousa Freitas and Elizabeth da Graça Isidoro, each with 240,000 shares and 3.504% of the capital and Nuno Fernando Teixeira Ferreira da Silva with 300 shares, representing 0.004%.

BNI sent a formal letter to BdP (dated 7 Dec 16) stating its intention to dispose of its entire holding in Banco BNI Europa, explaining that the disposal was planned to be made as part of a split or split-merger, the exact details of which had yet to be decided. This split-merger operation is under way: the Angolan holding company has been incorporated, the agreement to sell has been concluded and Banco BNI Europa has been valued.

NOTE 33

Revaluation reserves

This item includes the sum of Euros 1,463,589 (2015: Euros 295,516), resulting from valuation at fair value of securities (bonds) acquired and recorded under available-for-sale assets (as per Note 2.1.2 and Note 19) including the corresponding deferred tax.

NOTE 34

Reserves and retained earnings

This item breaks down as follows:

Euros

	2016	2015
Legal reserve	-	-
Other reserves and retained earnings	(5,592,328)	(4,100,473)
	(5,592,328)	**(4,100,473)**

The bank has not constituted any Legal reserve because it has yet to record any positive net income. The legal reserve can only be used to cover accrued losses or to increase the capital. The Portuguese legislation applicable to the financial sector requires that no less than 10% of net annual profits be allocated to the legal reserve, until it reaches the value of the share capital or the sum of the free reserves constituted and retained earnings, if higher.

In 2016 the item Other reserves and retained earnings stood at Euros -5,592,328 (Dec15: -4,100,473 euros). This amount is explained by the negative results approved in prior periods, totalling Euros -11,650,325, less coverage of losses by Banco de Negócios Internacional S.A., in 2012 and 2014, totalling Euros 6,057,997.

NOTE 35

Risk Management

The bank is exposed to the following main risks in carrying on its business:

Credit

Management of credit risk involves systematic monitoring of the life cycle of operations carried out, i.e. identifying, measuring and monitoring them through to full settlement. The bank assesses its exposures accepted on a case-by-case basis, identifying the real and potential risks, seeking to ensure yields in line with the respective counterparty and operational risks.

At the reference date, the bank had no internal risk rating models, for either personal or business customers, due to the absence of any historical records which would allow it to develop such a model. Nonetheless, operations are analysed on the basis of all the factors essential for taking a decision and supported by external ratings, if any, issued by a recognised ECAI. The loans portfolio is monitored systematically by monitoring the financial capacity of customers to service their debt, their deposits with the bank and by checking that their obligations are promptly discharged.

The bank does not record property as collateral for lending. This means it is not subject to devaluation of collateral, or to reduction in the corresponding level of hedging of its operations.

At the reference date, the bank recorded in the Balance sheet 0.84% of its customer loans portfolio as at-risk lending operations: these consist of credit represented by securities, in particular invoices acquired at a discount. As regards the customer loans portfolio component consisting of loans to customers, the bank has not recorded any operation which is overdue or irregular, or which points to potential default.

The value of loans to customers is still quite low, and represents 12.4% of net assets. In addition to the exposure stated on the Balance Sheet, an additional amount should be considered due to the existence of unused irrevocable credit facilities or documentary credits. At the reference date, these commitments accepted by the bank presented a value of 2,167,000 euros, and are 90% collateralised.

The counterparty risk resulting from transactions in the financial markets, in particular the purchase and sale of securities for the bank's own portfolio, is assessed on a systematic basis and in keeping with the investment limits set by the bank, both individually, and for the portfolio as a whole.

The accounting portfolio of available-for-sale assets is measured at fair value against reserves. Recognition may take place on the trade date or on the effective date on which the instrument is transferred (IAS 39 AG64). The financial margin must be recognised using the effective interest method (IAS39 AG5-AG8 and AG83).

As a result, net interest income is not determined only by the accrued coupons, but also through recognition of the associated premium/discount, plus the respective transaction costs (IAS39 AG13). Transaction costs are deemed to be all the costs needed to acquire the financial instrument.

The portfolio of held-to-maturity investment comprises instruments with fixed or pre-determined payment which the bank intends to hold through to the maturity; it is necessary to be able to demonstrate, at any moment, that it has the capacity to maintain the position through to maturity. In the event of the bank selling a held-to-maturity instrument and it not falling under the provisions of IAS 39, in the exceptions provided for (IAS 39 AG22), it is required to reclassify the entire portfolio as available for sale, and is barred from classifying instruments in this category for two years. The portfolio is stated at amortised cost, using the effective interest method (IAS39 AG5-AG8 and AG83).

In view of the balance sheet structure at 31 December 2016, the credit risk is limited to the main financial counterparties with which the bank deals, and the risk is monitored on the basis of the information available in the main market information media. Available-for-sale and held-to-maturity financial assets account for respectively 50% and 17% of net assets.

Market

Market risk reflects the potential loss which can be recorded by a given portfolio as a result of unfavourable movements in the market price of instruments in the trading portfolio, caused by fluctuations in the prices of shares and commodities, in interest rates and exchange rates.

At the reference date of this report, the bank had no portfolio of held-for-trading financial assets.

Foreign Exchange

Foreign exchange risk consists of the probability of the occurrence of negative impacts on income or capital, due to adverse movements in exchange rates.

At 31 December 2016, the bank's exposure to this risk was essentially associated with the exchange rate exposure presented below; this risk is monitored on a daily basis and is hedged as a question of internal policy.

	CURRENCY			
	EUR	USD	GBP	TOTAL
Assets				
Cash and cash equivalents in central banks	80,081,883	20,321	-	80,102,203
Cash on hand at other credit institutions	5,017,982	2,046,583	714,692	7,779,257
Financial assets available for sale	160,111,443	21,733,701	-	181,845,144
Investments at credit institutions	11,056,966	-	-	11,056,966
Loans to customers	2,467,098	291,736	2,315,412	5,074,246
Investments held to maturity	60,388,868	-	-	60,388,868
Total assets	**319,124,241**	**24,092,341**	**3,030,104**	**346,246,686**
Liabilities				
Resources at other credit institutions	48,998,645	22,225,352	36,517	71,260,513
Resources from customers and other loans	261,840,934	393,409	-	262,234,343
Total liabilities	**310,839,578**	**22,618,761**	**36,517**	**333,494,856**
GAP (Assets - Liabilities)	**8,284,662**	**1,473,580**	**2,993,587**	**12,751,831**

Liquidity

The bank's liquidity management policy is set at the highest level of the management structure. The Balance Sheet funding structure is based on systematic assessment of assets and liabilities, the respective maturities and also optimisation of funding costs. At 31 December 2016 and 2015, cash flow forecasts for financial instruments broke down as follows, in relation to contractual maturity.

Euros

	SIGHT	UP TO 3 MONTHS	FROM 3 TO 12 MONTHS	1 TO 5 YEARS	MORE THAN 5 YEARS	TOTAL
Assets						
Cash and cash equivalents in central banks	80,102,203	-	-	-	-	80,102,203
Cash on hand at other credit institutions	7,779,257	-	-	-	-	7,779,257
Financial assets available for sale	16,346	32,826,034	8,644,828	89,551,385	50,806,551	181,845,144
Investments at credit institutions	-	7,715,055	3,341,911	-	-	11,056,966
Loans to customers	-	5,030,385	43,861	-	-	5,074,246
Investments held to maturity	-	10,217,770	7,479,256	37,847,799	4,844,044	60,388,868
Total assets	**87,897,807**	**55,789,245**	**19,509,855**	**127,399,184**	**55,650,595**	**346,246,686**
Liabilities						
Resources at other credit institutions	25,633,112	36,613,947	9,013,455	-	-	71,260,513
Resources from customers and other loans	5,845,485	13,791,540	116,092,315	126,505,004	-	262,234,343
Total liabilities	**31,478,596**	**50,405,487**	**125,105,770**	**126,505,004**	**-**	**333,494,856**
GAP (Assets - Liabilities)	**56,419,211**	**5,383,759**	**(105,595,914)**	**894,180**	**55,650,595**	**12,751,829**

Interest rate

At 31 December 2016 and 2015, financial instruments sensitive to interest rate risk exposure broke down as follows:

Euros

	NON-SENSITIVE	UP TO 3 MONTHS	3 MONTHS TO 1 YEAR	TOTAL
Assets				
Cash and cash equivalents in central banks	80,102,203	-	-	80,102,203
Cash on hand at other credit institutions	7,779,257	-	-	7,779,257
Financial assets available for sale	-	-	-	-
Investments at credit institutions	11,056,966	-	-	11,056,966
Loans to customers	5,074,246	-	-	5,074,246
Investments held to maturity	60,388,868	-	-	60,388,868
Total assets	**164,401,542**	**-**	**-**	**164,401,542**
Liabilities				
Resources at other credit institutions	71,260,513	-	-	71,260,513
Resources from customers and other loans	262,234,343	-	-	262,234,343
Total liabilities	**333,494,856**	**-**	**-**	**333,494,856**
GAP (Assets - Liabilities)	**(169,093,315)**	**-**	**-**	**(169,093,315)**

NOTE 36

Impairment of loans portfolio

Qualitative Disclosure

A - Credit risk management policy

The credit risk management process at BNI Europa follows the policies set out in this chapter. These also define the philosophy underlying the activities involved in this process.

Creating an appropriate credit risk management environment

- Define, review and periodically approve BNI Europa's credit risk management strategy and general policies;
- Implement the credit risk strategy and develop processes and procedures to identify, quantify, monitor and control this risk;
- Manage the credit risk involved in all products and business areas; and
- Ensure that all staff are able to perform the functions entrusted to them, in compliance with BNI Europa's ethical and professional principles.

Ensure adequate controls over credit risk management

- Establish an independent credit risk management system; and
- Ensure that the credit risk analysis function is being effectively managed.

Operate through clear credit granting processes

- Define criteria for approving credit risk, in a way which is clear for the entire organisation;
- Define and communicate clearly the processes and levels for approval/granting of new credit and changes to existing credit;
- Ensure that concentration in the loans portfolio matches the strategy defined by the Board of Directors; and
- Impose principles of independence and impartiality in granting and assigning credit to companies related to BNI Europa and members of staff.

Create and maintain an appropriate system of credit risk monitoring

- Ensure a continuous process of monitoring of the loans portfolio and check that provisions are made at adequate levels;
- Submit all Clients and all operations to a credit risk assessment based on credible information and forecasts; and
- Consider foreign market conditions and monitor trends in key economic indicators, such as unemployment rates, GDP and interest rates, in order to perceive the potential effects on the operations of BNI Europa and the extent to which they might limit its risk appetite, in order to optimise economic and financial performance.

Recover overdue credit effectively and swiftly

- The Internal Control and Risk Department is responsible for monitoring credit recovery; and
- Ensuring that recovery processes under way are monitored and that recovery procedures are differentiated by Client segment and type of product.

Ensure that operations comply with Portuguese law and regulations issued by Banco de Portugal

- Ensure that lending operations and internal rules comply with the law.

Powers to approve lending

- The bank has lending rules duly approved by the Board of Directors on 14 July 2014; and
- The Lending Handbook lays down the guiding principles for lending, through procedures and rules to be applied in each phase of the life

cycle of operations. This Handbook is published on the bank's intranet, and so is available to all staff in general, and in particular to all those dealing most closely with customers and lending operations.

The Lending Handbook addresses:

> Preparing a loan application (including the necessary documentation);
> Analysis of application and information needed to assess the risk of the client and the operations in question, identifying repayment capacity, so as to permit a decision on approval or rejection;
> Powers are delegated on the basis of a specific grid, designed on the basis of the lines of authority relevant and appropriate to the types of credit currently making up the bank's loans portfolio;
> Rules on credit monitoring and design of intervention plans; and
> Credit recovery procedures.

B - Loan write-off policy

A loan is written off from the assets when it is considered wholly irrecoverable and the impairment recorded covers 100% of the total value of the exposure, and when all the bank's contractual rights relating to the respective cash flows have expired. Before writing off the loans, it should be ensured that all collection efforts regarded as appropriate are made.

C - Impairment reversal policy

Reversal of credit impairment consists of reducing or cancelling, in a given reporting period, the impairment amounts recorded in previous periods. The amount resulting from reversal can be no greater than the accrued impairment amounts recorded previously, and the bank may reverse impairment amounts on the following terms:

- Payment, by the customer (without recourse to fresh credit from the bank) of overdue interest and/or principal;
- When specific provisions are reduced;
- Improvement in risk class corresponding to the quality table;
- When new collateral is obtained or existing collateral increases in value;
- Through accrual of the value of existing collateral securing the credit, provided the valuation made has been effected in the past year by an independent valuer (in the case of real estate property); and
- In the case of loans for property development projects, when the value of the project underlying the finance improves the LTV or when more favourable conversion factors are applied to guarantees for the project issued by the bank.

D - Conversion policy for outstanding principal from debtor (if applicable)

Not applicable

E - Description of restructuring measures applied and respective associated risks, together with procedures for controlling and monitoring these risks.

In the case of restructured credit, the bank follows the rules defined in Instruction no. 32/2013 of Banco de Portugal. In accordance with the regulator's instructions, the bank will identify and flag, in its IT systems, as soon as grounds for this occur, the credit agreements of a client which finds itself in financial difficulties, whenever changes are made to the terms and conditions of these contracts, resulting from the identification of "client financial difficulties".

The following are deemed changes to the contract:

a) Amendment of the respective contractual terms and conditions to the client's benefit, in order to boost his capacity to pay the existing debt, by extending the repayment period, introducing grace periods, capitalising interest, reducing interest rates (when not the result of a commercial strategy), pardoning interest or principal, adjusting interest payment and principal repayment periods and/or rescheduling debt servicing; and

b) Contracting from the bank of a new credit operation or new credit facilities, which benefit the client or person belonging to the same business group as the client, for (total or partial) settlement of the existing debt, sufficient evidence of which is considered to be the granting of new operations on a date close to that of settlement of the original debt; and in this case, both the new credit operation, and that which has been partially settled should be flagged as credit restructured due to the client's financial difficulties;

c) The new terms and conditions of the credit contract should be more favourable than those applied to other clients with the same risk profile.

The bank considers that a client is in a situation of financial difficulties when it has defaulted on some of its financial obligations contracted or if, in the light of the available facts and information, it is sufficiently foreseeable that this will happen in the very near future, defined for this purpose as a period of 3 months, in the light of the following evidence:

a) Default recorded in the Central Credit Register kept by Banco de Portugal in the previous 12 months;

b) Inclusion in the list of cheque users who represent a risk (LUR);

c) Use of revolving credit operations, in particular current accounts and overdrafts, with at least 95% of the limit originally authorised over a consecutive period of no less than 12 months, if this was not envisaged when originally contracted;

d) Increase of more than 30% in relation to the previous reporting period in the level of hedging through impairment or recognition of economic loss;

e) Transfer of assets in lieu of payment or total or partial pardon of debt (Principal or Interest);

f) Other qualitative factors such as the existence of debts to the tax and/or social security authorities, calling of bank guarantees, highly plausible expectations of insolvency, judicial proceedings and litigation with material impact, lack of accounting documents with reference dates in the past 18 months, default on contacts with the institution; and

g) On the basis of the knowledge obtained through management of the client relationship, other factors may be known to the bank which point to financial difficulties.

In addition, a credit operation should be flagged as credit restructured due to the client's financial difficulties whenever at least one of the following circumstances is found to occur on modification of the respective terms and conditions of the credit agreement:

a) The credit operation is classified as at risk or it is likely that it will be classified as an at-risk credit, if the terms and conditions of the credit agreement are not modified;

b) The client has a credit operation classified as at-risk-credit; and

c) The credit operation has been wholly or partially overdue by more than 30 days, at least once during the three months prior to modification of the terms and conditions of the credit agreement.

At the reference date, the bank has no credit operation flagged as restructured credit.

The bank will strengthen its IT systems so as to meet the requirements needed for identifying and monitoring restructured credits, including flagging and unflagging these credits. Given that there are not cases of this type and until the IT system has been fully implemented and tested, any monitoring required will be carried out in software parallel to the central system and subject to regular controls.

F - Description of valuation process and collateral management

Valuer Selection Policy

Whenever necessary, the bank uses the services of independent external valuers to obtain a valuation or revaluation of any collateral to be obtained. In view of the bank's size and the fact that its use of this type of services is expected to be very occasional, the bank does not organise a tendering procedure to select external property valuers.

However, the criteria for contracting services must ensure:

- That the valuer is independent;
- That the valuer is accredited by the Securities Market Commission (CMVM); and
- That the valuation methods used are prudent and appropriate for the state and type of the property to be valued.

As required by Circular 54/2014/DSC of Banco de Portugal, the bank makes the external valuation report on the property available to its clients, whenever the valuation costs are borne by these.

Frequency of revaluation

Collateral must be revalued at periods in accordance with rules set by the supervisor, in particular in keeping with the time limits and procedures determined in Notice 6/2006 of Banco de Portugal.

Property to be received as security for loans must be valued prior to acceptance (as a condition for granting the loan) and to recording the credit.

Mortgaged property must be revalued:

a) Whenever a substantial reduction may have occurred in the value of the property, according to credible information supported by due grounds, obtained by the bank; and

b) At least every three years for loans in excess of 5% of the bank's equity (under the regulations, the value to be considered should be the lower of 5% of Equity and € 1,000,000, in the cases of a mortgage for commercial purposes, or € 500,000 if the property is residential).

Recording of collateral

Considering that the Collateral Management Module in the bank's Core System is still at the development stage for subsequent implementation, the bank is in the process of preparing alternative control procedures designed to ensure that full relevant information exists concerning collateral which may be recorded as security for the bank.

Valuation of collateral

The following aspects should be taken into consideration in analysing the appropriacy of the collateral valuations:

Date of valuation

Whenever possible the bank must have recent valuations, in line with the periods/frequency established in Notice 6/2006 of Banco de Portugal.

It is the bank's policy to keep its valuations up to date and to value its collateral in accordance with these valuations, avoiding the applications of blanket haircuts.

In the case of property given as collateral, depending on the age of the valuation, its value must be adjusted in accordance with the Minimum Discounts and Benchmarks Tables contained in the bank's Impairment Handbook, which are in line with the recommendations contained in Circular 2/2014 of Banco de Portugal, as follows:

- In the case of listed securities, the value to be considered shall be the market value at the reference date of the financial year.
- For unlisted securities, the valuations considered must be made on the basis of the last audited accounts with a reference date no more than 1 year previous. In relation to other collateral (e.g. pledges of equipment, works of art, etc.), depending on how long ago the valuation was made and the particular features of the assets, discounts in line with their specific nature should be considered, subject to professional judgment.

G - Nature of the main judgments, estimates and hypotheses used in determining impairment.

The policies and procedures that the bank defined for the purpose of calculating impairment are conservative and appropriate to the loans portfolio. The policies, procedures and methodologies will evolve in line with macro-economic trends, the characteristics of the portfolio and in line with the risk policies adopted in keeping with the bank's strategy.

H - Description of impairment calculation methods, including how portfolios are segmented to reflect the different characteristics of credits

Under IAS 39, accounts receivable from non-significant clients may be included in homogeneous segments with similar credit risk characteristics, and may be assessed for the purposes of determining impairment using collective analysis models. The bank does not segment its loans portfolio because it does not contain, at this date or in the medium terms, a sufficient number of exposures to allow for modelling in homogeneous segments. For this reason, it is not possible to determine impairment on a collective basis, using statistical methods.

The development of a risk parameter assessment method (PD, LGD, PI or others), on the basis of the bank's own historical data, will be limited until there is a sufficient number of exposures and loss events recorded to obtain historical data series that make modelling possible. It should be noted that PD and LGD parameters used to calculated the Expected Loss, for credits represented by securities acquired at a discount, are calculated on the basis of historical data, but are supplied by the actual marketplace where these acquisitions occur. This is a peer-to-peer lending platform, for historical data for more than 5 years, which allows it to be used for this purpose.

This means that the bank assesses the impairment of all its clients on an individual basis and in accordance with the procedures described in the Impairment Handbook.

I - Indication of impairment signs by credit segments

In keeping with good practice, the bank is required to ensure that losses incurred are identified in due time and that the associated impairments are recognised in the accounts, adopting conservative impairment indicators, appropriate to each type of credit or client.

Banco BNI Europa has defined the following as evidence of impairment:

- Client with no less than 1 credit with a payment overdue by more than 30 days;
- Client with no less than 1 credit with a payment overdue by less than 30 days and who has:
  - Cheques returned and/or prohibited from using cheques, included in the LUR;
  - Expectation of insolvency or undergoing Special Recovery Programmes;
  - Overdue debts to the tax or social security authorities or attachment enforced by the State;
- Client with no less than 1 overdue credit (more than 90 days) in the banking system, principal and interest written off/cancelled or in litigation, according to information available in the Central Credit Register kept by Banco de Portugal, known at the reporting date.

J - Indication of thresholds set for individual analysis

The bank assesses all clients, irrespective of the exposure value on an individual basis.

K - Policy on grades of internal risk, specifying the treatment given to a borrower classed as defaulting

The bank still has no internal risk ratings, considering the absence of historical data which would allow for modelling. Whenever available, the bank uses the risk assessment offered by a recognised ECAI. To date, the bank has no experience of clients defaulting on operations, in the client loans portfolio comprising traditional lending.

L - General description of how the current value of future cash flows are calculated in determining impairment losses assessed individually and collectively

The bank has no collective impairment assessment model. In individual analyses, the assessment model follows the recommendations of Circular 2/2014, adopting the practices stipulated by the regulator and established in IAS 39, as per the Impairment Handbook approved by the Board of Directors.

M - Description of emergence periods used for different segments and rationale

Although the bank does not currently have a model for collective credit impairment analysis, it defines the emergence period as the period representing the time horizon between the event giving rise to the loss and the date when it becomes known, irrespective of whether it relates to evidence of impairment or to default.

N - Detailed description of the costs associated with the credit risk, including disclosure of the PD, EAD, LGD and cure rate

In line with the information provided in the section on Risk Management and Internal Control, we can report that Impairment calculated at the reference date stood at 35,800 euros. Below we present a breakdown of this figure by the Types of Lending making up the loans portfolio.

IMPAIRMENT BY TYPE OF LENDING

TYPE OF LENDING	IMPAIRMENT (M€)	MEAN PD (%)	MEAN LGD (%)
Lending not represented by securities	**6.2**	**N.A.**	**N.A.**
Dept. Client Banking	5.8	N.A.	N.A.
Dept. Online Banking	0.4	N.A.	N.A.
Lending represented by securities	**29.6**	**3.8**	**21.7**
Total	**35.8**		

Impairment associated with loan credits originated by the Client and Online Banking Department results exclusively from the application of an IBNR (Incurred But Not Reported) rate, and there was no overdue operation at the reference date.

With regard to credit represented by securities, the Impairment figure recorded results from application of the following PD and LGD parameters presented above.

O - Conclusions concerning sensitivity analyses of the value of impairment and changes in the main assumptions

The sensitivity analysis referred to above is not applicable to the loans component of the loans portfolio. In relation to the component of credits represented by securities, we can report that an increase of 20% in PD and LGD parameters has caused impairment to increase to 42,700 euros, representing a variation of 44%.

Quantitative Disclosure

At the reference date of 31 December 2016, the loans portfolio stood as follows:

Thousand euros

DETAILS OF LOANS PORTFOLIO	GROSS VALUE	FAIR VALUE OF COLLATERAL	IMPAIRMENT	NET	PROPORTION (OF NET VALUE)
Balance Sheet Exposure					
Loans to Customers (not represented by securities)	1,484.5	863.3	6.2	615.0	
Loans falling due	1,484.5	863.3	6.2	615.0	
Overdue Credit	-	-	-	-	
Interest accrued	-	-	-	-	
Subtotal	**1,484.5**	**863.3**	**6.2**	**615.0**	**16%**
Loans to Customers (represented by securities)	3,626.2	338.0	29.6	3,258.6	
Loans falling due	3,439.7	338.0	13.0	3,081.2	
Overdue Credit	167.4	-	16.6	153.7	
Interest accrued	19.1	-	-	23.7	
Subtotal	**3,626.2**	**338.0**	**29.6**	**3,258.6**	**84%**
Total	**5,110.7**	**1,201.3**	**35.8**	**3,873.6**	**100%**
Off-balance sheet exposure					
Guarantees provided	-	-	-	-	
Documentary credits	2,114.6	1,930.4	1.8	184.2	
Irrevocable credit facilities	52.7	21.9	0.1	30.8	
Subtotal	**2,167.2**	**1,952.3**	**1.9**	**215.0**	
Total	**2,167.2**	**1,952.3**	**1.9**	**215.0**	

Balance sheet lending is supported by financial collateral of 1,201,000 euros and off-balance sheet exposure is associated with financial collateral of 1,930,000 euros.

a) Breakdown of exposures and impairment constituted a1) By credit quality.

Thousand euros

	TOTAL EXPOSURE						TOTAL IMPAIRMENT		
SEGMENT	EXPOSURE TOTAL	PERFORMING LOANS	OF WHICH RECOVERED	OF WHICH RESTRUCTURED	NON-PERFORMING LOANS	OF WHICH RESTRUCTURED	IMPAIRMENT TOTAL	PERFORMING LOANS	NON-PERFORMING LOANS
Corporate	1,440.2	1,440.2	-	-	-	-	5.8	5.8	-
Construction and CRE	-	-	-	-	-	-	-	-	-
Residential	-	-	-	-	-	-	-	-	-
Personal Clients	44.3	44.3	-	-	-	-	0.4	0.4	-
Other	3,626.2	3,583.1	-	-	43.2	-	29.6	13.4	16.2
Total	**5,110.7**	**5,067.6**	**-**	**-**	**43.2**	**-**	**35.8**	**19.7**	**16.2**

a2) By days of default

Thousand euros

	TOTAL EXPOSURE						TOTAL IMPAIRMENT				
SEGMENT	EXPOSURE TOTAL	PERFORMING LOANS			NON-PERFORMING LOANS		IMPAIRMENT TOTAL	PERFORMING LOANS		NON-PERFORMING LOANS	
		Days overdue <30		Days overdue			Days overdue				
	31-12-2016	No signs	With signs	Between 30 and 90	<=90	>90	31-12-2016	<30	Between 30 and 90	<=90	>90
Corporate	1,440.2	1,440.2	-	-	-	-	5.8	5.8	-	-	-
Construction and CRE	-	-	-	-	-	-	-	-	-	-	-
Residential	-	-	-	-	-	-	-	-	-	-	-
Personal Clients	44.3	44.3	-		-	-	0.4	0.4	-	-	-
Other	3,626.2	3,583.1	-	132.6	-	43.2	29.6	13.0	0.4	-	16.2
Total	**5,110.7**	**5,067.6**	**-**	**132.6**	**-**	**43.2**	**35.8**	**19.2**	**0.4**	**-**	**16.2**

b) Breakdown of loans portfolio by segment and year of lending.

Thousand euros

	CORPORATE			PERSONAL			OTHERS		
YEAR OUTPUT	NUMBER OF OPERATIONS	AMOUNT	IMPAIRMENT CONSTITUTED	NUMBER OF OPERATIONS	AMOUNT	IMPAIRMENT CONSTITUTED	NUMBER OF OPERATIONS	AMOUNT	IMPAIRMENT CONSTITUTED
2014 and prior	-	-	-	-	-	-	-	-	-
2015	3	522.7	5.2	1	44.3	0.4	3	-	-
2016	3	917.4	0.5	1	0.0	0.0	513	3,626.2	29.6
Total	**6**	**1,440.2**	**5.8**	**2**	**44.3**	**0.4**	**516**	**3,626.2**	**29.6**

c) Breakdown of gross lending exposure and impairment assessed individually and collectively, by segment, sector and geographical region.

c1) By segment

Thousand euros

	CORPORATE		PERSONAL CLIENTS		OTHER	
VALUATION	EXPOSURE	IMPAIRMENT	AMOUNT	IMPAIRMENT	AMOUNT	IMPAIRMENT
Individual	1,440.2	5.8	44.3	0.4	3,626.2	29.6
Collective	-	-	-	-	-	-
Total	**1,440.2**	**5.8**	**44.3**	**0.4**	**3,626.2**	**29.6**

c2) By business sector.

Thousand euros

	SERVICES		CONSTRUCTION		OTHER		RETAIL	
VALUATION	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT	EXPOSURE	IMPAIRMENT
Individual	522.7	5.2	728.1	-	3,250.1	29.2	565.5	0.9
Collective	-	-	-	-	-	-	-	-
Total	**522.7**	**5.2**	**728.1**	**-**	**3,250.1**	**29.2**	**565.5**	**0.9**

Investments made by the bank relating to factoring are in fairly diverse business sectors, and are accordingly stated under "Other".

c3) By geographical region.

Thousand euros

	PORTUGAL		ANGOLA		BELGIUM		UNITED KINGDOM	
VALUATION	EXPOSURE	IMPAIRMENT	AMOUNT	IMPAIRMENT	AMOUNT	IMPAIRMENT	AMOUNT	IMPAIRMENT
Individual	567.1	5.7	917.4	0.5	565.5	0.9	3,250.1	29.2
Collective	-	-	-	-	-	-	-	-
Total	**567.1**	**5.7**	**917.4**	**0.5**	**565.5**	**0.9**	**3,250.1**	**29.2**

d) Breakdown of portfolio of restructure lending by restructuring measure applied

There were no restructured loans in the portfolio at 31 December 2015 and 2016.

e) Movements in restructured loans portfolio (in and out)

f) At 31 December 2015 and 2016 the portfolio contained no restructured loans. **Breakdown of fair value of collateral for loans portfolio in corporate, Construction, Commercial Real Estate (CRE) and Residential segments**

	CORPORATE				OTHER			
	PROPERTY		OTHER COLLATERAL		PROPERTY		OTHER COLLATERAL	
FAIR VALUE	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT
< 0,5M€	-	-	-	-	-	-	1	338.0
>= 0,5M€ and < 1 M€	-	-	2	863.3	-	-	-	-
>= 1M€ and < 5 M€	-	-	-	-	-	-	-	-
>= 5M€ and < 10 M€	-	-	-	-	-	-	-	-
>= 10M€ and < 20 M€	-	-	-	-	-	-	-	-
>= 20M€ and < 50 M€	-	-	-	-	-	-	-	-
> 50 M€	-	-	-	-	-	-	-	-
Total	**-**	**-**	**2**	**863.3**	**-**	**-**	**1**	**338.0**

g) LTV ratio for Corporate, Construction, CRE, Residential and Other segments

Not applicable

h) Breakdown of fair value and net book value of properties received in lieu of payment, by type of asset and by age

Not applicable

i) Breakdown of loans portfolio by internal risk rating

Not applicable

j) Disclose of risk parameters associated with impairment model by segment

Not applicable

k) The analysis by credit quality at 31 December 2016 is as follows:

	Invoice discounting	Lending to corporate clients	Lending to personal clients
Neither due nor impaired	3,246,772	1,440,171	44,341
Overdue but not impaired	360,363	-	-
Overdue by less than 30 days	192,931	-	-
Overdue between 30 days and 90 days	124,273	-	-
Overdue between 91 and 180 days	41,952	-	-
Overdue between 181 and 360 days	1,207	-	-

NOTE 37

Related party transactions

All transactions and operations carried out by the bank with related parties (controlled, controlling or group companies) are conducted on an arm's length basis and are part of the bank's normal operations.

At 31 December 2016 the list of related entities was as follows:

SHAREHOLDERS	
BNI - Banco de Negócios Internacional, S.A.	
José Jaime Agostinho de Sousa Freitas	
Elizabeth da Graça Isidoro	
Nuno Fernando Teixeira Ferreira da Silva	
CORPORATE BOARDS	
Pedro Nuno Munhão Pinto Coelho	Chairman of the Board of Directors and the Executive Committee
António Miguel Maurício Rola Costa	Member of the Board of Directors and the Executive Committee
Nuno Luís do Rosário Martins	Member of the Board of Directors and the Executive Committee
Carlos Alberto Rodrigues Firme	Member of the Board of Directors
Telmo Francisco Salvador Vieira	Chairman of the Fiscal Board
Rui Manuel Lopes Amendoeira	Member of the Fiscal Board
Isabel Paiva, Miguel Galvão & Associados SROC Lda.	Member of the Fiscal Board
PricewaterhouseCooper & Associados – Sociedade de Revisores Oficiais de Contas, Lda.	Sociedade de Revisores Oficiais de Contas
Pedro Miguel Patrício Raposo	Chairman of the General Meeting
Marta Guerreiro Pereira Rosa	Company
OTHER RELATED ENTITIES	
BPI- Banco Privado Internacional (IFI), SA	Financial Counterparty

At 31 December 2016 and 31 December 2016, the value of the bank's transactions with related parties, and the respective costs and income recognised in the periods, were as follows:

	2016					
	BALANCE SHEET		INCOME STATEMENT		RATES	
	ASSETS	LIABILITIES	COSTS	INCOME	MIN	MAX
	Euros				%	
BNI – Banco de Negócios Internacional, S.A.	53,349	68,704,178	190,715	398,255	0.10%	1.40%
	53,349	**68,704,178**	**190,715**	**398,255**	**0.10%**	**1.40%**

	2015			
	BALANCE SHEET		INCOME STATEMENT	
	ASSETS	LIABILITIES	COSTS	INCOME
	Euros			
BNI – Banco de Negócios Internacional, S.A.	6,000,000	52,230,209	63,875	321,236
Banco Privado Internacional (I.F.I.), S.A.	-	11,022,320	118,273	-
	6,000,000	**63,252,529**	**182,148**	**321,236**

The main transactions carried out in 2016 with related entities derived from the placement and deposit of funds for custody by Banco BNI Europa, and the corresponding remuneration, together with investments by BNI - Banco de Negócios Internacional, S.A. and the corresponding charges.

As stated in Note 31, during 2015 BNI – Banco Internacional de Negócios, S.A., the bank's majority shareholder, increased its share capital by Euros 9,250,000 so as to cover losses. In the course of 2016, there was no increase in capital by any shareholder.

NOTE 38

Fair value

At 31 December 2016 and 31 December 2015, the fair value of financial assets and liabilities stated on the Balance Sheet at amortised cost breaks down as follows:

Euros

	2016	
	BOOK VALUE	FAIR VALUE
Financial assets:		
Cash and cash equivalents in central banks	80,102,203	80,102,203
Balances at credit institutions	7,779,257	7,779,257
Investments at credit institutions	11,056,966	11,056,966
Loans to customers	5,074,246	5,074,246
Investments held to maturity	60,388,868	60,388,868
Financial liabilities:		
Resources at other credit institutions	71,260,513	71,260,513
Resources from customers and other loans	262,234,343	262,234,343

	2015	
	BOOK VALUE	FAIR VALUE
Financial assets:		
Cash and balances at central banks	15,886,249	15,886,249
Balances at credit institutions	14,913,128	14,913,128
Investments at credit institutions	48,189,928	48,189,928
Loans to customers	1,733,760	1,733,760
Investments held to maturity	2,202,263	2,202,263
Financial liabilities:		
Resources at other credit institutions	65,279,257	65,279,257
Resources from customers and other loans	4,955,696	4,955,696

The main methods and assumptions used in estimating the fair value of financial assets and liabilities stated on the balance sheet at amortised cost were as follows:

- **Cash and balances at central banks, Balances at credit institutions, Investments in credit institutions, Loans and advances to customers, Deposits by other credit institutions and Deposits by customers and other loans.**

  Considering the short terms associated with these financial instruments, the balance sheet value is a reasonable estimate of their fair value.

- **Financial assets held to maturity**

  These financial assets are stated in the accounts at amortised cost net of impairment. The fair value is based on market prices, whenever these are available. When none exist, calculation of fair value is based on the use of numerical models, using discounted cash flow methods which, in order to estimate the fair value, use market interest rate curves adjusted by factors associated predominantly with the credit risk and the liquidity risk, determined in accordance with market conditions and respective maturities.

NOTE 39

Encumbered assets and unencumbered assets

The bank does not have a policy of pledging its assets, although it may do so on a case-by-case basis, when approved by the Board of Directors.

In accordance with Instruction no. 28/2014 of Banco de Portugal, of 23 December, and in compliance with the EBA guidelines of 27 June 2014, entitled "Guidelines on disclosure of encumbered and unencumbered assets", the following information must be disclosed:

	2016			
	ENCUMBERED ASSETS		UNENCUMBERED ASSETS	
BANK'S ASSETS	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Assets of reporting institution				
Equity instruments	-	-	7,060,820	7,060,820
Debt instruments	1,618,588	1,618,588	240,615,425	240,615,425
Other assets	5,068,281	5,068,281	107,671,108	107,671,108
Total assets	**6,686,869**	**6,686,869**	**355,347,353**	**355,347,353**

	2015			
	ENCUMBERED ASSETS		UNENCUMBERED ASSETS	
BANK'S ASSETS	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Assets of reporting institution				
Equity instruments				
Debt instruments	2,060,460	2,060,460	13,968,124	13,968,124
Other assets	341,911	341,911	83,231,578	83,231,578
Total assets	**2,402,371**	**2,402,371**	**97,199,701**	**97,199,701**

The other encumbered assets relate to three deposits, one of them given as a counter-guarantee to the guarantee received by Banco Millennium BCP, S.A., and the others pledged to secure performance of liabilities accepted by the bank to Millennium BCP, S.A., associated with the means of payment service, as mentioned in Note 20.

NOTE 40

Financial assets and liabilities at fair value

The fair value of financial assets and liabilities is estimated whenever possible using listed prices from active markets. A market is regarded as active and liquid, when counterparties act with equal knowledge and carry out transactions on a regular basis. For financial assets and liabilities for which there is no active market, due to the lack of liquidity and the absence of regular transactions, valuation methods and techniques are used to estimate the fair value. Financial instruments have been classified by levels in accordance with IFRS 13.

At 31 December 2016, the fair value of financial assets and liabilities measured at fair value is as follows:

	LEVEL 1	LEVEL 2	LEVEL 3
	MARKET VALUE OR LISTED PRICE	VALUATION MODEL WITH PARAMETERS OBSERVABLE ON THE MARKET	VALUATION MODEL WITH PARAMETERS NOT OBSERVABLE ON THE MARKET
Other financial assets at fair value through results	1,500,000	5,560,820	-
Financial assets available for sale	179,845,144	2,000,000	-
Total assets	**181,345,144**	**7,560,820**	**-**

The following assumptions were used in preparing the above table:

1) Market values (Level 1): this column includes financial assets valued on the basis of listed prices in active markets.

2) Market analysis (Level 2): this column includes financial instruments valued on the basis of internal models using observable market inputs.

3) Others (Level 3): this column includes financial instruments valued using variables not observable in markets. This level includes unlisted shares and units in investment funds.

NOTE 41

Solvency

The bank uses the standard method to calculate capital requirements for credit risks and to cover operational risk.

The bank's equity is determined in accordance with the applicable regulatory standards, in particular Directive 2013/36/ EU and Regulation (EU) 575/2013 of the European Parliament and the Council (CRD IV/CRR). The equity determined in accordance with Directive 2013/36/EU and Regulation (EU) 575/2013 of the European Parliament and the Council includes tier 1 equity and tier 2 equity. Tier 1 includes common equity tier 1 (CET 1) and additional tier 1 equity. Common equity tier 1 includes:

i) paid up share capital, issue premiums, reserves and retained earnings; and

ii) deductions related to own shares, goodwill, intangible assets, deferred tax assets from tax losses, unrealised gains/losses in assets valued at fair value and deposits with interest rates above the threshold set by Banco de Portugal.

Deductions are also considered in relation to holdings of more than 10% in financial institutions and insurance companies, in this case in respect of the amount in excess of the upper limits of 10% and 15% of the common equity tier 1, when analysed individually and in aggregate, respectively.

Tier 2 includes subordinated debt and other adjustments on the terms established by the Regulation.

The legislation provides for a transition period between the equity requirements determined in accordance with national legislation and those calculated in accordance with Community legislation, to phase out the inclusion/exclusion of elements previously considered and to phase in the inclusion/deduction of new elements. The transition period will continue through to the end of 2017 for most elements, except for the deduction related to deferred taxes generated prior to 1 January 2014, for which the period extends through to the end of 2023.

The Basel II regulatory framework has also made changes to the calculation of risk-weighted assets, in particular the risk-weighting at 250% of deferred taxes from temporary differences and financial holdings of more than 10% in financial institutions and insurance companies within the limits established for non-deduction from common equity tier 1 (instead of 0% and 100%, respectively).

Under the new prudential framework, institutions are required to report common equity tier 1, tier 1 and total ratios of no less than 4.5%, 6% and 8% respectively, in addition to a conservation buffer of 2.5%, although benefiting from a transitional period that will run until the end of 2018. However, the Banco de Portugal has determined that institutions should report a common equity tier 1 ratio of no less than 7% during the transitional period, so as to ensure appropriate compliance with the future capital requirements.

Figures for equity and equity requirements, determined using the CRD IV/CRR methods referred to above, are as follows:

Euros	2016	2015
Capital	34,250,000	34,250,000
Reserves and retained earnings	(7,581,569)	(5,592,244)
Regulatory deductions	(5,838,772)	(2,975,778)
Common equity Tier 1	**20,829,660**	**25,681,978**
Regulatory deductions	-	-
Tier 1 equity	**20,829,660**	**25,681,978**
Regulatory deductions	-	-
Tier 2 equity	**-**	**-**
Total equity	**20,829,660**	**25,681,978**
RWA		
Credit risk	129,726,131	34,811,095
Operational Risk	1,132,221	832,490
Total	**130,858,352**	**35,643,585**
Capital Ratios		
CET1 ratio	15.92%	72.05%
Tier 1 ratio	15.92%	72.05%
Tier 2 ratio	0.00%	0.00%
Total Capital ratio	15.92%	72.05%

In 2015 and 2016, the bank complied with all capital requirements imposed by Banco de Portugal.

NOTE 42

Recently issued accounting standards and interpretations

In preparing the financial statements at 31 December 2016, the Company adopted the following standards, interpretations, amendments and revisions, the application of which has been mandatory since 1 January 2016:

IFRS 3 – Business combinations

Clarifies that the field of application of IFRS 3 does not include the formation of a joint arrangement in the financial statements of the joint arrangement itself.

IFRS 13 – Fair value measurement

Clarifies that the exception from application of the standard for financial assets and financial liabilities with offsetting positions extends to all contracts within the scope of IAS 39, irrespective of whether they comply with the definition of financial asset or liability contained in IAS 32.

IAS 40 – Investment properties

Clarifies that a value judgment must be applied to determine whether the acquisition of an investment property constitutes acquisition of an asset or a business combination under IFRS 3.

Adoption of the standards, interpretations, amendments and revisions referred to above had no significant effects on the bank's financial statements for the period ended 31 December 2016.

NOTE 43

Standards, interpretations, amendments and revisions adopted by the European Union which the bank decided not to adopt early

In preparing its financial statements, the bank did not apply the following standards, interpretations, amendments and revisions, recently issued but not yet in force. The bank will adopt these standards when application becomes mandatory.

Impact of adoption of changes to standards which took effect on 1 January 2016:

IAS 1 (alteration), 'Revision of disclosures'.

This alteration introduces requirements concerning materiality and aggregation, presentation of subtotals, structure of financial statements, disclosure of accounting policies, and presentation of items in Other comprehensive income generated by investment measured by equity method.

IAS 16 and IAS 38 (alteration), 'Acceptable methods of amortisation and depreciation'.

This alteration clarifies that the use of methods for calculating the depreciation/amortisation of assets on the basis of the revenues obtained are not as a rule deemed appropriate for measuring the pattern of consumption of the economic benefits associated with the asset. This is to be applied prospectively.

IAS 16 and IAS 41 (alteration), 'Agriculture: plants producing consumable biological assets'.

This alteration defines the concept of a plant which produces consumable biological assets, and removes this type of asset from the field of application of IAS 41 – Agriculture for the scope of IAS 16 – Tangible assets, with the consequent impact on measurement. However, the biological assets produced by these plants remain included within the scope of IAS 41 – Agriculture.

IAS 19 (alteration), 'Defined benefit plans – Employee contributions'.

The change to IAS 19 applies to the contributions of employees or other entities to defined benefit plans, and is intended to simplify the respective accounting procedures, when the contributions are not linked to length of service.

IAS 27 (alteration), 'Equity method in separate financial statements'.

This alteration allows an entity to apply the equity method when measuring investments in subsidiaries, joint ventures and associates, in separate financial statements. This change is applied retrospectively.

Alterations to IFRS 10, 12 and IAS 28, 'Investment Entities: application of exemption from consolidation'.

This alteration clarifies that the exemption of "Investment Entities" from the obligation to prepare consolidated accounts applies to an intermediate holding company which is a subsidiary of an investment entity. In addition, the option to the apply the equity method, under IAS 28, is extended to an entity which is not an investment entity but which has an interest in an associate or joint venture which is an "investment entity".

IFRS 11 (alteration), 'Accounting for acquisitions of interest in joint operations'.

This change introduced a guideline on how to account for acquisitions of interests in joint operations which qualify as businesses, the principles of IFRS 3 (Business Combinations) applying.

Improvements to standards 2010 - 2012.

This cycle of improvements affects the following standards: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16 and 38 and IAS 24.

Improvements to standards 2012 - 2014.

This cycle of improvements affects the following standards: IFRS 5, IFRS 7, IAS 19 and IAS 34.

Published standards, application of which is mandatory for annual periods starting on or after 1 January 2017, which the European Union has already endorsed:

IFRS 9 (new), 'Financial instruments' (for application in periods starting on or after 1 January 2018). IFRS 9 replaces the requirements of IAS 39, concerning: (i) classification and measurement of financial assets and liabilities; (ii) recognition of impairment in accounts receivable (using the expected loss model); and (iii) requirements for recognition and classification of hedge accounting.

IFRS 15 (new), 'Revenues from contracts with customers' (for application in periods starting on or after 1 January 2018). This new standard applies only to contracts for delivery of products or provision of services, and requires the entity to recognise the revenue when the contractual obligation to deliver assets or provide services is performed and for the amount reflecting the consideration to which the entity is entitled, as established in the "5-step method".

Standards (new and alterations) and interpretations published, application of which is mandatory for annual periods starting on or after 1 January 2017, but which the European Union has not yet endorsed:

IAS 7 (alteration), 'Review of disclosures' (for application in periods starting on or after 01 January 2017). This alteration is still subject to the process of endorsement by the European Union. This alteration introduces an additional disclosure concerning changes in liabilities arising from financing activities, separated into transactions that gave rise to cash movements and those which did not, and how this information is conciliated with cash flows from financing activities in the Statement of Cash Flows.

IAS 12 (alteration), 'Income taxes – Recognition of deferred tax assets on potential losses' (for application in periods starting on or after 1 January 2017). This alteration is still subject to the process of endorsement by the European Union. This alteration clarifies accounting for deferred tax assets related to assets measured at fair value, how to estimate future taxable profits when there are temporary deductible differences and how to assess the recoverability of deferred tax assets when restrictions exist in tax law.

IAS 40 (alteration), 'Transfer of investment properties' (for application in periods starting on or after 1 January 2018). This alteration is still subject to the process of endorsement by the European Union. This alteration clarifies that assets may only be transferred from and to the investment properties category when there is evidence of a change in use. A change of management intention alone is not sufficient for making the transfer.

IFRS 2 (alteration), 'Classification and measurement of share-based payment transactions' (for application in periods starting on or after 1 January 2018). This alteration is still subject to the process of endorsement by the European Union. This alteration clarifies the measurement basis for cash-settled share-based payment transactions and the accounting for changes in a share-based payments plan, which reclassify it from cash-settled to equity-settled. It also introduces an exception to the principles of IFRS 2, which now requires that a share-based payments plan be treated as if fully equity-settled, when the employer is obliged to retain an amount of tax from the employee and pays this amount to the tax authority.

IFRS 4 (alteration), 'Insurance contracts (application of IFRS 4 with IFRS 9)' (for application in periods starting on or after 1 January 2018). This alteration is still subject to the process of endorsement by the European Union. This change allows entities which negotiate insurance contracts the option of recognising under Other comprehensive income, instead of in the Income statement, the volatility which may result from application of IFRS 9 prior to the new standard on insurance contracts being published. Temporary exemption is also granted from application of IFRS 9 until 2021 for entities whose predominant business is insurance. This exemption is optional and does not apply to consolidated financial statements which include an insurance entity.

Alterations to IFRS 15, 'Revenue from contracts with customers' (for application in periods starting on or after 1 January 2018). These alterations are still subject to the process of endorsement by the European Union. These changes refer to additional instructions to be followed to determine contract performance obligations, on recognition of the revenue from an intellectual property license, review of indicators for classifying the principal versus agent relationship, and the new frameworks established for simplifying the transition.

IFRS 16 (new), 'Leases' (for application in periods starting on or after 1 January 2019). This standard is still subject to the process of endorsement by the European Union. This new standard replaces IAS 17, with a significant impact on accounting by lessees who are now required to recognise a lease liability reflecting future lease payments and a "right of use" asset for all leases, except certain short term leases and low value assets. The definition of a lease is also changed, as it is based on the "right to control the use of an identified asset".

Improvements to standards 2014 – 2016 (for application, in general, in periods starting on or after 1 January 2017). This cycle of improvements is still subject to the process of endorsement by the European Union. This cycle of improvements affects the following standards: IFRS 1, IFRS 12 and IAS 28.

IFRIC 22 (new), 'Foreign currency transactions and advance consideration' (for application in periods starting on or after 1 January 2018). This interpretation is still subject to the process of endorsement by the European Union. This is an interpretation of IAS 21 'The Effects of Changes in Foreign Exchange Rates ' and concerns determination of the "transaction date" when an entity pays or receives advance consideration for contracts denominated in a foreign currency. The "transaction date" determines the exchange rate to be used to convert transactions into foreign currency.

New standards table:

DESCRIPTION	CHANGE	EFFECTIVE DATE
1. STANDARD CHANGES EFFECTIVE AT 1 JANUARY 2016		
• IAS 1 – Presentation of financial statements	Review of disclosures as part of the IASB "Disclosure Initiative"	1 January 2016
• IAS 16 and IAS 38 - Acceptable methods of amortisation and depreciation	Revenue-based depreciation/amortisation methods are not permitted.	1 January 2016
• IAS 16 and IAS 41 – Agriculture: Plants which produce consumable biological assets	Plants which only produce consumable biological assets are included under IAS 16 and are measured using the cost model or the revaluation model.	1 January 2016
• IAS 19 – Defined benefits plans	Accounting for contributions by employees or other entities	1 February 2015
• IAS 27 – Separate financial statements	Option of using the equity method for measurement, in separate Financial Statements of investments in subsidiaries, joint ventures and associates.	1 January 2016
• Alterations IFRS 10, 12 and IAS 28: Investment Entities - application of exemption from consolidation	Exemption from consolidation applied to investment entities, which extends to a parent company which does not qualify as an Investment entity but which is a subsidiary of an investment entity.	1 January 2016
• IFRS 11 – Joint arrangements	Accounting for acquisitions of interests in joint operations which are businesses	1 January 2016
• Improvements to standards 2010 - 2012	Various clarifications: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16 and IAS 24	1 February 2015
• Improvements to standards 2012 - 2014	Various clarifications: IFRS 5, IFRS 7, IAS 19 and IAS 34	1 January 2016
2. STANDARDS WHICH TAKE EFFECT ON OR AFTER 1 JANUARY 2017, ALREADY ENDORSED BY EU		
• IFRS 9 – Financial instruments	New standard for accounting treatment of financial instruments	1 January 2018
• IFRS 15 – Revenue from contracts with customers	Recognition of revenue related to delivery of assets and provision of services, through application of the 5-step method.	1 January 2018

(cont.)

DESCRIPTION	CHANGE	EFFECTIVE DATE
3. STANDARDS (NEW AND ALTERATIONS) AND INTERPRETATIONS WHICH TAKE EFFECT ON OR AFTER 1 JANUARY 2017, NOT YET ENDORSED BY THE EU		
3.1 Standards		
• IAS 7 – Statement of cash flows	Reconciliation of changes in liabilities arising from financing activities with cash flows from financing activities.	1 January 2017
• IAS 12 – Income taxes	Recording of deferred tax assets on assets measured at fair value, the impact of temporary differences deductible from the estimate of future taxable profits and the impact of restrictions on the recoverability of deferred tax assets	1 January 2017
• IAS 40 – Investment properties	Clarification that evidence of change of use is required to transfer assets to and from the category of investment properties	1 January 2018
• IFRS 2 – Share-based payments	Measurement of share-based payments which are cash-settled, accounting for changes, and classification of share-based payment plans as equity-settled, when the employer is obliged to withhold tax.	1 January 2018
• IFRS 4 – Insurance contracts (application of IFRS 4 with IFRS 9)	Temporary exemption from application of IFRS 9 for insurers for periods starting before 1 January 2021. Specific rules for assets under IFRS 4 which qualify as financial assets at fair value through profit or loss in IFRS 9 and as financial assets at amortised cost in IAS 39, allowing for classification of the measurement difference in Other comprehensive income	1 January 2018
• Changes to IFRS 15 - Revenue from contracts with customers	Identification of performance obligations, moment of recognition of revenue from IP licenses, review of indicators for classification of the principal versus agent relationship, and new frameworks for simplifying the transition.	1 January 2018
• IFRS 16 - Leases	New definition of lease. New way of accounting for leases by lessees. No changes to accounting for leases by lessors.	1 January 2019
• Improvements to standards 2014 - 2016	Various clarifications: IFRS 1, IFRS 12 and IAS 28	1 January 2017 / 1 January 2018
3.2 - Interpretations		
• IFRIC 22 – Foreign currency transactions and advance consideration	Interest rate to apply when the consideration is received or paid in advance	1 January 2018

The bank will have no impact from adoption of these standards.

NOTE 44

Standards, interpretations, amendments and revisions not yet adopted by European Union

The following standards, interpretations, amendments and revisions, application of which is mandatory in future financial years, have not been adopted by the European Union by the date of approval of these financial statements:

IFRS 9 – Financial Instruments (2009) and subsequent amendments
This standard is part of the project for review of IAS 39 and establishes the new requirements concerning the classification and measurement of financial assets and liabilities, impairment calculation methods and application of hedge accounting rules. Application of this standard is mandatory for periods starting on or after 1 January 2018.

IFRS 14 – Assets regulated
This standard establishes the reporting requirements for first-time IFRS/IAS adopters, applicable to assets regulated.

IFRS 15 – Revenue from contracts with customers
This standard introduces a principles-based structure for recognising revenues providing a model to apply to all customer contracts, replacing standards IAS 18 - Revenue, IAS 11 – Construction contracts; IFRIC 13 – Customer loyalty programmes; IFRIC 15 – Agreements for the Construction of Real Estate; IFRIC 18 – Transfers of Assets from Customers and SIC 31 – Revenue - Barter transactions involving advertising services. Application of this standard is mandatory for periods starting on or after 1 January 2018.

IFRS 16 – Leases
This standard introduces principles relating to recognition and measurement of leases, replacing IAS 17 - Leases. The standard defines a single model of accounting for leases which results in recognition by the lessee of assets and liabilities for all leases, except for leases with a duration of less than 12 months or leases relating to low value assets. Lessors will continue to classify leases as either operational or finance leases, and IFRS 16 does not involve any substantial changes for these entities in relation to the provisions of IAS 17.

IFRS 10 – Consolidated financial statements, IFRS 12 - Disclosure of Interests in Other Entities and IAS 28 – Investments in associates and joint ventures These changes clarify a number of issues relating to application of the consolidation exception by investment entities.

IFRS 10 – Consolidated financial statements and IAS 28 – Investments in associates and joint ventures
These changes eliminate a conflict between the standards in question, relating to the sale or contribution of assets between an investor and an associate, or between an investor and a joint venture. These standards have not yet been adopted by the European Union and so were not applied by the bank in the period ended 31 December 2016, although the bank is currently looking into their potential impacts.

NOTE 45

Contingent liabilities originated by Resolution Fund

In connection with its responsibility as supervisory and resolution authority in the Portuguese financial sector, on 3 August 2014, Banco de Portugal decided to apply a resolution action to Banco Espírito Santo, S.A. ("BES"), under para. 5 of Article 145-G of the Legal Framework of Credit Institutions and Financial Companies ("RGICSF"), which consisted of transferring all its business to a bridge bank called Novo Banco, S.A. ("Novo Banco"), created especially for this purpose. In keeping with community rules, Novo Banco was capitalised by the Resolution Fund set up under Decree-Law 31-A/2012, of 10 February.

In order to pay up the share capital of Novo Banco, the Resolution Fund provided a sum of Euros 4,900 million. Of this amount, Euros 377 million came from the Resolution Fund's own financial resources. A loan of Euros 700 million was also provided to the Resolution Fund by a banking syndicate, and the contribution of each credit institution was determined on a proportional basis, considering a range of factors, including size. The remainder (Euros 3,823 million) was found from a loan granted by the Portuguese State, which will be repaid with interest by the Resolution Fund. The funds which may be generated by the sale of Novo Banco will be allocated in full to the Resolution Fund.

On 29 December 2015, Banco de Portugal resolved to retransfer to BES the liability for unsubordinated notes which it issued, with a nominal value of approximately Euros 2 billion, placed with institutional investors, and effected a final adjustment of the perimeter defining the assets, liabilities, off-balance sheet items and assets under management transferred to Novo Banco.

Also in the course of December 2015, the Portuguese authorities decided to sell a majority of the assets and liabilities associated with the business of Banif – Banco Internacional do Funchal, S.A. ("Banif") to Banco Santander Totta, for 150 million euros, as part of the application of a resolution action. The operation involved public support estimated at € 2,255 million intended to cover future contingencies, with funding of € 489 million from the Resolution Fund and € 1,766 million directly from the Portuguese State, as a result of the options agreed between the Portuguese authorities, the European institutions and Banco Santander Totta, defining the perimeter of the assets and liabilities to be sold. As part of this resolution action, the assets of Banif identified as problematic were transferred to an asset management vehicle created for this purpose, Oitante, S.A., wholly owned by the Resolution Fund, by issuing bonds representing this vehicle's debt, with a value of Euros 746 million, guaranteed by the Resolution Fund and underwritten by the Portuguese State. Banif, which will in future be wound up, will retain a limited set of assets, as well as the positions vis-à-vis shareholders, subordinated creditors and related parties.

As established in Decree-Law 31-A/2012, the Resolution Fund's resources are derived from contributions due from institutions participating in the fund and the banking sector levy. In addition, whenever these resources prove insufficient to honour its obligations, other means of funding may be used, in particular: (i) special levies on credit institutions; and (ii) the proceeds of loans.

As a result of the resolutions described above, the risk of litigation involving the Resolution Fund is significant, as is the risk of a shortfall in the resources needed to ensure that liabilities are honoured, in particular repayment in the short term of loans contracted.

This was the context in which, in the second half of 2016, the Portuguese Government reached agreement with the European Commission on changes to the terms of the loans made by the Portuguese State and the participating banks to the Resolution Fund, in order to preserve financial stability, by creating conditions under which contributions to the Resolution Fund can be predictable and stable. To this end, it is our understanding that a series of measures were formalised to redefine the repayment plans, the interest rates and other terms and conditions relating to these loans, so that they are adjusted to the Resolution Fund's capacity to honour its obligations on the basis of its regular revenues, i.e. without needing to collect special levies or any other type of extraordinary contribution from the banks participating in the Resolution Fund.

In this context, on the basis of information currently available, it is the Board of Director's view that there is little risk of the bank facing additional costs in relation to the set of liabilities described above and accepted by the Resolution Fund.

NOTE 46

Subsequent developments

There are no other relevant facts, either prior or subsequent, which should be considered for the purposes of preparing the financial statements for the period ended 31 December 2016.

Statutory audit certificate

Statutory Audit Report

(Free translation from the original in Portuguese)
Report on the audit of the financial statements

Opinion

We have audited the financial statements of BNI – Banco de Negócios Internacional (Europa), S.A. ("Bank"), which comprise the balance sheet as at December 31, 2016 (which shows total assets of Euro 362,034,222 and total shareholders' equity of Euro 25,204,843 including a net loss of Euro 1,989,241), the statement of income, 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, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of BNI – Banco de Negócios Internacional (Europa), S.A. as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the financial statements" section below. In accordance with the law we are independent of the Bank and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

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

Key audit matters

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

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Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na CMVM sob o nº 20161485

Key audit matters	*Summary of the audit approach*
Impairment losses of loans and advances to customers ***Disclosure related to impairment losses of loans and advances to customers presented in notes 2.1.4., 3.3., 13 and 21 of the Bank's financial statements*** The impairment losses calculation on loans and advances to customers requires the application of a set of complex assumptions and judgments by the Bank regarding both the identification of the moment of the recognition as well as the corresponding amount, which justify that this has constituted a key matter for the purposes of our audit. As at December 31, 2016, the gross amount of loans and advances to customers ascends to Euros 5.110.090 (2015: Euros 1,765,218) and the respective impairment losses as at that date amount to Euros 35,844 (2015: Euros 31,458). Impairment losses on loans and advances to customers are determined by the Bank on an individual basis for the most significant expositions and for the remaining portfolio, the impairment is determined on a collective analysis. • The Bank undertakes a process of individual analysis for the customers which have more significant exposures, evaluated in terms of the amount of their responsibilities, the observation of indications of default criteria and its vigilance classification in accordance with the criteria defined for internal purposes by the Bank. In these cases, the impairment amount is calculated through a detailed analysis of the economic and financial position of each individual customer, with reference to (i) the estimation of the cash flows that may be generated in the future to fulfil its responsibilities or (ii) the valuation of the collaterals received in connection with the granting of the loan, whenever its recovery is anticipated as being through the foreclosure/execution and/or sale of those collaterals, less the costs inherent to its recovery and sale. When from the individual	The developed audit procedures included the identification and review of the controls established by the Bank in relation to the approval, recording and monitoring of loans and advances to customers, as well as the appraisal of the methodologies, data and assumptions adopted by the Bank in calculating the corresponding impairment losses. These procedures covered, amongst others, the detailed testing of the key controls and the credit risk management procedures implemented by the Bank, with particular emphasis on the internal controls underlying the timely identification, recording and correct measurement of impairment losses. In this context, we tested the design and operational effectiveness of the key controls instituted by the Bank to identify customers with impairment triggers or in default and to determinate the corresponding impairment losses. The procedures and controls tested comprised those related to: (i) the timely identification of customers with impairment triggers or in default; (ii) the actual calculations itself of the impairment model defined by the Bank, including the inputs and assumptions of Management; (iii) the estimation of the recoverable value of the collaterals, when applicable; and (iv) the internal governance associated with the process of calculating and approving impairment losses. Additionally, on a sample basis, we analysed a number of customers, so as to obtain our own judgment regarding the existence of impairment triggers, and to assess how the impairment losses were timely identified, measured and recognised by Management.

Key audit matters	*Summary of the audit approach*
analysis did not result in any impairment loss, these exposures are transferred to the collective analysis and an IBNR ("incurred but not reported") impairment loss is applied. • For the exposures not covered by the individual analysis, the Bank developed and applies a collective analysis model to calculate the impairment losses. When a group of financial assets is valued on a collective basis, the future cash flows of this group are estimated based on the contractual flows of those assets and the historical data related to losses on assets with similar credit risk characteristics. Whenever the Bank deems it necessary, historical information is updated based on observable current data, so that it reflects the effects of current conditions.	With regards to the customers individually analysed by the Bank, for a representative sample of the loans and advances to customers portfolio as at December 31, 2016, the procedures carried out consisted of: (i) reviewing the documentation associated with the loans and advances granting process; (ii) analysing the contractual support and the main relevant collaterals and confirming the registration of referred collaterals in favour of the Bank; (iii) questioning the valuations of the available collaterals; (iv) analysing the evolution of the exposures; and (v) understanding the view of those responsible for the Bank regarding the economic and financial situation of the customers, as to the predictability of the cash flows expected from their respective businesses, as well as the perspective regarding the collectability of the loans and advances. Whenever we concluded as to the need to revise some input or assumptions used by Management, we recalculated the estimated amount of the impairment and compared the results obtained with those determined by the Bank in order to assess the existence of possible divergences. For the portfolio which impairment is calculated using the collective analysis model, we have developed a set of specific procedures to evaluate how the assumptions considered by Management for the purposes of the impairment model included the macroeconomic conditions to which each client is exposed, based on our knowledge on the current practices in the sector. The procedures developed consisted of: (i) evaluating the information contained in the loan portfolio as at December 31, 2016; (ii) review and test the classification of the loans as regards the existence of impairment triggers or default; (iii) reviewing the adequacy of the risk parameters used in the impairment calculation; and (iv) verify the subsequent settlement of invoices purchased through electronic credit acquisition platforms.

Key audit matters	Summary of the audit approach
Deferred tax assets originated by tax losses	
Measurement and disclosure related to deferred tax assets originated by tax losses presented in notes 2.9, 14 and 36 of the financial statements In the balance sheet as at December 31, 2016, deferred tax assets originated by tax losses generated between 2013 and 2016 amounts to Euros 2,090,591 (2015: Euros 1,504,576), which recoverability depends on obtaining future taxable income and to that extent has constituted a key audit matter for the purpose of our audit. Taking in consideration that the maximum period of use of tax losses generated in 2013 is up to 5 years (expiration in 2018) and for those generated in 2014, 2015 and 2016 is up to 12 years (expiration in 2026, 2027 and 2028, respectively), the recovery estimation for the aforementioned deferred tax assets was carried out by Management based on a business plan covering the years 2017 to 2021. This estimation was based on the application of a set of judgments by Management regarding the business plan scope, the projection of future taxable income, long-term growth, return on investments and discount rates.	The audit procedures undertaken included a detailed analysis of the Bank's business plan, dully approved by the Board of Directors. We meet with the Board of Directors to discuss and evaluate all assumptions considered in its preparation and we carried out sensitivity analyses under them.

Responsibilities of management and supervisory board for the financial statements

Management is responsible for:

a) the preparation of the financial statements, which present fairly the financial position, the financial performance and the cash flows of the Bank in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria; and

e) the assessment of the Bank's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Bank's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Bank's financial information.

Auditor's responsibilities for the audit of the financial statements

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

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

a) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) communicate with those charged with governance, including the supervisory board, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

g) of the matters we have communicated to those charged with governance, including the supervisory board, we determine which one's were the most important in the audit of the financial statements of the current year, these being the key audit matters. We describe these matters in our report, except when the law or regulation prohibits their public disclosure; and

h) confirm to the supervisory board that we comply with the relevant ethical requirements regarding independence and communicate all relationships and other matters that may be perceived as threats to our independence and, where applicable, the respective safeguards.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the financial statements.

Report on other legal and regulatory requirements

Director's report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our understanding that the Director's report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited financial statements and, taking into account the knowledge and assessment about the Bank, no material misstatements were identified.

Additional information required in article No. 10 of the Regulation (EU) 537/2014

In accordance with article No. 10 of Regulation (EU) 537/2014 of the European Parliament and of the Council, of April 16, 2014, and in addition to the key audit matters referred to above, we also provide the following information:

a) We were first appointed auditors in the Shareholders' General Meeting of August 10, 2015 for 2015. Our last appointment was in the Shareholders' General Meeting dated March 21, 2016 for a mandate covering 2016 to 2019.

b) The management has confirmed to us it has no knowledge of any allegation of fraud or suspicions of fraud with material effect in the financial statements. As part of the planning and execution of our audit in accordance with ISAs, we have maintained professional scepticism throughout the audit and determined overall responses to address the risk of material misstatement due to fraud in the financial statements. Based on the work performed, we have not identified any material misstatement in the financial statements due to fraud.

c) We confirm that our audit opinion is consistent with the additional report that was prepared by us and issued to the Bank's supervisory board as of March 13, 2017.

d) We declare that we did not provide any prohibited non-audit services referred to in paragraph 8 of article No. 77 of the by-laws of the Institute of Statutory Auditors ("Estatutos da Ordem dos Revisores Oficiais de Contas") and that we remain independent of the Bank in conducting our audit.

March 13, 2017

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

Carlos José Figueiredo Rodrigues, R.O.C.

Report and opinion of the fiscal board

Report and opinion of the Fiscal Board

(Free translation from the original in Portuguese)

Dear Stakeholders,

Under the terms of the law and the mandate that was conferred to us, we present the report on the audit activity carried out and give an opinion on the management report and the financial statements presented by the Board of Directors of BNI – Banco de Negocios Internacional (Europa) according to the fiscal year that ended 31st December 2016.

Since we began our work on September 5, 2016 we monitored, as frequently and extensively as we deem appropriate, the activity of BNI – Banco de Negócios Internacional. We verified the regularity of the accounting records and the respective documentation, proceeded to the extent deemed necessary to the physical inspections of assets and property values, we monitored for compliance with the law and the bylaws and we became aware of the acts of the administration.

We also followed the work developed by PricewaterhouseCoopes & Associados - Sociedade de Revisores Oficiais de Contas, Lda and appreciated the Legal Certification of the Accounts, dated of the 13th March 2017, with which we agreed.

We also received from PricewaterhouseCoopers the Additional report to the Supervisory Board, giving compliance with the provisions of paragraphs 1, 2 and 6 of article 24 of Law Decree nº 148/2015 of September 9 and the paragraph 1 of article 63 of the statute of the Certified accountants, approved by Law no. 140/2015, of 7 September, transposing into national legal law the provisions of Regulation (EU) No.537 / 2014 of the European Parliament and of the Council, of 16 April 2014, which seems to us complete and enlightening.

Within the scope of our functions we verified that:

i) the Balance sheet, the income statement, the statement of comprehensive income, the statement with the changes in equity, the statement of cash flows and the corresponding notes allow an adequate understanding of BNI Europa bank's financial situation, its results, the changes in equity and the cash flows;

ii) the accounting policies and valuation criteria adopted are adequate;

iii) the management report clarifies sufficiently the business evolution and the Banco BNI Europa situation, highlighting the most significant aspects;

iv) the proposal for the application of results is not contrary to applicable legal and statutory provisions.

Accordingly, taking into account the information received from the Board of Directors and Services and the conclusions contained in the Legal Certification of Accounts, the Fiscal Council is of the opinion that the General Meeting:

i) Approve the Management Report for the year ended December 31, 2016

ii) Approve the accounts for that financial year

iii) The proposal for the application of results is approved in the Management Report of the Board of Directors, which is in accordance with the applicable legal regulations; and

Finally, we wish to express our appreciation to the Board of Directors and all the staff of the bank with whom we have contacted for their valuable collaboration.

Lisbon, 13th March 2017

President of the Fiscal Board

Telmo Francisco Salvador Vieira

(Telmo Francisco Salvador Vieira)

Member

Isabel Paiva

(Isabel Gomes de Novais Paiva)

Member

(Rui Manuel Lopes Amendoeira)

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